

A Work Project, presented as part of the requirements for the Award of a Master's degree in  
International Finance from the Nova School of Business and Economics.

## **IMPACT INVESTMENTS**

**A study on best practices for institutional venture capital investors to close the financing  
gap in female entrepreneurship**

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**Abstract**

This research paper investigates the financing gap in venture capital for female-founded ventures. Specifically, experiences of female founders in investor interactions are examined through a qualitative study by analysing their experiences with barriers to secure financing for the growth of their ventures. This study lays the groundwork for implementing operations for institutional investors to ensure a more diverse scouting and screening process of possible investments, with a practical application to the European impact investment venture capital fund Mustard Seed Maze. This application is presenting the results of the underlying study in six action points for the fund.

Keywords: Impact Investment, Venture Capitalism, Entrepreneurial Finance, Female Entrepreneurship, Diversity, Best Practices

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## **1 Introduction**

Behind new ventures, there are innovative minds creating movement: entrepreneurs. Historically, the entrepreneurial profession is considered male (Ascher 2012), which has caused a severe gender imbalance in today's world of new venture creation that women still struggle to overcome (Reynolds et al. 2003). One of the major areas where female entrepreneurs struggle is to secure financing for their venture. This research paper will examine the gender-induced financing gap for female-founded ventures resulting from these impediments. The purpose of this study was to extract points of action for Mustard Seed Maze (hereafter referred to as MSM), a European impact venture capital fund, to lead in example for closing this financing gap. For this study, I have formulated the research question "*What can MSM do to ensure a more diverse scouting and screening process of possible investments?*" The action points resulting from this study will allow a general extension to the venture capital world, to perform better in ensuring diverse pipelining of possible investment opportunities.

After this introduction, this research paper is structured into five more parts. I will examine existing literature and provide some background on the research I have conducted, to then explain the methodological process of conducting my study in more detail. After that, I will explain my findings and discuss what those implicate for the theoretical and practical world of venture financing, to then conclude in final remarks.

## **2 Literature review**

Female entrepreneurship has come a long way. Historically, entrepreneurs were idealized as male, and entrepreneurship was typically considered a male activity (Ascher 2012). This stereotyping has resulted in a severe imbalance between female and male entrepreneurs, for various reasons. Such developments have started in the earliest of years in which entrepreneurship has been examined. In 1996, of the 1200 venture capital financed firms, only 30 were run by women (Pratt 1998). Reynolds, Bygrave, Autio, Cox, and Hay (2003) have even

found that there is no country in the world where female entrepreneurship is dominating male entrepreneurship.

This stereotype has only recently started to dissolve by the increasing recognition of the driving force behind female entrepreneurs, leading to the number of early-stage companies that have a woman on the executive team being tripled from five percent to 15 percent in the past decade. Even though, for several reasons, women are still less likely to start their own business compared to men (Bosma and Levie 2010), female entrepreneurship has become an evolving phenomenon in the modern economy (Ascher 2012). Studies and examinations of entrepreneurship have historically discriminated women severely, with a single digit fraction of all studies containing women in their treatment groups (C. Brush and Edelman 2000; Wilson and Tagg 2010). This means that studies examining entrepreneurial traits and behaviours are essentially examining the behaviour of male entrepreneurs. Female entrepreneurs are likely bringing different traits to the table that pose significant differences to those of their male counterparts, and by failing to have a representative balance between genders in studies these traits are essentially not recognized in research (Hurley 1999). In the last 25 years, however, the existence of studies on women entrepreneurs has finally started to increase (Morris et al. 2006). Researchers have started to profile women entrepreneurs, analysed their characteristics, and have created awareness on critical matters that affect women's growth aspirations and efficacy to build their own business, thereby relieving entrepreneurial literature of this bias. In those studies, several obstacles impeding women from successfully starting their own business were found. One of those obstacles is the severe financing gap women are facing when trying to secure investors for their businesses.

The following literature review will outline how the research on female entrepreneurship has evolved in the past years and provide an overview of factors impeding women entrepreneurs in securing financing for their businesses. The underlying study of this

paper aims to examine the struggles of female entrepreneurs in their attempt to raise money for their business and identify actionable points for institutional investors to ensure a more diverse and inclusive scouting and screening process. From the examination of existing literature in this context, research propositions are extracted that will then be examined in the practical interviews of this study.

### **2.1 Female entrepreneurship over the years**

Entrepreneurship is considered economic activity seeking behaviour, and entrepreneurs are the ones who are seeking such behaviour. However, research suggests that those who can call themselves entrepreneurs are not the holistic society, and that there are severe limitations to who can even become a successful entrepreneur (Ahl 2006; Calás and Smircich 1996). A discrepancy in attitude towards entrepreneurs can be seen in the common notion that male and female entrepreneurs differ substantially, and that entrepreneurship as such is generally formulated as a male activity, which essentially means that entrepreneurship is associated with men rather than with women by our society (Ahl 2006; Bruni, Gherardi, and Poggio 2004). The cause of these major differences is of both, institutional and social nature and was researched in several studies. Some researchers have proven that a possible cause of the discrepancy between men and women in entrepreneurship is the perception of women themselves. Other studies have proven that women approach entrepreneurship with less optimism and self-confidence, and that becoming an entrepreneur is therefore considered less of an option in most cases (Ahl 2006). Women are often portrayed as having less characteristics and resources that are associated with entrepreneurs (De Bruin, Brush, and Welter 2006; Taylor and Marlow 2009). This perceived gender difference informing entrepreneurial behaviour has little to no scientific evidence base as to why there could be merit, and yet weakness is assumed for female entrepreneurs is embedded deeply in normative beliefs (Taylor and Marlow 2009). This epistemological gender bias has been studied by several researchers over the years, and several

causes for these differences have been found. (Heilbrunn 2004) classifies the theoretical perspective on these differences into two categories. “Social Feminism” holds established social structures responsible for difference between entrepreneurial behaviour in men and women. “Liberal Feminism”, on the other hand, accounts the differences to external structural factors that prohibit women from acquiring the same resources as their male opponents (Fischer, Reuber, and Dyke 1993). The latter perspective allows an explanation on the lack of access to structural resources like financial capital, which is one of the major impediments that has been observed in female entrepreneurship and which will be the main focus of the underlying study in this research paper.

