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# Gender and venture capital decision-making: The effects of technical background and social capital on entrepreneurial evaluations



Justine E. Tinkler<sup>a,\*</sup>, Kjersten Bunker Whittington<sup>b</sup>, Manwai C. Ku<sup>c</sup>, Andrea Rees Davies<sup>d</sup>

<sup>a</sup> Department of Sociology, 119C Baldwin Hall, University of Georgia, Athens, GA 30601, United States

<sup>b</sup> Department of Sociology, 3203 SE Woodstock Ave., Reed College, Portland, OR 97202, United States

<sup>c</sup> Department of Sociology, Stanford University, Stanford, CA 94305, United States

<sup>d</sup> Michelle R. Clayman Institute for Gender Research, Serra House, 589 Capistrano Way, Stanford University, Stanford, CA 94305, United States

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## ABSTRACT

Research on gender and workplace decision-making tends to address either supply-side disparities between men's and women's human and social capital, or demand-side differences in the status expectations of women and men workers. In addition, this work often relies on causal inferences drawn from empirical data collected on worker characteristics and their workplace outcomes. In this study, we demonstrate how tangible education and work history credentials – typically associated with supply-side characteristics – work in tandem with cultural beliefs about gender to influence the evaluative process that underlies venture capital decisions made in high-growth, high-tech entrepreneurship. Using an experimental design, we simulate funding decisions by venture capitalists (VCs) for men and women entrepreneurs that differ in technical background and the presence of important social ties. We demonstrate the presence of two distinct aspects of VCs' evaluation: that of the venture and that of the entrepreneur, and find that the gender of the entrepreneur influences evaluations most when the person, rather than the venture, is the target of evaluation. Technical background qualifications moderate the influence of gendered expectations, and women receive more of a payoff than men from having a close contact to the evaluating VC. We discuss the implications for future research on gender and work.

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## 1. Introduction

Women's continued under-representation in the upper echelons of most high-status work environments constitutes a significant stall in progress toward gender equality. In this article, we focus on the evaluative context in which decisions are made about men and women workers, using the particular case of high-growth, high-technical entrepreneurship. Research on high tech entrepreneurs finds that women founded only 3% of technology firms and 1% of high-tech firms between 2004 and 2007 (Robb and Coleman, 2009). In addition, women entrepreneurs are less likely than men to acquire

\* Corresponding author. Fax: +1 (706) 542 5102.

E-mail addresses: [jtinkler@uga.edu](mailto:jtinkler@uga.edu) (J.E. Tinkler), [whittington@reed.edu](mailto:whittington@reed.edu) (K. Bunker Whittington), [manwaiku@gmail.com](mailto:manwaiku@gmail.com) (M.C. Ku), [ardavies@stanford.edu](mailto:ardavies@stanford.edu) (A.R. Davies).

venture capital. An extensive study of high-tech entrepreneurs in 2001 reveals that only 5% of venture capital investments went to women-owned high-tech firms (Brush et al., 2001).

Considerable attention has been paid to women's lower likelihood of entry into and success in high-tech entrepreneurship. Some of the most prominent explanations focus on the effects of human and social capital (see Robb and Coleman, 2009 for a review), in which the scarcity of women entrepreneurs reflects the shortage of women with education and experience in science and technology (Greene et al., 2003; Menzies et al., 2004), or the absence of women in strategic entrepreneurial networks (Brush et al., 2006; Mitchell, 2011). These supply-side arguments are similar to those that have focused on other areas of women's underrepresentation in the workplace, such as high-level and executive management (Adams and Funk, 2012), senior-level academia and science careers more generally (NRC, 2010 (Appendix 3–2); Ecklund et al., 2012).

At the same time, a largely separate research vein shows that gendered practices infuse the structural organization of work (Acker, 1989; Smith-Doerr, 2004; Whittington and Smith-Doerr, 2008), the physical embodiment of workers in jobs (Acker, 1990; Britton, 2000), and the expectations that define the ideal worker (Kelly et al., 2010; Benard and Correll, 2010), scientist and engineer (Long and Fox, 1995; Wajcman, 2010; Moss-Racusin et al., 2012) and entrepreneur (Gupta et al., 2008; Thébaud, 2010). This work stresses that gender appears to provide a background from which evaluators make decisions about employees and candidates. Like hiring, venture capitalists' decisions operate in an evaluative context that necessitates a decision where limited information about candidates exists.

