

Here's my pitch deck, so call me maybe?

**EXPLORING DRIVERS BEHIND THE GENDER GAP IN
VENTURE CAPITAL IN SWEDEN AND THE U.S.**

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Here's My Pitch Deck, So Call Me Maybe? Exploring Drivers Behind the Gender Gap in Venture Capital in Sweden and the U.S.

Abstract:

Despite initiatives to promote gender diversity in recent years, to this day, an unanswered question in the entrepreneurial domain is why male founders tend to receive more venture capital funding than their female counterparts worldwide. The phenomenon of the 'gender funding gap', also persists in developed countries such as, the U.S. and Sweden. By contrasting these two countries, this research aims to further investigate the underlying dynamics that determine the relationship between female founders and venture capital investors. Venture capitalists around the world act as critical gatekeepers and decide which ideas, innovations, and products will enter the free market on a local and global level, and as such are the second most important stakeholders to this issue. Through 11 in-depth interviews with female founders and investors of both genders from the U.S. and Sweden, we identify some of the key factors behind the lack of funding being provided to women. From the analysis it can be concluded that women face several challenges, either caused by innate founder-related or investor-related drivers, as well as less definable factors such as culture. The results of our empirical findings suggest that there are biases against female founders in both countries. Further, it highlights the importance of social networks, including an information gap on this between founders and investors. However, the subject matter is complex, and it is therefore difficult to pinpoint what the most powerful drivers behind these biases are. Further, this study establishes that founders tend to underestimate the importance of the individual founder compared to the business model or product, in the eyes of investors. To get better insights into this issue, we propose future research to include more cross-country comparative analysis to understand why the gender gap is smaller in certain, other developed VC ecosystems.

Keywords:

Gender, Diversity, Entrepreneurship, Venture Capital, Networks

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Abbreviation list

CEO	Chief Executive Officer
CIO	Chief Investment Officer
CMO	Chief Marketing Officer
GP	General Partner
LP	Limited Partner
IPO	Initial Public Offering
VC	Venture Capital (<i>industry</i>), Venture Capital (<i>funding type</i>), Venture Capitalist (<i>investor</i>)

1. Introduction

1.1. Background

Sweden has emerged as a hotspot in the start-up world in the past two decades (Björner & Zetterberg, 2019) with Stockholm being dubbed the unicorn factory due to having the second-highest number of tech unicorns per capita in the world, only topped by Silicon Valley (Daly, 2021). However, not everyone has been able to ride the unicorn wave. In the past six years, the level of venture capital invested in female founders of tech startups have remained stagnant at 1%, a disproportionate number against the percentage of female-founded tech companies which stands at 4.6% (Olsson Jeffery, 2021; Dealroom, 2022). In other words, to achieve parity in these numbers, female founders would need to raise over four times the amount today.

It is not just women who suffer from the implications of these statistics. Reports suggest venture capitalists may be leaving money on the table by not investing more in female founders. A BCG report show that women-owned startups generate more than twice the revenue per invested dollar, and in another sample taken from an accelerator, startups (co-)founded by women led to a 10% higher 5-year cumulative revenue (Abouzhar et al., 2018). Further, compared to similar male-led companies, female-led tech companies generate a 35% higher return on investment and when backed by venture capital a 12% higher revenue (Klein, 2013). A study on Northern European startups founded in 2016-2018 concluded female-founded companies to generate 25% higher revenue than male-founded companies (Slush, 2019).

Sweden is often depicted as a champion of gender equality and has ranked 1st every year in the European Institute of Gender Equality rankings since its inception in 2013 (Barbieri et al., 2022), and 5th in the Global Gender Gap Index 2022 (World Economic Forum, 2022). However, female founders of tech startups in the United States, a country that placed 27th in the same ranking (World Economic Forum, 2022), raised a larger portion totaling 2.4% of venture capital in 2021 (PitchBook, 2022). In contrast to Sweden, this amount is roughly in parity with the share of female founders of tech startups which stands at 2.3% (Dealroom, 2022). While male founders still receive the lion's share of venture

capital in both countries, it seems that female founders are more underfunded in Sweden which further implies there might be lessons for Sweden to learn from the U.S.

While considerable progress has been made in many aspects of gender equality in recent decades, gaps and imbalances remain in the venture capital industry. Given the performance of female-founded ventures, the funding gap seems counter-intuitive and begs further investigation as closing the gender funding gap is not just an issue of equality that would primarily benefit founders – it is also of financial interest to VCs who seem to be missing out on attractive investments.

Existing research confirms the gender gap in VC funding and explores to some extent explanatory factors behind it, however, it is often quantitative and only captures quantifiable aspects such as risk aversion, investor behavior during pitches and language, which are less abstract than culture. These aspects fail to explain the entirety of the gender funding gap in VC, why these mechanisms exist, how they are perceived by different stakeholders in the VC ecosystem, and perhaps most importantly how they can be overcome.

The objective of this study is to add to existing literature by investigating and comparing the perspectives of founders and VCs on the capital raising processes in Sweden and the United States, including a cross-country comparison to identify differences that could explain the greater success of female founders in the U.S. By combining these dimensions, the aim is to identify drivers behind the gap, provide insight into how the gap can be closed and what lessons the countries' venture capital ecosystems can learn from each other respectively. Thus, the research questions have been designed as follows:

Why do female founders in Sweden receive disproportionately low percentage of funding compared to the share of female founders?

Are there differences in the venture capital raising experience in Sweden versus the United States?

The research questions will be answered through a qualitative study using semi-structured interviews with venture capitalists and founders in Sweden and the United States. Through the empirical data, the study identifies key founder-related (e.g. risk-aversion, initial business orientation, growth aspirations) and investor-related drivers (e.g.

conscious and subconscious biases) of the gender funding gap as well as other less definable factors such as culture. Further, it confirms theories used in previous research as well as highlights the importance of networks and angel investors, and provides insights into the state of these contexts in Sweden and the U.S. The study illustrates that confidence is key for female founders, and that the working relationship of the founding team with investors is not to be underestimated as an investment criterion. These findings bear implications for further research as well individuals in the industry, founders wanting to attract more capital and investors wanting to allocate their assets in the most effective way.

Venture capital firms seek out high-risk startups to receive high returns, and so the statistics previously mentioned on the funding gap only includes tech startups as non-tech startups pose a lower risk and lower expected returns. Further, all interviewed founders are founders of tech startups. In the term ‘venture capital’, the thesis includes startups and investors in pre-seed stage up to Series B.

Finally, this study will not address pipeline of female founders or venture capitalists for two reasons. First, in tech startups it is often a prerequisite that at least one founder has a STEM degree. While data on women in STEM exists, STEM is defined differently in Sweden and the U.S. and as it is a cross-country comparison, accounting for this does not increase the quality of the study. Second, as opposed to careers in for example investment banking, no clear path to a career in venture capital exists. This makes the size of the pipeline difficult to estimate.

This thesis contributes to practical applications by discussing the structural shortage of women entrepreneurs around the world, as it is still unclear to the scientific community why. Our findings contribute to the science of women entrepreneurship to which policies can be adapted. We focus specifically on a cross-country comparison where previous research focused on the global perspective or individual countries.

1.2. Literature review

Before investigating the research question, the authors see it fit to elaborate on the concept of alpha bias. Hare-Mustin and Mareck (1988) argue that research surrounding issues of gender differences, exaggerates said differences, establishing a so-called alpha bias. Since the thesis will discuss gender differences such an alpha bias should be accounted for in all research and findings cited.

Much of the research on venture capital ecosystems focuses on the United States. One of the broadest assessments of the gender funding gap in the US to date was carried out by Guzman and Kacperczyk (2019) who investigated all businesses registered in the US states of California and Massachusetts between 1995 and 2011, leading to a sample size of 1,875,087 startups. The study found that female-led ventures were 63% less likely to receive venture capital funding than male-led ventures and the authors argue that the largest share of this gap (65%) is due to gender differences in initial startup orientation, with female founders being less likely to pursue business ideas that ‘signal strong growth potential to investors’, such as informal, home-based productions, unlikely to be incorporated or to hold intellectual property rights, with more schedule control, job flexibility, and work-life balance (Ibid.). On the other hand, the remaining sizeable portion of the observed gender funding gap (35%) aligns structural discrimination in the shape of societal, institutional, and organizational barriers (Ibid.).

