THE INFLUENCE OF SOCIAL CAPITAL ON VENTURE CAPITAL FUNDING OF WOMEN-LED BUSINESSES (SUMMARY)

Joy Godesiabois
Colorado School of Mines, jgodesia@mines.edu

Larry Plummer
University of Oklahoma

Recommended Citation
Available at: https://digitalknowledge.babson.edu/fer/vol33/iss3/4
Principal Topic

Although women-led businesses (WLBs) are one of the fastest growing groups of entrepreneurial ventures (Brush, De Bruin, & Welter, 2009), WLBs receive substantially less venture capital funding than men-led businesses (MLBs, Brush et al, 2004). Extant research has focused primarily on the characteristics of WLBs. Here, we focus on social capital of VC firms that influence their tendency to invest in WLBs. Drawing from extant literature, we test the following hypotheses:

1. Investment in WLBs by VC firms will be negatively associated with the VC firms’ social capital.
2. VC firms’ performance will be positively associated with investing in WLBs.
3. Prior investment in WLBs by a VC firm will be positively associated with the VC firm’s future investments in WLBs.

Method

We collected data for all US VC investments from 2000-2010 and coded a firm as a WLB when a woman is a member of the senior executive management team (Brush et.al., 2004). Consistent with prior research (Podolny, 2001), we measure structural holes based on Burt’s (1992) structural autonomy. Similar to Hochberg et al. (2007), our measure of VC firm performance is the ratio of portfolio companies that complete a liquidity event. We control for variables identified in past research as potentially confounding relationships including VC firm size, location and age, as well as a measure for “boom” and “bust” periods. We use structural equation modeling (SEM) to test our hypotheses.

Implications

We find that VC firms with low social capital are more likely to invest in WLBs, thus providing women entrepreneurs some indication of which VC firms to approach for funding. Our study integrates two related streams of research—women entrepreneurs’ access to equity funding and the influence of social networks on VC investment decisions. We extend prior research by considering VC firm performance. In practice, WLBs may hold untapped potential for innovation and job creation, limited only by access to VC funding. Extant research reflects investment processes during the “internet boom” and, as such, may not provide an accurate understanding of current VC investment activity. Our study provides a discussion of why differences occur in private investments in WLBs.

CONTACT: Joy Godesiabois; jgodesia@mines.edu; (T): 303-384-2167; Colorado School of Mines, 1500 Illinois Street, Golden, CO 80401.