Women Entrepreneurs and Venture Capital: Managing the Shadow Negotiation

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Abstract

Our research is designed to conceptually and empirically explore issues that explain why women entrepreneurs access only a small percentage of venture capital investment in the U.S.. Our focus is on the situations women entrepreneurs face, and the strategies they adopt, to successfully fund their high-growth businesses with venture funding. Rather than looking for answers at the individual level (men v. women), we focus on the construct of gender and the way that socially constructed business practices and processes of access to capital may appear neutral and natural on the face, but which in fact, may deliver differential consequences to women and men. At the same time that entrepreneurs and capital providers are interacting around the terms and particulars of a business venture, they are also participating in a less obvious conversation – an interaction we call the *shadow negotiation* (Kolb and Williams, 2000). Through interviews with women who have been successful or are in the process of accessing venture capital for their businesses, we identify patterns of women's awareness and strategic responses that illustrate this phenomenon and discuss their implications.

Keywords:

Women entrepreneur
Female entrepreneur
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Gender
Shadow negotiation

Introduction

In 2001, Greene, Brush, Hart and Saparito produced the first evidence documenting the participation of women entrepreneurs in the venture capital (VC) universe: between 1997 and 2000, boom years for venture investing in the United States, around 5% of VC dollars went to women-owned businesses. There is no evidence to suggest that this percentage has changed in any substantial way in the intervening years. Consider this figure in light of data from The Center for Women's Business Research (2008) showing that over 1 million businesses in the U.S. are owned by women (50% ownership or more), employing almost 13 million people, and generating close to $2 trillion in sales annually. Further, apply the information that more than 300,000 women owned businesses generate more than $1 million in annual revenues (Center for Women's Business Research, 2005). This leads us, and a growing group of researchers to ask, "Why the gap in VC funding for women-owned businesses?"

Most research to date, both directly addressing this specific VC funding question as well as a range of broader issues on women's entrepreneurship, has worked to understand a "gender gap" by empirically contrasting women and men entrepreneurs across a range of independent variables -- the fundamental generating question is, "What is it that women do, or don't do, that causes them to fall short in realizing entrepreneurial potential?" We believe this approach has been successful in documenting numerically the gaps in action and outcome comparatively by biological sex. However, this framing has become intractable and has reached a rather tired zenith on the logical next question: Why do these differences exist?

We join colleagues such as Greene, et al (2001), Ahl (2004;2006), Carter and Brush (2004), Bird and Brush (2002), Hill, Leitch, and Harrison (2006) and Marlowe (2005) in recommending a shift in research attention. Rather than continuing to explore differences at the individual level (men v. women), we propose an exploration of the institutional level to address the fact that, as these authors pose in 2003, "There is presently no knowledge of the factors related to successfully seeking and obtaining equity capital by women entrepreneurs"(Brush, Carter, Gatewood, Greene, & Hart, p. 4). To do so we consider how institutional theory, new perspectives on gender, and negotiation help us re-formulate the motivating question as: “What is it that imposes a differential playing field on female entrepreneurs in interaction with venture capitalists, and how do women manage these extraordinary challenges and succeed?”

VC/entrepreneur interaction is fittingly cast in a negotiation context where parties interact with the goal of producing agreements and a platform for future work that delivers a potential win-win proposition for the parties -- while they are adversaries of sorts, these players are still joined in their mutual gain given the success of the organization. As Kolb and Williams suggest (2000), women in negotiation face additional issues both on and off the table as hidden agendas and masked assumptions play out as a result of often unintentional, but still powerful gendered biases and assumptions.

The Context of Institutionalized Venture Capital Practice in the United States

Venture capital is equity financing available to select start-up and growth businesses that demonstrate the potential to produce extraordinary returns for investors within a 5-7 year time window. Classic venture capitalists invest pools of money in a portfolio of companies on behalf of limited partners, with a typical VC investment in the United States in 2004 standing at just over $7 million dollars (NSF, 2006a). Venture capital firms, usually managing more than one portfolio (or fund) simultaneously, are typically small, flat partnership style organizations; investment decisions are made collectively by the partners and firms tend to specialize by industry and/or firm stage of development, with a decided concentration in science and technology innovation. VC firms are also geographically tight, with more than 2/3rd of all VC in the world being generated in the US (GEM, 2004) and 65% of those deals in 2002 coming from the states of California, Massachusetts and New York (NSF, 2006b).

VCs provide cash and management expertise to the entrepreneur/s, and they will usually assume some governance authority over the firm as part of their investment contract by assuming seats on the board of directors. VC investment criteria focus on measures of growth potential and the capabilities of the management team to realize that growth. Therefore, the degree to which the VC firm is engaged in the business of the company is dependent on the conditions and performance of the entrepreneurial firm in meeting investor expectations.

Venture capitalism as a profession has changed substantially over the last 25 years in the US. Originally cashed-out entrepreneurs recast their careers as investors for financial gain and to express their expertise. Today however, more than half of all VCs are young MBA grads, primarily from Harvard University and Stanford University. The group is overwhelmingly male: in the Kauffman Foundation Report, Gatekeepers of Venture Growth by Brush, Carter, Gatewood, Greene, and Hart (2004), the authors report that men held 91% of all management-track venture capital positions in the United States in 2000.

