STOCKHOLM SCHOOL OF ECONOMICS
Department of Accounting
BE351 Degree Project in Accounting and Financial Management
Fall 2024

Beyond the Pitch

A qualitative study on the role of Gender in Corporate Governance within Venture Capital-Backed Startups

Alva Gran (25698) **Lucas Hammontree (25556)**

Abstract

The present study investigates how gender influences Corporate Governance (CG) in the context of Venture Capital (VC) backed startups, through a qualitative cross-sectional study involving seven in-depth interviews with startup founders and industry experts within Sweden. Drawing on the concepts of gender homophily (Ibarra 1992; Ridgeway, 2011), the study finds that informal governance dynamics- rooted in trust and social biases- play a significant role in shaping investor-founder relationships. The findings reveal that male investors, who dominate VC firms, often demonstrate greater trust in male entrepreneurs, resulting in more favorable governance terms for male-led startups throughout their relationship with their VC. In contrast, female founders frequently encounter more restrictive governance provisions, such as heightened scrutiny through anti-dilution clauses. Furthermore, informal power imbalances limit the decision-making autonomy of female founders. Previous research has largely overlooked the role of gender in VC governance, assuming that governance practices are driven solely by financial concerns. Accordingly, the present study highlights a critical inconsistency in the treatment of gender in Corporate Governance research, emphasizing the need for a more nuanced approach that accounts for the social and psychological factors influencing governance within the VC ecosystem.

Key Words: Venture Capital, Corporate Governance, Gender Homophily

Acronym explanation: Venture Capital (VC), Corporate Governance (GC), Limited Partner (LP)

Supervisor: Aleksandra Pop-Vasileva

Acknowledgments

We would like to express our thankfulness to all interview participants for their commitment to participating in the study. A sincere thank you to our supervisor, Aleksandra, for her insightful advice and support. Ultimately, a big thank you to the participants in our supervision group for their great inputs and discussions.

Table of Contents

1. Introduction

1.1 Background

The venture capital (VC) ecosystem plays a significant role in shaping the development of entrepreneurial firms. However, previous research has largely overlooked that female-led entrepreneurial firms may face different challenges compared to their male-led counterparts, especially regarding the involvement and governance of their VC investors (Frankenreiter et. al, 2024). Among the challenges, research shows that female entrepreneurs face more significant barriers when seeking venture capital funding than males, with gender biases playing a role in both the amount of funding received and the conditions under which it is granted (Brush et. al, 2017). These barriers not only affect access but could also extend to post-investment interactions and corporate governance (CG), which may impact the long-term growth and decision-making autonomy of these firms, potentially perpetuating gender disparities (Marlow et al., 2005).

A growing body of research has examined the gender disparities in entrepreneurship and venture capital funding, going back to the early 2000's. Basic and general studies such as Brush et. al (2003), say that female entrepreneurs often face challenges in securing VC funding due to perceived systemic gender bias, with many VCs perceiving female-led firms as higher-risk investments. Other studies, such as Coleman & Robb (2012) further support this by showing that women-owned businesses are underrepresented in high-growth sectors in high-growth sectors, which are traditionally more attractive to VCs. However, this has been counteracted and contradicted by other, more recent studies, such as Cerqueti et al., (2020) where it is concluded from their data that a lack of success for female-led entrepreneurial firms can be less attributed to the biological condition of being a female, but rather it is a motivation towards the business that mediates the relationship between sex and the success of a new firm.

Research on the broader role of VCs and their governance in entrepreneurial ventures emphasizes that VCs play a critical role in providing strategic guidance, governance, and network access (Gompers et. al, 2001). The hands-on involvement of VCs in entrepreneurial firms has been credited with accelerating the success of many startups, though the paper also points out that the intense level of oversight can vary depending on the firm's characteristics, including the gender of its leadership. Other peer-reviewed papers provide an empirical analysis of gender disparities in startup financing and control (Frankenreiter et. al, 2024). Their research highlights that female-led firms are often subjected to more intense scrutiny and control from VC investors compared to their male-led counterparts. They further argue that VCs tend to apply stricter monitoring mechanisms and place more conditions on female entrepreneurs, often resulting in higher expectations and less autonomy for female-led firms.

1.2 Research Question

The present study aims to provide an in-depth qualitative understanding of CG in a VC context in relation to a gendered entrepreneurial perspective. More specifically, understanding the underlying mechanisms of governance as exercised between the two parties. Thus, the research question follows as:

How is the gender of entrepreneurs implicated in the Corporate Governance of Startups by Venture Capitalists?

1.3 Contributions

This thesis addresses the research question by exploring and comparing how gender shapes the CG practices employed by VCs in both female and male-led firms, by providing a nuanced, qualitative perspective on how gender influences VC involvement, particularly through the lens of corporate governance provisions and contracting/term sheets. By offering a qualitative exploration of female entrepreneurs' experiences, the under-researched area of gender dynamics in venture capital gains a valuable addition to the broader field of VC research. Secondly, the study offers an in-depth exploration of corporate governance mechanisms, specifically within the context of female-led entrepreneurial firms, enriching the established body of CG research. Lastly, this thesis contributes to the discourse on gender disparities in the overarching entrepreneurship field, offering insights into how governance practices may either reinforce or mitigate such inequalities in post-investment interactions between VCs and female entrepreneurs. Addressing this is essential not only for promoting gender equity in entrepreneurship but also for improving the efficiency and fairness of VC governance practices.

1.4 Limitations and Delimitations

The study's delimitations have been assessed to clarify the scope of the research process. Firstly, the data sample consists solely of interviews, drawn from a relatively small sample. Many subjective experiences acknowledged in the study may not necessarily reflect broader trends within the specific research area. Furthermore, the study is geographically constrained to Sweden. Although this allows for a more in-depth analysis of the Swedish industry dynamics, the findings may differ when applied to other geographical contexts, as industry behaviors and dynamics can be influenced by location-specific factors. Ultimately, the study adopts a one-sided perspective of the industry dynamics, as only entrepreneurs and industry experts have been interviewed. This approach was a result of limited access to people from the venture capital side. Including VC investors could potentially have added a greater depth and nuance to the findings, providing a broader view of the relationships and interactions studied. A limitation the study encountered was a lack of willing female interviewees, as many were contacted, but few chose to partake in the study.

2. Literature review

2.1 Venture Capital Industry

Venture Capital (VC) firms play an important role in the startup ecosystem by providing capital to early-stage companies characterized by a high degree of uncertainty. Through the supply of financial resources, VCs receive an equity stake while startups remain private (Gompers & Lerner, 2001). The objective is to yield a return on the investment by supporting the growth of the startups (Gu et al., 2017). To better understand venture capital firms one can study the three pillars of the venture cycle; (1) Fundraising, (2) Investing and (3) Exiting (Gompers & Lerner, 2001).

The first stage of the venture cycle is the fundraising process. To provide financial resources to startups, VC firms raise funds from outside investors, oftentimes called limited partners (LP), such as pension funds or insurance companies (Tykvova, 2017). Consequently, VC firms serve as a financial intermediary between these investors and the portfolio companies. VCs have a clear financial objective to increase the value of the portfolio companies during a finite time frame, normally 5-7 years (Gorman & Sahlman, 1989), to deliver a return to the LP (Tykvova, 2017). A limited partnership agreement, including restrictions and covenants, governs the relationship between VCs and LPs. This can be for example that the VCs are not allowed to invest in fields outside of their expert knowledge (Gompers & Lerner, 2001).

Furthermore, the selection of startups is done during the investing stage and these early-stage companies are associated with a high degree of uncertainty. VCs have different tools to bridge this information asymmetry gap, such as performing due diligence before investment (Silva, 2004) which ends with the proposed term sheet to a portfolio company. A match between a VC and a potential startup is also influenced by the entrepreneur's willingness to accept specific contractual provisions stipulated in the term sheet (Tykvová, 2017; Bushman et al. 2004). These term sheets clearly outline specific allocations, for example, valuation of the startup, equity rights, and liquidation rights (Kaplan et al., 2007). In addition to this, VCs may choose to employ stage financing in accordance with reaching certain targets/KPIs before exiting and joining the startup's board of directors (Gompers & Lerner, 2001). A study on the activities performed in the managerial phase by venture capitalists in Sweden specifically, found that joining the startup’s board of directors is the most common tool to manage portfolio companies for Swedish VCs is by using the board (Bryman & Cederberg, 2003).

VC investors have a clear financial objective of maximizing the return on their investments by selling their equity in the portfolio companies via an exit (Tykvová, 2017). By liquidating their equity stake the VC can realize and deliver a return to the LPs. The VC firm in turn keeps a specified carried interest of the realized profits, also termed dividends in this ecosystem (Flor & Grell, 2013). Numerous studies suggest that the most profitable exit is by an Initial Public Offering (Tykvová, 2017; Gompers & Lerner, 2001), yet other favorable exit routes are trade sales, by selling the equity to a larger industrial firm or secondary sale when selling the company to another VC firm, which is more likely in smaller deals/startups (Tykvová, 2017).