In light of Guzman’s and Kacperczyk’s scope of investigation and initial segmentation, this study will divide this literature review into ‘founder-related’ and ‘investor-related’ factors. Though, it needs to be highlighted that it can be assumed that many of these factors are neither mutually exclusive nor fully independent.

1.2.1. Founder-related factors

Kanze et al. (2018) argue that drivers of the funding gap are primarily connected to the individual female founder in question due to lower risk tolerance, not prioritizing growth, work-life balance concerns, and preferring less capital-intensive industries such as consumer products and services. These factors are explained in more detail below.

Risk-taking

Much research has been conducted on gender differences in risk appetite and aversion. Statistically, women tend to be more risk-averse than men (Croson and Gneezy, 2009; Cross, Copping, et al., 2011). These gender differences dwindle once more context is given. Booth and Nolen (2012) argue that the gender composition of women's surroundings affect risk-seeking behavior and van Geen (2013) finds that female risk-taking behavior highly depends on their situational financial security. Yet, it is important to note that these predispositions need to be adjusted to diverse situations and that there are exemptions to every rule when talking about risk, as Nelson (2012) argues. Further, research suggests that studies overestimate to what extent risk appetite impacts the lack of gender parity in venture capital funding and argues that it is highly dependent on the context of each situation (Shapiro et al., 2015) and as such, remains an open question.

Competitiveness

There is also extensive research on the innate competitiveness of the genders. Niederle and Vesterlund (2007) found noticeable gender preferences in the selection of competitive environments. The study argues that women shy away from competition while men actively embrace it (Ibid.). All else equal, men showed a higher degree of confidence than women regardless of skill and chose to enter competitions within the study at twice the rate women did (Ibid.). Female entrepreneurs see their own skill set as comparatively inadequate and experience a greater fear of failure, thereby deciding against starting a business at higher rates than men (Dawson & Henley, 2015; Cardella et al., 2020) and particularly in highly competitive industries (Kanze et al., 2018). Related to this notion is the idea that female founders are less likely than male founders to use external financing in general (Brush et al., 2017) and in the cases they do, they ask for lower funding amounts on average compared to men (Kanze et al., 2018).

Growth and chosen industry

Guzman and Kacperczyk (2019) argue that the most apparent and tangible driver of the gender funding gap, mainly relating to the founder, is the initial industry orientation of a new business. In general, literature suggests that women do not seek out high-growth,

capital-intensive ventures and industries to the same extent as men (Chilazi, 2019). Female founders are more likely to choose sectors like healthcare, consumer products, and consumer services, while men tend to venture into financial services and B2B industries (Coren & Kopf, 2018). Within high-growth entrepreneurship globally, women represent approximately 30% of start-up founders, 10–15% of which succeed in receiving private equity or venture capital financing (Levine and Rubinstein, 2017; Gompers and Wang, 2017b; Ewens and Townsend, 2019). Hebert (2019) observed that, when looking at high-growth ventures in France between 2002 and 2015 across all sectors, women were 18-27% less likely to be financed by external equity investors. Interestingly, in female-dominated sectors (gender-congruent sectors) women were equally or up to 5% more likely to raise capital relative to their male counterparts (Hebert, 2019). This highlights that, though the initial start-up industry orientation contributes to the gender funding gap, there is an additional penalty for founders who enter industries that are incongruent with their gender (Hebert, 2019). Hence, as most founders are currently men, female founders as a minority pay a larger penalty for entering gender-incongruous sectors and industries collectively, as well as individually.

In summary, research suggests several factors on the founding side that propagate the gender funding gap. Chilazi (2019) nonetheless argues that the research strongly indicates that female and male entrepreneurs are essentially similar in the ways that count or should count, as laid out by Alsos et al. (2006), i.e. motivations, risk aversion and start-up activities.

1.2.2. Investor-related factors

Contrary to Guzman and Kacperczyk (2018), Chilazi (2019) argues that investor-related conscious and subconscious discrimination against female founders of the VC ecosystem is the main driver of the funding gap. Specifically, researchers argue that gender disparities in achievements are caused by organizational structures, practices, and social interaction patterns instead of fixed gender traits (Tinsley & Ely, 2018). Another paper establishes the widespread discrimination against female entrepreneurs beyond mere subconscious biases (Balachandra et al., 2017), where women-led companies are seen as

less attractive investments from early funding until an eventual IPO due to statistically significant discrimination (Bigelow et al., 2014).

By its very nature, the VC industry is defined by information asymmetry between investors and investees with the latter controlling the resources and processes (Glücksman, 2020). VC investment processes are imperfect and often lack quantitative, measurable data before a decision is made. Tinkler et al. (2015) observed in a randomized controlled experiment that entrepreneurial evaluations strongly depend on the presence or absence of clear performance indicators for the entrepreneur (i.e. academic degrees, previous businesses started), while women pay a larger penalty for a lack thereof.

Gender Perception

Academic literature shows that entrepreneurship is a highly male-stereotyped field, both because of the low total number of female entrepreneurs, and because of stereotypes in entrepreneurship (e.g., Aidis & Schillo, 2017; Gupta et al., 2009). The 'classic' entrepreneur is a self-made man who builds his own 'kingdom' (Ahl, 2006), providing growth, jobs, and societal progress as principally male attributes (Eagly & Karau, 2002). Ahl (2006) also suggests that this perception intrinsically disadvantages women as it still ties women to asymmetric responsibilities in family life, imposing on them a perceived dual responsibility despite them not being essentially different from male entrepreneurs. One practical example of this effect can be observed during pitching, which is viewed as a confrontational, competitive, and judgmental activity, which in turn devalues stereotypically female behaviors like mutual support and cooperation (Brush et al., 2017). Lastly, risk-taking is a male-gendered attribute so although an individual female entrepreneur might be more risk-seeking than the average male entrepreneur, investors will assign a lower risk tolerance to her (Eagly & Karau, 2002). Consequently, this creates a perception among both male and female VCs that entrepreneurial attributes are more likely to be found among male founders, making female founders appear less legitimate (Greene et al., 2001; Padnos, 2018). Studies have shown that the gendered norm of entrepreneurship probably influences investment decisions of VCs (Alsos & Ljunggren, 2017) and investors prefer pitches by men over those by women even when the content is the exact same (Brooks et al., 2014).

Language

Another, nascent area of research investigates the role of language during the VC investment process. For instance, Kanze et. al (2018) showed that at one of the most notable start-up conventions in the world, TechCrunch Disrupt, between 2010 to 2016 there was a noticeable difference in the questions asked to female and male founders. On average, investors asked male founders promotion-focused questions during pitches while female founders were faced with prevention-focused questions. In other words, investors asked male founders ‘how to win’ versus ‘how not to lose’ when probing female founders. Further, investors perceive female-owned businesses as innately riskier and worse investments even with all other factors equal. This led to overall lower valuations and amounts raised by women entrepreneurs in this setting. (Kanze et al., 2018).

Malmström et al. (2017) carried out a similar study in Sweden by analyzing real-life, closed-room, face-to-face conversations between government VCs in Sweden in 2009 and 2010. Here, discussions during final funding decisions were laid out for 125 venture applications, where 99 (79%) pertained to male founders and 26 (21%) to female founders. The government venture capitalists included seven individuals, two women and five men. Throughout the discussions men were described as ‘young and promising’, ‘experienced and knowledgeable’ or ‘cautious, sensible and level-headed’, while women were seen as ‘young and inexperienced’, ‘experienced but worried’, ‘good-looking and careless with money’ or ‘too cautious and does not dare’, to name a few examples. Overall, this led to an outcome where female founders received on average, 25% of the applied-for amount, whereas men on average received 52% of what they asked for. Women also had their applications outright rejected at a higher rate of close to 53%, compared to only 38% of men.

