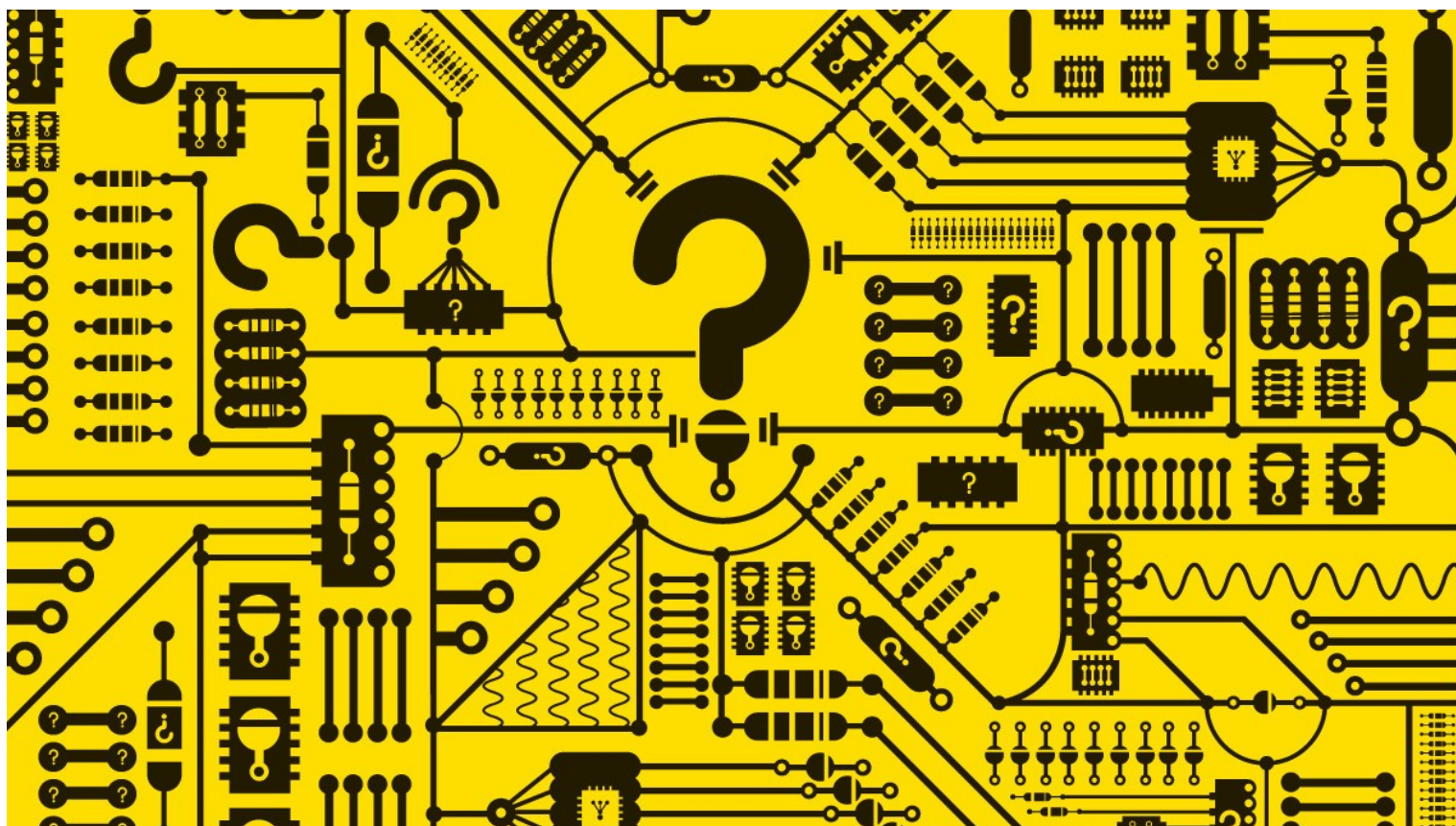


Male and Female Entrepreneurs Get Asked Different Questions by VCs — and It Affects How Much Funding They Get

by Dana Kanze, Laura Huang, Mark A. Conley, and E. Tory Higgins

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There is an enormous gender gap in venture capital funding in the United States. Female entrepreneurs receive only about 2% of all venture funding, despite owning 38% of the businesses

in the country. The prevailing hope among academics, policy makers, and practitioners alike has been that this gap will narrow as more women become venture capitalists. However, homophily does not seem to be the only culprit behind the funding gap. Over the past several years, the U.S. has seen an increase in the number of female venture capitalists (from 3% of all VCs in 2014 to an estimated 7% today), but the funding gap has only widened.

Research my colleagues and I conducted offers new evidence as to why female entrepreneurs continue to receive less funding than their male counterparts. We observed Q&A interactions between 140 prominent venture capitalists (40% of them female) and 189 entrepreneurs (12% female) that took place at TechCrunch Disrupt New York, an annual startup funding competition. Our study then tracked all funding rounds for the startups that launched at the competition. These startups were comparable in terms of quality and capital needs, yet their total amounts of funding raised over time differed significantly: Male-led startups in our sample raised five times more funding than female-led ones.

When we analyzed video transcriptions of the Q&A sessions (with a linguistic software program and manual coding), we learned that venture capitalists posed different types of questions to male and female entrepreneurs: They tended to ask men questions about the potential for gains and women about the potential for losses. We found evidence of this bias with both male and female VCs.

