

RAISING VENTURE CAPITAL: THE DIFFERENT
METHODOLOGIES AND OUTCOMES OF FEMALE AND
MALE ENTREPRENEURS AND INVESTORS

by

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This thesis analyzes how venture capitalist funding is rationed and provides insight into why female-founded companies receive only 3% of total venture capitalist funding. In order to understand this, this thesis analyzes the relationship between venture capitalist partners and founders. Relationships are often different between investors and male entrepreneurs than between investors and female entrepreneurs. This research explains why this environment has become unsupportive of women and thus proves to be challenging for women to succeed in. The role of gender perception is also vital, and this research project will make a connection between gender biases and underfunding of women entrepreneurs.

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Introduction: Purpose of Thesis and Research Questions

Entrepreneurs rely on capital from investors to launch their ideas, grow their companies, and fund needed expansion. Venture capital funding serves as a dominant catalyst for new businesses to take off, and an entrepreneur's ability to raise funding for their company is vital to their success. However, venture funding is distributed primarily to male-run companies, and the funding that women do receive is, on average, significantly less than the funding men receive.

The purpose of this thesis is to explore the hypothesis that women are less likely to raise capital as a result of their gender. In order to approach this question effectively, I will analyze the following: the differences in methods by which men and women find investors; the culture and environment through which venture funding is obtained, including how this has created a perceived gender gap in this industry; and how workplace discrimination and biases that have been identified in other aspects of the workforce mirror those experienced by female entrepreneurs. My goal is to objectively and effectively display a complete understanding of what has caused an uneven distribution of wealth between male and female entrepreneurs.

Hypothesis

I hypothesize that women face the same types of workplace discrimination in funding their startups as they do in many other kinds of workplaces, preventing them from being able to raise as much venture capital ("VC") funding as their male competitors. Further, I predict that the knowledge of this discrimination creates a self-fulfilling prophecy, preventing female entrepreneurs from attempting to raise VC knowing that these limitations exist.

There is a plethora of recent articles reporting these incidents and commenting on how female entrepreneurs have been impacted by gender discrimination. Through this thesis, I will provide a comprehensive study of these cases, evaluating both the quantitative aspects of how venture money is distributed, and the qualitative data on the structure of the industry. This includes analyzing the culture of venture capitalist firms and their relationship with entrepreneurs seeking funding. Key takeaways will include: the ways that women are often left out of the decision-making process; and how perceived gender norms create biases in the workplace, which translate into skewed perceptions in VC firms toward female-run companies.

Although I am focusing on a specific industry's workplace limitations for women, my objective is to highlight that the core issues that lead to such differences in success between genders are factors that can be considered in all academic and professional fields, and additionally comment on how we, as a society, can better support the success of women.

Research Questions

Below are the research questions that this thesis answers.

1. What do venture capitalists look for in entrepreneurs before they invest?
2. How much funding do female-run companies receive in comparison to similar male-run companies?
3. Are women less likely to seek VC funding as a result of their perceived inability to get it?
4. How many venture capitalists are women, and how does this reflect on the relationship between VC firms and entrepreneurs?
5. What is the role of sexual harassment between investors and entrepreneurs?

6. What efforts are being made to encourage increased funding to female entrepreneurs?

Methodologies

In this research, I will use data mostly from recent articles and case studies that analyze aspects of the relationship between investors and entrepreneurs. This includes reports from Crunchbase, CNN, and other credible news sources. I will supplement my research with information from books that discuss workplace discrimination.

Specifically, I will be referencing Emily Chang's recent work, *Brotopia*, and Sheryl Sandberg's *Lean In*, both of which are personal accounts that reflect on relevant insight into the cultural circumstances that both authors have observed which promote gender inequality in the workplace. Aside from these sources, there are few academic studies or book-length sources that string together the information necessary to understand why women are underfunded and what factors are contributing to this phenomenon. This thesis provides a platform to combine and track this data.

I chose not to conduct interviews directly with investors or any individuals who have sought out venture funding and instead relied on published reports for this research. This topic is recently being discussed publicly, and thus many sources capture specific aspects of the problem, but few compile the studies being done to understand why there are so few female entrepreneurs receiving funding. Thus, this thesis serves as a platform to collect all relevant research and provide a thorough understanding of all aspects contributing to the issue. If further research were to be conducted, interviews with investors and entrepreneurs could further deepen our understanding of the cause and effect of the problem.

Relevance of Research

Throughout this work, I will demonstrate the reasons women have struggled to fund their companies. These discrimination practices can be unintentional and often unrecognizable by some parties, though deeply impacting women's ability to compete against the men in this industry, despite being equally qualified. Although this research focuses on a specific industry's gender divide, it may also help to identify similar patterns of discrimination in other professions. Furthermore, this thesis comments on ways in which women internalize their gender roles. With increased awareness of what factors impede women in business, women may be encouraged to succeed across all industries.

Understanding Venture Capital

Definitions

Venture capital (“VC”) is a type of financing available to startup companies to fund their growth, usually in exchange for equity in the company. Venture capitalists are the fund managers that invest in startups on behalf of their shareholders, who are often wealthy investors. This is a vital source of funding for new businesses. VC firms can also serve as mentors to launching companies, guiding founders in managerial or technical skills.¹

These investments can prove to be extremely profitable for VCs if the company goes public or gets acquired; however, if the company does not exit, investors lose their money. This makes equity funding from a VC a popular source of capital for startups, since money is not usually required to be paid back to investors if the company does poorly. In contrast, bank loans and other types of debt financing are often personally guaranteed by founders and need to be paid back with added interest independent of the performance of the company. VC funding also differs from angel investments, which come from wealthy individuals or small groups of individuals who invest their personal funds in new companies.²

Venture funding is raised in rounds of investments. Seed funding is usually the first source of outside funding that a startup receives, in which investors provide a small

¹ Investopedia, Investopedia, 21 Dec. 2017, www.investopedia.com/exam-guide/cfa-level-1/alternative-investments/venture-capital-investing-stages.asp

² Roof, Katie. “WTF Is a Funding Round?” TechCrunch, TechCrunch, 9 Jan. 2017, techcrunch.com/2017/01/08/wtf-is-a-funding-round/

amount of funds to early-stage companies to help the development of their new product or service. This stage of funding usually helps finance operations of a company before it has revenue or commercial operations. Typically, each subsequent funding round is identified by a letter, starting with “A,” to specify how many rounds of funding the company has gone through.

Early-stage funding is usually allocated to companies who have been operating for a short period of time and have either not yet launched their product or service in the market or have achieved a small amount of market penetration. Capital is often used in these cases to launch initial products to the market and to test marketing and traction channels.