On the demand side of the investment equation, entrepreneurs seeking venture capital funding are managing a business that has high growth potential that they need or want to expand quickly to succeed financially. Accepting venture capital, the entrepreneur assumes that their ownership stake will be diluted and that an "exit event," such as sale of the company to a larger firm or to additional investors via initial public offering, is likely. Fewer than 1 in 10,000 new businesses in the US receive VC funding (GEM, 2004); investment usually happens some time after start-up when some notable milestones have been achieved. Even for expansion stage firms, VC investment is rare. So why do venture capital backed firms receive all the attention? High growth firms can produce spectacular results, facilitate development of leading edge technologies and perhaps move on to initial public offering to take their place in "the Fortune 500 of tomorrow"; their economic and social impact can be profound. Indeed, more than 25% of the Fortune 500 in 2000 went public between 1980 and 1990 (Nelson, 2000).

Literature Review

Institutional rules structure human interaction (North, 1990) in both a formal (e.g., rules, regulations and enforcement of such) and informal (e.g., cultural norms and interpersonal expectations) fashion. Scott (1995; 2008) describes three pillars of institutions at work: the normative, regulative and cultural-cognitive. All three pillars are well illustrated in the entrepreneur/VC interaction.

The regulatory environment delivers formal, enforced procedures for capital investment in business (e.g., how ownership of the firm is legally constructed, and how it is sold). The more informal, yet still highly structured process of venture capital investment, replicated across firms in the venture capital industry, provides an additional framework for VC/entrepreneur interaction as deals are considered and struck (e.g., entrepreneurs make a "pitch," negotiation occurs over a term sheet, investment focuses in high technology).

Within or aside both of these frames, individuals are influenced by cultural-cognitive norms, consciously and unconsciously, as they consider and take action. Powerful, taken-for-granted, informal rules that represent the beliefs, values and constructed meanings we share with other members of our culture are perpetuated and reinforced as they exert influence. It is within this cultural-cognitive sphere that our approach to the gendered landscape is grounded.

The gendered institution of venture capital

Theoretical and empirical conceptions of gender typically start with individuals. And the first question people ask concerns differences that exist across groups at the individual level -- do men and women lead differently? Do they negotiate differently? Do they approach entrepreneurship and the securing of venture funds differently?

To ask how men and women vary in their success in accessing venture capital assumes that gender is an essential and stable attribute of individuals; that there is some basis in biology, socialization, role theory, or entitlements to explain why it exists (Ely & Padavic, 2007). The most common argument for between group differences posits that women emphasize nurturance and support in their relationships because of their social development and the mothering roles they often (or are expected to) play. In contrast, according to this argument, men are groomed for separation and individualism, behaviors presumably more suited to the image of the "entrepreneur", particularly the "high growth firm entrepreneur", who is willing to make tough decisions, think and talk big, and have the skills and enthusiasm to "play the game". Ahl (2006) chronicles a list of such differences that have been discussed in the extant literature to date: women have less motivation for entrepreneurship and/or for growth of their businesses, less desire to start a business, less self confidence, less preparatory education and more risk aversion; they use less optimal feminine management practices, behave irrationally by turning to unqualified family members for help, and they do not network optimally (p. 603). Brush, et al (2004) present a complementary list. Without directly testing for the effects of developmental differences and social roles, these explanations are often tautological and marshaled after the fact to account for why women have more difficulty securing venture funds (Kaleberg & Leicht, 1991).

Committed to helping women secure funding, advice that comes from research on sex group differences can, in and of itself, be problematic. Advising women to adopt more masculine behaviors fails to take into account how gender stereotypes affect how behavior is judged (Valian, 1998). Thus, to tell women to act in a more assertive or self promoting way, and to make bigger claims for her venture, assumes that these behaviors are neutral in the sense that men and women can use them with the same effect and same consequences. However, these behaviors when enacted by a woman are likely to be seen differently than they are when men employ them and this gives rise to double binds (Valian, 1998; Ely and Rhode, 2008).

Another way to consider how gender dynamics helps us understand the gender gap in venture funding is to start, not with comparisons of men and women, but with the institution of venture capital funding itself. Increasingly feminist theory has moved away from looking at gender as individual difference to considering the ways that society's institutions are gendered. Acker (1990) defines (in the context of organizations) what it means to say that an institution is gendered: "Advantage and disadvantage, exploitation and control, action and emotion, meaning and identity are patterned through and in terms of a distinction between male and female, masculine and feminine" (p. 146). In other words, gender is not inherent in individuals but is constructed in the way institutions function. More recently, this perspective has been labeled the study of *second generation gender issues,* the degree to which institutional practices and processes have differential consequences for the groups women and men, in our case, entrepreneurs (Acker, 1990; Sturm, 2001). Second generation gender issues appear neutral and natural on their face, but they result in different experiences for, and treatment of women and men (Sturm, 2001). Distinct from first generation discrimination involving intentional acts of bias, second generation gender practices seem unbiased in isolation, but they typically reflect masculine values and the life situations of men who have dominated in the public domain of work (Flax, 1990; Fletcher, 1999).

Acker (1992) provides a framework to distinguish the lines along which institutions are gendered. These include processes and practices that have the effect of creating a hierarchy ordered by gender in the world of production (i.e., "men do this and it is more important, women do this and it is less important"). In the venture capital world, the criteria for businesses that are suitable for investment reflects the businesses that men have founded since the VC industry strongly emerged in the U.S. in the 1970s. This would include high technology products, for example, but less likely retail or consumer goods (Brush et al, 2004). Early VCs were usually successful entrepreneurs who had cashed out, and they began to apply their expertise on the investment side of the table: they invested in businesses they knew and had experience running. In other words, the implicit criteria used to judge investment potential have been ordered hierarchically and they are gendered. That does not mean that all women would be excluded, nor that all men's business would be favored, but rather that anybody whose business, on its face, does not meet these normative criteria would be challenged to interest investors. For some kinds of businesses that constitute large chunks of the economy, including ones where women are the primary consumers, this presents a challenge for the entrepreneur.

