6-7-2008

A GENDER PERSPECTIVE ON FAMILY, FRIENDS, AND FOOLS (SUMMARY)

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Recommended Citation
Kim, Grace and Minniti, Maria (2008) "A GENDER PERSPECTIVE ON FAMILY, FRIENDS, AND FOOLS (SUMMARY),"
Frontiers of Entrepreneurship Research: Vol. 28: Iss. 8, Article 1.
Available at: http://digitalknowledge.babson.edu/fer/vol28/iss8/1

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SUMMARY

A GENDER PERSPECTIVE ON FAMILY, FRIENDS, AND FOOLS

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Principal Topic
Despite the attention paid to venture capital, informal investors are the more important source of private equity for startups. Largely because of insufficient data, we know less about these informal investors, so-called angels, and their role in influencing the entrepreneurial landscape of a country or region. Consensus indicates that women rely on informal capital sources and debt more so than men. However, we still need to develop a systematic understanding of their experiences with equity financing in general and in formal private equity in particular.

Consider nascent entrepreneurs with identical socioeconomic characteristics. Are differences in financing outcomes caused by the entrepreneurs themselves (demand side) or by the financing agents (supply side), who may be fellow entrepreneurs? Does any gender variation arise from the entrepreneur’s different perceptions or roles or from the informal investor’s valuation methods or financing discrimination, as found somewhat with debt financing?

Using individual level GEM data, we investigate whether women’s behavior as angel investors is consistent across countries and to what extent they fund other entrepreneurs. Overall, our study contributes to a richer understanding of entrepreneurial financing and differences across gender.

Method
We address this issue using recent data from the Global Entrepreneurship Monitor (GEM) project. This large data set provides unique information about entrepreneurs across countries. Among other things, it allows the important comparison of established entrepreneurs to earlier stage entrepreneurs, as angels may shift from seed and start-up financing towards later-stage investment.

Nonparametric and parametric tests are conducted. Robust comparisons investigate differences between gender and across countries with respect to angel characteristics and perceptions. Multivariate regression analysis is applied to understand the impact of these differences. Such analysis is used to determine to what extent gender, entrepreneurial stage, and other factors drive angel entrepreneurs’ investment behavior within an asymmetric information context.

Results and Implications
Our work complements and contributes to recent research in entrepreneurship, economics, and finance. Specifically, our study highlights the role women angels can play in easing financing constraints for other entrepreneurs. Across countries, optimism, human capital, and business environment are found to be significant factors in the magnitude of their funding. Our other findings also indicate business angels’ motivations to invest in particular entrepreneurs, including relationships with investees, the angel’s contribution to startups, and the startup industry. This has implications for policymakers’ creation of and angels’ involvement in such national programs as the U.S. angel capital electronic network (ACE-Net). (398 words)

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