2.2 Corporate Governance Provisions in Venture Capital

Corporate governance has increasingly become a critical factor in determining a company’s success or failure in recent years, as global accounting regulatory changes continue to shape business practices and expectations (Desender et al., 2020). As this has occurred, corporate governance has gained wider application, with many additional factors beneath the “Corporate Governance” umbrella (SAGE, 2012). Due to this, it is important to narrow our analysis to the VC environment to improve the application and understanding of our findings (Armstrong et al. 2010; Brinkley & Zimmerman, 2010). The definition employed in this study is as follows; “Corporate Governance is the set of processes, relationships, and mechanisms used to manage and oversee the operations of a venture-backed company. This governance is primarily concerned with key areas like valuation, equity holdings, and board representation to ensure alignment between investor interests and the company’s growth objectives.” The basis of this definition of CG is accountability, through the use of different provisions, so that each of the constituents can be held accountable for their actions within the organization and transactional relationship (Brennan & Solomon, 2008).

In the context of venture capital (VC), two essential concerns drive the structure of CG mechanisms: Hidden action and Hidden Information (Amit et. al, 1998). Hidden information refers to the entrepreneur's knowledge advantage over the venture capitalist, such as knowing the true potential or risks of the business. This arises due to the incentive of the informed party to purposely misinterpret information. Hidden action, on the other hand, occurs when the entrepreneur, after receiving investment, might take actions that are not directly observable by the VC but could affect the venture's outcomes**.** These asymmetries are prevalent in all investment contexts, but are particularly acute in entrepreneurial finance, necessitating strong contractual frameworks in the VC industry (Fluck et al., 2005) VC firms, therefore, exist partly to mitigate these risks through governance, robust financial contracts, and active oversight (Wright and Robbie, 1996).

However, research shows that these financial contracts between VCs and entrepreneurs often favor the VC at the portfolio company's expense (Admati et al., 1994; Falconer, 2012). These contracts are dynamic in nature, evolving to address uncertainties and changing performance metrics based on milestone achievements or revenue growth (Rosenbusch et al., 2013). Initial agreements typically serve as starting points, with terms from the term sheet being renegotiated as circumstances change. For instance, if a startup underperforms, VCs may renegotiate control and equity within the startup, increase board representation, or add financial governance measures to protect their investment. Alternatively, if the startup exceeds expectations, entrepreneurs may seek more autonomy, reducing the VC's direct control.

Financial provisions are a cornerstone of robust venture capital (VC) contracts, primarily because they incentivize both venture capitalists and entrepreneurs. These provisions are designed to ensure VCs and LPs achieve returns, even when startups fall short of financial success (Bergemann & Hege, 1998). Moreover, they motivate founders by structuring ownership and payouts in ways that encourage long-term commitment to the company (Utset, 2012). Importantly, financial provisions also offer exit strategies, enabling both parties to benefit from financial gain at various stages of the company's growth and allow for new competencies to enter and guide the firm.

Central to these financial provisions is the valuation agreed upon in the contract signed by both parties. Valuation, defined as "the process of determining the economic value of a startup or early-stage company" (Gompers et al., 2020; Falconer, 2012), is more than just a number; it is the critical first step that influences subsequent financial and governance mechanisms. Higher valuations typically favor founder control by requiring less equity to be issued to investors, which in turn reduces the impact of protective provisions. In contrast, lower valuations often necessitate stringent protections for venture capitalists, as they seek to improve valuation before making an exit, shaping governance models that are more investor-dominant (Bengtsson & Bernhardt, 2014). With the agreed-upon valuation, equity holdings are also agreed upon. The most common type of equity within the industry when investing in early-stage startups is Convertible Preferred equity, as it offers a balance of downside protection, with the flexibility to participate in future upside.

As early-stage startups are inherently risky, with unproven business models and uncertain cash flows, convertible preferred equity best mitigates this risk and offers protection by providing VCs with a liquidation preference and protections, ensuring they recover their investment, or a multiple of it, before common shareholders in the event of a sale, liquidation, or bankruptcy. One such protection is anti-dilution provisions, which shield VC investors from ownership dilution during subsequent funding rounds at lower valuations (Broughman & Fried, 2010). These provisions generally fall into two categories: full ratchet and weighted average. Full ratchet provisions adjust the investor's initial purchase price to match the price of new shares, offering maximum protection to investors but significantly diluting other shareholders, including founders and employees. Conversely, weighted average provisions distribute the effects of dilution more equitably by accounting for both the share price and the number of new shares issued, promoting a more collaborative approach (Bengtsson, 2011). Startups with lower valuations and higher risk often face pressure from VCs to include full ratchet provisions, but such aggressive terms may deter future investors due to potential conflicts over equity and perceived unfairness (Hanke & Pötzelberger, 2003). By contrast, balanced protections can foster cooperation among stakeholders—founders, angels, and VCs—promoting sustainable growth (Bengtsson & Bernhardt, 2014).

Profit participation, defined as "the VC investors' right to receive a share of the profits generated by the firm they invest in," is another key feature of VC contracts. This participation is often achieved through mechanisms such as carried interest or triggers tied to specific financial milestones (Tyebjee and Bruno, 1984).

This allocation of equity and profit participation rights, while safeguarding VC interests, can have unintended consequences for entrepreneurs. By reducing the founder's ownership stake, such arrangements may diminish the entrepreneur's motivation to align with long-term investor expectations, particularly if they feel inadequately rewarded for their risks (Kaplan & Strömberg, 2003). Furthermore, profit participation provisions can create pressure for early exits, compelling startups to prioritize short-term liquidity or profitability over sustained growth (Black & Gilson, 1998).

Research suggests that there is an optimal equity distribution that maximizes a startup's success. For example, an equity share of approximately 7% for VCs—without excessive participation rights or governance control—has been shown to optimize startup value. However, in practice, VCs frequently secure up to 24% of the startup's value through equity and participation rights, which transfers a disproportionate share of value to investors (Ewens et al., 2018). This imbalance can dilute the founder's stake and potentially reduce their effort in advancing the company's goals (Kaplan & Strömberg, 2004). Mechanisms such as 'pay-to-play' provisions have been introduced to encourage VCs to continue funding startups in future rounds. Yet, even these safeguards can be strategically leveraged by VCs to further tilt the scales in their favor, sometimes at the expense of the startup's prospects (Da Rin et al., 2013).

Non-financial provisions, such as board representation, are considered to be just as important as financial provisions when considering corporate governance in the VC sector. Venture capital firms often provide value beyond financial capital by offering strategic guidance, technical advice, and assistance in recruiting key personnel (Bygrave & Timmons, 1992). These services are expected to align the objectives of entrepreneurs and venture capitalists, but they can also be a source of tension, particularly when it comes to management composition. VCs commonly retain disadvantaged rights through their control of the board, leveraging voting rights and explicit clauses within shareholder agreements (Gompers, 1995). These agreements also often include provisions around equity vesting, where entrepreneurs can forfeit unvested shares or see vested shares repurchased at cost upon termination. This creates an environment where VCs can enforce significant control. This is very apparent when discussing the composition of top management, especially regarding the resignation of the founder for the benefit of the company as a whole, as the capitalists may fear they are acting in their interest, rather than that of the company (Gorman et al, 1989).

Research reveals that in the first 20 months of a company's life, there is a 10% likelihood that a non-founder CEO will be appointed, which rises to over 80% by the 80-month mark (Wasserman, 2003). The strategic need for professional management is often cited as the rationale, as VCs say professional CEOs are better suited to navigate the complexities of scaling a business, particularly in high-stakes industries like technology, which are the largest sub-industry in the Swedish ecosystem (Rosenstein & Wyatt, 1997). While control rights are essential for fostering company growth and protecting VC investments, they often come at the expense of founder autonomy and can perpetuate power imbalances within the company (Gompers, 1995).

In addition to control rights, board representation offers VCs another powerful tool to influence decision-making. Serving on the board allows VCs to take a more formal, direct role in guiding a company's strategic direction. Many studies have explored the impact of VC control on a portfolio company's financial performance, emphasizing the significance of board independence. However, the effects of VCs securing board memberships have been less researched, even though this practice can further exacerbate the power asymmetries between investors and entrepreneurs (Lerner, 1995).

By VCs maintaining oversight through the use of board membership in portfolio companies, they can curb management's opportunistic behavior, thereby addressing moral hazard and adverse selection problems between internal managers and external investors (Kaplan & Strömberg, 2003). VCs' presence on the board of directors is often highly valued by CEOs themselves, who appreciate their contribution more than that of other board members, especially in terms of effort and practical guidance (Rosenstein & Wyatt, 1997). This hands-on involvement from VCs not only alleviates concerns from external investors but also boosts the firm's growth potential (Chahine & Goergen, 2012). VCs are often seen as certifiers of quality, which can significantly increase a company's market valuation and overall attractiveness in the eyes of investors (Megginson & Weiss, 1991).

However, the influence of VCs is not always unequivocally positive, as their influence may also be self-serving. By leveraging their board representation and power, they sometimes push for decisions that prioritize short-term gains, such as making a company public prematurely. This "grandstanding" helps VCs improve their track record for future investments (Gompers, 1996).

2.3 Gender Homophily

Homophily refers to the phenomenon where individuals' social networks tend to be composed of people with similar sociodemographic, behavioral, and interpersonal characteristics. This inclination to associate with similar others is strongly tied to social identity theory, which posits that a person's self-concept is partly derived from perceived membership in a social group (Tajfel & Turner, 1986). In these groups, individuals create in-group and out-group distinctions, often favoring those who share their social identity while perceiving others as part of an out-group (Hogg & Terry, 2000). It is important to recognize, however, that while stereotypes may be used to generalize about group members, these assumptions rarely apply uniformly to all individuals within the group (Fiske, 1998).