A second gendered process includes the images, symbols, and ideologies that give legitimacy to an institution and support these gendered perceptions (Acker, 1992). In the organizational realm, these include the shaping of assumptions about who is seen as having leadership potential, who is a leader, and what legitimacy is attached to a particular leader in the role. For business leaders generally, the images, symbols and ideologies are typically presented as gender neutral, though in fact they usually align with idealized images of masculinity—aggressive, goal oriented, and competitive (Kanter, 1977; Ely & Rhode, 2008). These processes also shape how value is assigned by one person in regard to another in terms of skills and contributions, compensation, and the appropriateness of how the lines between work life and life outside of work are drawn, for example (Fletcher, 1999; Rapaport et al, 2002).

While the first challenge is about dealing with perceptions about a business, the second gendered process is about the *individual entrepreneur* and who she is. Just as masculinity permeates assumptions about ideal leaders and ideal workers, so too has the argument been made that the ideal entrepreneur is masculine. Ahl (2006) describes the alignment between how the ideal entrepreneur is described and the attributes associated with masculinity. He is (and she notes the prevalence of the male pronoun), among other things, a risk taker, able to make tough decisions, is financially savvy, is well networked, brings extensive management experience to the table and is totally committed to the business. While there are women who fit this profile, and men who do not, the challenge for women generally is to find ways to manage impressions of themselves to signal their worthiness (Goffman, 1956).

A third way to consider how gendered processes operate is to focus on interactions themselves—the ways that people "do gender" (Howard & Hollander, 1997; West & Zimmerman, 1987). "Doing gender" means that in the process of enacting a social practice (such as a meeting, a presentation, or a negotiation over terms), individuals are constantly engaged in constructing social situations in gendered ways. For example, in interacting women are usually expected to be deferential while men are expected to dominate (Lorber, 1994). This can lead to patterns in conversations where women are interrupted and not heard (Tannen, 1994), and to cases where women do not speak up, though their voice would be welcomed. In considering individuals for certain roles, stereotypes about commitment and bearing can influence perceptions of a person's suitability for a leadership role (Lyness & Thompson, 2000). In negotiations, one party might use strategic moves to enhance their positions that put their counterparty on the defensive. These moves might involve questioning competence, skill, ideas and emotional state (Kolb & Williams, 2000; 2003). Sometimes these moves are quite gendered and demeaning (Gherardi, 1995).

Encountering stereotypes, a woman is pressed to deal with these assumptions while men earn a pass since they meet "taken for granted" expectations. In dealing with strategic moves that put them on the defensive, women may *turn* them in order to reframe the situation so they are not negotiating from a one down position (Kolb & Williams, 2000; 2003). In pushing back or turning, another set of stereotypes can be activated-- she can experience a double bind. In negotiating for herself, what appears as assertive behavior for men can be seen as abrasive for her (Eagly & Carli 2007; Eagly & Karau, 2002; Babcock & Laschever, 2003).

Alternatively, a woman can respond to expectations by conforming to traditional feminine stereotypes but this can lead to being liked but not respected: in business roles women presenting this demeanor are judged too soft, emotional, and unassertive to make tough calls and project the necessary “presence” in positions of authority. By contrast, women who adopt more masculine traits are often respected but not liked: they are seen as domineering, strident, and cold. Self-promoting behavior that appears self-confident or entrepreneurial in men often looks pushy and “unfeminine” in women. Such stereotypes are often working below the surface of consciousness – for these scenarios to play out, men and women need not be intentionally enacting them; such is the influence of the gendered, institutional landscape. Ultimately, how a woman deals with these challenges in the moment can reinforce impressions of her suitability for entrepreneurial leadership.

Finally, these gendered practices are internalized as individuals construct personal gender identities and apply them in institutional settings (Acker, 1992). People manage multiple gender identities in context as a fundamentally social process (Ely & Padavic, 2007). As a result, gender identities can intersect and conflict in certain situations. Individuals have choices, constrained, to be sure, to craft the presentation of their identities in relation to others. One can consider the degree to which entrepreneurs identify with the masculine and/or feminine sides of themselves and take up those roles or positions in the process. They can embrace their character and preferences and act, and they can also strategize the situation and, for example, use other actors to move the social situation in a desired direction. From this perspective, we can contemplate why some women favor small, non-scalable businesses, chose to focus on a small group of known investor family members, or want to construct a business that enables them to have time to take care of their children. We can also consider the dynamics of a male VC/female entrepreneur encounter that posts aggressive questioning on one side with some measure of deference, perfume and stiletto heels on the other.

Gender and Negotiation

As negotiations are being carried out about terms and particulars of a business, these gendered institutionalized practices and processes are at work. Models of negotiation, described under the rubric of negotiation analysis, draw heavily on economics, game theory and individual psychology (Lax & Sebenius, 2006). These models emphasize the rational and strategic elements of making deals that maximize mutual gain (Malhotra & Bazerman, 2008). In so doing, they ignore the very social processes that makes this form of deal making possible (Putnam & Kolb, 2000). This is what we call the *shadow negotiation* (Kolb & Williams, 2000; 2003). As people bargain over issues and terms, there is a parallel negotiation where the unspoken attitudes, hidden assumptions, stereotypes, power relations, and expectations, play out. It is in the shadow negotiation where second generation issues are likely to emerge in subtle and nuanced form. And it is in the shadow negotiation that women entrepreneurs can position and manage impressions of themselves that signal that they are worthy of investment and capable of deal making (Goffman, 1956; Murphy, et al, 2007). It is these moves in the shadow negotiation --the recognitions, strategies and reactions women entrepreneurs marshal in response to situations in which they find themselves as they strive to succeed -- that provide the data for our analysis.