Objectification

Objectification of women still hinders female founders to achieve equal opportunities during the VC funding process. In 2016, LinkedIn carried out a survey on their platform of 322 founders at technical and non-technical startups, where a majority of women reported having witnessed sexism while trying to raise capital, compared to 8% of male founders. As for Sweden, there are numerous stories of female founders experiencing

sexism when interacting with VCs (Breakit, 2017), which forces them to be aware of their appearance to a greater extent than men, in turn leading to a more arduous and unpleasant fundraising experience (Larsson et al., 2017). Though reports of overt sexism are often anecdotal and are hard to prove on a systemic level, this dimension of discrimination against female founders cannot be precluded from contributing to the gender funding gap in the U.S. and Sweden alike.

2. Theory

To answer the research questions, the theories explained below are employed to analyze the empirical data.

2.1. Role congruity

Eagly and Karau (2002) coined role congruity theory as they found that positive (negative) evaluation will follow when aligning (misaligning) with a stereotypical image of one's role. They find that females are at a disadvantage both when considered for a potential leadership role, and when evaluated as an already occupying leader as leadership is perceived as a male trait (Ibid.). People perceive leadership intuitively to be masculine (Koenig et al., 2011) and as female founders are leaders, they may be at a disadvantage due to not conforming to a feminine role. A famous experiment at Columbia Business School presented a case study where students received an identical case except one half of students read about venture capitalist 'Howard' and the other half about 'Heidi' (Flynn & Andersen, 2002). Rated as competent as Howard, Heidi was considered less likable and too aggressive while Howard was considered smart and likeable (Ibid.). Hence, success and likeability are positively correlated for men but negatively for women as it is not role congruent.

2.2. Homophily

The literal translation of homophily is "love of sameness" and addresses the tendency of people to interact and bond with people who are similar to themselves. Similarities can take form in having the same gender, ethnicity, interests or other traits (McPherson et al., 2011). Cullen and Perez-Tuglia (2022) show that this holds for men but not women, as male employees switching from a female manager to male manager, rather than from a female manager to another female manager, experience a significant increase in pay and probability of being promoted, but the equivalent is not true for female employees.

2.3. Critical mass

Kanter (1977) defined the term ‘critical mass’ as the threshold percentage of women required for an organization to benefit from gender diversification. This means that when the percentage women lower than this percentage, their influence does not impact the organization and these women can be considered ‘tokens’. The existence of this inflection point was observed in the context of women in board positions and their effect on the quality of financial reporting, which they improved once gender metrics overcome a certain percentage. Gender diversification past a critical mass not only improves the performance of an organization but also the organizations considerations for the minority which has achieved critical mass. This was first observed by Childs & Krook (2008) who showed that female regulators improved legislator beneficial to women as a group. Critical mass across many different types of organizations can be narrowed down to somewhere between 10 and 40% of one gender (Dobija et al., 2021). In the context of board of directors, studies have found 30% to be the critical mass (Gong & Girma, 2021; Joecks et al., 2013). In contrast to percentages for critical mass, research has also been conducted on an absolute number of women on the board putting the number at three (Konrad et al., 2009, Yang et al., 2019). In 2021, VC firms in Sweden had only circa 21% female partners (Olsson Jeffery & Leijonhufvud, 2021). As such, this thesis, will investigate if there is an application of this theory in the case of the gender funding gap.

2.4. Networks

Objectively, the best deals come from a VC’s own network (Gompers et al., 2021). 58% of deals come from a VC’s network and another 30% stem from VCs contacting founders themselves (Ibid.). Hence, having social connections is key for both VCs and founders to secure returns and investments, respectively. Meanwhile, 81% of women testify they have felt excluded from social situations at work (Gray & Barbara, 2013). Howell and Nanda (2019) argue that a significant reason to why men benefit more than women from exposure to VCs are networking frictions.

There are also indirect exclusions from networking events and other social events. In a Bloomberg interview, Silicon Valley venture capitalist Chris Sacca of Lowercase Capital bragged about hot tub parties he threw in his home to get to know founders (Chang, 2018). These tests became a test of founders' resilience, a key characteristic of a promising entrepreneur (Ibid.). In the Nordics, Slush is a major tech startup conference where also pitch competitions are held and one year, this was held in a sauna (Widman, 2021).

What Sacca and the organisers of the sauna pitch competition probably did not grasp, is how many startups and entrepreneurs were indirectly eliminated by this practice as not all entrepreneurs might be comfortable pitching in swimwear in a hot tub. Or, in other words, how much money he may have left on the table.

2.5. Angel investing

Angel investors are noninstitutional investors that are part of the venture capital ecosystem. Freear et al. (2002) argue that angel capital is a crucial first-stage step in eventually receiving venture capital. Supplementary research by Becker-Blease & Sohl (2007) suggests that female founders seek angel financing at rates substantially lower than men, even though they have an equal probability of receiving said investments. Women are also more likely to seek and receive financing from female angels (Becker-Blease & Sohl, 2007).

Moreover, research has suggested that social connections between angels and entrepreneurs fostered through school, previous employment, and ethnicity, influence the investment decisions of angels and have a positive impact on subsequent startup performance (Venugopal, 2017). Especially, in markets with high information asymmetry, social connections to angel investors are essential for early start-up funding as they help new ventures to survive longer, raise Series A funding, and attract further venture capital investments (Ibid.).

2.6. Cultural dimensions & development

Despite both countries being developed countries part of the Western sphere there are significant cultural differences between Sweden and the U.S. Hofstede (1998) compares national cultures by establishing five categories: power distance, individualism, masculinity, uncertainty avoidance, long-term orientation, and indulgence. Among these, the gap is especially large in ‘masculinity’ where the U.S. ranks 15th out of 53 countries and regions, and Sweden ranks 53rd. This implicates that U.S. society is driven by competition and success is defined by being the best, while Sweden is a feminine society driven by liking what one does, and success is determined by quality of life. (Hofstede, 1998).

The venture capital ecosystem is older in the United States than in Sweden. The first U.S. venture capital firm, ARDC, was founded in 1946 (The Venture Capital Foundation, 2022) while Sweden’s first venture capital firm, Företagskapital, was formed in 1973 (Jacobsson & Karaomerlioglu, 2000). In 1999, the institutional Swedish VC industry was still considered immature regarding competence (Ibid.). The amount invested by informal venture capital, angel investors, in the U.S. in 2003 was estimated to be at least the same size and the institutional venture capital (Avdeitchikova, 2008). When accounting for GDP, U.S. angel investing was three times the size of Sweden’s in 2002 (Avdeitchikova, 2008).

3. Methodology

To answer the research question, we study the obstacles female founders face by discussing theories and driving forces with individuals in the industry. Due to the qualitative nature of the research questions, this paper has used an inductive qualitative approach. Empirical data has been collected through semi-structured interviews with female founders and VC investment professionals active in Sweden and the United States. The study focuses primarily on female founders since they are the main party affected by the issue of the gender funding gap. A semi-structured interview format is appropriate for a qualitative study where the purpose is to obtain a nuanced explanation to the research question rather than measuring differences in which case a questionnaire would have been more fitting (Bell et al., 2019). This method will not be considered appropriate as it limits the possibilities of questions and answers and would not contribute to filling the research gap as much, due to its inflexibility. However, to not follow a pre-determined set of questions bears a risk that valuable information is omitted if not all relevant questions are asked. The interviews are semi-structured to mitigate this risk but allow for open-ended questions where interviewees can elaborate their answers, leading to in-depth understanding of the topic.

3.1. Selection of interviewees

The empirical data has been gathered from 5 founder interviews and 5 interviews with VC investment professionals. Interviewees based in Sweden have been selected through reaching out to the authors' professional network and through Sweden Tech Ecosystem, a database that gathers Swedish start-ups and investors, to identify relevant companies for the study. The database works as a search engine that allows for filtering based on founding team, funding received to date, among other data points. For interviewees based the United States, the selection has been made through reaching out to the authors' professional network and cold-reaching out on LinkedIn. Conscious effort was made to account for diversity in other aspects than gender, i.e. age, ethnicity, and the start-up's industry, however due to the anonymity of the interviewees these statistics cannot be disclosed.