Gender-based homophily is a well-established, specific form of homophily where individuals demonstrate a preference for associating with others of the same gender. This tendency can influence various social and professional dynamics by reinforcing gender-based in-groups and out-groups, especially in environments with historical or structural gender imbalances. In corporate settings, gender homophily often results in men forming predominantly male networks, while women are more likely to network with other women. These patterns contribute to the clustering of similar gendered individuals within specific groups or roles, affecting organizational power structures and communication flows (Ibarra, 1992; Ridgeway, 2011).

Research indicates that gender homophily can contribute to gender inequality in several ways. In male-dominated industries, for example, male homophily can limit access for women to influential networks, mentorship, and key career-advancing opportunities (McPherson et al., 2001). Homophily also impacts hiring practices and team dynamics, often leading to homogenous groups that share similar perspectives and backgrounds (Ely, 1994). For example, 30% of European women work in health, education, and social work, whilst only 8% of men do so (European Commission, 2019). The same report revealed that almost 30% of men in Europe work in science, engineering, technology, and mathematics, compared to only 7% of working women.

Building on the understanding of homophily and its impact in the venture capital (VC) and finance sectors, gender-based homophily manifests particularly in male-dominated settings, where male venture capitalists and executives often prefer to network with other men. This preference limits diversity in leadership and decision-making bodies, as male executives may prioritize peers within their gendered network, thus reinforcing male dominance in these roles (Greenberg & Mollick, 2017). This cycle of male homophily can create 'feedback loops' that reinforce stereotypical assumptions of the female gender, such as they are riskier, more erratic, etc. (Brush et al., 2018).

Research also supports the notion that VCs often favor entrepreneurs with similar characteristics to their own, resulting in decision-making biases that favor male founders over female founders. In investment scenarios, homophily can drive male investors to feel more affinity towards male entrepreneurs, making it harder for women to secure funding even when their ideas are equally innovative (Alsos & Ljunggren, 2017; Ruef et al., 2003). Notably, findings by Snellman and Solal (2023) suggest that pitches by female entrepreneurs are often rated lower than those by men, even when all other factors are equal.

The study Sex and Startups by Frankenreiter, Gillis, and Talley (2024) sheds light on the complex gender dynamics within VC-backed startups, revealing that female founders frequently face more restrictive governance structures compared to their male counterparts. This discrepancy often manifests in tighter terms related to dividend policies and board representation, limiting women's influence in key decision-making processes. Such governance constraints may stem from historical biases within venture capital funding, where male founders have typically held more power and influence. Research indicates that female entrepreneurs often experience less favorable conditions regarding board representation, with studies showing that diverse boards contribute to better performance and innovation (Miller & Triana, 2009).

Tighter governance provisions imposed on female founders could be a reflection of perceived risk, as VCs may view investments in women-led companies as more uncertain. Consequently, tighter financial controls may be implemented to mitigate this risk, restricting cash flow and reinvestment opportunities (Ahl, 2006; Brush et al., 2009). However, while female founders encounter these unique governance challenges, the study found that they may benefit from more favorable profit participation (Frankenreiter et. al, 2024). This suggests a strategic approach by investors to incentivize female entrepreneurs, recognizing the importance of keeping them engaged and motivated within their ventures (Bergemann & Hege, 1998).

3. Method

3.1 Research design

3.1.1 Empirical method

The present study employs a qualitative cross-sectional study approach to analyze the venture capital industry. A cross-sectional study approach was chosen, focusing on capturing different aspects and relationship dynamics between VCs and their portfolio. This has allowed a necessary level of depth from startup founders and industry experts to understand the complexities of the gap, while also having outside perspectives that help us contextualize these happenings and wider industry trends. This allows the scope of the empirical findings to be expanded and allows the observation of potential patterns of governance and control across different cases. A cross-sectional study allows for a balance between depth and breadth, enabling a detailed analysis of each person's experience with VC oversight while also drawing comparisons across cases to highlight broader trends.

3.1.2 Research Path

In the present study, an iterative research approach has been adopted to explore how gender is implicated in venture capital governance in entrepreneurial firms. This approach is well suited to this type of research (Jönsson, 1990), where the complexity of the topic requires continuous refinement and adaptation as new insights emerge. Additionally, this approach enables the research to remain flexible, incorporating new perspectives and emerging trends as they arise. As interviews and research were conducted, previous conclusions were revisited and adjusted to alter the study's direction based on feedback, patterns, or complexities. This continuous cycle allowed for the study to not be static but rather evolve with a deeper understanding of how gender intersects with venture capital governance.

3.1.3 Interview Selection

The cross-sectional studies have been selected based on several criteria being fulfilled. Firstly, all cases must have either been in a founder in a current pitching round, gotten funding from a VC firm, or worked with a VC at some point in their career. Secondly, due to geographical constraints and to allow for a more niche analysis, all companies that the founders or industry experts worked for were based in Sweden. Finally, the founders and experts must be open to discussing gender differences in the Venture Capital and Entrepreneurial industry. The companies involved in the study are of varying sizes, with some having taken in several funding rounds with several VCs, while others have more recently taken on their first VC investment. All companies involved happened to reside within the Tech industry, with varying involvement within the industry.

3.2 Data Collection

3.2.1 Selection of Samples

To answer the research question we have conducted seven in-depth interviews. More specifically, the sample consists of founders who have startup firms operating in Sweden that have taken on VC funding. Seeking to contact and interview as many subjects (both founders and experts) as possible within the industry, all subjects were researched and further contacted using LinkedIn, mail, or connections through SSE. In addition, to compare and contrast implications, firms were in different stages of their development and experts had been involved in the VC industry in different ways.

3.2.2 Interview Setting

In all instances, the candidates were contacted with an introductory message explaining the research broadly, as well as explaining that the interviews would be recorded and transcribed. Most interviews have been conducted online, with one interview being conducted in person at their office. Both authors were present at all interviews, with all interviewees being interviewed individually in a private space, and audio-recorded and transcribed as agreed on an individual basis. Regarding online interviews, video communication links, such as Zoom or Teams, were utilized to mitigate the potential risk of reduced comparability.

3.2.3 Interview Process

The interviews were conducted as semi-structured interviews that amounted to 30-45 minutes each. An interview guide was created to support the interview process and was divided into five sections; Introduction, General VC Entrepreneur Relationship Questions, Corporate Governance Provisions and Their Impact, Gender and its Implication on Corporate Governance, and Concluding Remarks. These questions were then built upon with follow-up questions based on their response to allow further probing and explanation.
The goal was for the interviewee to reflect on their own experiences as well as the broader context of the industry. Furthermore, changes were made constantly to the interview guide throughout the empirical gathering process, to allow and align with the iterative research approach (Jönsson, 1990). In addition, questions were revised depending on the background of the interviewee, and their respective responsibilities in their position.

3.3 Data Analysis

Given the use of an iterative research approach, an initial analysis of the empirical data gathered from each interview was undertaken and discussed within a day of the interview taking place, oftentimes right after the conclusion. This led to revisions and additions to the literature study, as well as altering the interview guide, as aforementioned, highlighting the iterative and constantly changing process that characterized the study. As such, each interview was analyzed on an individual basis and subsequently in relation to other empirical data and relevant previous research.

All interviews were recorded and transcribed, given the consent of all interviewees. These transcriptions have made up the main source of empirical data. The interviewees have also been assigned a code to ensure anonymity, but also reflect the gender of each interviewee (M = Male; F = Female) or the position they hold (E = Expert).

3.4 Research Quality

3.4.1 Reliability

In this context, reliability refers to the robustness of the research procedures and the thoroughness with which the data is documented (Ryan et al., 2002). Overall, the study's reliability is considered to be strong, as the research plan and the nature of the study are viable. In addition to this, the conclusions reached are considered reasonable, given the empirics, literature reviewed, and cases selected. However, three potential issues regarding reliability are identified. First, given the gender makeup of interviewees and their positions, questions that concern gender within the industry may suffer from biased responses, as certain answers may be impacted further by separate factors other than just gender which are difficult to identify. Second, while it aided in providing depth to the study, differing company timelines within the industry may cause recency bias to those who have received funding/interacted with VCs closer to the time that the study was conducted, impacting the severity of certain answers. Finally, it is important to call attention to the inherent subjectivity of qualitative interviews and studies, as it may lead to variations in the analysis and conclusions if the study were to be repeated.

3.4.2 Validity

Validity is defined as the credibility or trustworthiness of a research study (Ryan et al., 2002). In the context of this cross-sectional study, validity involves both internal and external considerations. Internal validity pertains to the accuracy and consistency of the data collected within the specific time frame, while external validity concerns the generalizability of the findings beyond the studied sample. Given the exploratory nature of this cross-sectional research, the primary goal is not to offer broad generalizations but rather to provide a snapshot of how gender intersects with VC governance within the context of the firms examined.

Internal validity presents a potential challenge in all qualitative research, including cross-sectional designs, due to the subjective nature of interview responses and the limited time frame of data collection. To mitigate these risks, several strategies were employed. Data was collected from a diverse range of participants across different roles within the entrepreneurial world, which helps to reduce the bias associated with individual perspectives. Additionally, careful attention was paid to maintaining consistency in the interview process, with the use of a semi-structured interview guide to ensure comparable data across respondents, as well as having both authors present at all the interviews. These measures contribute to enhancing the credibility and coherence of the findings.