## **2.2 Understanding the problem: the financing gap for female entrepreneurs**

When women receive venture funding, they historically do so at much lower rates compared to men (Buttner and Rosen 1989; Greene et al. 2001; Harrison and Mason 2007; C. G. Brush, De Bruin, and Welter 2009; Lins and Lutz 2016), even though it has been proven that diverse teams outperform market benchmarks and generate stronger returns (Christiansen et al. 2016). Especially in women-led companies, it was observed that less venture capital is required to achieve higher returns (Skonieczna and Castellano 2020). Skonieczna and Castellano (2020) summarized that in 2018, 93 percent of venture capital that was invested into tech-based companies went to all-male founding teams and accounted for 85 percent of the deals made. Only two percent of such capital went to all-female founding teams (C. Brush, Greene, and Welter 2020). The authors found that these numbers are similar in different studies sets. About three percent of all venture capital in the US goes to female-founded companies, and about 15 percent is allocated to companies where at least one member of the founding team is female. In Europe, about eleven percent of companies that receive venture capital have at least one female founding member. The reasons for this severe gender gap in venture financing have been examined in past research, and can be explained by multiple, likely correlating factors. The

following will outline possible reasons found in literature so far and provide the theoretical basis for the underlying research study of this paper.

### **2.2.1 Stereotyping and social biases**

Women entrepreneurs are facing severe biases and stereotyping, especially when compared with male entrepreneurs. Female founders are judged by different criteria than male founders and are perceived with a different risk assessment by investors as a result (Skonieczna and Castellano 2020). These criteria result from standard social biases towards women in business, and from biases that specifically affect entrepreneurs. The evidently large gender gap in entrepreneurial finance is not well known among investors. Skonieczna and Castellano (2020) have found that 80 percent of investors believe that businesses founded by minority entrepreneurs receive more capital than their business model deserved. However, as the numbers above have shown, they actually underinvest in these entrepreneurs by a factor of five. The study by Brooks et al. (2014) found that investors prefer pitches of new businesses that are delivered by a male entrepreneur, even if the pitch itself is the same. Female entrepreneurs therefore face issues that are caused by biases and stereotypes they have no control over, and that are deeply embedded into society's perception of women. The resulting research proposition is the following:

*Proposition 1:* Social biases and stereotyping of women leads to different behaviour by investors towards female entrepreneurs. This different attitude results in less confidence in women's abilities, a lower propensity to take on risk because of the lack of confidence and, ultimately, a barrier to invest into female-founded ventures.

### **2.2.2 Active choice homophily in a male-dominated VC world**

Gender inequality has been found to exist on both sides of the venture capital world. Most investors in the venture capital world are men. When looking at the gender distribution in the ranks of investors where investments decisions are made, this ratio becomes even larger:



Between 2011-2013, 85 percent of venture capital funded businesses had no women on the executive team, and only 2.7 percent of these businesses had a woman CEO (C. Brush 2014). Greenberg and Mollick (2017) have studied the resulting gender gap phenomenon under the lens of homophily, which is a tendency that explains human behaviour towards an attraction of similarity. Applying this tendency to the financing of female-founded ventures means that female founders will be less likely to gain access to venture capital networks that are historically dominated by men. According to the induced homophily principle, male investors are more likely to invest into ventures that are founded by other men, because they can identify with the founders and thus increase the level of trust in their competency of running and growing a business (Greenberg and Mollick 2017). Greenberg and Mollick (2017) have tested homophily in the financing of ventures in all constellations, and have found that men are indeed more likely to support entrepreneurs of the same gender: with a majority of the investors being male themselves, these are men. This essentially means that the venture capital world is being dominated by men on the investor side and puts female founders at a major disadvantage in their chance to secure financing. The authors of the Diana project (C. Brush, Greene, and Welter 2020) have found that VC firms with women partners are more than twice as likely to invest into female-founded ventures, and more than three times as likely to invest if the venture has a female CEO. They base this assumption on the better performance of women-led ventures, and not on active choice homophily. The authors conclude that diversity in investor teams show balancing effects in venture assessments and results in investment decisions that are relieved of gender biases. Thus, the resulting research proposition from these findings is the following:

*Proposition 2:* Active choice homophily by investors causes an advantage for male entrepreneurs and a significant disadvantage for female entrepreneurs. Institutional investors suffer from a severe gender gap themselves, which becomes even larger in senior ranks where investment decisions are made. This results in more male executives subconsciously favouring

male entrepreneurs, and ultimately a barrier that female founders need to actively overcome through additional skill or effort to secure funding.

### **2.2.3 Women's lack of entrepreneurial self-efficacy**

Another reason for the financing gap is the hesitation of women to overcome their tendency to undersell their own skills and capabilities when it comes to securing investments into their business, which ultimately demonstrates a common lack of entrepreneurial self-efficacy. Entrepreneurs show a higher degree of this efficacy than the average worker (Kirkwood 2009), which means that there is a high degree of trust in their own skills enabling them to carry out business tasks successfully (Chen, Greene, and Crick 1998). Shipman and Kay (2014) have found that women are facing a substantial crisis in this area. The root of this crisis is a lack of self-belief that is very common among female entrepreneurs, and ultimately impacts women's success. The authors have found that confidence outranks ability towards getting ahead and that this often means that women stand in their own way of success by not believing in their capabilities. The authors describe women in the business context as, generally speaking, overqualified and overprepared, and yet holding back when it comes to leaning in. Men, on the other hand, do not show this hesitation and are more prone to overestimate their abilities and oversell them in confidence of their own success (Kirkwood 2009).

A root cause of this historical lack of confidence is the lack of technical skills associated with women in business. In the venturing process, important resources are management skills, technical skills, and experience in the field of financing. The lack of these resources for female entrepreneurs comes from a gender segregation in our labour force, socialization issues that push women into occupational directions that are only to a very small extent technical-, business-, and management-oriented, and to the organizational "glass ceiling" (Heilbrunn 2004). Hence, female entrepreneurs are more likely to have less experience in these knowledge areas that are especially critical for raising financing to successfully starting up a business.