As the studied topic can be sensitive, all interviewees were informed at first point of contact that the interviews would be anonymized as this might affect willingness to participate. In total, 38 people were contacted, out of which 17 agreed to an interview, 1 said no, and 20 did not respond at all. Out of the 17 who agreed, 2 were not in scope to be interviewed, 3 stopped replying 1 could not fit it into her schedule. Hence, 11 interviews were conducted.

3.1.1. Interview subjects

A summary of the interviewees can be found below. As some of the VC professionals were applicable to be interviewed as either founders or VC but the interview questions are different for the two roles, they were asked what role they felt it most appropriate to be interviewed as and all of them chose VC over founder. The differences in duration of interviews are due to availability of the interviewees, amount of follow-up questions, and the extent of detail in the interviewee's answers.

Table 1: Female founder interviewees based in Sweden and U.S.

Name	Role	Gender	Age	Founding year	Funding stage	Pitched in	Duration
F1	Founder & CEO	Female	25	2020	Seed	SE + US	42:27
F2	Founder & CEO	Female	35	2008	Liquidated	SE + US	1:22:49
F3	Founder & Deputy CEO	Female	60	2013	Early VC	SE + US	37:33
F4	Co-founder & CMO	Female	49	2016	Series B	US	53:47
F5	Co-founder & CMO	Female	30	2021	Seed	SE + US	47:26

Table 2: VC investment professional interviewees

Name	Role	Gender	Age	Based in	Duration
VC1	Investment Director	Female	34	SE	35:45
VC2	Investment Analyst	Female	25	SE	43:24
VC3	Investment Manager	Female	31	SE	46:27
VC4	Fund founder & GP	Female	36	SE	50:20
VC5	Fund founder, CEO & CIO	Female	55	US	51:29
VC6	Investment Director	Male	32	SE & US	48:37

3.2. Interviews

Each interview began with questions on the interviewee's background and the background of the startup or venture capital firm in order to get an image of the setting and to be able to ask relevant follow-up questions, given the semi-structured interview format. After this followed questions connected to the chosen theories of the study. Role congruity, homophily, and critical mass lay ground for questions about founder stereotypes, differences in iterating with male versus female investors and questions regarding the capital raising experience but the theories were never mentioned to not influence the interviewees. Networks and angel investing were named to the interviewees to facilitate a conversation about experiences relating to these. For one of the questions, a 7-point Likert scale has been employed to facilitate comparison between answers. Participants were informed of the interview format so that they knew there was a number of set questions, but they were also encouraged to speak of relevant observations or stories came to their minds during the interview.

The interviews took place between October 26th, 2022, and November 29th, 2022. All interviewees were given the choice of conducting the interview in person or remotely, 2 interviews were conducted in person and 9 were conducted remotely. One interview was held in Swedish and ten were held in English. All interviews were recorded using Teams or voice memos, for which the interviewee's permission was obtained at the beginning. The interviews were then either transcribed manually or manual enhancement of Microsoft Teams' transcripts was conducted in order to organize, process, and analyze the data.

3.3. Discussion of methodology

The response rate for interviewees could be considered low, and due to the selection method, there is a risk of self-selection bias. In this study, the bias may result in the interviewees having a higher degree of involvement in gender issues compared to their peers and higher involvement could cause interviewees to exaggerate stories and the importance of the topic. However, as it is a qualitative study the purpose is not to draw conclusions about a population from a sample, the purpose is to gather in-depth

information about experiences. Additionally, people with a high degree of involvement in the topic are usually more knowledgeable than people with a low degree, which increases the probability of more in-depth and nuanced answers.

The low rate of male interviewees could skew the results as they will almost only include female perspectives. However, interviewing male founders is not necessary for the first research question as they are unable to talk about fundraising as a woman. For the venture capitalists, male VCs might have added aspects not covered by the female interviewees. However, female VCs work with male VCs and as all VC interviewees testify that the gender gap issue is discussed within their firms, female VCs may have been exposed to the male perspective on these issues.

Hence, it is a possibility that the male perspective is indirectly included. Further, even though the interviewees are anonymous, due to the sensitivity of the topic there is a risk that male VCs might not speak out freely due to them being men talking about women. Further, we have received a much lower response rate by male players in the venture capital space, both investors and founders. This lower willingness to discuss this topic by men might be due to the inherent female-focused nature of the topic.

4. Empirical findings & analysis

The empirical data presented below was gathered through semi-structured, in-depth interviews with venture capital investors as well as founders with experience in the U.S. and Sweden. Based on the subjects covered during the interviews, the empirical section is organized into thematic sections and their corresponding theories. For clarity in reading, the analysis is tied in after the findings to directly discuss the relevant issue.

4.1. Raising capital as a woman

When asked whether women were treated differently within the start-up context compared to men, a wide variety of answers were given by the founders, but many noticed a different treatment during pitching.

In general, all founders observed that they had primarily been pitching to male investors due to the gender imbalance at VC funds. One founder stated that she had ‘vacuum-cleaned the world for money’, while still only encountering one woman on the investor side in her efforts.

Though there were slight differentiations in specific industries, a founder of an impact-focused business observed the following:

“I think maybe there are more females representing impact-focused VC's than males. Maybe that's because there are more females also in the space of social sustainability. So many of the people that we work with, it has changed. I have to say, it is changing.” – Founder 3

However, in light of the overall gender imbalance on the investors’ side, one founder shared her experience of having to adapt her pitching strategy with her male co-founder in order to have a better success rate in front of male VCs.

“Certainly, we've had the experience that we strategically had to make the decision who is the front person for the company. And only in the situations where someone specifically has a thesis around investing in female founders, then I might lead the pitch.” – Founder

Additionally, the male-dominated VC investor space was perceived as an obstacle by one founder of a female health business, who stated the challenge of having to pitch her product.

“The impact that the product has, and, in that way, I think there's a larger barrier to getting men to feel that passion.” – Founder 1

When it came to specific interaction patterns, three out of five founders mentioned that investors would tend to refer the tougher and more technical questions to a male member of the pitching team. Similarly, the language used and questions our female interviewees would receive during pitches were often related to risk and how to avoid failure of the business.

“You end up leaving that meeting like ‘how are you not going to fail’? What am I supposed to answer to that instead of, ‘how do you see the opportunities for us as an owner’?” – Founder 2

By extension, all but one founder shared experiences of objectification or sexism when interacting with investors. During a networking event with potential investors one founder was told to have children instead of pursuing her entrepreneurial aspirations.

““Oh, just get a couple of kids and you'll be happy’. It was so clear to me. I will never, ever be anything else than a walking uterus to some men.” – Founder 2

Other instances of objectification included unwanted flirting, touching and inappropriate comments about the appearances of female founders such as referring to them as being as attractive as a ‘fashion model’.

Lastly, when asked as to why male founders were more successful in fund raising, female founders acknowledged several reasons. These included the risk aversion of women,

“I think it is because first, women are more risk averse. And that's hard. I think it's especially hard for women because we are thinking about the consequences much more than men. We think the VCs think if we're going to take your money, we need to know everything’. Whereas men are like ‘if they give us the money, we will conquer the world with it’.” – Founder 5

deeply engrained misogyny in society,

“We are taught to hate ourselves. Men are taught to hate women, and women are taught to hate themselves, and people get offended when I say that. But I believe it's true.” – Founder 2

lack of female role models,

“You look around the world and look at political leadership, there is low female participation at upper layers of society in general.” – Founder 4

unequal share of child caring responsibilities,

“And among the things that is really a big factor is this this gap or this differential in of childcare responsibilities that affected, you know, I don't know how this worked around the world, but during the pandemic it fell on women to look after those things.” – Founder 4

and the lack of confidence or even an unwillingness to ‘oversell’ their business growth projections to the same degree as male founders:

“We are much more scared to oversell than men. Men can say that they have done something even if they haven’t, maybe use as an example when an investor ask ‘you have paying customers?’. If men sit in an investor meeting, maybe they say like ‘yeah, we do’. But women would never say that if that's not the case. “ – Founder 5

Answers received from female founders regarding the issue of different treatment are consistent with aforementioned theories.