Later-stage funding happens after companies are well-established in the market and have a proven business model. Funding at this stage is typically used for accelerating the growth of the company and expanding upon the already proven model.³

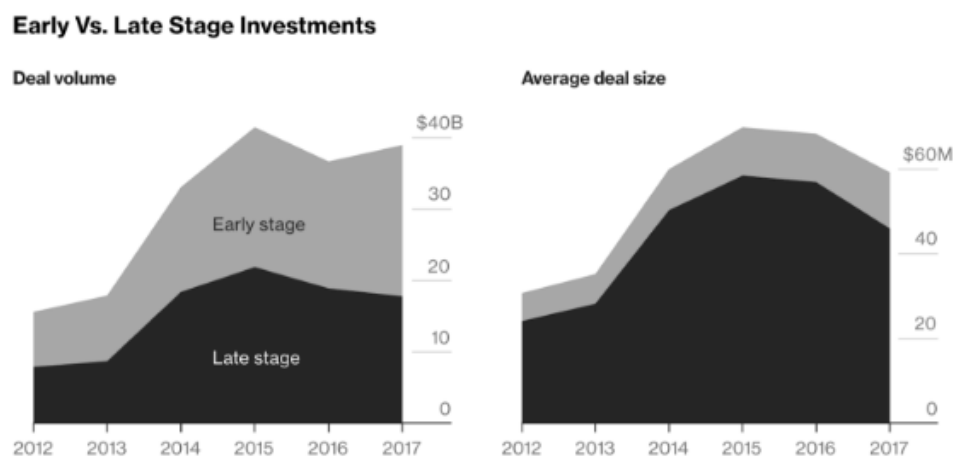
Distribution

Since 2012, total venture funding raised has skyrocketed. In 2017, a total of \$67 billion of venture funding was raised across the United States, which was the largest sum of funding distributed in the United States since 2015 by 5%. Deal sizes are also increasing. The total deal value in 2017 was \$3 billion more than that of 2015; however, there were 224 fewer deals in 2017. This means that the average deal size grew from \$21.5 million to \$25.2 million from 2015 to 2017. The New York-based company, WeWork, raised the largest amount of venture funding in 2017, at almost \$6 billion.

³ Ibid

San Francisco-based companies Lyft and Uber raised \$2 billion and \$1.3 billion, respectively, last year.⁴ The value of early-stage investments is also increasing. The average early-stage deal in 2017 was \$13.8 million, which was an increase from the 2015 average of \$11.9 million.⁵

The following graphs produced by Bloomberg show the distribution of deal volume and size from 2012 to 2017. These demonstrate that although late-stage companies are receiving larger deal sizes, high volumes of deals are being provided to the early-stage sector, providing larger growth opportunities for startups.⁶



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Important Factors Related to Successful Investments

With this comprehension of funding allocations, the next question I sought to answer was what contributing factors prove instrumental to the success of a VC

⁴ Investopedia, Investopedia, 21 Dec. 2017, www.investopedia.com/exam-guide/cfa-level-1/alternative-investments/venture-capital-investing-stages.asp.

⁵ Meisler, Laurie, and Christopher Cannon. "U.S. Venture Capital Swells and Spreads." Bloomberg.com, Bloomberg, 25 Jan. 2018, www.bloomberg.com/graphics/2018-venture-capital-deals/.

⁶ Ibid

⁷ Ibid

deal. VC firm First Round, committed to funding companies at any stage of their development, studied the contributing factors to successful VC investments. They examined the characteristics of 200 companies and 600 founders from their portfolio and analyzed what led to their successes and failures. With this analysis, they were able to provide “10 Lessons” about what leads to success in investment deals:⁸

1. Companies with founding teams under the average age of 25 perform 30% above average.
2. Founders who have degrees from top schools, such as MIT or Stanford, are more likely to receive funding.
3. Founders who come from an Ivy League school, Stanford, MIT, or a Caltech school are likely to produce 220% more favorably.
4. Startups performed 160% better when founders had experience at Amazon, Facebook, Google, Twitter, or Microsoft; this is known as the “halo effect.”
5. Founders who have previous experience as company founders received 50% more funding. Teams of founders outperform individual founders by 163%.
6. Teams with technical founders perform 230% better for enterprise companies. However, in consumer companies, teams with at least one technical co-founder underperform non-technical teams by 31%.
7. Company location is not necessarily vital to the success of a firm; companies funded outside of San Francisco or New York have performed equally as well as companies from these two locations.

⁸ First Round. “First Round 10 Year Project.” First Round 10 Year Project, 10years.firstround.com/

8. It has been traditionally expected that the best investments come from referrals; however, First Round identified that companies found through other platforms, such as Twitter, perform 58.4% better. First Round experienced 23% better outcomes from founders who approached them directly.

9. Startup culture is moving from the South Bay to San Francisco, and almost half of startups come from the Bay Area.

10. Lastly, and most notably, First Round identified that female founders outperform their male competitors by 63%. Out of First Round's top 10 investments of all time with the best returns for investors, 3 companies were founded by a team with female representation.

Distribution Between Male-Founded and Female-Founded Companies

Despite this increased venture funding and First Round's findings that women outperform men by 63% when founding companies, female founders are receiving significantly less funding than men. Men are also twice as likely as women to become entrepreneurs.⁹ Crunchbase reports that between 2009 and 2017, 54,702 companies received venture funding globally. Out of this, only 8,821 companies had a female founder – just 16% of all funding provided. From 2009 to 2012, the percentage of venture-backed companies each year with a female founder grew from 7% to 17%, and has remained at 17% since. This is correlated greatly with a large increase in the

⁹ Marion, Tucker J. "4 Factors That Predict Startup Success, and One That Doesn't" Harvard Business Review, Harvard Business Review, 3 May 2016, hbr.org/2016/05/4-factors-that-predict-startup-success-and-one-that-doesnt.

absolute number of firms with a female founder, which grew from 186 to 1,588 between 2009 and 2016.¹⁰

But these numbers are misleading: Although companies with at least one female founder received up to 16% of venture funding in 2016, the companies with only female founders receive the least amount of funding, at just 3%. Prospectively, this means that 97% of all venture funding went to companies with at least one male founder.¹¹

That said, there is evidence that this is changing: In 2009, 9.5% of startups had at least one female founder. This number almost doubled by 2014, when 18% of startups had at least one female founder. There was also a large increase in the absolute number of female-founded companies, which grew from 117 to 555 in this five year period.¹² There is some evidence that women are slowly getting more funding. In 2017, 4.4% of all VC deals involved female run companies, which was the largest percentage since 2006. This explains that 368 out of 5,588 deals involved female founders.¹³

Distribution of Men and Women in Venture Capitalist Firms

From 2012 to 2017, the seed funding allocated to female-only founded companies grew from 3% to 6%, while seed funding given to companies with at least one female founder grew from 11% to 13% in this time. Male-only companies received

¹⁰ Teare, Gené. “The Portion of VC-Backed Startups Founded by Women Stays Stubbornly Stagnant.” TechCrunch, TechCrunch, 15 Jan. 2018, techcrunch.com/2018/01/15/the-portion-of-vc-backed-startups-founded-by-women-stays-stubbornly-stagnant/.

