The outsized role of gender in European venture funding

ngp capital

Report, 2021

New research investigates the role gender plays in a startup's ability to raise venture capital in Europe across industries, educational levels, backgrounds, and prior startup experience levels.

Previous research shows that start-ups receiving external financing in the form of venture capital grow faster than companies that do not, but the odds of raising venture capital remains a major challenge for an essential group, namely women entrepreneurs.

Although the general image of a successful entrepreneur is still linked to the male gender, the number of successful female business leaders and entrepreneurs has grown significantly in recent years. Even so, 93% of the € 3.2 billion of venture capital invested in the Nordic countries in 2019 went to male-only founding teams, 6% to mixed-gender teams, and only 1% to founding teams made up entirely of women. Due to the pandemic, that number is projected to be much lower for the Nordics in 2020, as global venture funding to women-founded companies fell significantly in 2020, according to Crunchbase. Also, in 2019, 33% of all companies founded in Sweden were started by women, but less than 1% of venture capital financing went to women founders. Comparable studies in other European countries have shown similar results. In the UK, for example, female-only founding teams receive less than 1 penny for every 1 pound of total available venture capital funding.

> These marked differences raise the question:
> How, specifically, does gender affect venture capital investment decision-making in Europe?

McKinsey research shows that the elimination of barriers to women-owned companies for accessing funding is an economic requirement that can renew and improve productivity in society by creating jobs, building prosperity, and promoting economic growth. Nevertheless, women are consistently excluded from venture capital financing networks.

For these reasons, we feel that it is extremely important to research the subject, which is why we have partnered with Catarina Cawén, a brilliant young researcher in Helsinki, to study the correlation between the gender of entrepreneurs and the probability that they will raise venture capital in Europe.

The dataset: 9,422 European companies that raised venture capital from 2014–2019

Using data from Q, NGP Capital's AI platform for company and market discovery, the total number of companies founded was compared to the number of companies that were allocated venture capital financing. The total number of start-up companies that raised venture capital in the sample was **9,422** out of a total sample of **21,289** European start-ups. These companies were then categorized into those started solely by women, those started solely by men, and those with at least one woman on the founding team.

> Unlike previous academic research, this analysis observed both the absolute and the relative distribution of capital among the different types of founding teams – female-only, mixed-gender, and male-only.

Other areas covered in the study that had not been researched before were the differences in venture capital distribution by gender among European industries, and the differences based on founder background factors, such as whether the entrepreneur had founded a company before, had a background in economics or technology, or had a university degree.

The dataset included start-up (Seed) and early-growth (Series A) financing received by companies from January 1, 2015 to December 31, 2019, compared to the total number of start-up companies founded between January 1, 2014 to December 31, 2018.

> The geographical location for the analysis was limited to Europe, as there is no previous research about this specific issue for this geographical area.

Start-ups typically don't raise a seed round during their first year after founding, so the financing round data spans the years 2015 to 2019 for companies founded between 2014 and 2018. The entrepreneur's gender in the sample was limited to biological gender because there is no access in the database to more specific data, for example, genderlessness.

Finding 1: Female-only founding teams start fewer companies and are less likely to raise venture capital

Figure 1 shows the total number of European companies started between 2014 and 2018, and how many of them were allocated venture capital between 2015 and 2019, both as an absolute quantity and as a relative percentage within each founding team type. 44% of the start-up companies in the sample of 21,289 received venture capital financing. 80% of the funded companies reached start-up stage (Seed), and 20% reached the early-growth stage (Series A).

Figure 1. Companies started & venture-funded across founding teams

	All teams		Only men		Mixed team		Only women	
Started	21,289		16,370		3,569		1,350	
VC Funding	9422	44%	7038	43%	1985	56%	399	30%
Seed	7541	80%	5635	80%	1550	78%	356	89%
Series A	1881	20%	1403	20%	435	22%	43	11%

The data shows that between 2014-2019, male-only founding teams started 77% of the companies (16,370) and founding teams that included at least one woman founded 17% (3,569) of the total. The founding teams consisting solely of women started only 6% of all companies (1,350) during this time period. The data also shows that there is not only an absolute difference, but a relative difference in the venture capital allocated to female entrepreneurs.