First, the findings show that female founders felt they fared worse during the investment decision process and saw preferential treatment toward males in this context. This is one dimension of homophily as described by Cullen and Perez-Tuglia (2022). As such, the study also supports other research arguing women as founders pay a larger penalty for being a minority when pursuing their entrepreneurial ambitions (Tinkler et al., 2015). Another byproduct of homophilic environments are challenges of the minority to communicate with the majority. This was apparent when Founder 1 described her struggles of convincing male VCs to invest in her female health business.

Second, the research in this study suggests that investors assign a larger risk-aversion to women than men, as confirmed by the noticeably risk-focused questions, recounted by

Founder 5. This is unsurprising as some literature indeed points towards this being the case when assessing female risk-seeking behavior without specific context (Croson and Gneezy, 2009; Cross, Copping, et al., 2011) and in line with alpha bias.

However, Founder 5 shared her perception that these assumptions on risk-aversion were often unjustified and indicated that investors might disregard the context of female risk-seeking behavior as suggested by Geen (2013) and Shapiro et. al (2015). Thereby, investors may currently overestimate risk as a factor which could negatively impact the capital raising performance of female-led businesses if the perceived risk outweighs the expected returns.

Thirdly, evidence was collected that investors tend to subscribe to the idea that entrepreneurship is essentially a male endeavor as described by Ahl (2006) and Eagly & Karau (2002). This was apparent most noticeably in interactions such as telling a female founder to ‘just get a couple of kids’, in which investors devalued women’s ability to start a successful business and be leaders in general (Koenig et al., 2011) and that this can also give them a sense of fulfilment. By extension, this also suggests that women pay a penalty for not acting in a role-congruent manner (Flynn & Andersen, 2002).

Founders further testified that in contexts with other representatives of their businesses, investors gravitated towards male individuals when trying to confirm competence even when the males had same or less qualifications or seniority, consequently investors gravitated towards male individuals when trying to confirm competence, consequently devaluing or discounting the ability of female founders (Alsos & Ljunggren, 2017). It also suggests that this might in turn impact funding amounts received by women overall, as Brooks et al. (2014) argue.

Fourth, confidence was mentioned by founders who recognized women to be less willing to oversell their ideas and commercial forecast. If overselling in this context is a consequence of higher competitiveness by men is difficult to say, however it is undoubtedly a consequence of higher confidence in competitive settings as outlined by Niederle & Vesterlund (2007).

4.2. Investing in women

Conversely, when VCs were asked about the different treatment of female founders during the fundraising process, all of them were aware of the gender funding gap and presented several theories as to why it persists. They all had either a specific fund set up to target only female entrepreneurs (two out of six) or were part of a generalist fund which had some version of gender diversity tracking framework (four out of six).

“Our primary purpose is to invest in good companies, right? But then we also require all our portfolio companies to report on ESG metrics quarterly, where we track diversity. We are working towards reaching what is considered full diversity, 40% of one of the genders. Right now, we are at around 30%.” – VC 3

Interestingly, when asked about overt biases against female entrepreneurs there were no direct practices during the investment selection process identified by the VCs. However, two out of six investors mentioned to have undergone subconscious bias training within their firm.

“We really try to think about this hard. Investors know of unconscious bias and try to work on that themselves, there's also pressure from LP's now.” – VC 1

One of the VCs firm has three GPs who all are women, and all of their portfolio companies have at least one female founder despite not having diversity-related goals for the fund, and the majority of leads being male-led.

“In the investments we have made, there is a female founder in each team. There are pretty few VC firms that are made up of only women like [the fund] which might make it easier to invest in women. Yea, it's not a requirement but we like that it turned out that way.” – VC 4

When it came to comparing male and female founders in their applicant pool for funding, there were several shared observations among VCs. Most notably they perceived female founders as less confident in their abilities.

“I think, if there's a typical male founder, they are a little more confident. Often it is not necessarily grounded in the reality of what they're doing, but they definitely exude a confidence that doesn't come through in women.” – VC 5

According to another VC, this also applies to hesitancy to reach out for a pitch or basic initial feedback if the pitch deck is not complete and perfectly formatted.

“Sometimes I get male founders contacting me before they're even ready to get funding, because they want feedback. So, I think men for some reason, they reach out more. They're less scared of presenting something that is incomplete.” – VC 3

Another VC added:

“Many guys tend to be more aggressive in their approach. For women to say that they know something, they need to tick all the boxes before. Many guys dare to move forward faster and women have this perfectionist angle, so they might not release a product as quick as a man because they need it to be perfect.” – VC 4

Ultimately, this lack of confidence, or hubris, depending on the context, may also lead to lower amounts of funding requested by female founders in general, according to one VC.

“Whenever I get something from female founders, it's a very perfect document already, and maybe they're asking for a little bit less money as well.” – VC 3

Aside from different levels of confidence in the process mentioned above, all VCs surveyed also noted that there was simply a lack of female founders across many industries, especially when looking at high-growth tech startups.

“Whether we like that data or not, women don't start as many companies as men and that's just a fact. Some female investors don't like it when you use that as an argument, but it's very difficult to deny. A lot of the female founders also don't start tech companies and it's the tech companies that get the most funding. So, there's a smaller pool to invest in from the get-go.” – VC 1

This also applies to other highly technical industries, according to another VC: “When it's very technical, it tends to be with very engineering-heavy teams. They just can't find women.” – VC 3

Additionally, similar to the founders’ opinions, VCs saw the lack of role models as another external driver of the gender funding gap.

“I think a lot of women don't identify themselves as founders, and they probably haven't even thought of the fact that they can build companies.” – VC 1

Broader societal perceptions of the competence of women were also mentioned as a factor behind the lack of funding for female founders.

“Women are by some people seen as less competent, and that's just the sad reality” – VC 3

There is also a similar sentiment regarding women in VC in general, and why efforts to get women into the ecosystems should stop.

“I've heard male VCs say that women shouldn't become VCs because they won't abandon their kids. Men abandon kids and are better investors because they can be ruthless.” – VC 6

Lastly, VC 3 acknowledged that there are drivers of the gender funding gap outside the VC ecosystem over which investors may not have control and that are not to be left out of the equation.

“But I'd like to understand also how many women do actually reach out and would ask for funding. I've never seen that number. I've just seen that only 1% goes to women, but I've never seen how many women actually ask for it. So, I think it starts way before us. I don't know how much we can do.” – VC 3

The first notable insight from the VC interviews is the fact that investors are often faced with a lack of women in leading positions within startups in high-growth industries. This aligns with findings from Chilazi (2019) and Hebert (2019).

Additionally, three out of five VCs described female founders as less confident when it comes to fund raising in general, repeating the findings made by Niederle & Vesterlund (2007).

Furthermore, judging by the answers received from VCs, this study can confirm that investors agree with founders on certain contributing factors to the gender funding gap. The overlap in observations includes drivers connected to risk-taking behavior of women, confidence in competitive settings, lack of role models in entrepreneurship within VC or

society as a whole, the gendered perception of entrepreneurship and societal biases against women, portraying them as less competent.

Moreover, according to the VCs surveyed, investors are certainly aware of the issue of the gender funding gap and are taking actions to counteract this through many structures and processes (i.e. bias training, gender metrics) which aim to elevate funding success of female founders, at least to some extent. For example, VC 3 confirmed that her fund had an internal hurdle percentage of gender metric of around 30-40%, which aligns with the theory of a desired critical mass for a gender minority as described by Kanter (1977), Childs & Krook (2008) and Dobija et al. (2021).

Nonetheless, this study cannot assume that these practices can be found in all VC funds across the industry in the U.S and Sweden. The lack thereof may still be a major contributing factor to the gender funding gap in the remaining areas of the VC ecosystem.