Lacking this experience combined with the lack of entrepreneurial self-efficacy leads to a clear tendency to undersell skills and capabilities in situations where men tend to oversell. In a nutshell, female entrepreneurs place themselves at a disadvantage through this behaviour. I have concluded the following research proposition from these findings:

*Proposition 3:* Female entrepreneurs show a significantly lower level of entrepreneurial self-efficacy and a natural tendency to undersell. Where male entrepreneurs are naturally prone to overselling, females can be overqualified and overprepared, and yet refrain from doing so. Through this behaviour, female entrepreneurs place themselves at a natural disadvantage in investor interactions, where they are directly compared with male counterparts and their naturally different behaviour.

### **3 Methodology**

The following chapter will provide a detailed description of the approach I used to write this research paper. The development of this thesis was integrated in a 4-month internship at MSM, a European Impact Investment Venture Capital Fund located in Lisbon. The purpose of this research was to examine the issues women entrepreneurs have run into when securing financing from venture capital funds, and to help MSM improve their density of female founded ventures to enter their investment pipeline based on these observations.

During my work at MSM, I have worked on the “investor side” of venture financing for the first time. I began developing an interest in the interaction between female founders and investors after noticing the gap between female and male founders when evaluating possible investments in ventures. Being a finance student and having worked in management consulting in the financial industry for two years, I have experienced what it means to take part in this world as a female first-hand. When I came to MSM, I worked with two highly skilled female founders in my first project and saw how a VC firm can support such impressive female founders. I decided to study the impediments female founders must overcome when interacting

with investors because this was a setting where I could observe “best practices” and still create awareness and improvements towards supporting female founders. Simultaneously, I would be able to practically observe interactions I was studying for my thesis in real situations, which would, in turn, give me an angle of research that allows actionable results and adding value at the same time. Studies have proven that female founders have a positive influence on venture performance. Hence, I believe that supporting these founders in securing financing for their ventures will ultimately improve the performance of the VC industry through better returns of their investment portfolio and new ventures, and thus create a positive impact on both sides.

### **3.1 The internship setting of the study**

MSM is an early-stage fund of €50m size that currently has 15 start-ups in their portfolio that solve an environmental or social problem with their product or service. MSM has the role of a venture capital investor in these start-ups, which means an active involvement in the development path of these ventures by providing monetary and idealistic support for their growth. Investments are made in early stages of the venture’s developments. These stages are the Pre-Seed, Seed or Series A financing rounds of ventures and mean that the development of business and revenue models are still early-on and subject to changes in the process of being set-up. For MSM, this means that investments are made at development stages of young ventures that are influenced heavily by the expertise and nudges of external investors. This way, a portfolio of young businesses with strong impact cases and the same “missions” is gathered and influenced by the same holistic vision of the fund’s network, experience, and experts.

The early-on involvement of the fund benefitted the development of this work project by providing a setting in which the sourcing of financing by young ventures can be impacted vastly through the help of a VC investor as MSM is one. Transforming the way MSM gathers their potential venture investments pipeline towards more diversity will set a meaningful example to other investors and ventures in the way venture capital is allocated. Therefore, the

development of this work project had a practical environment in which hypotheses could be tested directly in the interactions with founders and other VCs.

### **3.2 Questionnaire design**

My intent with this study was to identify the main pain points in fundraising for women, based on real-life struggles female founders faced during the financing of their venture. To identify these, I analysed the funnel MSM is following when engaging with founders in an investment process, with special attention to the points of direct contact between founders and the fund.

The questionnaire was structured based on that investment funnel and resulting process founders go through when securing financing from investors. The line of questioning with the female founders was dynamic, but structured along three main parts:

1. Obstacles that female founders face when identifying their potential access to investors through first meetings and contacts.
2. Engagement experiences during due diligence and in the post-investment phase - I instructed the founders to identify gender differences by (1) either comparing them to their male co-founders or (2) by paying special attention to the barriers I had researched.
3. Recommendations on ensuring inclusive investment practices for institutional investors, based on the experiences the founders had elaborated on.

The goal of this sequential questioning was to differentiate between obstacles that can be overturned by founders themselves and obstacles that are created through investor behaviour. Especially the latter issues have created a basis on which I could extract points of action for MSM to ensure a more diverse and inclusive scouting and screening process.

### **3.3 Data collection**

The study had ten participants that I interviewed individually, six of which were founders and four were industry experts. The interviews were conducted online. A table with an overview of my interview partners' demographics and my control variable can be found in Appendix 1

. To ensure a trustworthy, truthful, and transparent exchange of information with founders I have chosen to omit the names of my interviewees, knowing that informing them about this anonymity would remove hesitations to share sensitive experiences and enable results of this study that represent realistic scenarios. For reference of the interview content and the background of my interview partners I have summarized each founder interview in the numbered order in which they were conducted and added the summaries in Appendix 3. The last four interviews were conducted with industry experts who are taking various roles in venture capital for female founders. In these interviews, I presented my research propositions and results from the founder interviews and tested the practicability of my action points by presenting them in hypothetical scenarios. For the industry experts, the same anonymity applies in order to allow open conversations and realistic answers to my hypothetical questions.

#### **4 Findings**

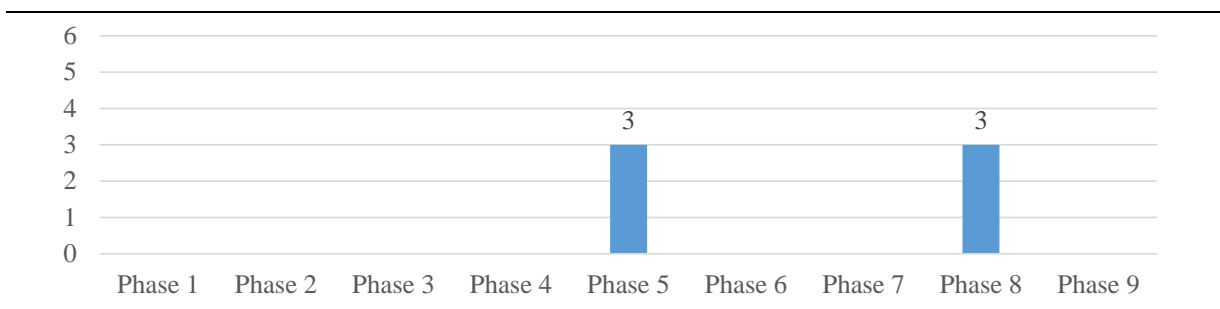
The findings of my study are solely based on qualitative results I have extracted from ten interviews. I have analysed and gathered the answers of the interviewees in different patterns along my research propositions. The following part is therefore not divided into findings from each interview, but into three parts reflecting a consensus I could find in the answers from different respondents. Interviewing two treatment groups subsequently, founders and industry experts, allowed me to investigate the feasibility of possible solutions to issues female founders have experienced.