¹¹ Ibid

¹² Ibid

¹³ Zarya, Valentina. “Female Founders Got 2% of Venture Capital Dollars in 2017.” Fortune, Fortune, 31 Jan. 2018, fortune.com/2018/01/31/female-founders-venture-capital-2017/.

85% of seed investments in 2012, which fell slightly to 83% by 2017. From this data, it is clear that most of the total venture funding is going to male-run companies. To analyze this skewed allocation, it is important to acknowledge the gender demographics of venture capitalist firms. Crunchbase has tracked the representation of women in venture capitalist firms, confirming that only 7% of partners at the top 100 venture capitalist firms are women. In other words, only 54 out of 755 partners are women. Furthermore, only 38% of these firms have one female partner, indicating that 62% of firms have *no female representation among partners on the board whatsoever*.¹⁴

There are only three female co-founded venture firms in the top 100 biggest firms. These are Scale Ventures, Greycroft Partners, and Floodgate, all located in the Bay Area. Scale Ventures and Greycroft Partners have 33% female partners, and Floodgate holds the biggest representation, as 50% of partners are women.¹⁵

In investigating how this trend in the top 100 venture firms translates across the rest of the industry, Crunchbase also investigated the representation of women in all 2,300 venture firms in their database. They found that 8% of partners were women, matching the similar 7% found amongst the largest firms. The distribution in accelerators and corporate ventures show the same trend, in which only 12% of partners are women.¹⁶ This data illustrates a statistically male-dominated industry that perpetuates low entry for women.

¹⁴Teare, Gené, and Ned Desmond. "The First Comprehensive Study on Women in Venture Capital and Their Impact on Female Founders." TechCrunch, TechCrunch, 18 Aug. 2017, techcrunch.com/2016/04/19/the-first-comprehensive-study-on-women-in-venture-capital/.

¹⁵ Ibid

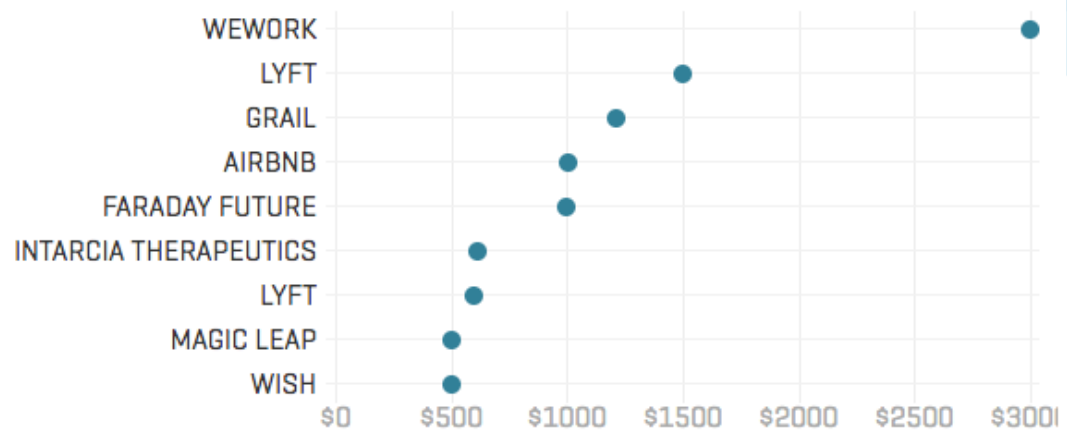
¹⁶ Ibid

How This Distribution Affects Funding

With little female representation at VC firms, it is perhaps unsurprising that few female-founded firms receive investment. As noted above, 7% of top venture capitalist partners are women and only 3% of funding is given to female-only run companies, while the remaining funds are distributed and received by men. Female-founded companies are also receiving less money than male-founded companies. In 2017, the average deal for male-run companies was \$12 million, while for women it was \$5 million, across all firms receiving funding. In fact, the largest round investment obtained by a female run startup was \$165 million, given to Moda Operandi, while the largest round invested in a male-run company was \$3 billion, obtained by WeWork. The charts below, reported by Pitchbook, illustrate the comparison of deal sizes between male- and female-run companies.¹⁷

Top 10 largest rounds led by male founders

In millions of U.S. dollars



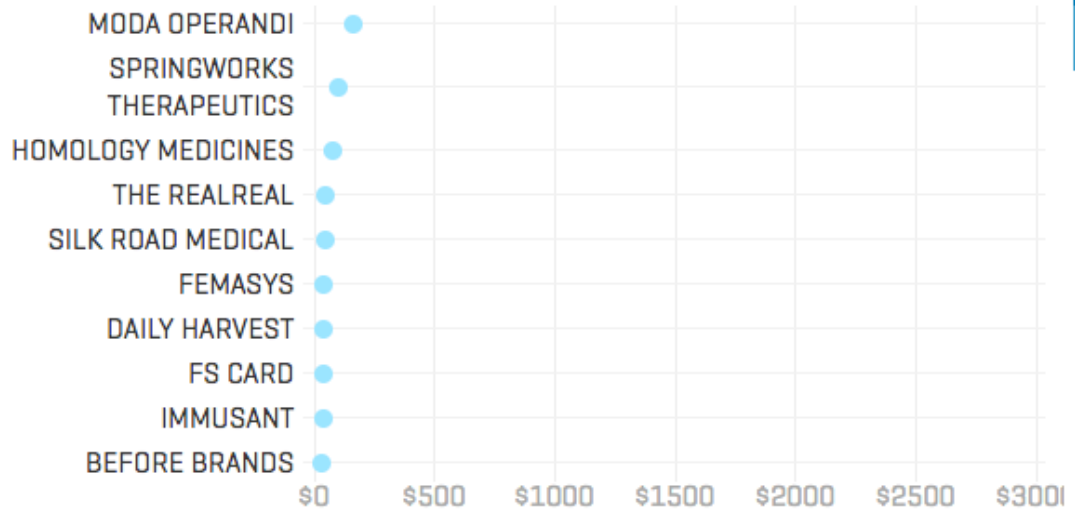
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¹⁷ Zarya, Valentina. "Female Founders Got 2% of Venture Capital Dollars in 2017." *Fortune*, Fortune, 31 Jan. 2018, fortune.com/2018/01/31/female-founders-venture-capital-2017/.

¹⁸ Ibid

Top 10 largest rounds led by female founders

In millions of U.S. dollars



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So far, this data has established that there is low female representation in VCs and funded startups. Moving onto the following sections, my evaluations will focus on what has kept women out of this industry.

¹⁹ Ibid

Culture of Silicon Valley: Impact on Venture Capital Funding

Silicon Valley, located in the heart of California, has become the center of a booming technology industry and redefined workplace norms. Serving as an incubator for entrepreneurs to launch their startups, this area dominates the flow of venture funding.²⁰ San Francisco receives the most venture funding in the country; in 2017, the area received a total of almost \$20 billion in venture funding, followed by New York, which received almost \$14 billion. Because Silicon Valley traffics the largest flows of VC funding and furthermore dictates what the industry's expectations are for venture funding,²¹ I have chosen to focus a large portion of my research on this area. Companies such as Apple, Google, and Facebook have set the tone for a unique industry standard, with nontraditional campuses. Cultural aspects specific to Silicon Valley provide insight into possible industry standards which have established barricades for women's equal entrance into the industry.