Regarding external validity, it is important to acknowledge that the conclusions drawn from this study may be influenced by the specific characteristics of the venture capital ecosystem in which the participating interviewees operate. Factors such as sample size, industry norms, regional variations, and the maturity level of the startups may limit the applicability of these findings to other industries or geographic contexts. Nonetheless, the insights generated from this study serve as an important foundation for future research, providing an initial understanding of gender dynamics in VC governance that can be further explored.

4. Empirical Findings

4.1 Interview Background

Interview Code	Role	Gender
F1	Startup Founder	Female
F2	Startup Founder	Female
M1	Startup Founder	Male
M2	Startup Founder	Male
M3	Startup Founding Chief	Male
E1	Industry Expert	Male
E2	Industry Expert	Male

Table 1: Interviewee table

The table above outlines the interviewees who contributed to the study, categorized by their role within their respective startups or industries, as well as their gender. The interviewees are primarily startup founders, who play central roles in the early-stage venture capital landscape. Founders (designated as F1, F2, etc., for female founders and M1, M2, etc., for male founders) bring first-hand insights into the challenges, strategies, and dynamics involved in securing funding, scaling their startups, and navigating investor relationships.

Additionally, industry experts (E1, E2) and a startup funding chief (M3) provide broader perspectives on venture capital trends and gender dynamics in the startup ecosystem, contributing valuable context to the founders' experiences. Founders within the 25–34 age range represent a significant portion of the sample, reflecting a demographic commonly associated with early-stage entrepreneurship (See 8.2). For this case, the female founders contribute crucial insights into the gender-specific challenges within venture capital, while male founders provide comparative perspectives on the funding process and investor expectations, allowing for a nuanced analysis of gender dynamics in startup funding. The inclusion of industry experts enables an examination of the structural and strategic factors influencing early-stage investment decisions.

4.2 Swedish Venture Capital Industry

The venture capital industry in Sweden is an important component of the Swedish startup ecosystem. VCs fund early-stage startups associated with a high degree of uncertainty and thus they take on a big risk. As one industry expert (E1) explained: "... that type of company would have a very hard time securing funding in any other way". VC-backed startups play an important role in Swedish competitiveness being a small export country, E1 pointed out. They went on to say that the biggest public companies today have been VC-backed:

"If you look at the 25 largest listed companies in the world, many of them today are formally VC-backed companies"

Observing the value of the VC industry and thus its importance for Sweden's economy, we further discussed how the industry is shaped today. M2 discussed the potential consequence that many of the VCs he had interacted with came from an entrepreneurial background and had then decided to work with startup funding, in his words: "Someone who has become very wealthy from building up a company. Now they want to sit on the other side". Furthermore, a recurring theme across interviews was the male-dominated nature of the VC industry. Both founders and industry experts highlighted the lack of female representation both in the funding process and in the aftermath in terms of board representatives (F1; F2; E1; M1-M3). In F2's words, this skewed gender representation could be explained by:

"Because most of the partners at VC firms are men. In order to sit on the board of one of the portfolio companies, you usually need to be quite high up in the VC firm (...) There is a much smaller percentage of women who are partners at VC firms compared to men."

Despite the male-dominated structure, one industry expert (E1) expressed optimism that a shift will likely occur where more females will be represented: "...So when the proportion of women in investment organizations increases, the proportion on boards will also increase with time". However, F2 offered another perspective stating that a significant behavioral change within the industry is needed for this to happen: "But it requires an incredible behavioral shift within the industry, which I don't think they're interested in. I think that's where we've gotten a bit stuck."

Narrowing our focus within the VC industry, we explored the dynamics between investors and entrepreneurs. Personal chemistry and trust were a common denominator among the startup founders to develop a successful relationship with its VCs (F1; F2; M1). One founder (M1) emphasized the informal and personal nature of this relationship:

> "I think personal chemistry is important for having a healthy relationship (...) with VCs, it's a lot about trust, informal dialogues, meeting for coffee, or messaging or calling like you would with a friend. And in those cases, it helps if you feel a connection with the other person."

Personal chemistry is a subjective experience and one entrepreneur (F2) explained it as: "... it's about an incredible, incredible similarity."

The topic of gender often arose as a factor influencing this relationship and personal chemistry. M1 stated an advantage male entrepreneurs may have when pitching to male VCs in comparison to female founders: "I think there's an advantage for a man pitching to another man, in that there's an unwritten psychological aspect where it's easier to gain trust from someone of the same gender". F2 provided an example showcasing potential gender biases among investors and how this can occur in the setting of mixed-gender founding team:

> "If there are both women and men in an investment meeting, the investors often focus more on the man than the woman and may direct their questions to the man, even if he's the CTO and the woman is the CEO."

Another factor influencing the relationship and power dynamics between a VC and an entrepreneur is the exit process. VC firms are fundamentally driven by their financial goal of delivering a return on their investment. M1 described the presence of this objective as:

> "The VC company (...) they want to do what's best for us (...) but ultimately what's best for them. They're looking to get a return on their portfolio, so they naturally want to ensure that we have a cap table that allows them to have all the power and influence the next time we're looking for funding"

Or when formulated by F1, emphasizing the pressure to increase valuation: “But their primary focus is, of course, the money and making sure we raise more funds and ensuring that our valuation grows”.

To secure a financial return VC firms can push startups in a certain direction to become a classic VC case, F1 explained:

> “... they will automatically steer you toward being a certain type of company (...) And if you fall outside of that, they’ll just try to push you into becoming a VC case"

One founder (F2) highlighted a potential difference in governance among VCs depending on the experience they have. Mature investors tend to accept portfolio losses as a natural part of the business model, focusing instead on minimizing efforts into these startups: “..I find that more mature investors understand that 50% of the companies in their portfolio won’t return anything, and that has to be fine”. In contrast, less mature VC firms can try instead to push a non-performing startup, in a certain direction to return as much as possible: “Whereas younger investors might not be as confident (...) maybe trying to save it by pushing the company forward in some way”. This pressure can create tensions between investors and entrepreneurs, in specific when their objectives diverge.

4.3 Corporate Governance Provisions in Swedish Venture Capital Firms

In cooperation with our interviewees, several financial corporate governance provisions were discussed by both genders. These financial governance provisions were underscored to not only influence the financial outcomes of both the entrepreneur and the VC company, but also play a psychological role in how valuations, negotiations, and financial expectations are perceived and executed. It was continually discussed that the valuation that is done and agreed upon shapes investment decisions and subsequent governance structures, making it essentially the first step in the governance process. The empirical data underscores the psychological complexity inherent in these processes. One entrepreneur (M1) describes the delicate balance between projecting confidence and maintaining a credible foundation for the valuation:

> “So, it's about building a ‘castle in the air’ while not just wanting to build a castle in the air—it has to be a real startup underneath the whole time. I think that as a founding team, we were pretty bad at the psychology of building a castle in the air [a projection of the company which you will be] As a consequence, we didn’t raise much money, and not at such a high valuation."

Founders who struggle to align the psychological aspect of valuation with solid business fundamentals risk receiving lower valuations or reduced investor confidence. In some cases, psychological elements like FOMO (fear of missing out) serve as powerful drivers in VC decision-making, as described by M1:

> “You could say the process is a bit unique. There's a lot of psychology involved, and it’s a dance in making them want to call you and not miss out on something everyone else is getting. FOMO is a very strong driving force”

This idea was reinforced by another entrepreneur (F1):

> "Both angels and VCs provide a lot of momentum. That’s what makes the difference. It’s not necessarily about having the absolute best position or the absolute best performance. And that’s why you constantly say you’re about to start a round. Because once you say you’re kicking off a round, everything has to move so damn fast. Otherwise, you lose everyone."

The role of gender in financial governance provisions also emerged as a significant factor. All female founders (F1; F2) reported facing higher expectations for validation when negotiating valuations, especially in technical industries:

“Especially the type of questions you get when talking to other companies. How much more validation do you need for it to be credible [to achieve a reasonable valuation]? Especially if you're a female founder of a tech company and you're not the one who is the tech person yourself.” (F1)

This contrasts with male founders, who are often presumed to possess technical competence regardless of their actual role or expertise within the startup. All male startup founders (M1-M3) agreed that the valuation they got when signing their contract was a reasonable one. One female founder (F2) reflected on this:

“Female founders sometimes feel that they are much more cautious, thinking that there must be a lot of logic in the valuation. It feels like there are fewer male founders who think that way.”

These biases continued to influence financial governance decisions, particularly in pricing strategies and equity allocation. Female investors reportedly anchor prices more conservatively than their male counterparts:

“I can feel that male investors (...) may have anchored a price or valuation that is much higher than what others might set. Whereas women anchor much lower than we would set.” (F2)

This suggests a broader psychological disparity in risk tolerance and valuation confidence between male and female investors. Male investors are described as more willing to endorse higher valuations, even when these may lack robust justification:

“They're (women) not going to raise the price of the stock because they can't stand behind it. Whereas men, in a completely different way, feel comfortable standing behind a price that is quite high." (F2)

It was underscored in our interviews that higher valuation allows founders to retain more control by minimizing dilution, as the VC's stake represents a smaller portion of the company. Conversely, a lower valuation leads to greater dilution for the founders but gives the VC a larger equity share. One entrepreneur (M2) delved into this when asked about the future of the company with its VC and its role on the psyche:

"Or are we just doing this [contractual relationship] because you want to try to exit within 5-7 years? If I can take a slightly longer route and significantly lower the risk, I will probably take it. I will still take some risk and try to grow the company."