Method

We interviewed 19 women entrepreneurs, 15 of whom had successfully secured venture funding for a business that they majority owned before VC investment. The remaining four women were in, or had been in, serious process with one or more venture capital firms before the interviews occurred. We recruited our interviewees via a snowball sample technique through researcher contacts, interviewee contacts, and outreach to two women's entrepreneurship venture finance networks headquartered on the East Coast (NY-CT-MA) and the West Coast (Northern California). Our interviewees were from these areas plus one from the Midwest.

Our approach was designed for theory building (Glaser & Strauss 1967; Corbin & Strauss, 1990) and we used a set of open-ended questions to guide the (on average) 1.25 hour interviews which occurred either in person or over the telephone with at least 2 members of our research team, in most cases. We began each interview explaining that we were interested in learning whether, and how, being a woman matters in accessing venture capital in the U.S.. The open-ended questions were designed to elicit information about how these women sought capital; their analysis of their success or failure in the process; how they attempted to manage their legitimacy and credibility, and that of their business; how they identified likely investors; and how they presented themselves and their businesses, among other issues[1]. The protocol ended with us asking the entrepreneur what advice they would give to other women entrepreneurs in regard to securing venture capital. The interviews were taped and transcribed. To preserve anonymity, the identity of each woman is masked via the assignment of a pseudonym in this article.

We gave the interviewees ample and repeated opportunity to introduce, describe and ponder topics that resonated with them around issues of access to venture capital for themselves and for women generally. Eleven of the interviews were with women in high technology industrial sectors including bioscience, computer software, and online social networking. Eight of the interviews were with entrepreneurs whose companies produced a range of products and services under growth conditions, most of which had some online sales or sourcing component.

Analysis of these data was iterative moving from the literature on second generation gender issues as they apply to ventures and inductively as themes emerged from the data. We developed a set of themes based on an overview of the data and theory and then used these as propositions to delve more deeply into the data to extract stories that brought the themes alive. In constructing the themes, we required agreement in the team that the theme as constructed was a bridge from theory to data, and that it was supported across multiple interviews.

Findings

[1] Interview questions are available on request from the authors.

The experience of working as women entrepreneurs to access venture capital within an institutionalized, gendered lens has been structured below into four themes: "Make the Case For Your Business When It Doesn't "Fit", "Overcome Gendered Visions of the Ideal Founder/CEO", "Strategize and React to Gendered Challenges", and "Manage Double Binds as You Build and Present Your Gendered Persona". These themes follow the four conceptual categories discussed above and outlined by Acker (1992). For each theme, we report how our informants managed these perceptions in their shadow negotiations over venture funds.

Make the Case for Your Business When It Doesn't "Fit"

In general, VCs have a set of criteria, a mental model, which they lay over the business idea. It is a template consciously and unconsciously developed over time within an institutionalized context and based on the VCs' experience with mostly male-led venture projects, fostered by industry preferences and patterns of behavior, formed by education and networks, and guided by personal life experiences. This mental model is gendered in so far as it constructs a hierarchy of order along lines of gender, including notions of venture potential and venture success, in addition to "masculine/man" things and "feminine/woman" things. In most cases the women we interviewed reported eventually recognizing that this template was gendered in terms of processes and practices, though many struggled at first to make sense of their experience. Our data show two approaches used by the women entrepreneurs to manage this situation, acknowledging, as entrepreneur Deborah states, "Women entrepreneurs work in segments that aren't as interesting to VC investment".

<u>A. Engage VCs through Their Families' Lifestyle and Consumer Habits</u>

One thread in our interviews was the entrepreneur's recognition that VCs initially explore the validity of a venture idea by relating it to their own day-to-day experiences as business professionals and consumers. If their business does not "fit", then the business is "suspect". The entrepreneur could then help by providing a different approach. Lisa's business model actually fit generally with an emerging area of Silicon Valley VC interest at the time—a Web 2.0 venture company, focused on women. In early presentations about the business idea, she says, “VC’s related to the business through their wives.” They assessed the likely popularity of the internet service by reflecting on their wives’ internet usage and the likelihood their wives would buy in to the service: they fit the venture into a mental model from their home life. Rose adopted this strategy as well. Her product was aimed at a market segment unfamiliar to VCs: personal products for 40-something women. She tried to lead VCs during presentations to identify the market need by thinking about their wives. The strategy was successful only partially when she encountered VCs who had younger, second wives, not wives aged 40-plus. Even though her approach was not always successful, it did help VCs envision a market niche with which they had no personal experience. For women whose product did not conform to what was typically funded, by creating family recognition and identification, they were able to get more of a hearing than might otherwise have been the case.

B. Screen Investors Carefully for Fit with Your Venture

A second tactic used by women entrepreneurs in making the case for their business was to be proactive in searching for and selecting investors who would “fit” their ventures, even if this meant not partnering with the most successful VC firms. Entrepreneurs compensated for the gendered aspects of the initial VC scan by looking carefully for investors who have had very positive experiences in an “unusual” industry segment: they believed this experience could overshadow the gendered vision of a “good” business model. Deborah advises women entrepreneurs to, “Find the investors who are passionate about your business space, who have made money in that space before.” Barbara’s business, aimed primarily at women, was successful in attracting investment, she believes, because the “sponsor” had invested previously in the same area. Of course this strategy isn’t fool proof. Kelley went to a woman friend whose business was also in the life sciences to get advice on potential investors with interest and successful experiences in the same industry arena. The friend helped Kelley with an introduction but the investor “wasn’t interested in this ‘anomaly’ business”; he wanted the “cookbook.” Rebecca, meeting initial resistance, eventually screened VC firm portfolios for women-led businesses believing that this signaled an openness to “non-cookbook” opportunities. Working on her second round funding, Barbara held meetings to “screen” potential investors for “chemistry”. “I screened out grandstanding VCs…my number one was cultural fit not valuation,” she said.