##### **4.1 Relevance of the findings**

The first questions of my interviews were about the interviewees and their ventures, with the aim of extracting control variables to compare them with their peers and thereby measure merit and reliability in the answers. Since I have conducted a qualitative study, I needed to determine a variable based on which I can assess the relevance of my findings.

I have decided to take the experience of the female founder with raising financing for her venture as an indicator of this relevance. The rationale behind this choice is that a founder in the earliest stages of building a venture will likely only be able to hypothesize on most of the questions. To assess how far each founder has come in their process of the business setup I asked about the current state of their venture. The result of this question, in turn, indicates if there has been relevant investor interaction so far. To compare the results, I structured the founding process into nine phases in which the founders had to localize the state of their venture experience. These phases outline the entire process a venture ideally goes through while being built: Phase one means having a business plan, and Phase nine is a possible exit. A detailed overview of the nine phases can be found in the questionnaire in Appendix 2. The results of this question are gathered in Figure 2.

*Figure 2: The State of the Respondent's Ventures*



*Source: interview data*

Graphically displaying these results shows that 50% of the respondent's ventures were currently in Phase five, i.e., they were raising funding. For my research it is important that the founding process of the founders I have interviewed is mature, so the assessment made on their interactions with investors is based on enough experience. What also supports the notion of maturity in the founding processes is the fact that another 50% of the founders own a firm which is now "up-and-running" and therefore fully operates. This variable, hence, indicates that the information on investor interactions of the female founders I have gathered in my interviews does not lack in relevance, experience, or merit.

## **4.2 Lower investment confidence through social biases and stereotyping**

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*“We have a society that values women as emotionally intelligent and caregivers, and a brilliant way to make everyone in the firm feel good, rather than a billion-dollar opportunity. And that is more of a subconscious bias than it is a conscientious bias.”*  
*(Interview 5)*

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The first treatment group, the female founders, were interviewed through a line of questions that aimed to extract their experiences during interactions with investors when raising financing for their venture. When asked directly if the founders had experienced situations where they believed an investor was biased towards them as a female founder, all founders immediately replied that this was undoubtedly the case in numerous situations. These biases became apparent in different phases of the interaction and will be elaborated in the following along the standard process of an investment: access, due diligence, post-investment interaction.

### **4.2.1 Biases and stereotypes while gaining access to investors**

When asked in which of the three phases of an investment process the founders felt subject to biases and stereotypes the most, this initial phase of gaining access to investor’s networks was a strong consensus among all interviewees. The main reason for this assessment, when asked directly, was that the women felt they had various obstacles to overcome when initially pitching their business idea to investors. These experiences will also be elaborated on in the following chapters on active choice homophily and the female tendency to undersell, but the most prevalent experiences with biases and stereotypes were made during pitch situations where they actively had to overcome those when meeting investors.

One aspect in which all female founders felt they had to overcome biases was in the language used during their pitch situations. The founders felt that the language used was defensive, rather than progressive, and interestingly, they observed this in the lingo from investors and in their own way of presenting, answering questions, and introducing their business. The founders all claimed that they had made the experience of being asked inappropriate questions, which made them feel uncomfortable and where they felt that the only



reason this question or concern was uttered was the fact that they were female. *“The reason that I am defensive is that I am being triggered from situations where I have gotten comments in the past that are just inappropriate and upsetting.”* (Interview 5) Women feel uncomfortable in situations where they are entering a men-dominated-world, and this discomfort is enhanced by the fact that the questions they are being asked are framed in ways that female founders feel are defensive and requiring them to justify their position as an entrepreneur. For the women in my study the language was a commonly mentioned aspect in which they felt put in their place during interactions with investors, clearly signalling a, probably even subconscious, bias investors are driven by that frames questions this way.

#### **4.2.2 Biases and stereotypes from investors during due diligence**

The due diligence process of institutional investors requires disclosure on every aspect of the founder’s venture. One aspect that the founders in my study have reported as biased is when the team is being examined by investors. During this process, an investor naturally needs to understand the experience and skills that the founding team brings to the table in order to assess whether or not they will be able to grow the business successfully. This is often done through an investor-lead dialogue in which the founder elaborates on prior experiences and their role in the venture. In my study, however, many of the female founders have reported that the questions towards assessing their capabilities often took another turn. *“It’s not rare that you are being asked about your personal life or your life situation. I don’t think this is of interest for male founders.”* (Interview 6) The founders shared experiences in which they had been asked if their personal lives would impact their ability to grow the business, whether or not they were planning to have a family, and if their partner supports them in their venture plans. As described above, women are naturally not considered to be entrepreneurial. These questions show the exact reason why this is the case: the traditional role of a woman is considered a nurturer of a family and not a business. The founders in my sample all had to face this stereotype, with no

exception. Some even reported that they felt they had to justify their choice for becoming an entrepreneur and against staying home with a potential family.

#### **4.2.3 Biases and stereotypes from investors post-investment**

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*“We're held to different standards [...]. Whatever aspect of your personality as a founder you embrace, you will be judged on its extremity and on what it lacks. [...] As a woman you are being pushed into an extreme, and none of the extremes are considered particularly favourable.” (Interview 4)*

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After an investment, the financing gap technically does not present an issue with that particular investor anymore since the investment decision made was favourable. Nonetheless, the founders in my study have made experiences after that point that are worth mentioning. Of the six founders interviewed, five have reported that with investors who have decided for an investment or who already invested, they still experience biased interactions. Most of these biased experiences are made, again, in direct interaction through board meetings and other encounters that have the founder present something to a group that is often made up of mostly men. The founders have described situations where they felt pushed into an extreme by questions on their leadership stance, perseverance as a woman and ability to dedicate time to the business. All of those five women said that they felt personally attacked and personally did not feel comfortable in these situations. Stagnating growth or unfavourable revenue development is something that can happen in any venture. However, the founders should be in need to explain the business narrative behind these developments and not their personal stake in failing to deliver desired results. Again, a stereotype of a woman is, that they are no natural leaders in business, which can be seen in the questions and concerns raised by investors, and this represents the stereotyping and biased assessment of founder performance once again.