According to the psychological theory of *regulatory focus*, investors adopted what's called a *promotion* orientation when quizzing male entrepreneurs, which means they focused on hopes, achievements, advancement, and ideals. Conversely, when questioning female entrepreneurs they embraced a *prevention* orientation, which is concerned with safety, responsibility, security, and vigilance. We found that 67% of the questions posed to male entrepreneurs were promotion-oriented, while 66% of those posed to female entrepreneurs were prevention-oriented.

The table below illustrates the key differences between promotion and prevention questions. For example, take the topic of customers. A promotion question would look into customer acquisition, whereas a prevention question would inquire about customer retention.

VCs Frame Questions in Two Different Ways

Promotion questions focus on potential gains, whereas prevention questions focus on potential losses. VCs tend to ask the former of men and the latter of women.

TOPIC	PROMOTION	PREVENTION
Customers	Acquisition Example question: “How do you want to acquire customers?”	Retention Example question: “How many daily and monthly active users do you have?”
Income statement	Sales “How do you plan to monetize this?”	Margins “How long will it take you to break even?”
Market	Size “Do you think that your target market is a growing one?”	Share “Is it a defensible business wherein other people can’t come into the space to take share?”
Projections	Growth “What major milestones are you targeting for this year?”	Stability “How predictable are your future cash flows?”
Strategy	Vision “What’s the brand vision?”	Execution “Are you planning to Turing test this?”
Management	Entrepreneur “Can you tell us a bit about yourself?”	Team “How much of this are you actually doing in-house?”

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This difference in questioning appears to have substantial funding consequences for startups. Examining comparable companies, we observed that entrepreneurs who fielded mostly prevention questions went on to raise an average of \$2.3 million in aggregate funds for their startups through 2017 – about seven times less than the \$16.8 million raised on average by entrepreneurs who were asked mostly promotion questions. In fact, for every additional prevention question asked of an entrepreneur, the startup raised a staggering *\$3.8 million less*, on average. Controlling for factors that may influence funding outcomes – like measures of startups’ capital needs, quality, and age, as well as entrepreneurs’ past experience – we discovered that the prevalence of prevention questions completely explained the relationship between entrepreneur gender and startup funding.

We also noticed that the majority of entrepreneurs (85%) responded to questions in a manner that matched the question’s orientation: A promotion question begets a promotion answer, and a prevention question begets a prevention answer. This pattern of behavior perpetuates a cycle of bias in the Q&A process that can aggravate the funding disparity. By responding in kind to promotion questions, male entrepreneurs reinforce their association with the favorable domain of gains; female entrepreneurs who respond in kind to prevention questions unwittingly penalize their

startups by remaining in the realm of losses. When it comes to venture funding, entrepreneurs need to convince prospective investors of their startups' "home run" potential – it's not enough to simply demonstrate that they're unlikely to lose investors' money.

Fortunately, there's an actionable silver lining to our findings: If entrepreneurs change how they respond to prevention questions, they may be able to raise more funds. TechCrunch Disrupt entrepreneurs who were asked mostly prevention questions but gave mostly promotion responses went on to raise an average of \$7.9 million in total funding. Conversely, those who responded to mostly prevention questions with mostly prevention answers went on to raise an average of only \$563,000. So an entrepreneur who is asked to defend her startup's market share would be better served by framing her response around the size and growth potential of the overall pie than by merely stating how she plans to protect her share of the pie.

These findings from our field study were correlational, so we crafted an experiment to determine whether the relationship between Q&A orientation and funding is causal. We recruited both professional VCs (194 angel investors, 30% of whom were women) and ordinary people (106 Amazon Mechanical Turk users, 47% women).

Simulating the Q&A setting of TechCrunch Disrupt, we asked participants to listen to four six-minute audio files consisting of Q&A exchanges between investors and entrepreneurs. Each file involved a different company and employed a distinct combination of Q&A orientations, such that one had promotion questions with promotion answers, another had promotion questions with prevention answers, and so on. Since we used actual TechCrunch Disrupt transcripts as the basis for the audio files, we redacted the dialogue for any startup specifics and standardized the clips to control for variations in quality and stage. Participants had to allocate funds to each of the four companies (using a total of \$400,000 available to them) based on their reactions.

The experimental results reinforced our findings from the field: Entrepreneurs who were asked promotion questions received twice as much funding as those who were asked prevention questions. More important, we also confirmed the benefits of switching orientation. Angel investors allocated an average of \$81,113 to startups in the *prevention question, promotion answer* condition – 1.6 times larger than the \$52,369 average allocated to those in the *prevention question, prevention answer* condition. Similarly, ordinary investors gave an average of \$96,321 to the *prevention*

question, promotion answer condition – 1.7 times larger than the \$55,377 average given to the *prevention question, prevention answer* condition.

Armed with the knowledge that promotion has advantages over prevention, informed entrepreneurs can recognize question orientation and frame their responses to benefit their startups.

Our findings suggest that the gender gap in funding is not likely to narrow simply because more women are becoming VCs. Both men and women who evaluate startups appear to display the same bias in their questioning, inadvertently favoring male entrepreneurs over female ones. Being cognizant of this phenomenon can help investors approach Q&A interactions more evenhandedly. By posing a balance of promotion and prevention questions to men and women, investors grant all startups an equal chance to display their worthiness and may even improve their own decision making in the process.

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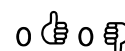
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William Delaney 8 months ago

Venture capitalists have a history of being a bit of a boys club, though a lot has changed in the past 30 years. One of the VC's that was always a broad enough thinker to address women as equals was Bill Davidow. His concerns were about the idea, the markets, the trends and the intelligence that company management and a board had. That was it. He was always supportive of women who were entrepreneurs. More changes are needed it seems, though the comments about women responding to questions that relate more to what is needed to address, instead of the actual questions, is a great idea.

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