

DIVERSITY & THE BOTTOM LINE

Sophie Calder-Wang
Harvard University

Q1: What % of US venture capital partners are **women**

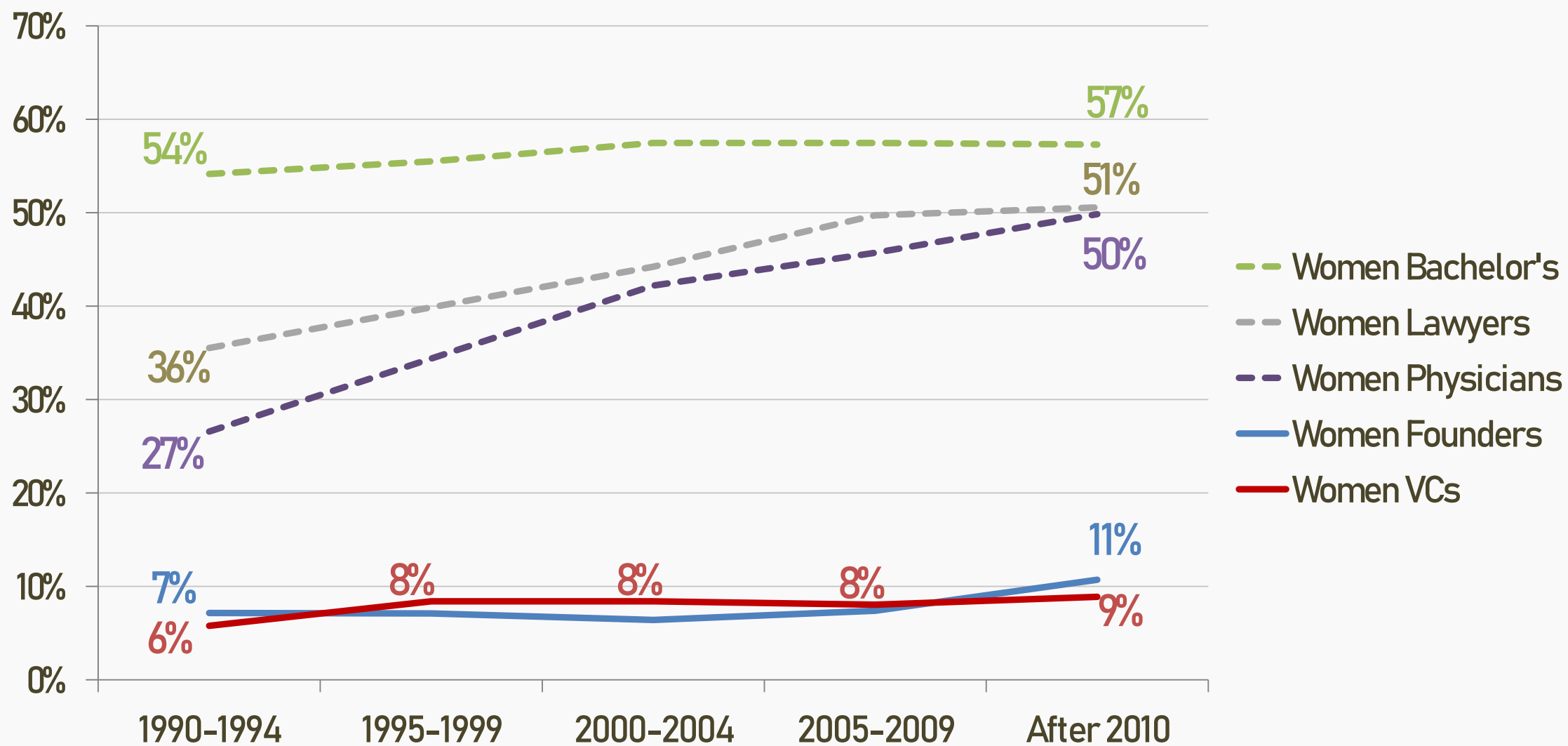