Screening for VCs is important because they will wind up with some active control over the company, typically filling one or more Board seats. Describing her network screening Christine says, “I didn’t call some people back because I didn’t want them in the room, and I’d call back others.” Jean says, “(If) I did another start-up, I’d interview all the VCs…so I can decide whether or not I want to spend the next three years talking to them every single day.” Suzyn entertained 17 different potential investor/partner groups to purchase her company with the intent that she would stay on as CEO. She noted a distinct difference and cultural fit with VCs that had experience in her sector. One of the lessons Patricia drew from her experience, of “losing” her company with almost no compensation, is that she would conduct more due diligence about potential allies and partners.

Women entrepreneurs reported that another way they addressed the fit question was to consider both West Coast and East Coast VC communities for potential funding. Our interviews suggest a perception of differences between the North American venture capital hubs of San Francisco and Boston: women believed there was a difference in the “business template constraint” for women seeking financing in California compared to Massachusetts. In Kathy’s experience, California VCs “think big new things can happen and want to help you build a business,” but “Boston VCs just tell you what you are doing wrong.” Kathy thinks there is more experience and openness to consumer businesses in Silicon Valley so she is looking into getting Series A money in California for her new venture. Rose says, “In Boston, VCs are more like bankers, everyone’s calculators hit the table right away. In Silicon Valley they will talk about the idea for a long time.”

Beyond how VCs approach a new business idea may be other differences in how gender plays out in these two communities. Christine noted that she was always asked very early in her meetings with Boston VCs about family demands on her time; this did not happen in her Silicon Valley meetings. In Deborah’s experience, the East Coast VC community is “more closed culturally” and “it is harder to get into the networks.” Widening the net even further, Linda sought out VC from Europe believing that the practices of investment there were better suited to her company objectives. These examples suggest the variety of ways that women entrepreneurs seek to take control in ways that will get their businesses the best hearing possible, especially when their business doesn't fit the traditional VC perception of an ideal, proven venture model.

Overcome Gendered Visions of the Ideal Founder/CEO

Just as the mental models the VC industry uses to assess a business idea are gendered, so are the institutionalized models of what defines a successful founder/CEO. VCs "bet" on a leader's competencies and track record, often as much or more than on the business model. They know that business models often morph away from their original track based on technological or market feedback. The ideal founder/CEO has had indubitable success ideating and leveraging VC funds to build a company and relatively quickly, cash out. Therefore, the most "fundable" projects are led by proven founder/CEOs that probably are male. Christine says, "(Male VCs) look in the mirror; if they see someone who looks exactly like them and has the same motivations they have, they're okay with it. But in the venture world, none of the VCs have a mother, sister, wife, daughter who works. There's so much money in what they do that those women don't do those things…If you fall out of the mode they're accustomed to seeing, you run into issues." Three topic areas emerged under this theme that addressed mechanisms women entrepreneurs used to signal and align with the idealized, masculinized image of the successful entrepreneur.

A. <u>Find the Right Insiders to Endorse You</u>

The first strategy involves attempts to use networking and third party legitimation to counter possible perceptions of "suspect" status. Our interviews suggest that "focused networking," i.e., finding the right person to vouch for you in making introductions and paving the way for successful relationship building and funding negotiation, was viewed as most successful. Christine's story illustrates: "I went to all the angel groups and, with the exception of one angel group where the introduction was proactively made (on my behalf), I didn't get the time of day." The right sponsor is someone who can help you sway the VC partners when they vote on whether to invest in your enterprise. As Deborah says, "Scheduling and getting access is not the problem, the challenge is getting the 100% vote of the partners…the challenge is making the case and working the network behind the organized process."

An ideal sponsor is someone formerly or currently affiliated with a VC firm as a successful investor or entrepreneur. Lisa intentionally partnered with a former VC whose former firm ended up participating in both their first and second rounds of funding. Like Lisa, Barbara positioned herself essentially inside the VC world before she started her company by using a professional contact to move into an entrepreneur-in-residence position at the man's VC firm. Kathy has networked a lot and her network is strong because she worked with some big name entrepreneurs and went to Harvard Business School. In her current venture she enjoys the support of an "inspiring VC" who calls himself her "wing man" and goes out ahead of her to meet VCs. Rebecca sought relatively modest funding by VC standards. She hired a male consultant to help her model her company's valuation and create her pitch slides. The consultant helped her secure more than a dozen meetings but no funding proposals. In hindsight Rebecca believes she "hired the wrong connector".

B. Demonstrate that You Know the Game and Will Play It

One important reason that prior experience as a founder with VC backing is important when VCs assess a new founder/venture is that it assures that the founder understands and will play the "game". The game is to ideate, execute to scale and exit with as much cash as possible in as short a time as possible. Gamers build their rolodex with heavy hitters, know their numbers, and play their hands.