The valuation also affects liquidation preferences, determining how profits are distributed during an exit if a VC decides to do so. A higher valuation requires a larger exit to generate significant returns for the VC, while a lower valuation may make exits easier but provide smaller returns. An entrepreneur (F2) elaborated on the process:

"Now, it's still quite a high risk for me to spend a lot of time with this company. And if it sells for (valuation) million, that's a good amount. And then I've done a lot of work. But I get nothing. It has to go up, so the risk is high for me. The most likely exits are from 0 to *Valuation*. Below *Valuation*, it starts to become less and less likely to get anything"

Here the entrepreneur is worried that they will not be able to gain anything from an exit, as the valuation at the time of VC investment was higher than the valuation that the company is currently at. This reflects the broader tensions that characterize the relationships that entrepreneurs have when negotiating valuations with VCs—balancing the desire to retain control with the reality of the financial risks and rewards tied to the company's future valuation. This challenge is further compounded by governance provisions that were agreed to, such as full ratchet anti-dilution clauses, which can significantly dilute a founder's equity if the company's valuation decreases. Ultimately, the valuation sets the stage not only for how ownership is divided but also for the financial risks involved, influencing both the potential for profit and the psychological burden on the founder.

The use of non-financial governance provisions was widely considered to be of extreme importance by nearly all of our interviewees, when regarding both gender issues and governance relationships. Non-financial provisions, which include board representation and control rights, were considered to be key elements of the VC-entrepreneur relationship, shaping the balance of power, influencing trust, and autonomy within portfolio companies. While these provisions are designed to align the goals of both parties, in our interviews, they have also been characterized as possibly perpetuating tension more than financial provisions, especially in decisions involving strategic direction, management, and company operations.

Board representation is seen as a critical governance mechanism for venture capitalists, offering them a formal channel to influence the strategic direction of portfolio companies, but also to entrepreneurs, as it allows for collaboration with experienced advisors who can provide valuable insights and resources to support the company's growth. VCs often prioritize board seats to mitigate agency risks and guide companies through high-stakes decisions. Founders acknowledged the board's role in shaping strategy. For instance:

"They are the ones, through their board mandate, who provide input on the strategy." (M3)

The composition of the board, however, has reflected inherent power asymmetries within the empirical data, with female founders often being outnumbered by male investors, or founders with only one seat for the team, and several for the VCs. In one example, the founder commented (M3): "It is just men who sit on our board today" This lack of diversity extends to attempts to include women, "We searched [for female board members] but all are men.", with all male entrepreneurs (M1-M3) stating this, but all to no avail.

This is indicative of broader structural imbalances within the Swedish VC ecosystem, where male dominance persists among founders and investors, and while there are 'attempts' at including women into a board and other positions of power such as associate and partner at VC, no true momentum has been captured but rather only an increase in performative action:

"If you are lower in the hierarchy at the VC firm, you are much more often a board observer and are perhaps not expected to comment on things but rather to absorb information and take it back to the firm. However, partners sit on the board because they are also the ones with the most experience and are expected to provide the greatest support to the company. There are significantly fewer women than men who are partners at VC firms." (F2)

A separate female entrepreneur (F1) delved into a story where often times, VC firms have quotas that they must reach regarding meeting with female founders, and this oftentimes feels nonsensical, solely being for show, and not out of genuine interest:

“I understand why you're measuring it, but it feels a bit misguided. Many times, I've sat in meetings and felt that this is not good at all. There’s never any match here.”

While these external members add value, the board’s composition can heavily skew towards investor priorities, potentially sidelining founder autonomy. Such dynamics can create a delicate balance between collaboration and control, as founders must navigate relationships with influential board representatives. The importance of maintaining close, day-to-day relations with board members was emphasized:

"Our two largest investors have board seats, so they have a much closer relationship with them." (M3)

This dynamic underscores the dual role of the board as both a resource and a mechanism of oversight.

Trust arose as a foundational factor in determining the level of founder autonomy within VC-backed firms. The empirical data has revealed that VCs often adopt a hands-off approach, relying on founders’ expertise while maintaining a high-level overview:

"They give us quite a lot of freedom." (M1)

This autonomy, however, is contingent on the trust VCs place in the founders, which is often earned over time as one founder (M2) stated: "As they have felt that their trust has been earned, they have perhaps loosened their grip a bit more.” This trust also fosters alignment in strategic vision, reducing conflict:

"There is a strong alignment between the founders and (VC) regarding how the company should be managed." (M3)

However, the extent of VC involvement varies significantly. Some investors take a "spray and pray" approach, dispersing capital widely with minimal interaction: "Their bet is kind of like 'spray and pray,' just throwing out as much money as possible." (F1) While this approach offers founders greater freedom, it can also signal a lack of commitment, potentially undermining the perceived value of the VC's involvement. High engagement, characterized by frequent demands for updates, can signal distrust, as one entrepreneur (F1) had experienced: “The investors have been very involved and wanted a lot of background information." Conversely, disengagement can indicate that a VC has deprioritized the investment: "The most common thing is probably that the investor stops spending time on the company." (F2; E2) This lack of interest can be especially demotivating, as it often reflects a VC's assessment that the company's prospects are poor, knowing that they will get back their investment through financial instruments: "Sometimes they might just tell the entrepreneur that they should lay down (quit)." (F2)

Despite these challenges, our interviewees said that their VCs strike a balance when asked if control was Lenient, Tolerant, or Stringent, with most answering (M1; M3; F2) Tolerant, offering strategic input without overstepping. Founders said that they often benefited from engaged and experienced VCs, as they have highlighted their value in critical areas such as scaling and strategic pivoting, even though at times it can be a large stressor on the company.

The variation in VC involvement reflects broader governance dynamics, where control rights serve as both a safeguard for VCs' investments and a potential constraint on founder independence. The empirical data suggest that the balance of power is nuanced, with VCs exerting significant influence through board representation, trust-based governance, and engagement levels. Ultimately, these provisions shape not only the strategic trajectory of the firm but also the broader governance relationship dynamics between VCs and founders.

5. Analysis

5.1 The Swedish Venture Capital Industry

The venture capital industry is heavily male-dominated as outlined in the empirical findings. Both industry experts and founders highlighted the significant gender imbalance and lack of female representation within the VC industry. Literature on gender-based homophily suggests that these findings may be driven by an inherent bias within the system. The preference for associating with others of the same gender unfolds itself with male investors' tendency to create networks and organizations composed of mostly men. This aligns with Ibarra's (1992) argument that homophily clusters individuals into similar demographic groups, reinforcing gender imbalances in organizational power structures. In this context, male investors' dominance in VC firms not only perpetuates their presence within top positions but also limits women's access to influential networks and critical decision-making roles, as seen in the empirical data. In turn, male investors have a better opportunity to work as VC partners and consequently get involved in board structures working closely with startups. This potentially causes a "feedback loop" that enacts itself by most investors being men which causes male-dominated investor networks. As Greenberg & Mollick (2017) highlight, such feedback loops reinforce the perception of male entrepreneurs as more "trustworthy" and "competent," further marginalizing female founders from accessing critical growth opportunities through better governance provisions. This is continuously upheld by male investors, knowingly or unknowingly, prioritizing male entrepreneurs which increases the gender disparity further. For example, one founder (F2) noted that in mixed-gender founding teams, investors often focus more on the male co-founder, even when the female co-founder holds a higher executive position such as CEO. This behavior reflects deeply ingrained biases linked to gender homophily, where male investors may unconsciously associate leadership and technical expertise with male founders. Female entrepreneurs will continue to face barriers to accessing the same opportunities as their male counterparts on the condition that VC firms remain male-dominated.

The empirical findings show that building trust and personal connection is important for a successful entrepreneur and VC investor relationship. The concept of gender homophily can complicate these relationships with a direct influence over the dynamics in the relationship-building process between founders and their VC investors. This can be illustrated by male VC investors being more likely to identify and build trust with male entrepreneurs, consciously or unconsciously favoring them (Alsos & Ljunggren, 2017; Ruef et al., 2003). One male founder (M1) emphasized this advantage, noting that “an unwritten psychological aspect where it’s easier to gain trust from someone of the same gender." This sentiment reflects the broader literature suggesting that male entrepreneurs benefit from shared social identities with male investors, who may perceive them as more relatable and aligned with their expectations of leadership and business acumen (Tajfel & Turner, 1986). This systematic gender bias may suggest that females are at a disadvantage in the process of building trust and personal chemistry, outlined as the most important factors of an effective partnership between the entrepreneur and VC investor.

Additionally, the empirical data indicates that this gendered trust dynamic extends beyond initial funding and into governance practices. For instance, female founders may encounter more restrictive governance structures, as highlighted by Frankenreiter et al. (2024). One founder (F1) shared that VC firms often attempt to steer startups toward becoming "a certain type of company" with certain provisions that align with traditional VC investment models, which may be less accommodating of diverse leadership styles or business approaches often adopted by female entrepreneurs. This finding underscores the role of VCs in shaping the strategic direction of startups, potentially sidelining women-led ventures that deviate from conventional norms of high-risk, high-growth business models favored in the industry.