#### **4.3 Inequality through active choice homophily**

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*I remember a pitch where the investor claimed that we had no future market potential [...]. He based this claim on the fact that he asked his wife and niece if they are using such a product, and they didn't. [...] No one would use two people as a market benchmark for a Fintech. He just didn't want to familiarize with the market.*  
*(Interview 2)*

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When explaining active choice homophily to the founders, all of them had known about it before and voiced their agreement with my research proposition very soon into the conversation. All six founders claimed that they have seen this phenomenon, and they provided another interesting angle on this psychological dilemma investors seem to be in.

The female founders who are running a fem-tech business have extended the hypothesis of homophily: almost all of them have made numerous experiences where the mostly male investors have refused to engage with the market potential their venture was grasping, simply because the market was made up of a purely female target customer group and therefore unfamiliar to the investor themselves. Four out of the six interviewees have explained situations where, instead of a regular market benchmarking, investors tried to grasp the market they were tackling by asking a family member or a friend. They deliberately chose a scouting effort that was minimal, and that would likely not result in a representative assessment of the market the venture was operating in. The founders had a very clear consensus on the fact that they have felt more than once that an investor refused to actively engage with a market to grasp its actual potential, simply because there was no personal familiarity with the market. These observations have added an important aspect to the research here: investors not only favour investment opportunities where they can identify with the founder and therefore allocate a lower risk propensity, they also show the tendency to avoid familiarizing with female dominated market spaces. Technically, this would not require them to identify with the female founder. This shows that the homophily in this case widens the financing gap not only by discrediting the individuals in the market, the female founders, but also by hindering an accurate assessment of market potential for markets that are dominated, or even designated, for a female target group.

Another aspect all founders mentioned, that is important under the homophily lens, is the gender gap in venture capital firms themselves. Out of the six founders I interviewed, one reported that she was interacting with a female investor in one firm. All other experiences were

made exclusively with men. *“The VC world is essentially banking 2.0, but somehow no one sees it that way.” (Interview 5)* All founders agreed that most investors they spoke with were male, and that the only female investors they had encountered were business angels or junior analysts in VC firms. The latter was a very small density of all analyst interactions, and the more senior the conversations with institutional investors got, the less women they were able to have in the conversation, so the consensus. The founders have all reported that they consider this gender gap problematic when it comes to making an investment decision into female founded ventures. *“Even if you have a woman during the interactions of the DD process, once the investment goes to an IC you are only having men examine a topic. Sometimes, especially for some problems tackled by female founders, it is important to have a woman in the room who understands the narrative. Otherwise the investment doesn't go through simply based on investors not understanding the problem in the right way.” (Interview 4)*

This needs to be somewhat relativized by the gender gap in the general finance industry, which results from many of those natural tendencies of women that do not fit as good as men's tendencies do. However, the VC world needs to close its gender gap because of the nature of a venture assessment. When doing the due diligence of a young venture, and this applies especially to early-stage VCs, a lot of the assessment needs to be made based on “soft factors” due to a lack of data at this business stage. As the homophily analysis here has shown, female founders are at a disadvantage from two perspectives already, only when considering active choice homophily as a potential cause, and these disadvantages are very prone to be even stronger in the “soft factor assessment” of a female founded venture.

#### **4.4 Extrinsic and intrinsic female discouragement**

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*“When a female founder goes into the room, she knows that she has to be a little less herself. [...] She knows she will have to prove herself even harder than a man, and she will be less confident in doing so because she is entering a “men-s world”. It is the responsibility of the investor to take this feeling away and essentially level the playing field once a meeting starts.” (Interview 7)*

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When presenting their venture, it is important for a founder to not only sell their business idea and current venture status, but they also need to sell their own capability and stance in the business. This is where women have shown to struggle because of their natural tendency to undersell, whereas men tend to oversell. For investors, this means a different association of risk to the entrepreneurs and, ultimately, a barrier to invest into female entrepreneurs.

The female entrepreneurs in my study were asked to reflect on several pitch situations. When asked about their level of confidence in pitch situations, the founders referred to the gender gap on the VC side as a major determinant for this confidence. The effects of this VC-sided-gap have been discussed in the previous chapter. However, the entrepreneurs all elaborated on another aspect that is important in this context: the physical appearance of female entrepreneurs. All female founders have reported that the physical appearance making them feel comfortable was one that is somewhat unnatural. All founders reported that they prepared for investor interactions by dressing in a way that made them seem less female. *“Whenever I went to a probably men-dominated event, I chose my outfit based on what would hide my femininity in the best way. This is not exactly something that makes you feel comfortable when you are a confident woman, and I would say that all of us women entrepreneurs are usually somewhat comfortable with who we are.” (Interview 5)*

The interviewees' reflections have shown how this tendency of appearing underconfident has both, extrinsic and intrinsic causes. These causes are likely a result of and highly correlated with the degree of both factors I have described in the first chapters of this paper. Female entrepreneurs are constantly given signals that they need to prove themselves as worthy founders, and this need has drastic effects on their own level of confidence that they approach these interactions with. This two-sided pressure on a female founder's confidence is likely to start a downward spiral of self-confidence and hinders women to build the level of entrepreneurial self-efficacy that their male counterparts naturally have and can present to

potential investors. This effect, again, contributes to less female founders being able to convince investors of their venture and their own talent as a probable investment case. Another phenomenon that grows the financing gap.

#### **4.5 The bottom line**

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*"Don't get me wrong, there are advantages of being a female founder once investors have picked up on the notion to actively support us. However, this notion has not arrived everywhere and there is no "in between". Investors either full-on support you or they are biased against you. You never have an "even" start compared to other founders that are male." (Interview 2)*

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The initiatives that are currently taken to support female founders are a step in the right direction and create awareness towards the importance of the gender gap in entrepreneurship and, especially, in VC financing. However, the main issues female entrepreneurs face when securing financing only start when they enter a room and pitch to investors. These are the problems that need to be taken care of to close this financing gap, and these are the problems that the industry is still failing to acknowledge. Such a failure results in missing the strengths and potential that female entrepreneurs bring to the venture space. The lack of recognizing this potential is currently driving female entrepreneurs to seek financing from different sources and will ultimately harm the VC industry by taking opportunities for exceptional growth to other investors. The next chapter of this paper will therefore put the described findings into context and elaborate on possible, actionable ways for VCs to support female entrepreneurs in financing their ventures.