When opposing Guzman and Kacperczyk's (2018) and Chilazi's (2019) views on which are the main drivers of the gender funding gap, i.e. founder-related drivers or investor-related drivers, VCs interviewed recognized that there were biases within the VC ecosystem disadvantaging female founders. However, VCs also indicated that there were many drivers outside of the influence of investors, implying that greater societal and cultural drivers may also play a role in the persistence of the gender funding gap in the U.S. and Sweden alike. To investigate these, this study will analyze answers provided from a cultural perspective in section 4.5.

4.3. Relationships & networking

4.3.1. Relationships and rapport-building with VCs

Each founder and VC were asked how much they think the working relationship between the founder and VC matters in order to get an investment on a scale from 1 (not important) to 7 (extremely important), compared to other factors such as the viability of the product or the quality of the pitch:

“I think it probably matters quite a bit, maybe 5 or 6.” – Founder 4

Founders and VCs alike, compared the importance of a high-quality working relationship between the two parties to a marriage:

” Especially, since VC funding hasn't been available to women like that, the relationship is so important when it comes to the private, unregulated capital market. you need to be able to trust each other, it's almost like a marriage.” – Founder 2

“7! It’s worse than a marriage, you spend more time with the founder.” – VC 4

Five out of six VCs answered immediately that the importance is 7 and the fifth VC put it at 6, while the founders spent more time contemplating the question and when replying to it placed importance between 3 and 7. This may relate to the exceptional focus around the product and pitch that several interviewees, VCs as well as founders, have mentioned that female founders exhibit. Perhaps coincidentally, the founder who assigned a 3 to the importance of the relationship with a VC was the founder who emphasized her struggles to secure funding the most.

As the VC is the ultimate decision-maker on whether to invest, there is a ‘correct’ answer for each VC fund, which founders seeking investment must accept. This sample suggests that for most VCs it is ‘extremely important’. It also suggests that in most capital raising situations, founders may underestimate the importance of individual founder compared to the offered product or service in the eyes of VCs. Awareness and understanding of what matters to investors is a prerequisite to be able to pitch a company in the way most likely to secure an investment.

4.3.2. Your network is your net worth

Interviewees were also asked how they perceive their networks as contributing factors to source and execute a deal. All interviewees testified that networks are crucial, and many said that accessing these networks require some sort of ‘entry ticket’, however what this ticket if differs between Sweden and the U.S.

In the U.S., the prerequisite for the entry ticket is well-established and requires having gone to an Ivy League school.

“I mean, there's always going to be the networks that have existed for decades. Like the Ivy League schools, right? I've often thought why didn't I go to Harvard? And at the time, when I was choosing what university, I had no idea that that would be important to me later.” – Founder 4

Further, all female founders reported to have been invited to many events, often exclusive to female founders, that allowed them to network with VCs and other stakeholders. None of the founders perceived to have been actively ignored or shut out from start-up events or conventions.

“No, I think that most times when you do take the courage to ask for an invite then people most often want to help.” – Founder 3

However, one founder pointed to that this might be a matter of what they know.

“No, at least not anything I know” – Founder 5

Other events mentioned by founders included a community of founders and VCs playing poker together or having exclusive dinners, for example.

“My key was my poker society, that's where I could tie bonds which led to really deep friendships. And I'll probably invest in their daughters or friends who are females. As soon as I can, like they invested little bit of money in me.” – Founder 2

“Some female investors have their dinners and lunches etc. as well. That has absolutely been the case.” – VC 1

However, when asked about mingling with male founders and male VCs, two out of five founders had felt it was difficult to first, gain access and second, to form meaningful leads with investors when directly competing with male founders.

“Looking for funding hasn't always been the most pleasant experience because [the environment] is very elitist. I didn't like those contexts because there you could feel the chase for money. And there were a lot of male investors at those [events].” – Founder 3

“An investor, he was around 60 or something, he had done a few exits. He wasn't that interested in talking to me [...] then there was another guy who's also in the competition

who was around 40. And then he we kind of swapped places and from nowhere, they just started talking and had a really good time.”- Founder 1

All five of the female VCs acknowledged that there were certain barriers female investors still needed to overcome within the VC industry.

“We are definitely excluded [...]! There are these 14 guys that run these huge events where they go away for two weeks. They go to Scotland to play golf, party, and drink. But there are a lot of deals getting done there.” – VC 5

“Usually, guys who are associates play padel together. It sounds like a cliché, but it's true. And they do a lot of deal flow during those events. And I know that there are female associates that think that's a bit tricky.” – VC 1

The barriers for female investors within VC are of course indirect contributing factors to the gender funding gap overall. However, female VCs saw female founders being excluded from certain networking circles, which may impact their pitching performance. According to one VC, male founders on average are embedded more deeply in the VC networks, learning the ‘lingo’ of VCs and therefore outperforming female founders during the pitching process.

“They use the right words at the right time. They know how to talk the same lingo as a VC, which is actually quite difficult to know, if you're not in the [VC] community. It's very difficult to know what [investors] actually want to hear. – VC1

All in all, female founders interviewed were quite positive about outreach and opportunities to network. Still, from the above it is apparent that certain networking circles remain exclusive to men, which might harm female founders without them being aware of it. Here, the VC's, due to having more experience, points of view are crucial in determining what female founders are missing out on. VC 1 emphasized how female founders should actively push to be granted access to these circles as it will help them learn the ‘lingo’. This will allow them, it is proposed, to better present themselves during interactions with VCs in general, but also during pitching, specifically in front of male VCs. This further proves the importance of equal access to high quality networks as laid out by Howell and Nanda (2019). It also proves the importance of language on the outcome of interactions between founders and investors as observed by Kanze et. al

(2018) and Malmström et al. (2017), where male investors appear to have negative biases when talking to or about female founders.

From the answers above, this study can confirm female founders have had positive experiences during networking opportunities provided by female investors, versus some unpleasant experiences with male VCs and founders in the ecosystem. This, again, is one application of homophily as described by (McPherson et al., 2011). By the same token, the interviewees have implied that male founders thrive in male-dominated social situations, which again demonstrates homophily. Since men are the dominant portion of investors and founders, homophilic environments currently disproportionately disadvantage women as implied by Cullen and Perez-Tuglia (2022).

Similarly, findings supported the view that networks are a core driver behind the perceived commercial potential and eventual funding decisions made by VCs as argued by Howell and Nanda (2019). Reportedly, interviewees saw situations where female founders were unable to capitalize on the networking opportunities to the same degree as men, leading to a bias towards founders with better networks instead of better ideas or products, for example.

4.4. The importance of angel investors

As angel investors usually are the first, or one of the first, people to invest in a startup, interviewees were asked about their experiences with angel investors and of their importance to eventually close the gender funding gap. Four out of five founders had taken angel or family office investors at some stage during their fundraising activities. They reported several advantages of this type of funding compared to traditional VC funds.

According to respondents, angel investors can be very valuable to a business by providing more direct and faster financial support, adding credibility to the venture and also giving expert advice for a start-up in a specific industry.

“We took in 6 angels and those were very strategic within the space we needed. So, we already had an advisory board before going out to VC's et cetera. So, we knew this was

possible to do, but if you meet an investor that doesn't have the knowledge, it's very hard to convince them that what we are doing is possible.” – Founder 5

In addition, the female founders who had taken in angel investments saw it as less of a challenge to convince an individual versus an investment committee, of an idea but also to build a fruitful working relationship.

“It seems that they are a little bit more daring. Sometimes they invest more with their hearts than with just the business mind.” – Founder 3

“I mean, it's easier of course to make a relationship with one person, than to make a relationship with a whole team of people initially, or at least it can be.” – Founder 4

Seeking angel investing is notably less formal and standardized than the tradition VC fund pipelines as one founder explained:

“I don't know what is like the common practice. But what we did was actually just cold-reached out to people on LinkedIn.” – Founder 5

This informality does however also bring downsides, such as exposure to uneven power dynamics and objectification for women.