in the **1990s?** 7%

2000s? 8%

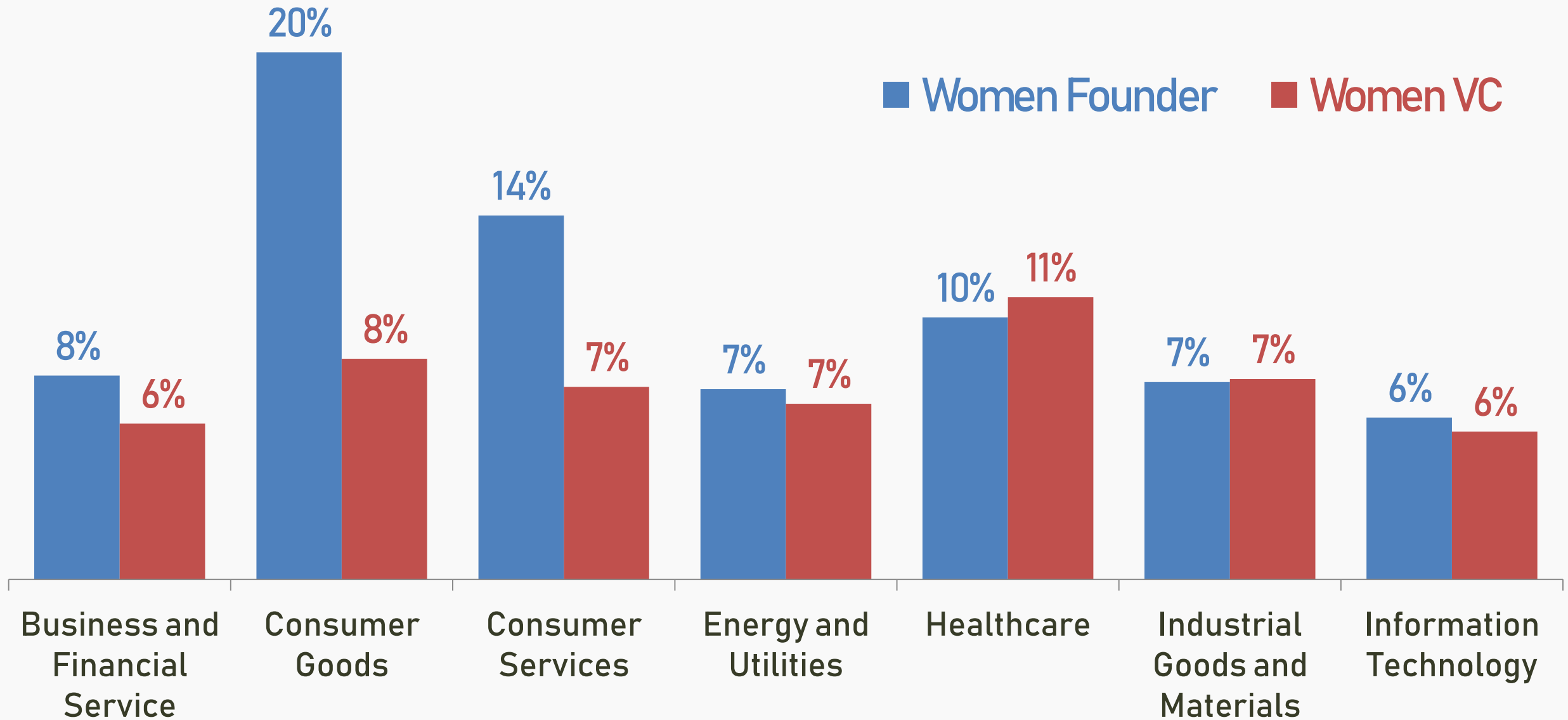
2010s? 9%

2020s? At this rate, it would take us **400** years before we reach 50%!

