

# Disrupting Bias in the VC Funding Process

## *Research & Practice*

**DANA  
KANZE, PHD**

**ASSISTANT PROFESSOR  
LONDON BUSINESS SCHOOL**

Kanze, Huang, Conley & Higgins, 2017, 2018

**Female-run firms represent  
nearly 40% of US  
(and 33% of UK) companies**

**...But <3% of US (and 1% of UK)  
venture financing  
is allocated to female founders**

**Financial resources are a crucial  
factor for success and growth  
prospects of new ventures**

**Widespread support found for  
gender distinctions in  
fundraising outcomes**

Magnitude? Mechanism? — *Disputed*

Cooper, Gimeno-Gascon & Woo, 1994; Dezsö & Ross, 2012; Khan & Vieito, 2013; Peni, 2014; Shane & Stuart, 2002

Aldrich, 2005; Brush, 1992; Coleman, 2000; Greene et al, 2001; Harrison & Mason, 2007; Stuart & Sorenson, 2007

# Research favors the Gender Homophily story

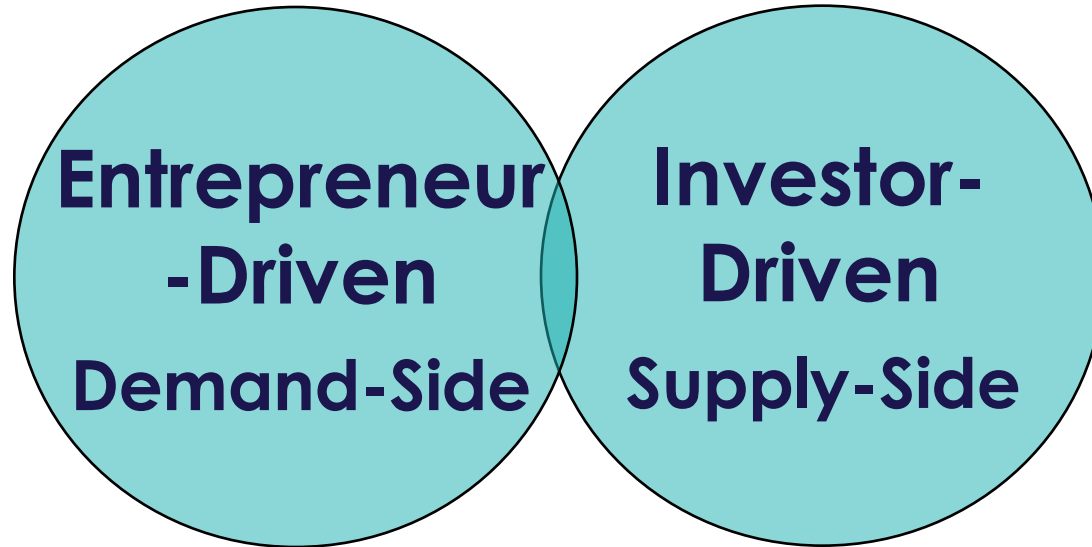
...But US VC financing to  
female founders has been  
rather steady at 2% to 3%...

...While the % of Female VCs has  
gone up from 7% to 10%...

Greenberg & Mollick, 2016; Ruef, Aldrich & Carter, 2003; Stuart & Sorenson, 2007

Pitchbook – NVCA Venture Monitor, 2019

Pitchbook – NVCA Venture Monitor, 2019; Crunchbase Women in Venture Report, 2017; AllRaise & Crunchbase, 2019



*Anna et al, 2000;  
Brush, 1992; Cliff, 1998;  
Manolova et al, 2008;  
Morris et al, 2006;  
Yang & Aldrich, 2014*

*Balachandra et al, 2013;  
Brooks et al, 2014; Chen et al,  
2009; Eddleston et al, 2014;  
Huang et al, 2013; Malmström  
et al, 2017, 2020*