“[...] The most toxic experience. Like the threatening of hostile takeovers, sexual abuse, comes from the unregulated angel market.” – Founder 2

According to the VCs interviewed, all agreed that angel investors can help promote female founders more directly and faster than through traditional funding channels.

“Super important. Partly to get a sense of financial safety and a foundation, but also regarding the commercial journey, to get input and support from an active angel network. Angels are often wanting to engage in the company and think it's fun to work with entrepreneurs. [...] Where they can also connect people for upcoming funding rounds.” – VC 4

“Absolutely, yes! We need more women angel investors. [...] I think in the beginning absolutely so, to the extent that they can be flexible and can write a check without a big committee.” – VC 5

Many angel investors were at one stage successful entrepreneurs or business executives in their own to reach their level of personal wealth (Cremades, 2018). As such, one VC pointed out:

“It's so important to give stock options to women when they join startups, because that's how you get your money to eventually angel invest.” – VC 1

All interviewees agreed that angel investors are critical in pushing female founder towards funding parity by circumventing the slow formalized process of institutional VC firms. This proves that angel investors in general are better at providing important stepping stones in the early stages of a start-up as argued by Freear and Wetzel (1992).

Nonetheless, as Founder 2 confirmed, referring to the innate power difference between founder and investors, who control the resources and processes (Glücksman, 2020) can lead to a more pronounced abuse of power by angel investors in the shape of hostility or sexism.

4.5. Capital raising experiences in Sweden vs. the United States

All five founders interviewed had experiences with investors from the US and Sweden.

When confronted with the fact that female entrepreneurs in Sweden are proportionately underfunded to a greater extent than in the US, female founders did not identify a clear factor as to why this might be.

“If we talk about Sweden especially, I actually don't get it. I think it's really weird. You know, we're supposedly a very equal society.” – Founder 3

She went on to say:

“I think in the U.S. and maybe a bit in Sweden too, it's actually an advantage being a female founder in a sense, and I think they are evaluating the founders a lot more than the company.” – Founder 3

This observation might indicate a higher awareness of U.S. investors of the issue of the gender funding gap and having a more successful approach to mitigating it, compared to Swedish investors.

Further, in the U.S., investors appear to have a more thorough approach before making a decision.

“U.S. legislation and U.S. business culture is very different from Sweden. You have to sell your soul more or less to get American investors on board. Their due diligence processes are amazing and they're very scared of missing something.” – Founder 3

Indeed, an American VC confirms this standpoint.

“No VC in Sweden is at the top of their game. Swedish VCs have less rigor in investment criteria and investment process than VCs in the U.S. There are no tier 1 investors or processes going on in Sweden. It is an unsophisticated ecosystem and conformity standards in society spill over to investing, investing is FOMO-based.” – VC 6

However, he believes conformity standards and lack of rigor it is easier for women to raise capital in Sweden.

“It is a less competitive VC ecosystem so I actually think women have an easier time raising capital in Sweden. And the equality trend gives social status in Sweden, I’m not sure that’s the case in the U.S.” – VC 6

This implies that Swedish investors may let trends and reputation-related aspects influence investment decisions to a greater extent than American investors do, while not matching the thoroughness of American due diligence processes.

Another founder agreed that it was not apparent why female founders are lagging behind in Sweden. In fact, she referred to a much higher social and financial cost of failing as an entrepreneur in the US, since governmental support is more readily available in Sweden.

“There's a lower price. In Sweden, you're at least somehow able to get \$700 in your bank account, so you can eat for X number of years.” – Founder 2

When it comes to gender roles and overall gender equality, Founder 5 argued that the fall out of the COVID-19 pandemic hit female founders harder in the US.

“Women's involvement in the workforce of the over the last two years dropped. Career advancement was something that wound up going backwards during the pandemic,

particularly for women. Because women who maybe intended to advance in their careers and rise through the ranks.” – Founder 5

She acknowledged that she was based in a particularly conservative part of the US, but still implied that women in the US took a larger step back than in Sweden as a consequence of the pandemic. This perception aligns with the circumstance that Sweden broadly speaking has achieved a higher degree of gender equality than the US to date (Barbieri et al., 2022).

The above responses add to the paradox as to why, comparatively, female founders in the U.S. outperform female founders in Sweden when looking at capital raising success. As Hofstede (1998) argues, a society like the U.S. is driven by competition and success is defined by being the best, while Swedish society has more feminine motivations such as liking what one does, determining success by quality of life.

Applying this framework, this study can on the one hand speculate that Swedish female founders should have more freedom to choose what they want to do in their career.

Hence, Hofstede’s theory might indicate that even though Sweden affords more support to its citizens it is not a major driver behind pushing female founders into starting their own business and at bottom does not explain why the gender funding gap is bigger in Sweden conclusively.

4.6. The way forward

Regarding long-term solutions to the gender funding gap in the US and Sweden, the interviews yielded many different ideas provided by founders and VCs.

When asked what could be done about the issue, one founder referred to the greater struggle women face in society:

“People need to wake up to it [...]! You should be able to lead and have power in a dress. Every second we make our voice lower. Every second we dress up in a suit we strengthen the norm of what a leader looks like, what a founder looks like, what a good owner looks like. Just being aware is the first step.” – Founder 2

One VC pressed the urgency of inclusion based on the outperformance of diverse teams.

“I do think women should have fast-tracked careers, partly because of biological implications but also because we need to reach the critical mass as soon as possible, because it is profitable.” – VC 6

Additionally, one VC advocated for a more inclusive and open-minded approach to hiring in VC as well as assessing individual founders.

“It doesn't have to be McKinsey or Goldman Sachs. It can be something else and you can still bring value. So, it really appreciating diversity of thought and diversity of experience.” – VC 1

Lastly, VC 1 added that societies perception of what a founder should look like is in need of a revision, again referring to the gendered perception of entrepreneurship as outlined by Ahl (2006) and (Eagly & Karau, 2002).

“So, I think that's also a problem! We always see the baseline as ‘how do men communicate and pitch and build companies?’, and that shouldn't be the case.” – VC 1

5. Conclusions

This study seeks to answer the two research questions “*Why do female founders in Sweden receive disproportionately low percentage of funding compared to the share of female founders?*” and “*Are there differences in the venture capital raising experience in Sweden versus the United States?*”. The conclusions from the empirical data and analysis are narrated below for each question, followed by contribution to research and suggestions for further research.

5.1. Drivers of the gender funding gap in Sweden

This study concludes that the theory of role congruity holds, which can explain both the low number of female founders (4.6%) to begin with and the lower success of female founders, as they are not judged by the same conditions as male founders. Homophily also holds, putting women at a disadvantage since the vast majority of VCs are male. Although there are female VCs keen to fund female founders drawing from the interviewees’ statements and internal diversity work at the funds, they do not make up the critical mass of 30% of partners in the entire ecosystem and likely not either in individual VC firms, and therefore struggle to have their voices heard. The fact that in the VC fund with only female GPs, all portfolio companies have at least one female founder, illustrates this further and highlights the importance of reaching a critical mass.

In turn, critical mass demonstrates the importance of female angel investors. Because angel investors are noninstitutional and provide their own capital, they do not need to convince an investment committee to invest in a female founder. They fulfill the criterion of critical mass by being the sole decision-maker. Angel investing is hence a situation in which female founders can take advantage of homophily by specifically reaching out to female angel investors. The problem with angel investors is the chicken or egg dilemma, a substantial amount of wealth is required in order to be an angel investor. Their wealth often comes from starting their own company or joining a startup and getting stock

options. It should also be noted that as these are private individuals, investments from them may bear a higher risk of abuse of power as there is no governing agency.

Further, the study finds networks imperative to build relationships with investors to stand the best chance at getting an investment, as they consider the best deals to come from within their network. While there are male-exclusive events and networks suggesting that networking has historically been a male-dominated sphere, it is currently changing structurally by women creating their own spaces to even out opportunities on offer. In line with the findings regarding female founders being less confident than male founders, they may not be as inclined to ask for an invitation to these events, but as suggested by the interviewees, asking for one is likely to get you one.