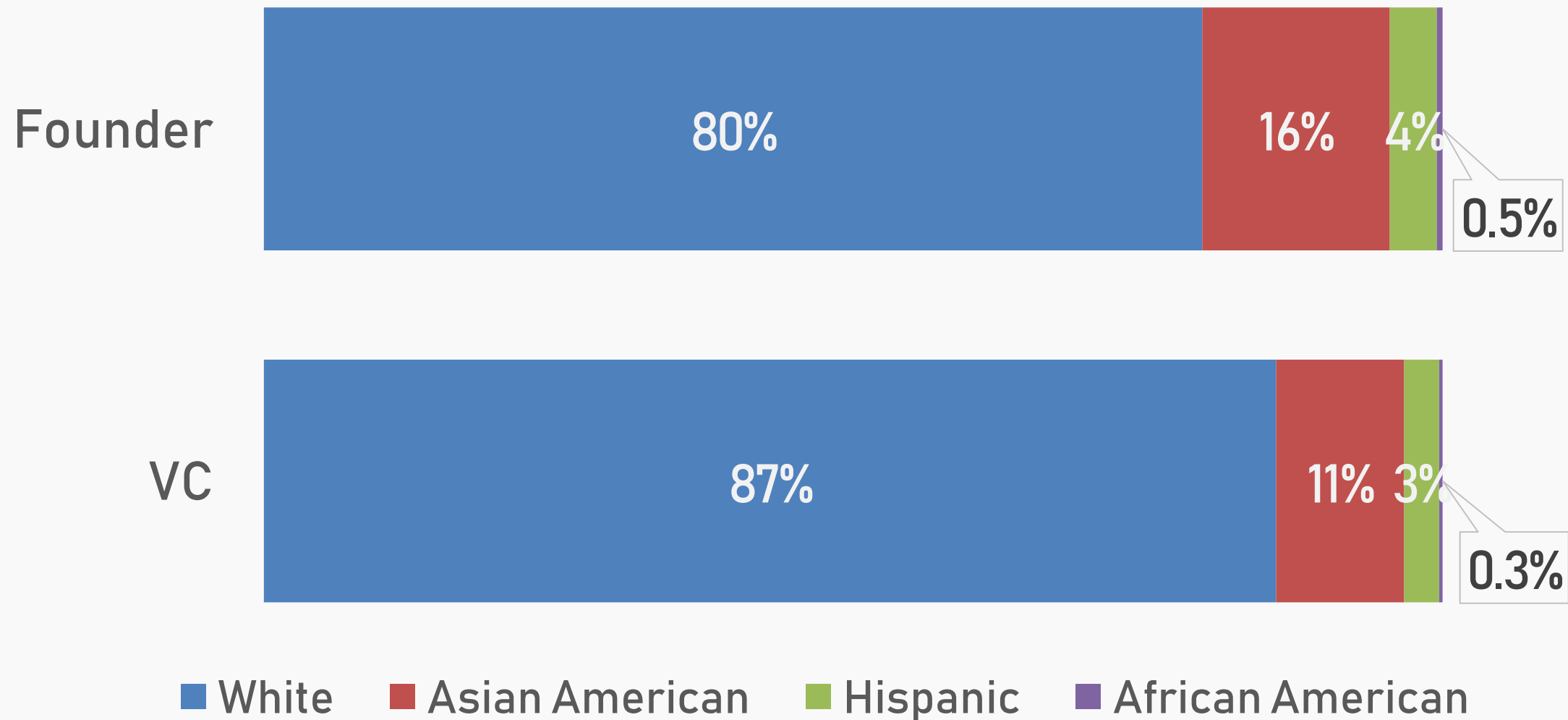
Women's entry rates into VC and entrepreneurship lags significantly behind other high-skilled sectors