# Social Psychology

*Male not female founders  
expected to have high  
growth aspirations*

## Promotion

**Gains:**

*Hopes*

**Accomplishments**

**Advancement**

**Needs**

**Losses:**

**Safety**

**Responsibility**

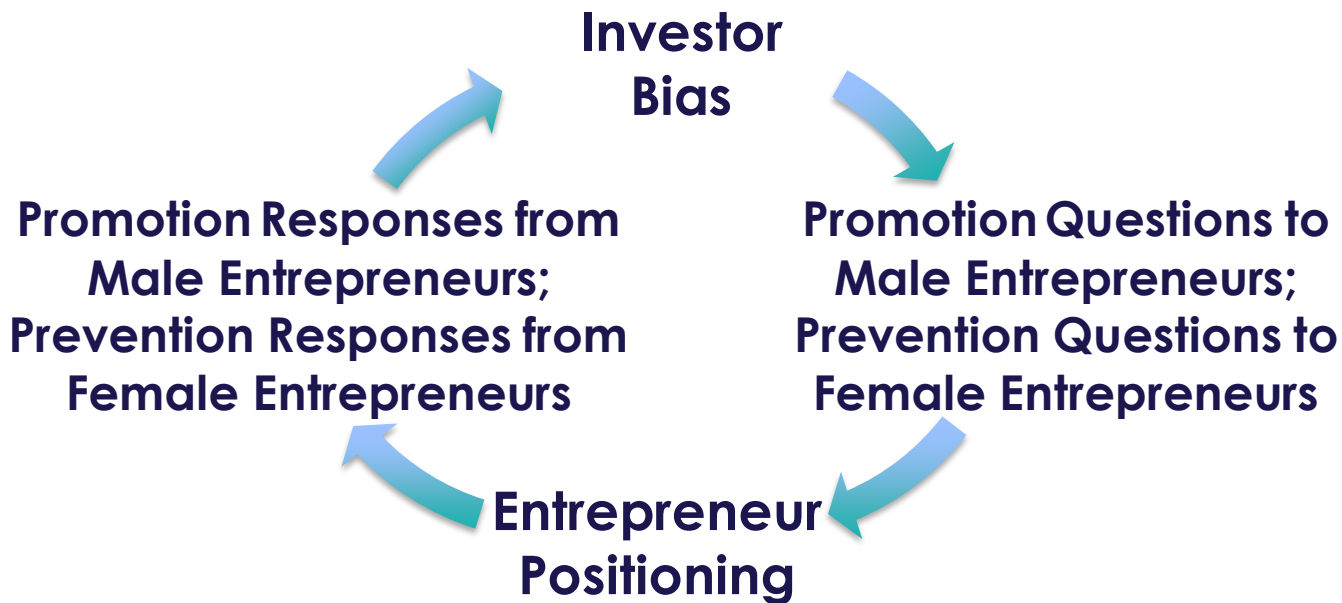
**Security**

**Needs**

## Prevention

*Female not male founders  
expected to have low risk appetite  
and need to protect ownership*