Moreover, the empirical insight that mature VC investors may accept portfolio losses, while younger investors exert pressure on startups to deliver returns, offers another layer to this dynamic. Female founders, perceived as higher-risk due to gendered biases, may experience disproportionate pressure from less experienced investors seeking to salvage their investments. This can strain the investor-founder relationship, particularly when the founder’s vision for the company conflicts with the investor’s short-term financial objectives, which often characterizes younger investors. Such tensions not only influence governance decisions but also affect long-term growth and the entrepreneurial autonomy of female founders, reinforcing the structural disadvantages they face in the VC ecosystem.

5.2 Corporate Governance Provisions in Venture Capital

Valuation serves as the foundation of financial governance provisions, shaping the subsequent dynamics of investor control and founder equity. However, the empirics reveal a significant gendered dimension in how valuation processes unfold. Female founders often face heightened scrutiny, requiring extensive validation to justify their valuations, particularly in technical fields where gender biases are pronounced, such as the SaaS and tech fields. Male investors, who dominate the VC landscape, often exhibit greater trust and affinity toward male founders, perceiving them as inherently more competent or credible in technical roles. This dynamic highlights the persistent gender homophily within the industry, where shared gender identity facilitates smoother negotiation processes for male founders. For instance, male founders are presumed capable, receiving valuations that align with their projections without extensive interrogation, the empirics revealed. In contrast, female founders must overcome stereotypes and demonstrate more evidence to gain similar trust in their valuations. These biases not only affect initial valuations but also have long-term implications for governance dynamics, as lower valuations can limit female founders' influence in decision-making.

This disparity reflects the perpetuation of psychological and structural barriers, especially pertaining to gender homophily within the ecosystem, where shared gender identity fosters trust and eases negotiation dynamics for male founders but leaves female founders at a disadvantage. Empirically, this manifests in male investors being more willing to endorse higher valuations based on less robust justifications, driven in part by their own perception of having ‘greater risk tolerance’. Male investors’ comfort with these inflated valuations may stem from their confidence in navigating familiar homophilic networks. Conversely, female investors, who lack the psychological reinforcement of homophily in male-dominated spaces, tend to anchor valuations more conservatively, reflecting a more cautious approach. This cautious approach, while often perceived as prudent, can further reinforce the perception that female investors are less confident or risk-tolerant, perpetuating existing biases.

Anti-dilution provisions, particularly full ratchet clauses, exacerbate equity dilution for founders when valuations decrease. For female founders, this issue is compounded by the valuation challenges described above. Lower initial valuations not only often dilute ownership more significantly, but also signal a lack of confidence, which can further influence governance provisions to be more investor-centric. Such clauses disproportionately affect female founders by amplifying the financial consequences of initial valuation disparities, creating a cycle of reduced influence and diminished negotiating power. Empirics revealed that male VCs may feel greater confidence in negotiating softer terms with male founders due to perceived alignment in values and shared risk appetites. Female founders, often navigating a trust deficit, encounter stricter anti-dilution protections, reflecting investor biases about their ability to meet growth expectations. This dynamic is further compounded by perceptions that female investors do not enter growth sectors, aligning with literature such as that written by Kanze et. al., (2018). Consequently, female founders are often forced to concede more control to VCs, further eroding their autonomy within governance structures. This dynamic further fosters trust and collaboration among similar identities while imposing stricter oversight on perceived "out-group" founders.

Board representation and other non-financial provisions are widely regarded as a central governance tool in venture capital. The literature identifies it as a mechanism that provides both strategic input and oversight, enabling VCs to influence critical decisions within portfolio companies (Gompers, 1995; Lerner, 1995). However, the empirical data highlights that board composition often reflects the same gender biases present in valuation and financial provision processes, with male-dominated boards reinforcing male-centric decision-making norms. This is evident when board seats are considered essential for offering not just financial support but also strategic guidance, which is often key to the growth of a company. However, the empirical data also highlights the challenges faced by founders in navigating the power dynamics associated with board representation. In particular, board compositions often reflect power imbalances, particularly when the interests of investors dominate those of the founders. This is especially noticeable in situations where there is a disparity in board seat allocation, with investors outnumbering entrepreneurs, leading to a lack of balance in decision-making. Emprics showed that these power imbalances often limit the founder’s ability to maintain autonomy in the face of investor priorities. The lack of female representation on boards further exacerbates this imbalance, creating an environment where female founders’ perspectives are underrepresented in critical strategic decisions.

Literature further suggests that VCs exert significant influence over key decisions related to scaling, product development, and business pivots, which are all critical to a startup’s success (Gompers, 1996; Megginson & Weiss, 1991). The empirical data supports this, showing that some founders found this unbalanced relationship to be permissible, acknowledging the importance of VC input in guiding strategic decisions, particularly when it comes to navigating complex growth challenges. However, the empirical data reveals that there is a systemic lack of diversity in boardrooms who make decisions regarding strategy in growth periods. The empirics revealed that this often made female founders feel taken advantage of, as in industries and product markets that specifically target women, founding women often felt like the VC did not fully understand the appeal and customer base to which they are trying to grow. And despite efforts to include female board members, these attempts are often seen as tokenistic and superficial, leading to limited genuine changes in the gender composition of boards. This often led female entrepreneurs to often feel even further 'sidelined' and felt that this often reinforced existing power structures which continue the homophilic nature of the industry.

The governance dynamics within VC-backed firms are influenced by a complex interplay of trust, strategic control, and power asymmetries. While VCs provide valuable guidance and resources, their influence often comes at the expense of founder autonomy, particularly for female entrepreneurs who must navigate a male-dominated industry. Gender homophily plays a significant role in reinforcing these power imbalances, limiting the opportunities available to women and hindering their ability to assert influence within the governance structures of their companies. To create a more inclusive VC ecosystem, it is essential to move beyond tokenistic diversity efforts and address the underlying structural barriers that perpetuate gender inequality. By fostering more inclusive networks and promoting genuine diversity in leadership positions, the VC industry can empower female entrepreneurs and create a more equitable environment for all.

6. Conclusion

6.1 Discussion and Summary

Previous research on VC governance (Kaplan & Strömberg, 2003; Gompers, 1995; Lerner, 1995) has highlighted the importance of formal corporate governance mechanisms such as board control, the valuation processes, and anti-dilution provisions in the structuring of the relationship between Venture Capital investors and start-up entrepreneurs. However, this research has largely overlooked the role of gender dynamics and particularly the impact of gender homophily, in shaping these corporate governance practices. The present study aimed to provide a deeper understanding of how gender influences corporate governance within the context of VC-backed startups through a qualitative empirical study. Drawing on the concept of gender homophily (Ibarra, 1992; Ridgeway, 2011) and empirical findings from founders and industry experts, this study revealed three key insights into the gendered nature of VC governance.

Firstly, gender-based homophily was found to significantly influence trust-building and valuation processes, with male investors, who are most often partners at VCs, often demonstrating a greater propensity to trust male entrepreneurs and give them more favorable terms when relating to governance provisions. Secondly, the governance provisions applied to female founders were notably more restrictive in certain instances than their male counterparts, reflecting a lack of trust and heightened scrutiny compared to their male counterparts. Lastly, the study uncovered that governance dynamics extend beyond formal structures, as female founders often experienced informal, yet consequential, power imbalances that limited their autonomy and decision-making capacity within the startup.

Throughout the study, conventional CG literature in the context of VC (Hellmann, 1998; Sahlman,1990) was both confirmed and contradicted. The primary reason for these contradictions appears to be the literature's sole reliance on governance being shaped predominantly by concerns over risk and return, rather than recognizing the implications of social identities and biases that are seeped into VC networks. While formal governance control mechanisms such as board oversight and financial controls were present and of high importance, the study found that informal dynamics related to trust and gender homophily played a significant role. These findings challenge the traditional view that governance is solely a matter of financial monitoring and highlight the gendered nuances in trust-building processes.

In conclusion, this study contributes to the growing literature on gender within the VC industry, while providing a perspective that deepens the understanding of the research gap of how gender influences governance structures and investor-founder dynamics. The deviations from previous research, such as Kaplan and Stromberg, indicate that governance in the context of VC-backed startups is far more impacted by social and psychological factors than previously researched. This study highlights the need for more nuanced approaches to corporate governance research in venture capital–one that accounts for the gendered dimensions of trust, power, decision-making, samples a larger pool, and includes the perspectives of VCs- and calls into question the adequacy of existing governance frameworks in fostering equitable and inclusive entrepreneurial ecosystems.

6.2 Implications for Future Research

The currently narrow range of research of genders implication on corporate governance practices in the aftermath of VC funding opens up further research opportunities within the area. The conclusions presented have pointed towards that gender influences corporate governance practices and shapes the relationship between VC investors and entrepreneurs. In particular, the concept of homophily was found to play an important role in shaping the investor-investee relationship. Being something that occurs unconsciously or consciously points towards the need for surfacing such hidden issues through restructuring and further research. It is thus advisable for future researchers to further explore the influence of gender in corporate governance practices and investor-investee dynamics, using both a qualitative and quantitative lens.