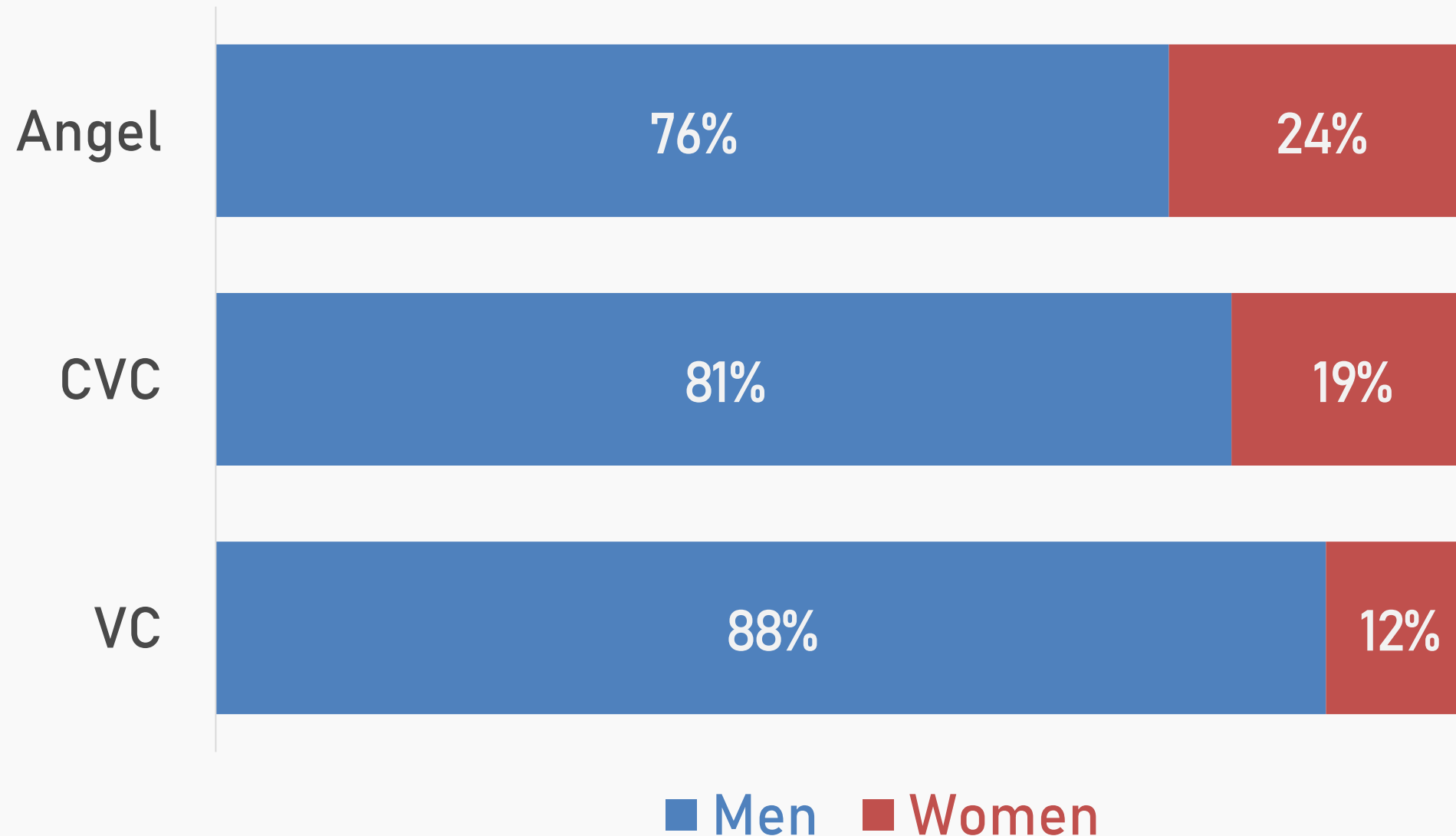
Variations across industries are larger for entrepreneurs than VCs