## **5 Discussion**

In the following part, I will discuss the study I have conducted. I will critically identify the limitations under which it was conducted and highlight research gaps in the literature on female entrepreneurship that are relevant to my specific area of study. The main part of this discussion will be the practical implications since the study was conducted under the lens of allowing MSM a more diverse and inclusive scouting and screening process. To assess the theoretical

contributions my research has delivered, I will compare the scope of the underlying literature with the scope of my findings.

### **5.1 Practical implications**

Due to the internship setting and designated use of results for improving MSM's screening and scouting efforts through this study, the practical implications are points of action that MSM should be taking. These are extracted directly from the experiences of the female founders in this study and their recommendations for institutional investors for enabling female founders to seek financing.

First, it is important to mention that half the female founders I have interviewed have had interactions with MSM as a potential or past investor in their venture. From these experiences it became clear that MSM is already a Venture Capital fund that operates to the highest standards of female founder encouragement in the industry. All founders have stated this independently, and throughout their interviews they constantly referred to MSM's operations as exemplary practices that should be adapted by other investors. This evaluation must be put into context since the action points hereafter will cover adapting a fund that has started this process, like MSM has. Funds that are starting out to diversify their scouting might need to take a step back and adapt their operations even further.

However, as described in my findings above, even investors that act consciously towards supporting female founders suffer from biases. MSM can therefore improve their performance through the following six action points I have extracted through my study.

1. *Train investment professionals to be aware of their biases* – When asked what investors need to work on, this was mentioned by all six founders. Apart from having rules or mandates for gender equality, investors are not trained to recognize their own biases. Awareness and knowledge of these will lead to understanding how questions are being asked differently, and ultimately improve the quality of the conversation. Interview

processes in all major corporations are adapted to this, and so should fundraising talks. This should be done towards common stereotypes and biases, and by introducing a blacklist with do's and don'ts for engaging with female founders. Ultimately, MSM's investment team needs to know their own biases and negative signalling during all interactions with founders and in their decision-making process.

2. *Prevent active choice homophily by closing the gender gap on the investor side* – This action point is very important on the road towards a balanced entrepreneurial financing world, because homophily works both ways. The goal should not be to have women favour women, but to ensure diverse voices in investment decision making processes. Having a woman in the room when raising capital, especially in early venture stages, significantly increases the likelihood of women being able to present their business with their full confident self. Ensuring a balanced gender composition on the investor side therefore does not ensure that female entrepreneurs get their share of financing, it rather ensures that every single investment, irrespective of the gender of the founder, is being evaluated equally and has the same level of engagement from the investor side.
3. *Declare capital that is designated for female founded ventures* – this was mentioned by three founders as something that would resolve cognitive access barriers when raising from institutional investors, through a simple signalling effect from investors. For MSM, this means publicly dedicating a share of their committed capital to female founded ventures and reporting on the investment progress of that capital at year end. To allocate this capital, the fund can host pitch events and workshops specifically for female founders and thereby actively open their funnel for potential female-founded investments.
4. *Remove the environmental bias through online pitching* – Many of the stereotyping and cognitive bias impediments for female founders are caused in face-to-face pitch situations at events and workshops where men and women are directly compared with each other.



Currently, due to the pandemic, such events drastically reduced in their scope. MSM should use the online switch to actively promote to switching these events to being fully online, and not just do one-on-one pitches through the online formats.

5. *Increase exposure to female founded ventures and intentionally track scouting efforts of female-founded ventures* – This action point tackles the top of the funnel of an investment deal pipeline and is based on the very basic principle of “practice” in any learning curve. When the number of female-founded ventures increases for MSM, the investors will have more exposure to female entrepreneurs and can work on omitting their biases by practicing to do so. MSM should ensure that this practicing actually takes place by tracking the number of female-founded ventures they are speaking with and have a KPI that regularly tracks this development. The fund already has this on an individual level but should include an overall KPI that is being tracked throughout the entire funnel and fund.
6. *Increase willingness to engage with non-familiar markets* – This is to solve the extended effect of active choice homophily the founders have described. Internal knowledge sessions on markets that are female-dominated will increase the likelihood of investors being able to identify with the founder when they pitch their ideas to seize that market potential. MSM should promote internal market scouting activities by different team members that are discussed in the entire team and include those into their recurring meeting agendas.

## **5.2 Contribution to literature**

Researchers found that only six percent of all studies on entrepreneurship examined women, how they want to grow their businesses or even had women in their study samples (C. Brush and Edelman 2000). The underlying study of this paper contributes new findings on the impediments women face in financing their business and, more importantly, directly suggests how investors like Venture Capital firms can help to resolve these struggles. These new practices, in turn, can be used to further elaborate a venture capital world that inspires women

to become entrepreneurs instead of discouraging them. One important new finding this study has shown, that is new to existing literature, is the extension of the active choice homophily phenomenon to the lack of engagement by investors with markets, founders and ventures they cannot identify with. This angle has not been reflected on in existing research and provides further explanations on reasons for the significance of closing the financing gap.

### **5.3 Research gaps and angles for future research**

The main research gap I came across during my study is the impediments female founders have to overcome in different countries. Studies are often conducted in one simple country and generalize the results. However, speaking with founders from different countries in my study, it became clear that there are severe differences among countries' ways to support or encourage female founders during fundraising and venturing. Future research should examine these differences with a control variable and respective treatment group from different countries. My hypothesis is, that especially Nordic countries have a higher engagement with female founders because there, women are supported more and are able to found their own business without having to overcome so many issues during fundraising, simply because investor's biases are very transparent, actively mitigated and known of. Investors from other countries could take these results as best practices and adapt their own practices and standards accordingly.