Whereas attention to the presence of human and social capital directs attention to the qualifications and characteristics of the workers themselves (e.g. England, 2010) and the nature of the available candidate pool (Fernandez and Abraham, 2011), research on gendered processes examines discrimination in the evaluation or perception of women workers (see, for example, Gorman and Kmec, 2009, and Moss-Racusin et al., 2012).<sup>1</sup> Both theoretical perspectives provide insight into the process by which workers are hired, sorted, or selected into jobs, but we know relatively little about how supply side characteristics may be interpreted in the eyes of job evaluators differently for men and women (although see England and Folbre, 2005; Murray and Graham, 2007). For example, women and men may not necessarily receive the same returns on their education and career history credentials, or their social connections.

Recent work by Ding et al. (2013) focuses on related demand and supply arguments in the context of women's differential participation in scientific advisory boards using a sample of academic life scientists. Using statistical modeling of career history data and other personal characteristics, they find strong evidence for demand-side processes in governing board participation (as opposed to women's preferences in becoming involved). However, like many other studies of workplace inequities, the archival basis of their dataset does not allow them to *directly* observe the perceptions of board evaluators, and they are only able to draw inference about these underlying relationships from their model results. The correlation is there, but the causal mechanism is not tested. They suggest, as do others, that more information is needed about the role of gatekeeper perceptions in the hiring and evaluation process (Fernandez and Abraham, 2011; Fernandez-Mateo and King, 2011). We address this gap in the literature directly by employing an experimental design to explicitly examine whether and how gendered expectations by venture capitalists shape their evaluations of men and women entrepreneurs who have either technical or non-technical educational and work history credentials, and the presence of an important social connection (versus no such tie). Unlike Ding, Murray and Stuart, we do not examine men's and women's *preferences* for this type of involvement, *per se*; instead, we argue that our understanding of human and social capital processes is incomplete without also accounting for how employers interpret these characteristics differently for men and women. Although studies of similar design appear in previous literature on other types of workplace decision-making (Benard and Correll, 2010; Correll et al., 2007; Moss-Racusin et al., 2012), to our knowledge, this is the first study on women high-technical workers to employ an experimental design able to draw implications about the gendered patterns in the science and technology entrepreneurial workforce.

Drawing from our exploratory interviews, focus groups, and observations of industry-related events with venture capitalists and entrepreneurs in Silicon Valley, we designed our study to focus on the initial stage of the VC decision-making process that begins when an entrepreneur's proposal finds its way to the desk of a venture capitalist, before any initial contact or funding relationship is established. In this context, the decision-making process may resemble that of a highly competitive hiring decision in which limited information is available before the initial interview stage. Unlike previous experimental studies, we do not use undergraduate students to assume the role of the evaluators. Instead, we draw our participations from a unique and case-applicable sample of 114 men from the Stanford University MBA Entrepreneur Club. Although our sample is all men and drawn from just one high tech region, our study is the first on the topic (of which we are aware) to use a sample of individuals who are familiar with the industry, and in many cases, actively involved in it. In addition, our sample is fairly reflective of the notable gender imbalance in the VC industry. While the National Venture Capital Association (NVCA, 2008) reports that 86% of VCs are men, this number underestimates the proportion of men who make funding decisions since managing directors and general partners, who are almost all men, make the funding decisions.<sup>2</sup> We develop an expansive view of the venture capital evaluative context by considering two focal outcomes upon which decision-making occurs – that of the venture and that of the entrepreneur. While previous research typically focuses on

<sup>1</sup> Although sex differences in supply side characteristics can also include factors like one's interest in acquiring (or the pursuit of) venture capital, in this work we specifically focus on supply side dynamics related to one's educational and work experience credentials and strong social ties.

<sup>2</sup> As we discuss in more detail below, we hope this work stimulates additional future research that includes a focus on women venture capitalists, who may or may not deviate from men in their evaluations.

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