# Conceptual Framework



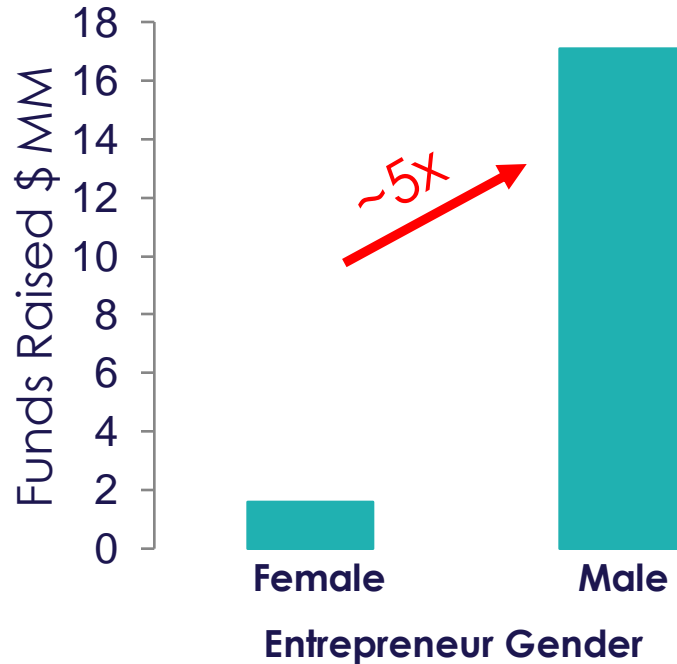
An LED display board showing the TechCrunch Disrupt NYC logo. The background is a dark, pixelated cityscape. The text 'TechCrunch' is in green and white, and 'DISRUPT NYC' is in large white letters with a cityscape inside the 'NYC'.

TechCrunch  
**DISRUPT NYC**

#redisrupt



# Average Funds Raised



$p = .03^*$ .

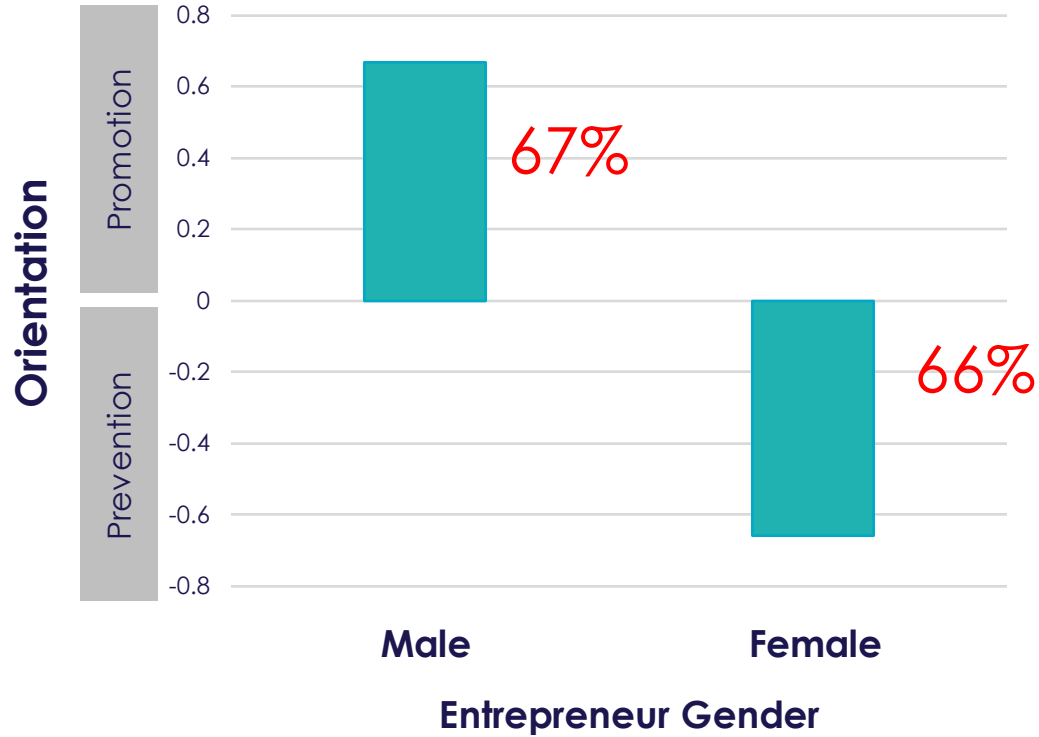
*\*Indicates results of t-tests. Regression results show gender is predictive of Ln aggregate funds raised, controlling for age, quality, experience, capital needs.*