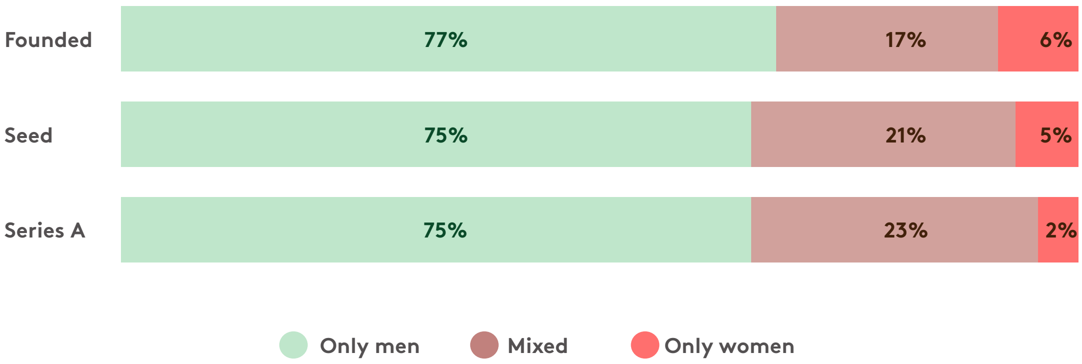
> 30% Of all the companies started by women in Europe, only 30% raised venture capital. Of all the companies started by male-only teams, 43% raised venture capital. The mixed founding teams raised the most venture capital relatively, with 56% of all companies started by mixed-gender teams being allocated venture capital.

Across the board, the majority of venture funding rounds were allocated during the early startup stage (Seed). However, there was a difference in the relative distribution of financing rounds between the different types of founding teams during the early-growth stage (Series A).

> 11% Only 11% of female-only teams were granted venture capital during the early-growth stage, compared to both men-only and mixed-gender teams, who received 20% and 22% of their granted capital rounds at that stage, respectively.

Looking at this data a different way shows much the same thing. Figure 2 shows the absolute percentage distribution of venture capital funding rounds among the different types of teams for all start-ups and all venture-capital-financed companies, both at the start-up stage (Seed) and at the early-growth stage (Series A).

Figure 2: Percentage of companies by team type and reached stage



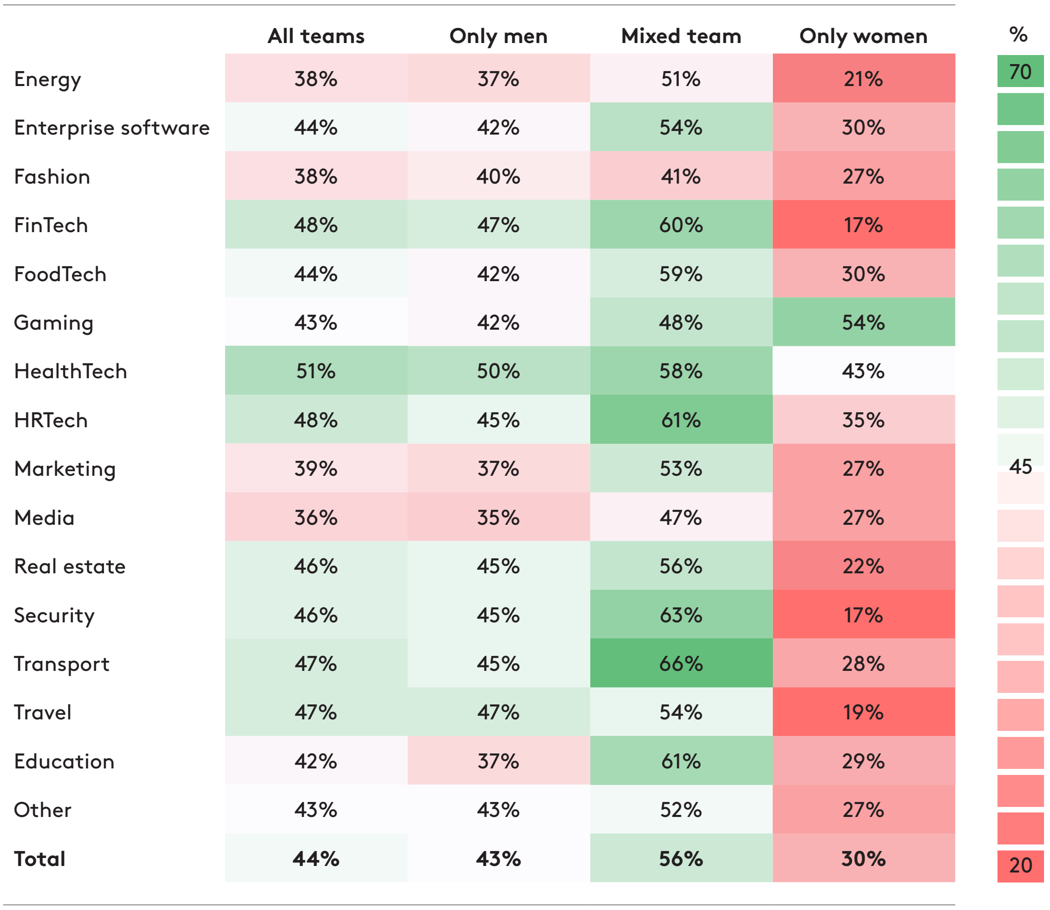
It may be noted that the number of founding teams consisting of only a single gender progressively decreases in later funding rounds, whereas the opposite trend may be seen with mixed founding teams.