Another key finding is the importance of the founding team and how this is underestimated by founders, putting founders at risk of misallocating their time and efforts when pitching, by extension hindering investors from assessing the investment's most important parameters. Closing this information gap may increase the success of female founders in raising capital.

5.2. Differences in the venture capital raising experience between Sweden and the United States

The differences between the U.S. and Sweden are not fully explained by any of the suggested theories in this study. The U.S. is a more masculine and competitive society, suggesting that women, are required to be more competitive, and as such less role congruent as founders, than in Sweden which is a more feminine and less competitive society. This ultimately suggests that it should be easier for women to raise capital in Sweden, a view also shared by a VC active in both countries. Yet, the percentage of capital raised by U.S. female founders is proportionate with the share of female founders in the U.S. This does not, however, mean that the U.S. is more equal as the share of female founders is lower.

What can be concluded, is that once a female founder exists, the U.S. is better at funding her. Explanations could be that the U.S. VC ecosystem has existed for a longer time, is

more established and more sophisticated in their investment processes. Networks are also more structural, perhaps due to the size of the population which requires some limitations as opposed to in Sweden where entrance to networks is more arbitrary. As Sweden is smaller and VCs are concentrated in Stockholm, most people in the industry know each other. The more decentralized structure in the U.S. could benefit female founders more, but this aspect of the gender funding gap requires further research before conclusions can be drawn.

Further, the U.S. has been a developed country for longer than Sweden, meaning more people accumulated wealth over a longer period of time, enabling a larger number of angel investors to make their mark in the industry. This could also explain the greater success of female founders in the U.S., but no conclusions can be drawn from the empirical data collected in this study.

There are also structural drivers outside the VC ecosystem VCs therefore cannot affect, which contribute to the funding gap and which this paper has not investigated. These drivers are, for example, the pipeline of women with STEM degrees, since a lot of capital goes to high-growth ventures, sexism, innate risk aversion, competitiveness and implications of child-bearing. However, child-bearing appeared to be a larger obstacle in the U.S. as it was mentioned by U.S.-based interviewees to a larger extent than Sweden-based interviewees. Other answers of the investors interviewed did acknowledge that in some industries it is simply harder to find, which is closely tied to considerations around the STEM pipeline driver of the gender funding gap.

5.3. Contributions

Gender gaps are complex issues that are usually caused by several drivers. In line with existing research, this study confirms theories such as role congruity, homophily, and critical mass as drivers of the gender gap in Sweden and the U.S. In addition, this study confirms the important role of networks and angel investors to female founders and country-specific implications of these factors to founders based in Sweden. It also highlights the importance of confidence in various aspects of entrepreneurship. A key finding is the information gap between female founders and venture capitalists on the

importance of the founding team. While the venture capital industry is characterized by information asymmetry, it is usually the founders who have private information but in this case it is the investors who have more information on founders' importance. This finding can be utilized by founders to allocate their efforts more efficiently but also by investors by disclosing this to founders to receive a more relevant pitch.

5.4. Further research

One limitation of this study is that its focus pertains to only two geographies which limits the ability to generalize the results. That is not the purpose of this thesis, but further research could compare other VC ecosystems similar to the US or Sweden, to dig deeper into abstract drivers of the gender funding gap and why it persists, especially in developed countries, to improve the quality of pattern recognition. The authors of this thesis also suggest a wider scope of interviewees such as investigating men's view of the gender funding gap. Also, considerations around socio-economic background or ethnicity might provide further insights in the challenges minorities face as founders.

When analyzing the stages of the fundraising process it stands to reason that measures and policies of VC funds can only account for marginal improvements of the overall funding gap. Hence, research on the number of female founders who never even attempt to receive external equity funding may uncover a further piece to the gender funding gap puzzle.

Additionally, research on the quantitative correlation between (female) angel investors and success of female founders, it is assumed, could illuminate further insights into how women founders can succeed in achieving funding parity.

Lastly, perception of one's own importance for an investment, which is underestimated by founders, may be connected to self-confidence. As only female founders have been interviewed in this study, further research could examine whether male founders also tend to underestimate their own importance when pitching and whether confidence is related to this for both genders. Further research could also quantitatively investigate potential

correlations between founder awareness of their own importance and success in capital raising.

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7. Appendices

7.1. VC interview questionnaire

1. Personal questions

- Could you briefly describe your role at VC X and what your duties are?
- What is your background in terms of education and previous work?
- How old are you?

2. Investment process

- Which types of companies do you invest in and at what stage?
- What does a typical investment process look like at VC X?
- Which are the most important characteristics you look for in a company when investing?
- Does VC X have any goals for diversity and inclusion?

3. Founding teams

- What makes a good founding team in your opinion?
- Do you believe women are underrepresented as founders?
- (Statistics show that there are fewer female founders overall). What do you believe causes the disproportionately low level of funding given to female founders compared to male founders?
- Do you believe there is bias against female founders during your selection process, and if so, at what stages of the selection process?
- What is the view on female founders at VC X?

4. Gender

- Do you believe there is a typical male founder, and if so, could you describe them?
- Do you believe there is a typical female founder, and if so, could you describe them?
- On a scale from 1 (not important at all) to 7 (very important), to what extent does the relationship with the founder matter for investing?

- What are the barriers to entry into the startup world that women need to overcome?
- Does VC X stimulate more female founding teams to seek VC funding, and if so, how?
- How do you view gender equality at your firm?
- What practices does your fund have in place to increase gender equality?
- How does gender equality at your portfolio companies look like? Do you work on this with them and why (not)?
- Have you experienced sexism or objectification at your workplace, and if yes, in what way? How does the company work to counteract it?

5. Networking

- Would you say that the best deals come from your contacts and network?
- What are some typical events or situations where you can get to know founders?
- Have you ever felt excluded from or like you did not have access to the same network as men?

6. Angel investing

- What role do you believe angel investors has when it comes to funding startups?
- How, if it at all, does the angel ecosystem matter to female founders especially?

7. Closing questions

- Do you believe women are underrepresented in venture capital, and if so, why?
- Do you believe it's important for the industry to change? If, so why?
- How do you believe the industry can change?
- Is there anything else you want to share that we have not touched upon?

7.2. Founder interview questionnaire

1. Personal questions

- Could you briefly describe your role at Company X and what your duties are?
- What is your background and why did you decide to become an entrepreneur?
- What is your family situation?
- How old are you?

2. Funding

- How is your company currently funded and what has been your role in the funding process?
- Have you ever been in contact with US investors, and if yes, how did you get in contact with them?
- What were some of the main challenges you faced in the capital-raising process?
- Do you believe that women and men are treated equally within the start-up context and why (not)?
- (If the founder has been in contact with both US and SE investors) Do you believe this differs between Sweden and the US?
- How much would you say the VCs are evaluating the company vs. you as a person and founder?
- During your search for funding, what traits and characteristics were an advantage and disadvantage for you?
- Would you do anything different the next funding round?

3. Venture capitalists

- How would you describe the representation of male vs. female investors during the initial stages of the fundraising process?
- How did you experience the dynamics between you and the investors?
- Was there any difference in iterating with male vs. female investors?

- Do you believe that there are specific barriers in entrepreneurship that affect only you as a woman, and if yes, please elaborate on how you face these challenges.
- Have you experienced sexism or objectification as a founder?
- On a scale from 1 (not important) to 7 (very important) to what extent do you think the relationship with the venture capitalist matter to get an investment?

4. Networking

- Are there any examples of events or situations where you can meet venture capitalists and are able to create a relationship with them?
- Do you believe these kinds of events and talks are important to raise capital, and if so, why?
- Have you ever felt excluded from a networking event with primarily venture capitalists, but also other founders?

5. Angel investing

- What role do you believe angel investors has when it comes to funding startups?
- How, if it at all, does the angel ecosystem matter to female founders especially?

6. Closing questions

- Do you believe women are underrepresented in venture capital, and if so, why?
- Do you believe it's important for the industry to change? If, so why?
- How do you believe the industry can change?
- Is there anything else you want to share that we have not touched upon?