Emily Chang's book *Brotopia* (2018) provides detailed testimony of what it's like to work in this center of innovation. Specifically, she identifies how workplace activities have translated into a Silicon Valley lifestyle. For example, back in 2005, Mark Zuckerberg's Facebook offices were stocked with kegs, and midday keg stands were the norm. Chang explains, "it was known as a boy's club where the fastest way to get ahead was to become Zuckerberg's buddy," so the company felt more like a frat than a place of work.²² This "bro" culture has only continued to grow throughout the

20 Meisler, Laurie, and Christopher Cannon. "U.S. Venture Capital Swells and Spreads." Bloomberg.com, Bloomberg, 25 Jan. 2018, www.bloomberg.com/graphics/2018-venture-capital-deals/.

21 Ibid

22 Chang, Emily. *Brotopia: Breaking up the Boys' Club of Silicon Valley*. Portfolio/Penguin, 2018.

startup industry, working as a roadblock for female entrepreneurs seeking to fund their companies.

Another recent example involves the company Uber, which received the third largest amount of venture investment in 2017, at \$1.25 billion.²³ In June 2017, Uber board member, Arianna Huffington, suggested that it would be beneficial to appoint another woman to the board. She claimed that data shows when there's one woman on the board, it is likely that more women will be appointed. Another board member, David Bonderman, responded to her proposal, "Actually, what it shows is that it's much more likely to be more talking." After Huffington went public with this information, Bonderman publicly apologized for his comment, and resigned from his position at Uber.²⁴

With such an influx of wealth, Silicon Valley's male-dominated "bro" culture has emanated into a unique cultural hub. One of the trending social structures of Silicon Valley is a variety of sex and drug parties. Wealthy young men host events at their houses at which drug use is commonplace and polygamist sexual behavior is welcomed. Men need to receive an invitation to be included, but they are welcome to bring as many women as they want, so that the ratio of women to men is high. These money-and-power sex parties often take place at estates in which the floors are covered in pillows, in order to encourage sexual activity. "These sex parties happen so often among the

23 Meisler, Laurie, and Christopher Cannon. "U.S. Venture Capital Swells and Spreads." Bloomberg.com, Bloomberg, 25 Jan. 2018, www.bloomberg.com/graphics/2018-venture-capital-deals/.

24 Isaac, Mike, and Susan Chira. "David Bonderman Resigns From Uber Board After Sexist Remark." The New York Times, The New York Times, 13 June 2017, www.nytimes.com/2017/06/13/technology/uber-sexual-harassment-huffington-bonderman.html.

high-end, premiere VC and founder crowd that this isn't a scandal or even really a secret...it's a lifestyle choice." Women often participate in these parties to be included in the conversation with investors, as these parties are where investors make connections and conduct business.²⁵ The entrance for women in Silicon Valley is thus determined by their willingness to adhere to "bro" culture. As Silicon Valley controls the flow of VC funding, it in turn dictates the culture of how VC is raised and what qualifies a deal to succeed. This culture which promotes sexuality and drug usage thus controls funding in this extremely influential area of the VC network.

²⁵ Chang, Emily. *Brotopia: Breaking up the Boys' Club of Silicon Valley*. Portfolio/Penguin, 2018.

Workplace Discrimination at Large: Setting the Stage for Unevenly Distributed Venture Funding

In order to prove or disprove my hypothesis that gender discrimination against female entrepreneurs exists, I will first evaluate how gender discrimination is emulated in other aspects of the workforce. In this section, I will report studies that have been conducted to evaluate broader workplace gender divides. This will help support my research in later sections, in which I compare these workplace discrimination practices to ones I identify between venture capitalists and entrepreneurs. By identifying these discrimination practices, it will be easier to recognize similar trends throughout the rest of this thesis.

Of course, at the forefront of gender discrimination is the current wage gap. On average, women in the United States are paid 80% less than their male colleagues.²⁶ Additionally, women working in corporate jobs hold only 25% of all senior management positions, 20% of board seats, and 6% of CEO positions.²⁷ Even so, one in three Americans does not believe this gender wage gap exists, and furthermore, men are twice more likely than women to not believe that a gender gap exists.²⁸

Harvard Business Review (“HBR”) sought to investigate why women were holding minimal senior management positions. In order to conduct this research, they

26 “Why Closing the Gender Pay Gap Matters, #20PercentCounts.” Lean In, leanin.org/equal-pay-data-about-the-gender-pay-gap.

27 Warner, Judith, and Danielle Corley. “The Women’s Leadership Gap.” Center for American Progress, Center for American Progress, 21 May 2017, www.americanprogress.org/issues/women/reports/2017/05/21/432758/womens-leadership-gap/.

28 “Why Closing the Gender Pay Gap Matters, #20PercentCounts.” Lean In, leanin.org/equal-pay-data-about-the-gender-pay-gap.

chose to investigate one company, in which only 20% of top management was female. In this experiment, they found that women and men did not behave differently at work, and that their patterns in the office were not different from one another. HBR reported that “women had the same number of contacts as men, they spent as much time with senior leadership, and they allocated their time similarly to men in the same role.” However, senior management positions were still mostly held by men, even though women in the company appeared equally competent. Thus, HBR identified that the lack of women in senior management had to be a result of biases, rather than a result of eligibility. If the actions taken by men and women are the same, then it is the perceptions of their actions that remain subject to gender bias.²⁹

The following case further demonstrates this discrepancy in perception. In 2007, Professor Frank Flynn presented a case to his class at Columbia Business School, in which they were asked to evaluate the success of venture capitalist Heidi Roizen. Flynn gave half his students the exact same case information about Heidi, but he changed her name to the male name Howard. Across all students in the class, Heidi and Howard were rated equally competent. However, when further analyzing Heidi and Howard, students explained that they felt Heidi was less likeable, selfish, and harder to work with than Howard. Even though their skill sets were viewed as equal, their perception was biased toward Howard.³⁰

²⁹ Waber, Stephen Turban Laura Freeman Ben. “We Asked Men and Women to Wear Sensors at Work. They Act the Same but Are Treated Very Differently.” Harvard Business Review, Harvard Business Review, 23 Oct. 2017, hbr.org/2017/10/a-study-used-sensors-to-show-that-men-and-women-are-treated-differently-at-work.

³⁰ Katsarou, Maria. “Women & the Leadership Labyrinth Howard vs Heidi.” Leadership Psychology Institute, Leadership Psychology Institute, www.leadershippsychologyinstitute.com/women-the-leadership-labyrinth-howard-vs-heidi/.