Women we interviewed took a variety of steps to show the VCs that they "understood the game", that they "shared the VCs goals". Linda took a course directed at women entrepreneurs to teach them to interact with VCs. What was most helpful, she said, was learning "the terms of the conversation….what they're looking for, you don't know what things make sense to you, but don't make sense to them…you've got to know how you fit into their formula." Part of the formula is to "peacock" about the scale and potential value of the business. Over time as she modified her VC presentation Kelley started "saying 'billion…I put a good 'billion' in there and that got their attention….I can't get in the door if I don’t have the billion dollar idea, so how do we get a billion dollars in there? So that was a learning process.”

Stacy, a former successful founder/CEO who now advises founders on launch, says, “Women don’t have enough respect for the capital….that is the game – any discussion of control (of the company) is generally delusionary…control is where the money is.” Kelley now advises other CEO/founders and knows:“A classic venture model does not have the entrepreneur leading the business….VCs like to pick their own – ones that will jump as high as they want them to jump, and do things in the direction that they want to control. An entrepreneur is more of a maverick, (it’s) less easy to control the entrepreneur visionary.” When Rebecca sought feedback from VCs about why they had met with her but did not care to fund her venture, “they told me I wasn’t concerned enough with ROI [return on investment].” The VCs said she had an “intriguing” business idea but didn’t believe she had “business acumen”.

C. Show Yourself as a Risk Taker

The *ideal* founder is a risk-taker, decisive and confident. Questions are likely to be raised, but not typically articulated, about how a woman founder/CEO meets this ideal. Jenny sees a clear, socially based gender difference in how men and women are perceived, and how they are trained in this regard. “Men are taught to create a bluff, a bold façade….they are encouraged to project a veneer of strength…and confidence and assurance…women are more honest and pragmatic and willing to collaborate on problems…”Women we interviewed had developed a number of strategies to address and project the expected risk taking image.

Kathy shows herself as a risk taker by telling funders the story of how she and her husband moved their three boys to Greece with no jobs or support network and made a life for themselves there for several years. Starting a business, she tells them, “is easy by comparison”. She also intentionally mentions how she grew up in the city of Los Angeles, “on the wrong side of the tracks”. Linda believes she “has to look like a risk taker”. She projects this by talking about “edgy” things. “I happen to like cars and just like going fast…speed. So I talk about racing cars, or about skiing fast or --- like I wouldn’t talk about being a mother. I would never bring that up.” Gloria gains visibility in her business dominated by male vendors and customers by portraying that she is “a chick in a man’s world.” She shows herself as a risk taker by describing to associates her prior lifestyle which involved riding motorcycles, playing rock concerts, and having a business associate who is a Hell’s Angels motorcycle gang member, now in prison.

Some of the women we interviewed signaled their risk-taking, decisiveness, and confidence in a very direct manner. At one point Jean was going into a Board meeting; she faced a Board skeptical about her strategy under the existing circumstances. “I remember…I wore a red dress. I said, ‘Do you know what this dress means? It means I am going for it. You can come with me or not, but this is a symbol of how I am feeling.” Asked what she thought red symbolized in her reported vignette, Jean said, “aggressive – killer -- lets do it.” These symbolic images are important because they suggest, in direct and indirect ways, that these entrepreneurs have what it takes, even if their backgrounds and personas are atypical.

C. Confront Your Personal Gendered Images

Women, of course, also hold gendered images and symbols that express and reinforce institutional norms. Many of our entrepreneurs associated gendered practices with women’s lack of success in moving forward as entrepreneurs. Deborah says, “Women can put themselves in a one down relationship with men in business situations that are not in the best interests of their efforts. They treat men in business as they treat men at home.” Most of the women we interviewed had moved through a process of personal strategizing about how being a woman made a difference to them in terms of success as an entrepreneur. Most of this strategizing was credited to reflection on situations that had happened to them, and which they could not make sense of with any existing professional business heuristics.

Jean speaks for a number of the interviewees in saying that women put themselves at a disadvantage by not asking. “Men are much better at asking for help than women are. I found that the process of saying to somebody, “Would you give me an hour of your time to coach me? was a big favor, whereas men …it’s just not a big deal.” Once she identified this pattern, Jean responded by asking for help more often and more readily. Deborah concurs: “Always...just ask for something.” The asking extends to the negotiation process. Stacy shares, “I would hire these really junior guys, and I’d be sitting there looking at the guy and thinking, ‘I wonder if you shave every day?’…and they would be negotiating with me to beat the band. ‘I need this, I need that, blah, blah, blah’. And I would interview these very senior accomplished women. I’d give them an offer and they’d take it -- What is that?” Most of the women we interviewed were more or less cognizant that their sex mattered and that forces were at work that required steady attention on their part to navigate in the best interests of their businesses.

Strategize and React to Gendered Challenges

In interaction with the VC community, women entrepreneurs can be challenged on gendered terms in ways that can test them and/or put them on the defensive. Social business interactions are key moments to establish credibility and legitimacy. When the socially awkward moment comes, the women we interviewed were very aware of the need to respond, and of the importance of the response both in terms of content and delivery. Often caught in classic double binds—sensing the need to be forceful and self promoting on one hand and simultaneously collaborative and relatively demure on the other —the women developed approaches to deal with these challenges. In all but one case, the women reported that the entrepreneur should avoid or soothe the moment, rather than confront perceived sex based stereotypes, so as to keep their eye on the prize.