7. Reference

Printed Sources

Admati, Anat, and Paul Pfleiderer. “Robust Financial Contracting and the Role of Venture Capitalists.” *The Journal of Finance*, vol. 49, no. 2, 1994, pp. 371-402. *JSTOR*.

Ahl, Helene. “Why Research on Women Entrepreneurs Needs New Directions.” *Entrepreneurship Theory and Practice*, vol. 30, no. 5, 2006, pp. 595-621. *EBSCO*.

Alsos, Gry, and Elisabet Ljunggren. “The Role of Gender in Entrepreneur-Investor Relationships: A Signaling Theory Approach.” *Entrepreneurship Theory and Practice*, vol. 41, no. 4, 2017, pp. 567-590. *Sage.*

Amit, Raphael, et al. “Why do venture capital firms exist? Theory and Canadian evidence.” *Journal of Business Venturing*, vol. 13, no. 6, 1998, pp. 441-466. *ScienceDirect*.

Armstrong, C., Guay, W. and Weber, J. (2010). The Role of Information and Financial Reporting in Corporate Governance and Debt Contracting. *Journal of Accounting & Economics*, 50(1), pp.179-234.

Bengtsson, Ola. “Covenants in venture capital contracts.” *Management Science*, vol. 57, no. 11, 2011, pp. 1926-1943. *JSTOR*.

Bengtsson, Ola, and Dan Bernhardt. “Different Problem, Same Solution: Contract-Specialization in Venture Capital.” *Journal of Economics and Management Strategy*, vol. 23, no. 2, 2014, pp. 396-426. *JSTOR*.

Bergemann, Dirk, and Ulrich Hege. “Venture capital financing, moral hazard, and learning.” *Journal of Banking & Finance*, vol. 22, no. 6-8, 1998, pp. 703-735. *ScienceDirect*.

Black, Bernard, and Ronald Gilson. “Venture capital and the structure of capital markets: banks versus stock markets.” *Journal of Financial Economics*, vol. 47, no. 3, 1998, pp. 243-277. *ScienceDirect*.

Brennan, Niamh, and Jill Solomon. “Corporate governance, accountability and mechanisms of accountability: an overview.” *Accounting, Auditing, & Accountability*, vol. 21, no. 7, 2008, pp. 885-906. ProQuest.

Brickley, J. and Zimmerman, J. (2010). Corporate governance myths: Comments on Armstrong, Guay, and Weber. *Journal of Accounting and Economics*, 50(2-3), pp.235-245.

Broughman, Brian, and Jesse Fried. “Renegotiation of cash flow rights in the sale of VC-backed firms.” *Journal of Financial Economics*, vol. 95, no. 3, 2010, pp. 384-399. *Elsevier*.

Brush, Candida, et al. “A Gender-Aware Framework for Women's Entrepreneurship.” *International Journal of Gender and Entrepreneurship*, vol. 1, no. 1, 2009, pp. 8-24. *ProQuest*.

Brush, Candida, et al. “The Influence of Human Capital Factors and Context on Women's Entrepreneurship: Which Matters More?” *Journal of Business Venturing Insights*, vol. 8, no. 1, 2017, pp. 105-113. *ScienceDirect*.

Brush, Candida, et al. “Venture capital access: Is gender an issue?” *The Emergence of Entrepreneurship Policy: Governance, Start-Ups, and Growth in the U.S. Knowledge Economy*, Cambridge University Press, 2003, pp. 141-154.

Bryman, Martin, et al. “Activities performed by venture capitalists in their portfolio companies – a comparison between Silicon Valley and Sweden.” *International journal of entrepreneurship and innovation management*, vol. 3, no. 1, 2003, pp. 585-608.

Bushman, Robert, et al. “Financial Accounting Information, Organizational Complexity and Corporate Governance Systems.” *Journal of Accounting & Economics*, vol. 37, no. 2, 2004, pp. 167-201. Elsevier.

Bygrave, William D., and Jeffry A. Timmons. *Venture Capital at the Crossroads*. Harvard Business School Press, 1992, Harvard Business Review.

Cerqueti, Roy, et al. “Teams in new ventures: gender, human capital, and motivation.” *International Journal of Gender and Entrepreneurship*, vol. 12, no. 2, 2020, pp. 145-171. *Emerald insights*.

Chahine, Salim, and Marc Goergen. “VC Board Representation and Performance of US IPOs.” *Journal of Business Finance & Accounting*, vol. 38, no. 3-4, 2011, pp. 413-445. *Wiley*.

Coleman, Susan, and Alicia Robb. “Gender-based firm performance differences in the United States: Examining the roles of financial capital and motivations.” *Global Women's Entrepreneurship Research: Diverse Settings, Questions, and Approaches*, Edward Elgar, 2012.

Da Rin, Marco. “A Survey of Venture Capital Research.” *Handbook of the Economics of Finance Set*, edited by Thomas Hellmann and Manju Puri, vol. 2, North Holland, 2013, pp. 573-648. *ScienceDirect*.

Desender, Kurt, et al. “Corporate social responsibility and cost of financing—The importance of the international corporate governance system.” *Corporate Governance*, vol. 28, no. 3, 2020, pp. 207-234. *EBSCO*.

Ely, Robin. “The effects of organizational demographics and social identity on relationships among professional women.” *Administrative Science Quarterly*, vol. 39, no. 2, 1994, pp. 203-238.

Ewens, Micheal, et al. “Cost of experimentation and the evolution of venture capital.” *Journal of Financial Economics*, vol. 128, no. 3, 2018, pp. 422-442. *ScienceDirect*.

Falconer, Mitchell, et al. “Post Investment Demand for Accounting Information by Venture Capitalists.” *Accounting and Business Research*, vol. 25, no. 99, 2012, pp. 186-196. Taylor and Francis.

Fiske, S.T. “Stereotyping, prejudice, and discrimination.” *The Handbook of Social Psychology*, vol. 4, no. 1, 1998, pp. 357-411. *APA PsycNet*.

Flor, Christian, and Kevin Grell. “Venture capital budgeting — Carry and correlation.” *Journal of Corporate Finance*, vol. 21, no. 1, 2013, pp. 216-234. *ScienceDirect*.

Fluck, Zuzsanna, et al. Venture Capital Contracting and Syndication: *An Experiment in Computational Corporate Finance*. Cambridge, Mass. National Bureau of Economic Research, 2005.

Frankenreiter, Jens, et al. “Sex & Startups.” *European Corporate Governance Institute*, vol. 1, no. 759, 2024, p. 63. *SSRN*.

Gifford, Sharon. “Limited attention and the role of the venture capitalist.” *Journal of Business Venturing*, vol. 12, no. 6, 1997, pp. 459-482. *ScienceDirect*.

Gompers, Paul. “Grandstanding in the venture capital industry.” *Journal of Financial Economics*, vol. 42, no. 1, 1996, pp. 133-156. *ScienceDirect*.

Gompers, Paul. “Optimal Investment, Monitoring, and the Staging of Venture Capital.” *The Journal of Finance*, vol. 50, no. 5, 1995, pp. 1461-1489. *JSTOR*.

Gompers, Paul, et al. “How do venture capitalists make decisions?” *Journal of Financial Economics*, vol. 135, no. 1, 2020, pp. 169-190. *Elsevier*.

Gompers, Paul, and Josh Lerner. “The Venture Capital Revolution.” *The Journal of Economic Perspectives*, vol. 15, no. 2, 2001, pp. 145-168. *JSTOR*.

Gorman, Michael, and William Sahlman. “What do venture capitalists do?” *Journal of Business venturing*, vol. 4, no. 4, 1989, pp. 231-248. *ScienceDirect*.

Greenberg, Jason, and Ethan Mollick. “Activist Choice Homophily and the Crowdfunding of Female Founders.” *Administrative Science Quarterly*, vol. 62, no. 2, 2017, pp. 341-374. *JSTOR*.

Gu, Wentao, et al. “Venture capital and entrepreneurship: a conceptual model and research suggestions.” *International Entrepreneurship and Management Journal*, vol. 14, no. 1, 2018, pp. 35-50. *ProQuest*.

Hanke, M., and K. Pötzelberger. “Dilution, anti-dilution and corporate positions in options on the company's own stocks.” *Quantitative Finance*, vol. 3, no. 5, 2003, pp. 405-415. *EBSCO*.

Hellmann, Thomas. “IPOs, acquisitions, and the use of convertible securities in venture capital.” *Journal of Financial Economics*, vol. 81, no. 3, 2006, pp. 649-679. *ScienceDirect*.

Hogg, Michael. “Social Identity and Self-Categorization Processes in Organizational Contexts.” *The Academy of Management Review*, vol. 25, no. 1, 2000, pp. 121-140. *JSTOR*.

Ibarra, Herminia. “Homophily and Differential Returns: Sex Differences in Network Structure and Access in an Advertising Firm.” *Administrative Science Quarterly*, vol. 37, no. 3, 1992, pp. 422-447. *JSTOR*.

Jönsson, Sten. *Action research*. Gothenburg University, 1990.

Kanze, Dana, et al. “We Ask Men to Win & Women Not to Lose: Closing the Gender Gap in Startup Funding.” *Academy of Management Journal*, vol. 61, no. 2, 2018, pp. 586-614. *Harvard Business Review*.