Sheryl Sandberg, COO of Facebook, came out with her book *Lean In* in 2013, which outlines her personal experience with workplace discrimination. The book provides insight and advice to women pursuing corporate careers on how to best compete with their male peers. Her experience closely observes similar phenomena as the ones studied and reported by Harvard Business Review and Frank Flynn, and she explains how biases affect perception. Sandberg explains that women are scrutinized for being “too aggressive,” “bossy,” or “not a team player.”³¹ Women who try to defy their feminine stereotypes by acting in a more masculine manner in their professional life are labeled as “technically skilled but lacking in social competence” and are thus at risk for losing job opportunities.³²

One of the sociological phenomena Sandberg evaluates is what has been identified as “imposter syndrome.” This refers to the tendency both women and men have of underestimating their abilities for fear of not being qualified for a task. However, Sandberg comments on how women struggle with this more intensely in the workplace than men do. Women often feel unworthy of praise or promotions and will underestimate their abilities. To exemplify how men and women react to this syndrome differently, Sandberg reports a study conducted on surgical residents, in which both females and males were asked to evaluate their own performance in the program. Although women were actually outperforming the men in the program when evaluated

³¹ Sandberg, Sheryl. *Lean In*. WH Allen, 2014.

³² Investopedia, Investopedia, 21 Dec. 2017, www.investopedia.com/exam-guide/cfa-level-1/alternative-investments/venture-capital-investing-stages.asp.

by their superiors, the women gave themselves much lower scores than their male peers.³³

The underlying “imposter syndrome” even distinguishes how men and women negotiate. For example, in the article, “Nice Girls Don’t Ask,” HBR explains that “women often don’t get what they want and deserve because they don’t ask for it.” HBR continues with a notable statistic, which explains that in 2003, among recently graduated MBA students from Carnegie Mellon, only 7% of women negotiated their starting salaries, while 57% of men did.³⁴ HBR identified another study in which subjects were told they would receive \$3 to \$10 for playing a game. At the end of the game simulation, both male and female subjects were given \$3, and asked if the amount was acceptable. Men were 9 times more likely than women to indicate that it was not enough, and that they expected more.³⁵

These studies indicate that women are not as willing to negotiate, even when equally qualified, and they are often settling when their male peers do not. HBR, Sandberg, and other researchers have identified societal structures and teachings that have contributed to this discrepancy among the genders. “The messages girls receive – from parents, teachers, other children, the media, and society in general – can be so powerful that when they grow up they may not realize that they’ve internalized this behavior, or they may realize it but not understand how it affects their willingness to negotiate. Women tend to assume that they will be recognized and rewarded for

³³ Sandberg, Sheryl. Lean In. WH Allen, 2014.

³⁴ Small, Linda Babcock Sara Laschever Michele Gelfand Deborah. “Nice Girls Don’t Ask.” Harvard Business Review, Harvard Business Review, 1 Aug. 2014, hbr.org/2003/10/nice-girls-dont-ask.

³⁵ Ibid

working hard and doing a good job. Unlike men, they haven't been taught that they can ask for more."³⁶ HBR also reports that society asks women to avoid being too forward, as it can be perceived as too "pushy." Instead, "women in business often watch their male colleagues pull ahead, receive better assignments, get promoted more quickly, and earn more money."³⁷

In the same vein, Sandberg writes, "if a woman is competent, she does not seem nice enough. If a woman seems really nice, she is considered more nice than competent." She goes on to comment on how being liked is vital to developing strong business relationships, and women are thus caught in an unfair slippery slope trying to balance success with likability.³⁸ As noted previously by observations in Chang's book, one's success at Google was originally determined by their connection to Zuckerberg. In line with Sandberg's accounts, workplace relationships are the determinants of success. If a woman's likability is compromised based on the different personality standards set in place for men and women, then so will her ability to succeed. However, by maintaining a favorable personality type, a woman's negotiation skills will suffer.

These cases address three important insights into why senior management positions are primarily occupied by men. (1) This is not a symptom of women performing less or being under qualified; rather, men and women are perceived differently in the workplace. (2) Likability in the workplace is vital to self-promotion.³⁹ However, women will be perceived as bossy when their male colleagues will not,

³⁶ Ibid

³⁷ Ibid

³⁸ Sandberg, Sheryl. *Lean In*. WH Allen, 2014.

³⁹ Ibid

making women less likable and thus at risk for a skewed and biased perception by their colleagues. (3) Lastly, as women have an understanding of this perceived gender bias, they resist aggressive negotiation tactics. Their gender expectations have prevented women from equalizing themselves to men completely, and the perceptions of their actions prevent them from claiming management positions in their companies.

The same reasons identified as potential explanations for low representation of women in senior management positions relates closely to potential reasons for low representation in venture funding for women. For example, entrepreneurs Penelope Gazin and Kate Dwyer started an online marketplace called Witchsy for unique art pieces. When launching the idea, the women were originally told that their ideas were “cute.” These women struggled to find investors and collaborators, as men would often refer to their business plan as a hobby. Gazin and Dwyer often worked with men who lost interest in the project when these women denied going on dates with them. Gazin and Dwyer, to combat these issues, created a fake, third co-founder named “Keith Mann.” They immediately saw an improvement in communication, and men were much more willing to work with them and support their ideas.⁴⁰

The aspects of discrimination identified by HBR, Sandberg, and other researchers are clearly epitomized in the struggle these women faced in finding investors and growing their business. Subverting perceived gender norms in a female-

⁴⁰ Titlow, John Paul. “Here’s Why That Story About A Fake Male Cofounder Went Insanely Viral.” Fast Company, Fast Company, 11 Sept. 2017, www.fastcompany.com/40462125/heres-why-that-story-about-a-fake-male-cofounder-went-insanely-viral.

only company, they were unable to market their idea. But pitched from the perspective of a man, even a nonexistent one, Gazin and Dwyer suddenly found respect.

Relationships with Venture Capitalists

The gendered expectations identified in the previous section will be vital to the assessment below of the relationship between VC investors and entrepreneurs. This relationship suffers from a unique form of discrimination due to the types of meeting environments that are embedded in the culture. As stated previously, wealthy venture capitalists in Silicon Valley often host meetings in their homes that involve excessive drug use and sex. Meetings often take place outside of the traditional office settings, and instead are held in intimate settings such as restaurants or bars, or even more elaborately, in mansions, beach houses, or boats off the coast of Ibiza.⁴¹ I noticed this trend when studying relationships between investors and CEOs in Silicon Valley as one of the most crucial reasons there are fewer investments in female-founded companies.

It's also notable that female founders are equally as qualified as male founders. PitchBook reports that 7.2% of female founders and 5.9% of male founders attended a top 10 school. Furthermore, 31% of male founders and 32.5% of female founders have an advanced degree.⁴² The quality of a founder's degree was shown to be a valuable asset that investors look for, according to First Round's research. Although female entrepreneurs display the same qualifications, they receive only 3% of capital. Again, it is not the differences in qualification or workplace activity that creates this gender divide, but rather differences in the biases that women face when attempting to compete with men.

⁴¹ Chang, Emily. *Brotopia: Breaking up the Boys' Club of Silicon Valley*. Portfolio/Penguin, 2018.