Promotion	Prevention
<p>Accomplish Achieve <b>Aspire</b>  <b>Aspiration</b> Advancement  Attain Desire Earn Expand  Grow Gain Hope Hoping Ideal  Improve Increase Momentum  Obtain Optimistic Progress  Promotion Promoting Speed  Swift Toward Velocity Wish</p>	<p>Accuracy Afraid Anxious  Avoid <b>Careful</b> Conservative  Defend Duty Escape  Escaping Evade Fail Fear  Loss Obligation Ought Pain  Prevent Protect Responsible  Risk Safety Security Threat  Vigilance</p>

Topic	Promotion	Prevention
Customers	<b>Acquisition</b> “How do you plan to acquire customers?”	<b>Retention</b> “How do you plan to retain customers?”
Market	<b>Size &amp; Growth</b> “Do you think the target market is a growing one?”	<b>Share</b> “Is it a defensible business wherein others can't come into the space to take share?”
Income Statement	<b>Sales</b> “How do you plan to monetize this?”	<b>Margins</b> “How long will it take you to break even?”
Balance Sheet	<b>Assets</b> “How are you leveraging your core assets to grow?”	<b>Liabilities</b> “What level of liabilities will be incurred?”
Projections	<b>Growth</b> “What major milestones are you targeting for this year?”	<b>Stability</b> “How predictable are your future cash flows?”
Strategy	<b>Vision</b> “What's the brand vision?”	<b>Execution</b> “Are you planning to Turing test this?”

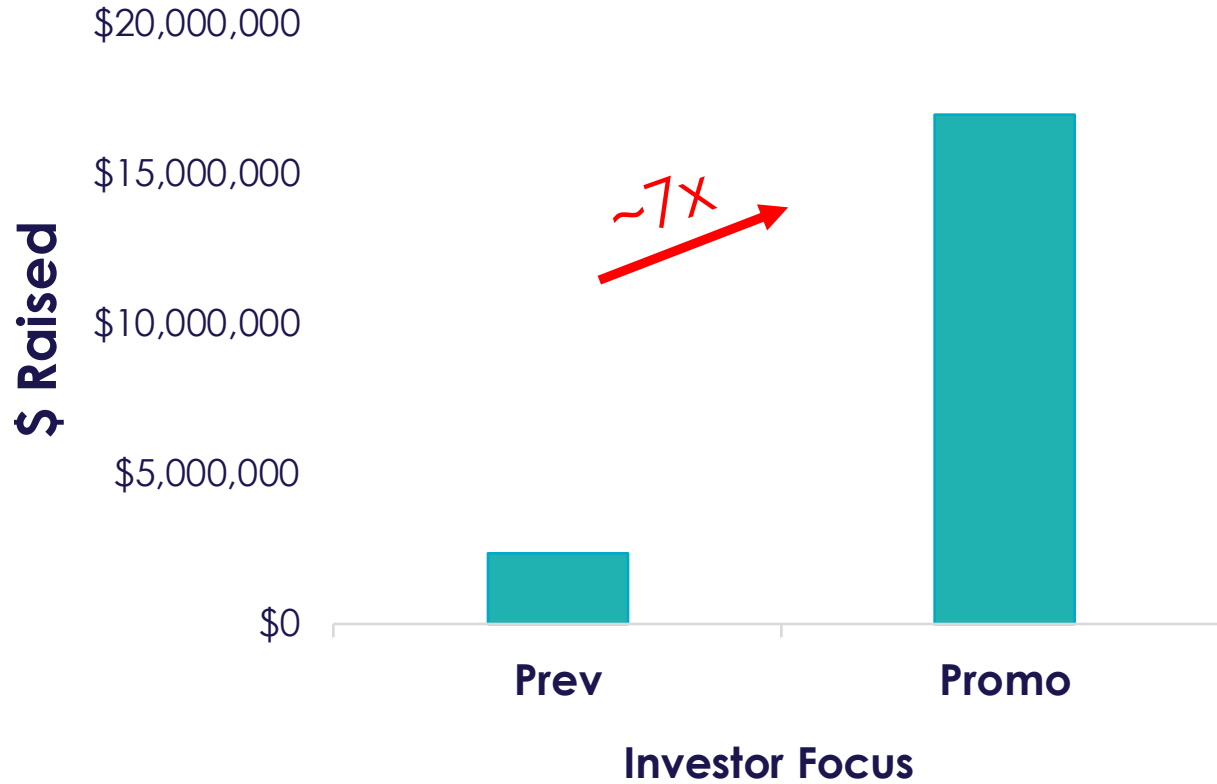
.97 intercoder agreement achieved.