### **5.4 Limitations of this study**

The underlying study's results could be valuable for extending theoretical and practical research on female entrepreneurship. However, with every study come limitations. The first were the adaptations made to the questionnaire during the study. Since the lack of research on actual female discrimination during investor encounters was very limited, I had to adapt the questionnaire with every interview. This does not affect the results negatively since the founders were able to elaborate on their experiences anyways, but I would have been able to ask more specific questions towards comparable experiences had I known all angles I was going to be

able to examine beforehand. Another limitation is a lack of quantitative data. Since my study is of a qualitative methodological approach this lack does not cause any qualitative issues. An interesting angle I would have liked to use quantitative data for, though, is the analysis of success of the founder's venture, matched against the level of discrimination the founder has encountered during fundraising. The context in which I have conducted my study could not deliver these results because the ventures' stages are too heterogenous and quantifying the level of discrimination towards the founder would have been necessary. Studying the results from this angle would have exceeded the scope and time frame of my thesis and would not have been possible with the sample of ventures I have analysed.

## **6 Conclusion**

Understanding how to support entrepreneurs in building successful ventures ultimately improves the growth and flourishing of the world economy. To becoming a successful entrepreneur, however, there are multiple barriers that must be overcome. As this research paper has shown, women must overcome more hurdles to become successful entrepreneurs, and one of the barriers they are facing is securing investors to finance the growth of their venture.

Before conducting my research, I have formed the research question "*What can MSM do to ensure a more diverse scouting and screening process of possible investments?*" The findings of my study have answered this question through six actionable points that MSM and other institutional investors can take up to ensure such inclusivity in their investment assessment. MSM itself already operates in ways that support female founders and is considered a somewhat unbiased investor by many founders. However, biases and practices that affect female founders negatively can be found in all investor settings and need to be tackled to close the financing gap these founders are facing. This study lays the groundwork for inclusive operations in venture investment and provides a basis for further research to enhance a venture capital world where the female financing gap is closed in the foreseeable future.

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## 8 Appendix

### 8.1 Appendix 1: Overview of Interview Partners

Interview number	Group	Venture Phase	Location of Venture	Name of current venture	Number of co-founders	Previous founding experience	CEO of venture	Funding round	Founding Year
Interview 1	Founder	5	Portugal	ummi	5	yes	no	Pool	2020
Interview 2	Founder	5	Germany	Unit+	2	no	no	Seed	2020
Interview 3	Founder	5	Germany	-	1	no	yes	Seed	2019
Interview 4	Founder	8	UK	OHNE	1	no	yes	Seed	2019
Interview 5	Founder	8	UK	Moody	3	yes	yes	Seed	2019
Interview 6	Founder	8	Germany	Spoontainable	1	no	yes	Seed	2020
Interview 7	Industry Expert	-							
Interview 8	Industry Expert	-							
Interview 9	Industry Expert	-							
Interview 10	Industry Expert	-							

## 8.2 Appendix 2: Questionnaire for Interviews with female founders

### Questions on the individual person

1. Name:
2. How old are you?
3. Which educational background do you have?
4. Which work experiences have you made so far?
5. What is your current job title?
6. Which country did you grow up in?
7. Which country is your business located in?

### Questions on their own business

1. What is the name of your business?
2. When did you found it?
3. Which of the below listed phases is your business currently in?

Finished business plan	Phase 1
Identified market opportunity	Phase 2
Looking for Partners	Phase 3
Development of MVP	Phase 4
First financing round	Phase 5
Finished financing, set-up of the business	Phase 6
Launch	Phase 7
„Up-and-running“	Phase 8
Exit	Phase 9

4. How many co-founders do you have?
5. What gender are your co-founders?
6. How long did it take you to take the step and found your own business, calculated from the moment when you considered it for the first time?
  - a. What held you back?
  - b. What motivated you to do it?



**Questions on the financing process**

1. How did you decide on your financing strategy?
2. How did you approach investors?
  - a. What held you back/ you felt was easy in doing so?
  - b. What was usually the first contact point?
3. If the founder has co-founders: Did all founders contact investors likewise?
4. How did you experience the encounter with investors when pitching your idea?
5. What was your best experience? What was your worst?
6. Did you feel a difference between institutional investors and individuals?
7. Do the processes from different institutional investors differ largely? Please summarize the “standard” you have experienced quickly.
8. Were concerns mentioned by potential investors the same?

**Questions on gender in financing a business**

*Lets assume here that the process of investing consists of three phases (access, engagement, post-investment) – if your experiences differed between these phases, please indicate that.*

1. Did any investors ever specifically mention something about you being a female founder when you spoke with them?
2. How was the ratio between men and women in your contact people on the investors side?
  - a. Did you experience any differences between men and women when speaking with them about potentially investing into your business?
  - b. Did you feel their line of questioning was similar or did you experience differences?
  - c. Did men and women show the same concerns when speaking with you about your business?

- d. Did men and women show the same confidence in you as a founder?
3. If the founder has co-founders that are male: Did you experience a difference in the treatment of your co-founders when speaking with investors?
4. Did you ever experience discrimination towards you as a female founder?
5. Did you ever feel insecure when speaking with an investor because you are female?
6. What were the main impediments you feel you had because you are a female founder?
7. Did any of these things change in different phases of engaging with investors? (access, engagement, post-investment)

**Hypothetical part: Questions on suggestions or differences wanted in financing processes**

1. In retrospective, what would you change in the way you sought financing for your business now?
2. Which of the three phases in the investment process (access, engagement, post-investment) would you say is the hardest for female founders?
  - a. Why?
  - b. What should institutional investors do to change that?
3. What do you think should institutional investors do differently when speaking with businesses they consider investing into?
4. What should institutional investors do differently in making it easier to approach them?
5. What would have helped you in overcoming some of the gender-induced impediments you just elaborated on?
6. Which aspects of being a female founder do you appreciate, comparing yourself with other male founders?
  - a. Did investors recognize these?
  - b. In which aspects do you dislike being a female founder the most?

### **8.3 Appendix 3: Interview Summaries**

#### **8.3.1 Interview 1**

The first interview I held was with a 31-year-old serial founder. She studied business with a focus on organisational innovation and entrepreneurship and founded her first venture after graduating from her Master's degree. She founded her current venture with five male co-founders and it is currently launching. She has secured several rounds of financing for her previous venture and encountered investors from different countries and industries. In her interview, she elaborated on several encounters in which she had to justify her path to becoming a founder as a woman. Her interview gave valuable insights towards the negative biases of investors, where she explained one situation in particular where a certain investor refused to even speak with her, let alone acknowledge her as the founder of the business. She had experienced severe situations in which she was directly compared with her male colleagues based on which I could extract the signalling hypothesis I have stated in my findings.