> 6%
>
> Women-only teams represent 6% of all the companies founded, but only 2% of the companies that were allocated Series A venture capital.

Finding 2: In most industries, mixed-gender teams have a higher chance of raising venture capital than male-only or female-only teams

Figure 3 shows how venture capital financing has been distributed across different industries among the different types of founding teams. The percentages show the share of companies that raised venture funding compared to the number of companies founded.

Figure 3: Heatmap – Share of founded companies that raised venture funding



	All teams	Only men	Mixed team	Only women
Energy	38%	37%	51%	21%
Enterprise software	44%	42%	54%	30%
Fashion	38%	40%	41%	27%
FinTech	48%	47%	60%	17%
FoodTech	44%	42%	59%	30%
Gaming	43%	42%	48%	54%
HealthTech	51%	50%	58%	43%
HRTech	48%	45%	61%	35%
Marketing	39%	37%	53%	27%
Media	36%	35%	47%	27%
Real estate	46%	45%	56%	22%
Security	46%	45%	63%	17%
Transport	47%	45%	66%	28%
Travel	47%	47%	54%	19%
Education	42%	37%	61%	29%
Other	43%	43%	52%	27%
Total	**44%**	**43%**	**56%**	**30%**

Industry classification based on data from Dealroom.co

🟩 Overrepresented 🟥 Underrepresented

In Europe, the most companies were started in the FinTech, HealthTech, FoodTech, Enterprise Software, and Marketing industries between 2014 and 2018. The teams with only male entrepreneurs as well as those with mixed teams started more companies in the FinTech (3,102) and HealthTech (2,523) industries compared to other industries.

Female-only teams founded more companies in the HealthTech (252) and FoodTech (151) sectors than other areas. Female entrepreneurs were also comparatively more active in industries such as Fashion, Media, and Education compared to male entrepreneurs, while male entrepreneurs were more active in industries such as Enterprise Software, Transport, and Energy.