Kaplan, Steven, et al. “Characteristics, Contracts, and Actions: Evidence from Venture Capitalist Analysis.” *Journal of Finance*, vol. 59, no. 5, 2004, pp. 2177-2210. *NBER Working Papers*.

Kaplan, Steven, et al. “How do legal differences and experience affect financial contracts?” *Journal of Financial Intermediation*, vol. 16, no. 3, 2007, pp. 273-311. *ScienceDirect*.

Kaplan, Steven, and Per Strömberg. “Financial Contracting Theory the Real World: An Empirical Analysis of Venture Capital Contracts.” *The Review of Economic Studies*, vol. 70, No. 2, 2003, pp. 281-315. *JSTOR*.

Lerner, Josh. “Venture Capitalists and the Oversight of Private Firms.” *The Journal of Finance*, vol. 50, no. 1, 1995, pp. 301-318. *JSTOR*.

Lerner, Josh, and Paul Gompers. “The Determinants of Corporate Venture Capital Success: Organizational Structure, Incentives, and Complementarities.” *NBER WORKING PAPERS*, vol. 1998, no. 9, 1998, pp. 1-49. *NBER*.

Marlow, Susan, and Dean Patton. “All Credit to Men? Entrepreneurship, Finance, and Gender.” *Entrepreneurship Theory and Practice*, vol. 29, no. 6, 2005, pp. 717-735. *Sage Journals*.

McPherson, Miller, et al. “Birds of a Feather: Homophily is Social Network.” *Annual Review of Sociology*, vol. 27, no. 1, 2001, pp. 415-444. *JSTOR*.

Megginson, William, and Kathleen Weiss. “Venture Capitalist Certification in Initial Public Offerings.” *The Journal of Finance*, vol. 46, no. 3, 1991, pp. 879-903. *JSTOR*.

Miller, Toyah, and Maria Triana. “Demographic Diversity in the Boardroom: Mediators of the Board Diversity–Firm Performance Relationship.” *Journal of Management Studies*, vol. 46, no. 5, 2009, pp. 755-786. *EBSCO*.

Ridgeway, Lucie Stern Professor of Social Sciences, Cecilia L. *Framed by Gender: How Gender Inequality Persists in the Modern World*. Oxford University Press, USA, 2011.

Ritter, Jay. “The Long-Run Performance of Initial Public Offerings.” *The Journal of Finance*, vol. 46, no. 1, 1991, pp. 3-27. *Wiley*.

Rosenbusch, Nina, et al. “Does acquiring venture capital pay off for the funded firms? A meta-analysis on the relationship between venture capital investment and funded firm financial performance.” *Journal of Business Venturing*, vol. 28, no. 3, 2013, pp. 335-353. *ScienceDirect*.

Rosenstein, Stuart, and Jeffery Wyatt. “Inside directors, board effectiveness, and shareholder wealth.” *Journal of Financial Economics*, vol. 44, no. 2, 1997, pp. 229-250. *ScienceDirect*.

Ruef, Martin, et al. “The Structure of Founding Teams: Homophily, Strong Ties, and Isolation among U.S. Entrepreneurs.” *American Psychology Review*, vol. 68, no. 2, 2003, p. 195.

Ryan, B., Scapens, R. and Theobald, M. (2002). Research method and methodology in Finance and accounting. 2nd ed. South-western Cengage Learning, p.139-156.

Silva, Jorge. “Venture capitalists' decision-making in small equity markets: a case study using participant observation.” *Venture Capital*, vol. 6, no. 2-3, 2004, pp. 125-145. EBSCO.

Snellman, Kaisa, and Isabelle Solal. “Does Investor Gender Matter for the Success of Female Entrepreneurs? Gender Homophily and the Stigma of Incompetence in Entrepreneurial Finance.” *Organization Science*, vol. 34, no. 2, 2023, pp. 680-699. *Informs*.

Tajfel, Henri, and John Turner. “The Social Identity Theory of Intergroup Behavior.” *Psychology of Intergroup Relations*, Nelson-Hall, 1986, pp. 7-24. *Psychology of Intergroup Relations*.

Tyebjee, Tyzoon, and Albert Bruno. “A Model of Venture Capitalist Investment Activity.” *Management Science*, vol. 30, no. 9, 1984, pp. 1051-1066.

Tykvovà, Tereza. “Venture capital and private equity financing: an overview of recent "Literature and an agenda for future research.” *Zeitschrift für Betriebswirtschaft*, Vol. 88, no. 3-4, 2018, pp. 325-362. *ProQuest*.

Utset, Manuel. “High-Powered (Mis)Incentives and Venture-Capital Contractors.” *Ohio State Entrepreneurial Business Law Journal*, vol. 7, no. 1, 2012, pp. 45-94. *Scholarship Repository FSU*, https://ir.law.fsu.edu/articles/570/.

Wright, Mike, and Robbie, Ken“Venture Capitalists, Unquoted Equity Investment Appraisal and the Role of Accounting Information.” Venture Capital, Dartmouth, 1997, pp. 159-174.

Wasserman, Noam. “Founder-CEO Succession and the Paradox of Entrepreneurial Success.” *Organization Science*, vol. 14, no. 2, 2003, pp. 149-172. *JSTOR*.

Electronic Sources

"Gender statistics - Statistics Explained." *European Commission*, 15 October 2024, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Gender_statistics. Accessed 19 October 2024.

Moats, Maria. "Trends shaping corporate governance in 2023." *PwC*, 4 January 2023, https://www.pwc.com/us/en/services/governance-insights-center/library/corporate-governance-trends.html. Accessed 11 October 2024.

SAGE Brief Guide to Corporate Social Responsibility. SAGE Publications, 2012, https://doi.org/10.4135/9781452243986. Accessed 15 October 2024.

8. Appendix

8.1 Interview Guide Example

The following are examples of questions asked under our conducted interviews. The actual interview questions varied depending on the interviewees' background and the current phase of the study at the time of the interview.

Introduction

1. Presentation of the interviewers and the research objective (Permission to record the interview, etc.)
2. Can you tell us a bit about the startup and how the founding process was?
3. Can you give us an overview of your company's journey with external funding and more specifically raising capital from a VC?
    a. For how long have your VC(s) been involved?

General VC Entrepreneur Relationship Questions

1. How would you describe the nature of your relationship with your VC firm (in terms of communication)?
    a. How often do you communicate?
    b. What communication channels do you use?
2. How involved is the VC firm in your company's decision-making and strategic direction?
    a. Are there any aspects/areas where they are more involved?
3. Have they had more involvement in the beginning, at certain moments, or now?

Corporate Governance Provisions and Their Impact

1. Can you tell us about the procedure and negotiations for setting up the VC contract?
    a. Like a step-by-step process?
    b. Were there several rounds of changes to the contract?
    c. Were you in talks with several VC firms and negotiating contracts at the same time?
    d. Was there an aspect of the contract that you felt was more important to the success of your firm than others?
2. How was the process of negotiating the equity stake?

    a. How was the experience? Was it a long process or quite direct?
3. Were there conversations about pursuing a possible dividend policy?
4. Does your company have a board and what does the board structure look like?
    a. What is gender composition?
    b. Do you have VC members on your board?
5. Would you say that these governance practices have influenced your autonomy or decision-making authority in any way?

Discussion: Gender and Corporate Governance

1. Do you feel the oversight you experience is stringent, moderate, or lenient? Can you share any specific experiences or examples that shaped your view?
2. How much trust do you feel the VC has in you to execute your vision as a founder?
3. Do you perceive any factors that might influence the success of the relationship between a VC and entrepreneur, particularly in terms of their backgrounds or personality traits?
    a. Leadership style etc.

Concluding Remarks

1. Do you feel the oversight you experience is stringent, moderate, or lenient? Can you share any specific experiences or examples that shaped your view?
2. How much trust do you feel the VC has in you to execute your vision as a founder?
3. General QS - Do you perceive any factors that might influence the success of the relationship between a VC and entrepreneur, particularly in terms of their backgrounds or personality traits? Leadership style etc
4. Is there anything specific that you feel VCs could do to address or mitigate possible gender-based differences in governance practices?
5. Do you have any additional thoughts on this topic or experiences you would like to share?
6. Do you have any suggestions for someone we can interview in the startup community/VC?

8.2 Interview Sample

Interview Code	Role	Gender	Age Range	Date	Start
F1	Startup Founder	Female	25-34	31/10	14.30
F2	Startup Founder	Female	25-34	30/10	13.00
M1	Startup Founder	Male	25-34	29/10	13.00
M2	Startup Founder	Male	25-34	29/10	14.30
M3	Startup Funding Chief	Male	25-34	30/10	10.00
E1	Industry Expert	Male	34-45	30/10	14.00
E2	Industry Expert	Male	65+	1/10	13.00

8.3 The use of generative AI

In the course of conducting this research, artificial intelligence (AI) was employed specifically to assist with the transcription of interviews. The AI-based transcription tool, TurboScribe, was used to convert the audio recordings of interviews into text, which allowed for more efficient processing and analysis of the qualitative data. This technology helped ensure that the transcriptions were accurate and consistent, enabling me to focus more on the interpretation and analysis of the content but were then double-checked manually. It is important to note that while AI played a role in transcribing the interviews, all subsequent analysis, interpretation, and writing were carried out manually and reflected our own insights and findings.