# Investor Questions



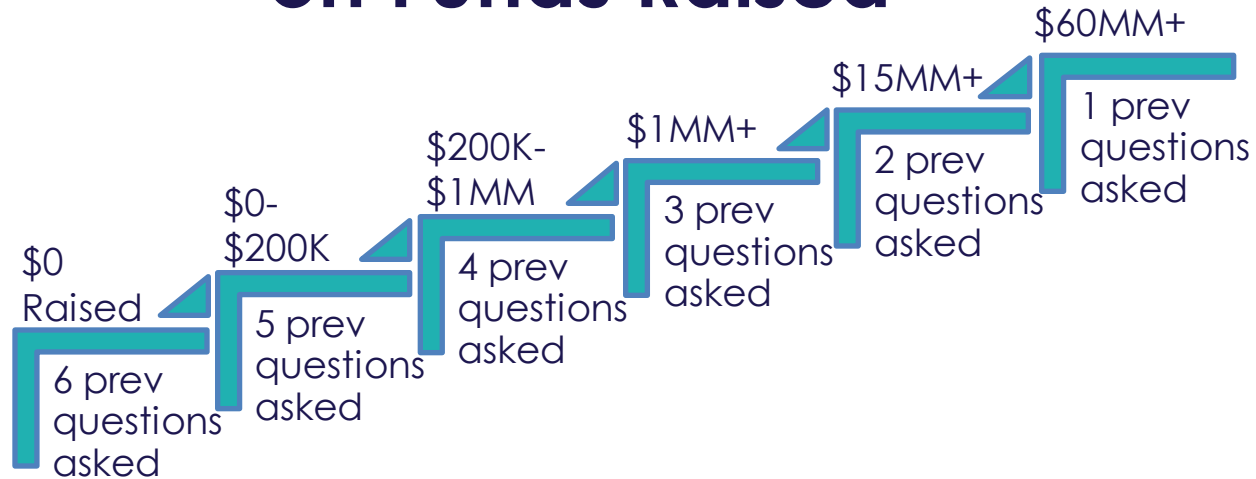
$p < .001$ .