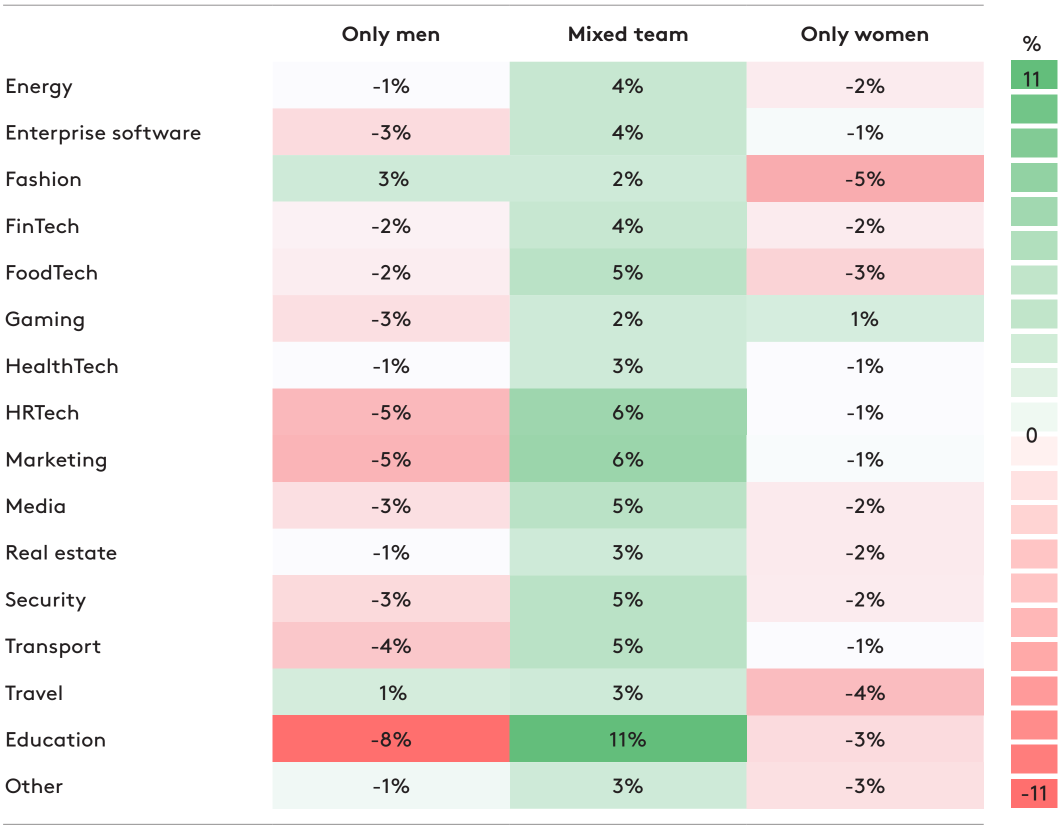
The “Other” category includes industries with fewer than 1,000 companies started during the time period, and includes dating, event technology, home, law, sports, music, robotics, semiconductor, and telecom.

One key finding shown in Figure 3 is that mixed-gender teams raised the most capital in all industries except the Gaming sector, which was the only sector where female-only teams were funded more often than male-only or mixed founding teams.

> Gender-diverse teams have the highest likelihood of success when raising venture capital.

All-women teams received the lowest number of financing rounds in the Security, FinTech, and Travel industries, with only 17% of female-run start-up companies in the Security and FinTech industries, and only 19% of female-run companies in the Travel industry receiving venture financing. This is considerably less than the two other types of founding teams received in any of the other sectors.

Figure 4: Comparison between share of companies started vs share of companies that received venture capital funding



	Only men	Mixed team	Only women
Energy	-1%	4%	-2%
Enterprise software	-3%	4%	-1%
Fashion	3%	2%	-5%
FinTech	-2%	4%	-2%
FoodTech	-2%	5%	-3%
Gaming	-3%	2%	1%
HealthTech	-1%	3%	-1%
HRTech	-5%	6%	-1%
Marketing	-5%	6%	-1%
Media	-3%	5%	-2%
Real estate	-1%	3%	-2%
Security	-3%	5%	-2%
Transport	-4%	5%	-1%
Travel	1%	3%	-4%
Education	-8%	11%	-3%
Other	-1%	3%	-3%

Industry classification based on data from Dealroom.co

🟢 Overrepresented 🔴 Underrepresented

An interesting trend regarding the relative amount of venture capital granted between the various types of founding teams can be seen in Figure 4, which compares the share of companies that raised venture funding to the share of companies started for each team type.

> For most industries, a smaller share of both male-only and female-only founding teams were funded.

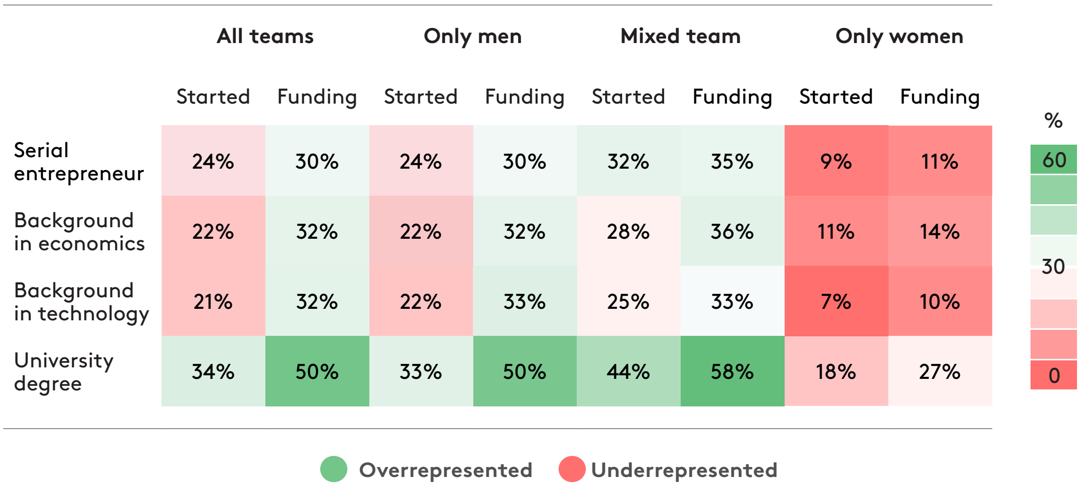
For example, even though male-only founding teams started 80% of the Enterprise software companies, only 77% of them raised venture capital, resulting in a -3% gap in the share of funded companies. Similarly, female-only founding teams started 17% of all fashion start-ups but only 12% of them received venture capital financing, resulting in a -5% gap. The absolute difference between the percentage of funding for men and women remains noteworthy.