<u>A. Match the Male Patter in the Room</u>

One of the most common gender challenges in business generally is male “patter” that serves the purpose of building familiarity and respect through relatively superficial conversation. The VC world is not an exception. As April notes, “If you take a man who happens now to be successful enough to have a VC company, he’s probably built his career on his friendships with men.” For Jenny, “(Among men with a certain, shared background), “There is a certain uberbond.” Deborah concurs that there is a “masculine energy….men talk about certain things.” Being able to work the room and fit in creates interactions that are smooth. In Christine’s view, “Some of your ability to gain credibility has to do with your capacity to gauge the part that you’re in – and respond in an appropriate manner on all these issues. So if you’re the only woman in the room and men have a certain pitter-patter going you, you need to match that pattern and need to make it clear that you are at the same level. As far as throwing out some of your accomplishments to do that, you do it. You need to be cognizant that, if you push too hard that can backfire."

Being able to dish it and take it is part of the process. In April's words, reflecting on her circle in engineering, The men are very social….I don't care if a boy is 2 years old or 62, men have a way of communicating with each other, and I call it repartee. It's rapid fire, and it can be insulting and in your face, and you better be able to stand up and come right back at it. But you have to do it with humor, and you have to respect the guys and take joy away from it instead of feeling attacked personally." Jean endorses this perspective in recounting a particularly brutal VC interview. "I do remember sitting there, looking at him, and I was laughing as he gave me feedback. I just said, 'Oh, my gosh. You're just killing me.' At one point I said, 'I have to take a break. I thought this would be so much better than it is.' We were laughing. It did kind of create a rapport." Recognizing the modes of conversation, the unspoken connections, the way challenge can be impersonal, are critical realizations to strategizing response to create value.

B. Re-Affirm Your Competence

Another gendered challenge is the VC questioning the entrepreneur's talent and resource pool. Women we interviewed saw these challenges and responded by reaffirming their competence. Christine recounts a conversation in which a potential investor said he might be interested in funding her business but she had to consult a particular individual first. When Christine responded that she, in fact, had already had a meeting with that individual to formally present her idea, the investor responded with disbelief – in essence he said, 'you must have spoken with someone else'. "It never would have occurred if I weren't a woman. I saw that as a very clear example of how credibility is an issue with older gentlemen…What he was saying was 'We don't take you as seriously in terms of your ability to have a rolodex.' There's no question in my mind that a man coming in with my background would never have gotten that question." Christine's response in this instance was to affirm she had had the contact she described and she mentioned the name of the individual who had made the introduction for her. "You just state the facts….I think if you're a woman who has an ability to do humor, that's by far the best solution….You either have to be very witty in a way that can make the other person laugh…or you treat it as a non-event."

Rebecca works as a sponsor herself now. She asked one of her network members, for whom she had just made a critical introduction, to introduce her client, Roma, into his network. He insisted that Roma do a "mock" presentation for him before he would make the introduction. Roma agreed, but Rebecca felt "Roma put herself on her back foot" going into that relationship; she, instead, she reported, would have called his bluff, explaining her credentials, and she would have asked for the contact.

Joan tells the story of flying across the country to a meeting. She had sent her slides ahead to the chair who commented at the pre-meeting reception on the "pretty colors" she had used in the slides. Five minutes into her subsequent presentation he told her to sit down abruptly and he continued to lead the conversation himself. She sat quietly to maintain decorum. April now makes sure in her first few slides that she does a "deep dive into the technical details" to show her competence as a woman scientist, then she scopes back out so "no one feels dumb". She doubts this would be a necessary strategy, if she wasn't a woman. Suzyn notes in contrast that there are some moments when a women entrepreneur has to "fight like a tiger" to protect their interests in the face of gendered assumptions of women's relative one-down status. Term sheet negotiation, in particular, she notes, is a process designed to wear you down and a women needs to put it all on the line and not respond to opportunities taken to make her feel "less than". Overall, women recognized that their standing and resources could be called into question in a way that felt gendered. Returning to the business at hand, and to their credentials, kept the entrepreneurs focused on moving their business forward.

Manage Double Binds as You Build and Present Your Gendered Business Persona

In several of the examples, we have seen that women entrepreneurs experience some double binds—especially around self-promotion and dealing with challenges. In our discussion of this theme, we consider explicitly some of the strategies involved in dealing with double binds--about the tension, about creating and wearing a gendered persona as a female entrepreneur seeking venture capital. Three key topic areas were constructed from our data.

A. Be Yourself, But Bring the Pants

Instead of trying to adopt male gendered behaviors such as aggressiveness, which can put women in a double bind, many of our interviewees intentionally associated with men to seek venture funding with them, and a multiple of our respondents reported observing that man doing just what they had done, but meeting with success instead of failure. Women “resigned” themselves to the gender reality and decided to pursue a “pair of pants” strategy. Heather has had a hard time raising capital for her venture. She says, “I feel like I need a man sitting on my side of the table.” Rebecca shares, “I brought on a high-powered male director of sales here (to assist)….I also wanted him to help me with being ‘the face’ to the investors since my female face was not getting me very far.” Rose relates, “As a female, knowing that I was going to need to go and raise money, the first thing I did was go and get a male partner...I went and got a male partner with a lot of grey hair.” Joan adds, “ I don’t know if it’s certain, but it led me to believe that I had to have a man lead the company, at least in presence and name only… my thinking is that, ‘Okay, if this is what they’re looking for, I’ll give them…because I want to succeed.’” Joan also approached one of her male partners and suggested he make an important presentation. She told him, “I think they are just not going to listen to me.” “Bringing the pants” appears to be a common way to circumvent the double-bind of needing to fit the gendered perception of personality traits associated with a “backable” entrepreneur when these traits enacted by women are seen as off-putting.