# Funds Raised



p < .001

# Prevention-Focused Questions on Funds Raised



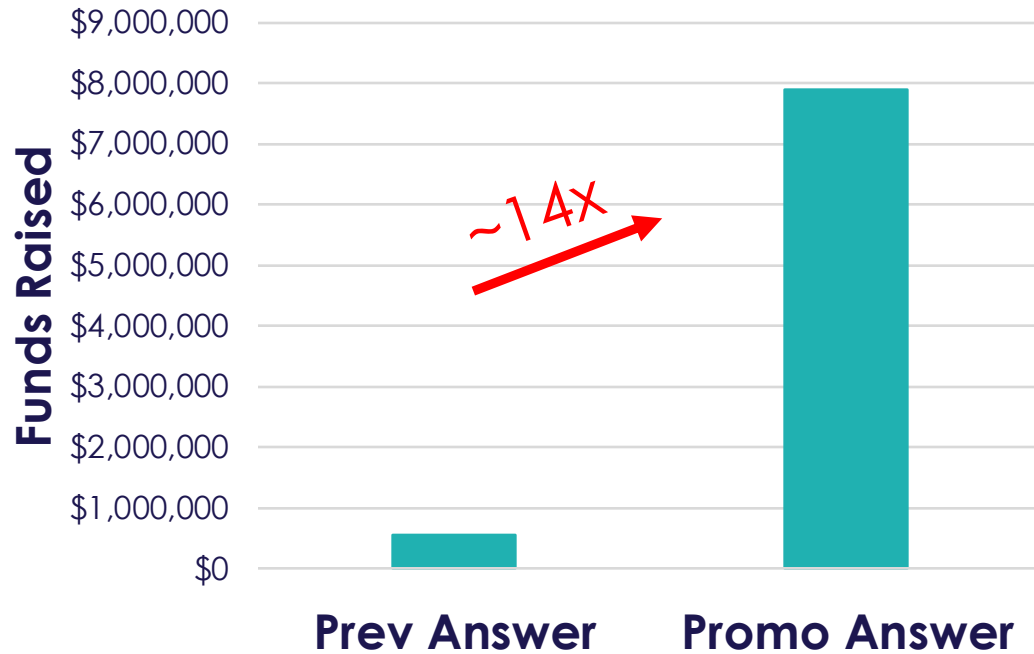
Entrepreneurs raise \$3.8MM less for each prevention question

# Conceptual Framework

85%  
Match



# Responses to Prevention Q's



p < .01



## Experimentally testing this...

- n = **194** accredited, **106** non-accredited investors
- Manipulated orientation of questions & answers
- Held all other characteristics constant
- Four **6**-minute audio files
- Each included **10** VC Q's & **10** entrepreneur A's.

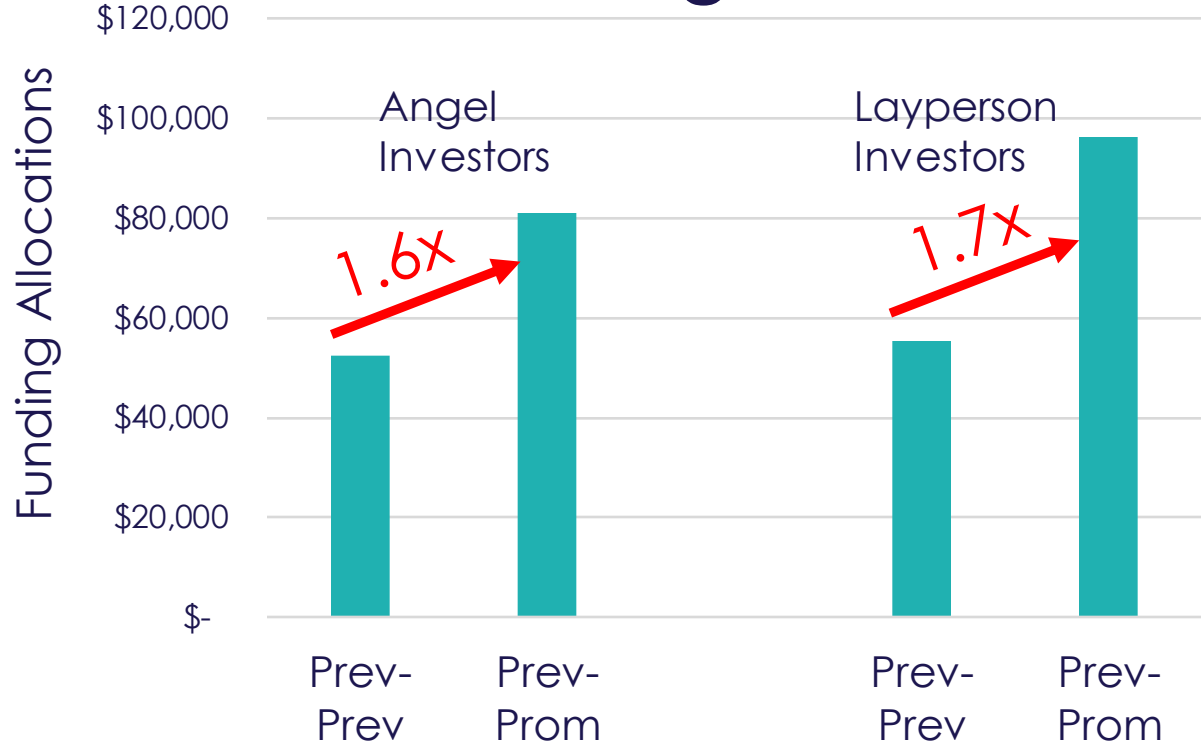
“ You work for a venture fund that has pre-vetted four ventures and determined each one meets the fund's investing criteria in terms of industry, geography and stage of development. You now have the opportunity to hear the Founder & CEO of each venture respond to 10 questions posed by a partner of your fund. After listening to each Q&A session, you will be given the opportunity to allocate a sum (out of a total \$400,000) to each venture as you see fit. ”