An opposite trend can be seen for mixed-gender founding teams, which, for example, started 23% of the Education companies but had a 35% share of venture-funded companies in this sector (an 11% overrepresentation).

Finding 3: Background factors affect the ability to raise venture capital, but gender seems to play a larger role

Figure 5 shows how venture capital is distributed based on background factors such as whether the entrepreneurs have founded a company before, have a background in economics or technology, or have a university degree.

Figure 5: Share of founding teams with a given background factor among started and venture-funded companies



	All teams		Only men		Mixed team		Only women	
	Started	Funding	Started	Funding	Started	Funding	Started	Funding
Serial entrepreneur	24%	30%	24%	30%	32%	35%	9%	11%
Background in economics	22%	32%	22%	32%	28%	36%	11%	14%
Background in technology	21%	32%	22%	33%	25%	33%	7%	10%
University degree	34%	50%	33%	50%	44%	58%	18%	27%

● Overrepresented ● Underrepresented

When comparing these background factors, it becomes clear that they affect the ability of entrepreneurs to raise venture capital. For example, while only 34% of entrepreneurs who founded start-ups had university degrees, 50% of the entrepreneurs who were granted venture capital had degrees. The same disparity holds true for other background factors.

However, Figure 5 also shows that the gender of the founding teams plays an even more important role. 50% or more of both male-only and mixed-gender teams who received venture capital financing had university degrees. In contrast, less than 30% of female entrepreneurs who were granted venture capital had degrees. This pattern is consistent across all of the other background factors as well. Apparently, these background factors do not have the same positive effect for female founders as they do for male-only and mixed founding teams.

Finding 4: The female gender alone reduced the probability of a founder being allocated venture capital by 17%

The completed regression analysis supports the statistical findings presented above and shows that having a founding team consisting only of women correlates negatively with the possibility of being allocated venture capital.

> **17%** Based on a regression model, among all founders, all other factors being equal, being of the female gender alone reduced the probability of a founder being allocated venture capital by 17%.

At the same time, for mixed-gender teams, the probability of receiving funding increased by 8% when considering only the gender factor. This supports what we showed earlier that mixed-gender founding teams have the highest likelihood of success when raising venture capital.

Change is needed to secure an inclusive future for venture capital

Gender affects the ability to raise venture capital. The descriptive data show that women generally found fewer start-up companies compared to men. This leads to women, in absolute numbers, being granted less venture capital than men. It also means that women have less interaction with the venture capital networks in general, and highlights the structures in the venture capital industry that cannot be influenced by the entrepreneurs themselves. The negative correlation between the female gender and the ability to raise venture capital is supported by existing research, which shows that successful entrepreneurs are still portrayed as men today.

> “The real problem is not the women entrepreneurs themselves, or that women entrepreneurs should become more like the male entrepreneurs, but the current structure of the venture capital industry and perhaps even society as a whole. We should not try to fix the women who are active in the industry, but rather the structures within the industry itself.”
>
> — Catarina Cawén

Women today battle industrial barriers, organizational barriers, and interpersonal barriers when it comes to fundraising. The venture capital industry has a long tradition. And since it is historically male-dominated and its networks remain homogeneous, the rules, patterns of action, and practices created in this environment are primarily linked to the male gender. Studies show that the standards of pitching, feedback, and coaching, for example, tend to be associated with socio-psychological modes of action that can be directly linked to the male gender in nature. These patterns within the industry have not only maintained the exclusion of women in the past, but continue to hamper the ability of the VC industry to diversify today.

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