⁴² Olsen, Dana. "Female-Founded, VC-Funded: The Numbers behind Venture Investment in Women [Datagraphic]." PitchBook, 15 Mar. 2017, pitchbook.com/news/articles/female-founded-vc-funded-the-numbers-behind-venture-investment-in-women-datagraphic.

If women are equally as qualified, then the argument I will make below is that it is the culture of venture capital funding that is the biggest reason behind underrepresentation of women in this industry, combined with workplace biases and practices that are seen in all aspects of business relationships. In one account of Chang's "Brotopia," she explains how billionaire venture capitalist Chris Sacca meets with entrepreneurs to exchange ideas. Sacca invites various entrepreneurs to his house in Lake Tahoe, California to spend hours in his hot tub with him. Chang explains, "perhaps he suffers from the same blind spot as so many other men in the industry" for the demographic of those willing to hot tub with Sacca all day is skewed.⁴³ The issue with this meeting setting is that female entrepreneurs have to decide how willing they would be to sit in a hot tub for hours to conduct a business deal, at the price of their comfort or dignity. Later in this thesis, I will share several accounts of sexual harassment that female entrepreneurs have reported regarding several male investors. Chris Sacca's investment meetings, which would require female entrepreneurs to dress down to a swimsuit to close a deal, perpetuate a culture which excludes women from investment conversations by allowing male investors to dictate the environment in which those conversations take place.

Although Sacca's invitation to his hot tub is not meant to intentionally discriminate against female entrepreneurs, he is still excluding them from the conversation and from the potential of his investment. Katrina Lake, the CEO of Stitch Fix, comments on Sacca's investment meetings in Tahoe. Lake says, "as a woman, I'm

⁴³ Chang, Emily. *Brotopia: Breaking up the Boys' Club of Silicon Valley*. Portfolio/Penguin, 2018.

sitting here thinking, ‘I don’t want to go all the way up to Tahoe and sit with this guy in a hot tub.’ At that point I’m like 100 percent not going to get invested in by Chris Sacca.” She goes on to explain that although Sacca didn’t discriminate against her, the option to work with Sacca was eliminated because she was unwilling to “get in a bikini and drink beers while pitching a business.”⁴⁴

A large venture capitalist firm, Kleiner Perkins, has been accused of gender discrimination through the case of Ellen Pao, which will be detailed later. However, Pao discussed the ways in which business was conducted at her firm. Pao shares that in meetings with the CEO of Kleiner Perkins, he would bring up over bottles of wine porn stars he had met at the Playboy Mansion. Conversations between male executives would include what types of women they preferred. Pao comments on how she tried to take Sandberg’s advice of involving herself in more conversations at work, a phenomenon Sandberg refers to as “sitting at the table.” However, Pao explains “taking your seat at the table doesn’t work so well...when no one wants you there.”⁴⁵ Pao gives more insight into the culture of VC when she explains that “power is concentrated in just a few people who all know one another. Tips and information are exchanged at all-male dinners, outings to Vegas, and sports events.”⁴⁶ Chris Sacca’s hot tub parties, trips to Vegas, and various sporting events are activities which compliment the likes and interests of the men involved in these deals and do not provide a comfortable or even

⁴⁴ Ibid

⁴⁵ Behringer, Vicki. “Ellen Pao: This Is How Sexism Works in Silicon Valley.” The Cut, The Cut, 21 Aug. 2017, www.thecut.com/2017/08/ellen-pao-silicon-valley-sexism-reset-excerpt.html.

⁴⁶ Ibid

playing field on which the equally competent women can conduct business with their male colleagues.

Chang also spoke to Nicole Farb, previous Goldman Sachs banker who became a Silicon Valley entrepreneur. Farb explains that as a woman she felt more discriminated against trying to raise funding in Silicon Valley than she ever did during her banking career. In business meetings, associates question her on how many children she plans on having and if she is able to hire men.⁴⁷ Janica Alvarez, CEO of Naya Health, has struggled with the same inappropriate questions from male investors. Her company developed a series of hospital level breast pumps for women that she claims are an improvement from ones previously sold. Her pumps sell for \$1,000, which is a large price increase from the \$250 units sold previously. However, she claims that this product will be highly desired by women, as previous pumps are uncomfortable and poorly designed. She initially was able to raise \$3.9 million in seed funding, but then she faced a series of issues with investors when trying to raise more. Despite the high demand she forecasted, funding has proven difficult. Men are uncomfortable discussing the product with her. They explain that they may need to discuss it with their sister or wife first. Furthermore, and most notably, Alvarez is asked how she plans on running a company while raising children. Her husband, the co-founder of their company, has never been asked any of these questions.⁴⁸

⁴⁷ Chang, Emily. *Brotopia: Breaking up the Boys' Club of Silicon Valley*. Portfolio/Penguin, 2018.

⁴⁸ Farr, Christina. "Smart Breast Pump Company Naya Health Has Booked More than \$1 Million in Sales, Says CEO." CNBC, CNBC, 26 Sept. 2017, www.cnbc.com/2017/09/26/naya-health-booked-more-than-1m-in-sales--ceo-janica-alvarez.html.

Impact of Sexual Harassment

Another contributing factor that impacts the relationship between VC investors and entrepreneurs is the plethora of sexual harassment cases. In this section, I will report various cases of sexual harassment in venture capitalist firms and their impact on the amount of funding female entrepreneurs have been able to raise. Based on my research, these cases serve as a crucial turning point and blockade for women attempting to fund their startups. Cases such as the ones presented below are vital to understanding the uneven distribution of wealth from VC firms. Furthermore, it is important to recall the evidence stated earlier that 93% of partners at VC firms are men, and thus controlling the monetary flow to startups. TechCrunch journalists who meet with these powerful investors report that when conducting research on VC firms, they are often put in one-on-one meetings with venture capitalists. In these circumstances, the journalists themselves have been forced to dodge sexual advances.⁴⁹

The first sexual harassment case I will present is from June 2017, in which VC partner and co-founder at Binary Capital, Justin Caldbeck, was accused of sexual harassment toward six different women. These women varied from those he was trying to recruit as employees, and women he was engaging in business agreements with. Ann Lai, a principal at Binary Capital, left the company after over a year of working for the firm. She then reported Caldbeck for his sexual harassment and explained that she left due to the “sexist and sexual environment” imposed by management. Lai reported that the firm enforced female-specific dress codes and conducted inappropriate behavior

⁴⁹ O’Brien, Sara, and Laurie Segal. “Sexual Harassment in Tech: Women Tell Their Stories.” CNNMoney, Cable News Network, 2017, money.cnn.com/technology/sexual-harassment-tech/

toward female employees during staff events. Lastly, and most notably, Lai explained that senior partners made comments about the attractiveness of female startup owners with whom they were conducting business.