# Question Results



p < .001.

# “Switching” Results



p < .001.

# What can you do to maximize your results in promotional settings?

1. Recognize the promotion vs. prevention of the question you are being asked. Are you getting asked a prevention question?
2. If so, answer the question at hand, but frame your response in promotion to garner higher amounts of funding and better outcomes.

Let's Practice...  
Use Zoom Chat!

Is the following question framed in **promotion** or **prevention**?

*“ Can you talk to how big this market could potentially be based on a larger set of customers who can ideally use the data that you've gathered? ”*

The last question was framed in **promotion**, emphasizing the large size of the overall market and opportunity to gain even more customers.

What about the following question?

“ *How do you plan to defend your startup's market share, given how competitive the landscape is?* ”



The last question was framed in **prevention**, emphasizing how to protect (aka not lose) your portion of the market.

We could reframe our response as:

*“We're playing in such a large and fast growing market that's bound to attract new entrants. We hope to gain increasing share in this attractive market by leveraging our startup's unique assets...”*

Now try the following question:

*“ How do you plan to monetize your users? ”*

Is this question framed in **promotion** or **prevention**?

The last question was framed in **promotion**, emphasizing the opportunity for sales gains by earning revenue.

Now try the following question:

*“ How long will it take you  
to break even? ”*

The last question was framed in **prevention**, emphasizing how to go from a negative (-) to zero (0) rather than positive (+) position.

We could reframe our response as:

*“We're actually managing the business for aggressive top-line growth, with a good deal of sales momentum so far. Here is what our sales forecast looks like. Our goal is to expand our margins as we grow our top line throughout this forecast period...”*

## Prevention Question

## Promotion Answer

Kanze, Huang, Conley & Higgins, 2018

How do you plan to defend your startup's market share, given how competitive the landscape is?

We're playing in such a large and fast growing market that's bound to attract new entrants. We hope to gain increasing share in this attractive market by leveraging our startup's unique assets...

What is your customer retention strategy, meaning how do you plan to retain your existing customers?

We're improving our daily and monthly active users each period for a net customer growth rate of X%. We plan to accelerate this rate by promoting the following customer growth strategy...

How long will it take you to break even?

We're actually managing the business for aggressive top-line growth, with a good deal of sales momentum so far. Here is what our sales forecast looks like. Our goal is to expand our margins as we grow our top line throughout this forecast period...

What is your execution plan to protect against potential losses?

Ideally, we will accomplish much more than that! We aspire to achieve the following vision for the future of this business. So far, we have seen these indicators of progress towards attaining our desired goal. Here are our plans for further expansion...

**DANA  
KANZE**

**LBS**

London.edu

**Connect**

linkedin.com/in/danakanze

**Research**

Implicit Bias & Workplace Discrimination

**HBR:** <https://hbr.org/2017/06/male-and-female-entrepreneurs-get-asked-different-questions-by-vcs-and-it-affects-how-much-funding-they-get>