B.Ask for Help and Advice, Yet Seem Competent

Another issue for women is how to ask for advice without feeding the socially constructed view of women as indecisive or helpless. This is another double-bind where the woman risks undermining herself by doing what is commonplace and helpful for men: advice-seeking. Barbara said it occurred to her that as a woman, asking for advice could be more risky than it might be for a man. To counter the gender issue, she would always introduce her question by saying, “I am a first-time CEO so this may seem like a naïve question.” Deborah also recommends strategizing carefully about how you ask for advice. She recommends masking the advice-seeking by saying something like "How can you help me solidify my focus (on a particular aspect of the enterprises)," over something like, "Can you help me?"

Jenny explicitly adopted gendered roles when she was offered advice. Over time she developed a tactic for dealing with advice from a board member or "some important person you've been told to meet" that was "so obvious and so inane but I would say, 'let me write that one down'….I would write it down and then throw that piece of paper away." Jean wonders if the VC she "practiced" on gave her a term sheet right away because she was very good and open about taking advice. "Maybe one of the reasons he thought I'd do a good job", she said, "is how I reacted to his feedback." In each instance these women entrepreneurs recognized the double-bind and strategized about how to avoid it.

C. Reconcile Family and Business Roles

Ideal founders are committed – they will give the venture all their time and will put the venture first. As a result, most of our interviewees had given some thought to navigating work and family. Overall they told us that VCs expressed frequent concern about women founders' family commitments. Heather recounts that, "When I first started I had a male CFO. He would turn to me after the meetings and say, 'Why didn't they ask me about my three children?'" Christine reports that in the first minutes of her meetings with VCs, more often than not, she would be asked if she had children and how much time she intended to spend with them. Christine handled this by answering, yes, she did have children, and then immediately shifted the conversation to her business. At a "large company…men would not want to be caught dead discriminating," but in Christine's experience "It is different with private investors." Joan's sponsor warned her, "There is a mistrust of women in terms of 'will they perform?....(investors wonder)….will they keep their deadlines?'"

Several women we interviewed saw the work-family tension as insurmountable while others have developed strategies to mitigate VCs perceptions that their family commitments might impede their effectiveness. Lisa's company secured its second round financing and is enjoying some success. Ruth observes that, "A lot of the women founders I know really wait to have kids until they no longer want to be CEOs and founders. Or, they wait until their kids are older." Barbara says you have to be prepared for the work-family tension. “If your life isn’t stable, wait to do the business.” Gloria says, “You have to have your family’s support and you have to have an explicit plan for how your loved ones will cope in your emotional absence.” Stacy moved her business across state lines to be closer to her family and to access the parental contribution of her own mother and father toward her children. Ruth proudly displays her family photos on her desk and is explicit in discussing her family obligations in a work context. She relies on her competence to address any concerns.

While many women we interviewed bought into the idea that family commitments necessarily detract from founder dedication, several interviewees developed specific tactics to deflect VC’s concerns. Kelley was pregnant at the time she was negotiating her first financing. “The placement kept getting delayed and I was getting bigger and bigger.” Kelley says, “I didn’t see myself as any different,” but acknowledges the VC’s impressions may have been colored by her pregnancy. With the second round of financing she was also pregnant but, “I was a little bit smarter to make sure I wasn’t showing…I was sitting on a donut [cushion] in some of my meetings. I had my head of marketing bring it in her briefcase. I had a long jacket and she slipped it onto my chair. I didn’t want them to see it.” Linda has an explicit strategy for deflecting questions about family demands on her time in the moment. “I always depict my child as someone who kind of has his own life and schedule, pretty much runs himself….So you don’t even create that little thought that, ‘Oh, she could be thinking about issues at home.’” These episodes reflect another arena of double-binds, like self-promotion and advice seeking, where women consciously strategized about ways to circumnavigate the tension arising from gendered perceptions about motheres and partners, ideal ventures and venture and leaders.

Discussion

Our goal in this research was to explore some of the ways that women entrepreneurs manage in the face of what is typically a gendered venture funding landscape. Existing research has surely helped women learn about the overt and manifest requirements for successful funding—identifying critical networks and building a credible business plan -- among other tasks. Our study complements that work both theoretically and prescriptively.

From a theoretical perspective, we have applied a second generation gender lens to identify the major challenges an entrepreneur who does not fit the gendered norm might encounter. This provides a path for future conceptual and empirical research. In addition, through in-depth interviews with a group of high growth firm entrepreneurs, we have captured strategies women use in their shadow negotiations with VCs to manage perceptions of themselves and their businesses, and to deal with challenges to their legitimacy and credibility as worthy business partners. We identify and show how women are actors with agency taking some control over situations that may be stacked against them.

Our analyses suggest that women entrepreneurs vary in the degree to which they identify the gendered landscape that they are navigating, and the level of attention and care the management of this landscape demands. Our women entrepreneurs used foresight and quick response to handle the expected and the unexpected. While their emotional reaction to their awareness of a gendered landscape varied (e.g., surprise, bewilderment, anger, resignation), in almost all cases they understood the importance of their successfully navigating the VC terrain, and they sought ways to "fit in" rather than "stand out."

The stories and reports of our informants provide other women tactical as well as strategic advice on how to manage themselves in contexts that manifest these second generation gender issues. This thinking can be applied to founders of high growth businesses as well as other businesses that have unrecognized and/or unrealized growth potential. We also see powerful applications for entrepreneurship education. As women increasingly consider entrepreneurship as a career path at early, mid and later life stages, technical and academic programs need better and clearer analysis of the impact and scope of sex and gender issues. Currently, academe offers very little practical advice in the general classroom for nascent women entrepreneurs around the impact of sex and gender on success. As we begin to understand more about these situations and expand our knowledge of the varied repertoires that women entrepreneurs make use of, we can incorporate these into our teaching and mentoring.

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