After Lai left Binary Capital, Caldbeck threatened to ruin her career if she chose to report her perceived discrimination at the firm. Lai has since filed a lawsuit, claiming that Caldbeck has caused her both “economic and emotional harm.” More women reported Caldbeck, claiming that he grabbed their legs under the table during meetings, asked if they wanted to go up to a hotel suite while networking, or texted them late at night asking to meet up. Several of these women were trying to find investment funding for their startups. Many of the other women who reported Caldbeck for sexual harassment chose to remain anonymous, for they had “wider concerns they might suffer a backlash from men in the industry who don’t see inappropriate advances as a problem,” as reported by TechCrunch.⁵⁰ Susan Ho was another one of the women who publicly accused Caldbeck of indecency. She comments on this phenomenon that she recognizes throughout the industry of powerful investors taking advantage of women, explaining that “the undefined relationship between entrepreneurs and investors, coupled with the industry’s power dynamics, can complicate those casual meetings.”⁵¹

The sexual harassment Lai reported mirrors another sexual harassment case that famously took place in 2012. Ellen Pao was a partner at venture capitalist firm, Kleiner Perkins, which she eventually sued for sexual harassment. Her case provides a thorough understanding of the masculine culture imposed by VC firms, as she explains her

⁵⁰ Ibid

⁵¹ Ibid

perspective from the inside of the firm. Pao reports that during her time on the board, she frequently battled the issues of working in such a male-dominated work space. According to Pao, when sitting with the company's CEO, he would discuss porn sites, how attractive the women he hired were, and make other inappropriate comments. Pao also explains, "at meetings, male partners frequently spoke over female colleagues or repeated what the women said and took the credit." "Women were admonished when they 'raised their voices,' yet they were chastised when they 'couldn't own the room.'" Pao further comments on how the male partners at her firm took a ski trip together to Vail with some of the CEOs they were investing in, and they neglected to invite any women.

Again, the recognizable "bro" culture is reproduced. Success is a reflection of acceptance into this group, and if women aren't invited to participate, they are put at a professional disadvantage.⁵² Pao's report here mirrors extremely similarly the types of discrimination practices that were previously identified in this field. Eventually, Pao began dating one of the partners after he claimed he separated from his wife. When Pao later found out that this was false, she ended the relationship. Unfortunately, this separation caused her to be left out of conversations and meetings from thereon out. This sexual harassment prevented her from being involved in decisions and prevented her from remaining an equal partner and voice to her male colleagues. Women warned her not to report the incident or file a lawsuit, admitting that "even if you win, it will

⁵² Behringer, Vicki. "Ellen Pao: This Is How Sexism Works in Silicon Valley." *The Cut, The Cut*, 21 Aug. 2017, www.thecut.com/2017/08/ellen-pao-silicon-valley-sexism-reset-excerpt.html.

destroy your reputation.” Ellen Pao eventually filed a lawsuit against the firm, which she lost.⁵³

In both cases, Pao and Lai were surrounded by women who had experienced the same types of inappropriate advances from men, but who had failed to report this behavior for fear that their careers would be compromised. This indicates that women are worried about how they’ll be perceived at work and further indicates that many of these cases will go unreported. Another TechCrunch report indicates that these women may be right to fear reporting these experiences. An anonymous VC partner e-mailed KQED, following a story regarding sexual harassment cases in VC firms, and stated that he would not hire a woman to avoid getting sued. According to TechCrunch, “the e-mailed comment has the added implication that women are just taking the job to turn around and lie about being harassed in hopes of a fat paycheck.”⁵⁴ These types of comments confirm that women fear their reputation and level of respect at work will be compromised if they decide to report the indecent behaviors of these investors. As identified by Sandberg and Harvard Business Review, likeability is crucial to the development of business relationships. Women who did not report sexual advancements did so for fear of risking their likeability in the workplace.

Caldbeck later apologized publicly with the following statement: “the fact is that I have been privileged to have worked with female entrepreneurs throughout my career and I sincerely apologize to anyone who I made uncomfortable by my actions. There’s

⁵³ Ibid

⁵⁴ Buhr, Sarah. “Someone Claiming to Be a VC Admits He Doesn’t Hire Women out of Fear He’ll Get Sued.” TechCrunch, TechCrunch, 28 June 2017, techcrunch.com/2017/06/27/vc-admits-he-doesnt-hire-women-out-of-fear-hell-get-sued/.

no denying this is an issue in the venture community, and I hate that my behavior has contributed to it.”⁵⁵ However, a week after Caldbeck was accused of these allegations, he attended one of the large Silicon Valley sex parties. Ironically, Caldbeck admits to the trends in the industry, but he is unwilling to change his lifestyle choices to strive toward a more respectable workplace environment. These cases report on both the insight from female venture capitalists who observe this behavior from within the firms, and investors’ behavior toward those women seeking investment. Women also are uncomfortable with the risk of sacrificing their career if they were to report these incidents.

To further provide evidence of the sexual harassment imposed on female entrepreneurs, CNN Tech reports stories from women who have faced these sexual advancements in the article, “Money, Power, and Sexual Harassment.” In one account, Cecilia Pagkalinawan, founder and CEO of appLOUD was struggling to fund her company in 2001 and faced the struggle of having to find investment or fire 26 employees. She met with a powerful venture capitalist at an expensive restaurant, where he insisted on buying a \$5,000 bottle of wine for them to share after she explained that she didn’t drink, and he continued filling her glass throughout their conversation. He made comments telling her that he wanted to take care of her, while leaning in to kiss her and touching her leg under the table.⁵⁶

⁵⁵ Lomas, Natasha. “Female Founders Accuse VC Justin Caldbeck of Making Unwanted Advances.” TechCrunch, TechCrunch, 23 Jun. 2017. <https://techcrunch.com/2017/06/23/female-founders-accuse-vc-justin-caldbeck-of-making-unwanted-advances/>.

⁵⁶ O’Brien, Sara, and Laurie Segal. “Sexual Harassment in Tech: Women Tell Their Stories.” CNNMoney, Cable News Network, 2017, money.cnn.com/technology/sexual-harassment-tech/.

Another entrepreneur, Bea Arthur, met with an investor who stood up during the meeting and pulled his pants down. Lisa Wang, cofounder of SheWorx, met an investor at Starbucks, where he repeatedly tried to grab her face and make out with her and later tried to follow her to her hotel room.⁵⁷ Lisa Yu, founder of OfficeBook, met a wealthy investor at a party he invited her to, where she connected with him over her company. The investor followed up with an invitation to dinner on his boat, which she declined. When Yu ran into him at a different party later that week, he cornered her and screamed at her for rejecting his invitation and thus his business partnership.⁵⁸ One common fear that these women share is the balance between being financially responsible for their companies and reporting the behavior of these investors. They explain that women in their position who report these incidents will be labeled as the “woman who reported sexual harassment,” which will work against them when trying to find further investment opportunities.⁵⁹

Pagkalinawan explains that this sexual harassment made her feel as though her past accomplishments had no value anymore, and that the \$5 million in venture funding she had previously raised meant nothing after this demoralizing experience. Yu explains that after being screamed at by an investor, she considered giving up her business, for she didn’t want to be a part of an industry that promoted this kind of behavior.⁶⁰

These reports all conclude that the fundamental issue is that with men controlling most of the venture capital funding, they control a large aspect of the power

⁵⁷ Ibid

⁵⁸ Chang, Emily. *Brotopia: Breaking up the Boys' Club of Silicon Valley*. Portfolio/Penguin, 2018.