#### **8.3.2 Interview 2**

The second interview I held was with a 30-year-old founder who had just started her first venture and had worked in financial consulting prior. She has now started a Fintech venture with two male co-founders and is currently raising her first round of venture financing. Her interview gave very explicit insights on the struggles she had to overcome as a woman in an industry where men dominate, and where she had to prove her skill in the financial sector several times, as opposed to her male co-founders, even though she brings more experience to the table. She was able to give me insights on my third research proposition, which is the tendency of women to understate their skills and competencies and undersell themselves as an outcome. She had experiences this herself and was able to give good insights on what would have helped her overcome this tendency from an investor perspective.

### **8.3.3 Interview 3**

The third founder interview was with a 23-year-old founder who had just started her first venture with her brother, after working in investment banking in London after her business degree. They initially wanted to set up a venture in the femtech-space, and are now changing directions with their idea because of the lack of funding they were able to secure. This gave an interesting starting point for our conversation because she based this lack of funding on two of the issues I have examined in my thesis: the lack of willingness to indulge into markets that are female-focussed and the lack of trust into a female-founded company. Even though her career in investment banking shows a strong track record of her skills and the same experience that her brother has, she experienced a number of situations where investors put her ability to run the business into question. Our interview therefore focussed on the stereotypes and biases and active choice homophily when it comes to familiarizing with markets.

### **8.3.4 Interview 4**

This interview was with a female founder who had just closed another financing round for her femtech-venture. She founded the business with one other female founder, and both of them never raised financing or built a business before. She experienced various situations where investors mistakenly took their inexperience for a lack of ability to raise funds and build their venture. She elaborated on situations where the stereotype of two young women starting a venture for other women took over the narrative of investor conversations, up until the point where the two founders had to prepare for investor conversations so much, they spent numerous days on practicing for one pitch. The interview was therefore focussed on the lack of trust and skill she had to compensate in conversations for, and in the inappropriate ways investors mentioned these biases through. She also experienced a lot of situations where investors failed to acknowledge the market potential of her now thriving venture, simply because they are

operating in the femtech space. Her experiences were another very well elaborated basis I used for my extended active choice homophily hypothesis.

### **8.3.5 Interview 5**

This interview was with a founder who has founded multiple ventures and engages with the struggles female entrepreneurs have in an almost activist-like role. She has raised several financing rounds, has built a strong track record as an entrepreneur and has made several inappropriate and shocking encounters with investors along the way. Due to her substantial knowledge in the field, we were able to speak about her experiences directly in the context of the psychological phenomenons I have found in research, and she could even elaborate on her experiences from when she actively tried to counteract them with investors. Her interview therefore gave insights on the severity of all issues and impediments I have examined in my study, and she was able to give those from various ventures and financing stages she experienced them in.

### **8.3.6 Interview 6**

This interview was with a founder who had just finished setting up her first venture. She founded the business when she was still in university, with a (female) friend of hers and is now running the business full-time. Her experiences were valuable for this study because she could see the venture from the “fresh eyes” of a female founder and had experienced several interactions with investors where she had to face stereotypes and biases towards her skill and ability to grow a business. Her experiences added valuable insights for this part of the study and were helpful to see how young women with little venturing experience are perceived by investors when pitching. Since they both just graduated university, the founders had to build their networks from the ground up and could therefore explain very well what impediments young founders face in the access stage of raising financing for a venture.

### **8.3.7 Interview 7**

This interview was the first with an industry expert. She founded her first venture five years ago and sold it last year, to start working for an organization that supports female founders in their process of setting up a business. From her founding experience and the work she is currently doing she was able to verify my research propositions and judge whether or not she considered the action points for MSM to achieve realistic results or not. Her interview helped to adapt the action points in particular, since she is currently supporting business angels in supporting female founders and has spoken with a lot of founders on which measures work and which do not. The main outtake from her interview was that the action points need to be held very general and cannot be too specific since, in the end, they need to be adapted to every individual within the investor's organization and the standards that they have previously worked with. She said the key to succeed in supporting female founders is to make them feel comfortable, and not to lose the natural way of speaking with the founder in the process.

### **8.3.8 Interview 8**

This interview was with someone who works for an investor and manages the relations with portfolio ventures post investment. In her daily work, she interacts with founders a lot and manages their onboarding into the fund once an investment has been decided on. Through this role she has the possibility to speak with the founders about their experience with MSM and could give me reasonable assumptions on where the fund needs to be improving in order to achieve this diversified scouting and screening process. Her interview especially helped to rationalize experiences from founders from the investor's point of view, based on a lot of experiences and interactions she has witnessed upon this point.

### **8.3.9 Interview 9**

This interview was with a female member of an institutional venture capital investor. She had been previously working a corporate job and switched to the investor side roughly a year ago,

which allowed an unbiased view on investor's practices from the perspective of a female. She takes part in various founder pitches every week and interacts with founders closely, especially in due diligence processes. Her interview gave my action points a realistic base assumption because she was able to tell me whether or not she, in her role, would be able to realize what I was proposing. Another interesting angle that came from her interview was the fact that being a female on the investor side lets the founders feel more comfortable, to a level where this was visible to her and her colleagues.

#### **8.3.10 Interview 10**

This interview was with a male member of a venture capital investor's investment team. Speaking with him had the same reasoning that I had for Interview 9, except that I wanted to rationalize this from the perspective of a male investor as well. In this interview I went through a few scenarios that the founders previously described to me and had him interpret their feelings and reactions. This interpretation set a realistic comparison between what a female investor (from Interview 9), a female entrepreneur and a male investor would think of different scenarios and helped to adapt the action points to a more individual extent of whoever is trying to adopt them.

**Affirmation in lieu of oath**

Last Name: Buche

First Name: Luisa

Date of birth: 01.02.1997

I declare that I have written this thesis on my own and with no other help than the literature and other supportive material listed in the appendix. Citations of sentences and parts of sentences are declared as such, while other imitations are clearly marked and linked to original sources with regard to extent and intention of the statements made. This thesis has never been handed in to any examination authority before and it is also not yet published.

*Lisbon,*

03.01.2021

*Date**Signature*