⁵⁹ O’Brien, Sara, and Laurie Segal. “Sexual Harassment in Tech: Women Tell Their Stories.” *CNNMoney*, Cable News Network, 2017, money.cnn.com/technology/sexual-harassment-tech/.

⁶⁰ Chang, Emily. *Brotopia: Breaking up the Boys' Club of Silicon Valley*. Portfolio/Penguin, 2018.

in this industry. Women who are seeking investment turn to men as a source of support for their businesses, but they are forced to face an industry-wide power struggle that is flooded with sexual harassment. The power that the investor holds by having the capacity to fund one's company makes women vulnerable to sexual harassment. Lisa Wang observes from her experience that "if the male investor looks at another man, he sees them as an opportunity, a colleague, a peer, a mentor...but if you're a female founder, "he just sees you as a woman first."⁶¹ CNN observes that these women fear "earning a reputation as someone who's difficult to work with, which could make it difficult to secure funding. Investors may avoid financing a company with a founder they don't "trust" if they're nervous she may speak out about their behavior too. That's helped those who've behaved inappropriately in positions of power, according to Arthur."⁶²

⁶¹ O'Brien, Sara, and Laurie Segal. "Sexual Harassment in Tech: Women Tell Their Stories." CNNMoney, Cable News Network, 2017, money.cnn.com/technology/sexual-harassment-tech/.

⁶² Ibid

Assessments

From this thesis, I have drawn three important assessments. The low representation of women in VC firms, the biased perceptions of women in the workplace, and sexual harassment have caused women to be underfunded and underrepresented in this industry specifically. It is not a lack of resources or qualifications, but specifically external blockades that slow female success in raising capital funding.

Representation of Women in Venture Capitalist Firms

As noted in the Uber board meeting, when one woman is appointed to a board, more are likely to follow. When 67% of VC firms have no female employees, and if they are not willing to appoint more women, men have the power to control the majority of the flow of venture funding.

Biased Perceptions of Women in the Workplace

Women who are equally competent in their field suffer from discrimination due to their gender role expectations. They are challenged with maintaining the key instrument of their success, likability, which is based on gender expectations. However, likability thus impacts their ability to negotiate. In maintaining gender roles, being aggressive works against expectations. As Pao addresses, she felt similarly to how Sandberg felt in which women, including themselves, were torn between feeling judged for either being too aggressive or being walked over in meetings.

Sexual Harassment

The intimacy of investment meetings allows for more sexual harassment opportunities. Sexual harassment is seen both within the VC firms, as men hold 93% of the power and position in these firms. Women who are able to ensure partner positions often experience a high level of sexual harassment, such as the case Ellen Pao made against Kleiner Perkins. In her account, Pao explains that she knew of several women who feared reporting these incidents because they feared losing their credibility or risking their reputations. Therefore, it remains unclear exactly how often this happens amongst top VC firms. However, it provides insight that sexual harassment is a common activity, and as it persists among large firms, making it unlikely that women will feel comfortable working in these environments. Without more representation of women working in VC firms, similar sexual harassment behavior transcends to relationships between these partners and the entrepreneurs they are conducting business deals with.

Current Efforts to Promote Funding to Female Founders

Project Include

Project Include is a non-profit organization that provides strategies for companies to implement diversity. Their mission is “to give everyone a fair chance to succeed in tech. We are a non-profit that uses data and advocacy to accelerate diversity and inclusion solutions in the tech industry.” They encourage companies to promote diversity and inclusion through three values: inclusion, comprehensiveness, and accountability. The advice they provide for companies has added merit as it comes from the expertise of CEOs.

Female Founder Office Hours

Jess Lee founded a network for women in tech called “Female Founder Office Hours.” This group of 120 female company founders and 30 female VCs have joined together to support the success of female entrepreneurs seeking investment. They host events which allow investors to advise female entrepreneurs. Founders can come to “office hours” for mentoring and advice, and once successful, they can join the mentoring team. Both this and Project Include promote an open conversation about the culture of Silicon Valley and ways that women can succeed in an industry that works against them.

Female Founder Fund

Female Founders Fund is a VC firm that invests solely in female-founded firms. As noted previously in studies conducted by First Round, female-founded companies outperform male-founded companies by 63%. This is a platform Female Founders Fund

has used to fuel their mission. This fund claims that “women make better entrepreneurs” and states that “women experience greater successes - and fewer failures - than their male counterparts. Yet traditional venture capital does not reflect this.” Their portfolio includes notable companies such as Manicube, Viyet, WayUp, and Rent the Runway. Female Founders Fund is backed by notable investors, such as Melinda Gates, Katrina Lake (CEO of Stitch Fix), Elizabeth Cutler (founder of SoulCycle), and Whitney Wolf (founder of Bumble). With a portfolio of 30 companies, this fund has raised \$500 million in capital.⁶³

⁶³ “Female Founders Fund.” Female Founders Fund, femalefoundersfund.com/.

Conclusion

Relevance of Research

Perception plays an influential factor in this uneven distribution of funding provided to women. This is vital to any industry. Just as Chris Sacca is potentially unaware that his Lake Tahoe house parties that serve as investment meetings are discriminatory, many other men across all industries and areas of academia may likewise be unaware of the outcome of their actions. Furthermore, key takeaways for women will be how they can be more aware of the societal perceptions of their actions and work to not internalize them to the point of professional destruction. Although this is not a solution necessarily, awareness can be the first step in decreasing the impact of discrimination practices.

Conclusive Statements

With only 3% of total venture funding provided to female-run companies, this industry inevitably suffers from a structural flaw. Changing the perception of female competency would prove to be a crucial turning point for an increased entrance of women in this industry. The relationship between VC partners and female entrepreneurs has been compromised due to the biases placed on women, and furthermore by an underrepresentation of women who sit in board seats at VC firms.

Women who have chosen to speak up against unfair sexual harassment practices have provided a platform for more women to share their experiences. With increased awareness, there is potential for women to strategize how to combat standards imposed by the VC world, which is vastly controlled by men. Efforts such as those made by

Female Founders Fund provide insight into how the industry can move toward change and begin to redistribute funding more equally between men and women.

Awareness is vital to these efforts. As men become more aware of how their practices can be seen as discriminatory, they may be able to see how they can include more women in their conversations. Furthermore, as women become more aware of how their actions can be perceived, they can better adjust their negotiation styles and collaborate with one another to push back against discriminatory industry standards. This research did not serve to answer specifically how women will move from receiving only 3% of VC funding to 50%, but it has created a platform from which to evaluate this industry and all the contributing factors that affect underrepresentation of women.

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