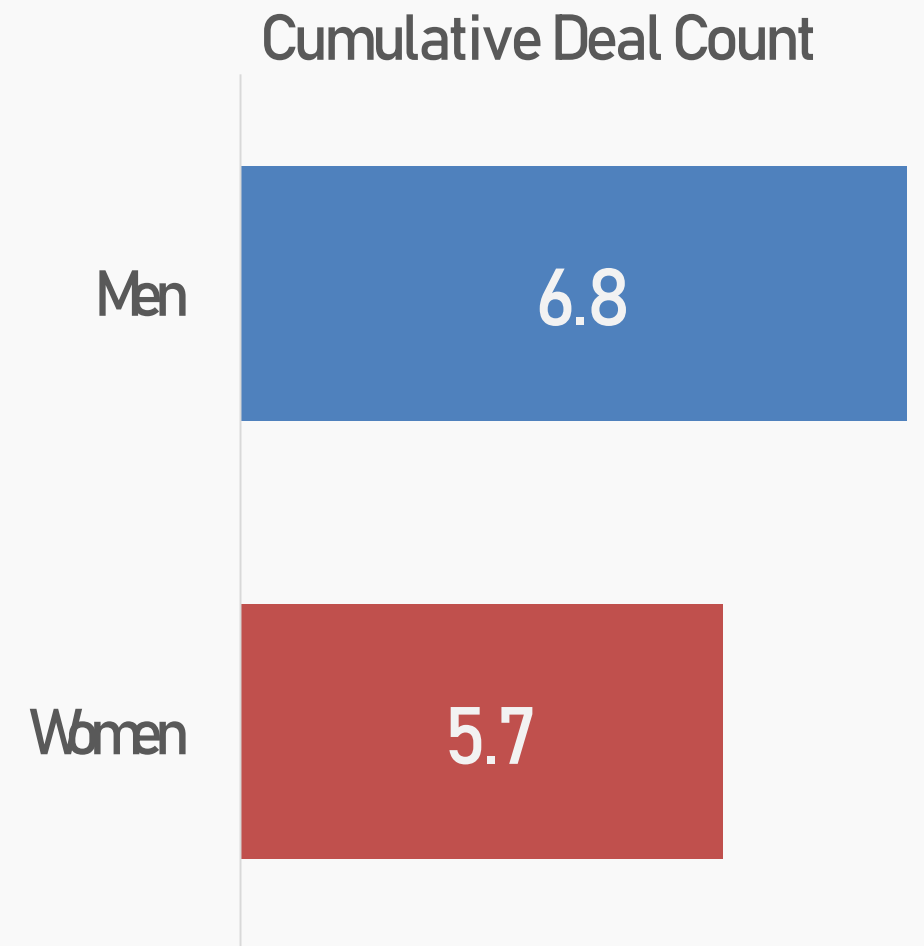
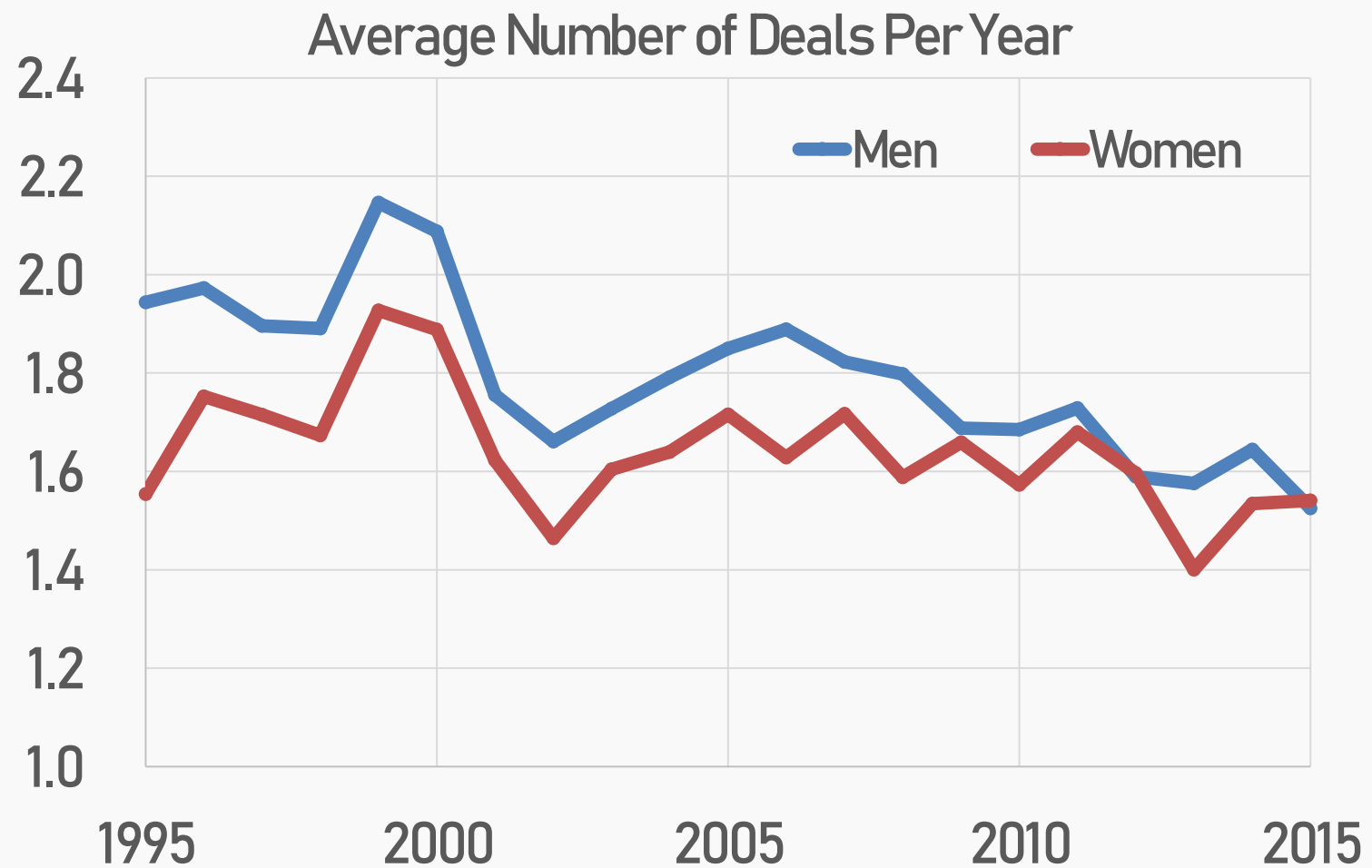
Within the innovation sector, venture capitalists are **less diverse** than entrepreneurs



Traditional VC is **less diverse** than angel groups and corporate venture capital among senior investment roles



Women venture capitalists also **make fewer deals** than men in their career. Gap is slowly **closing**.



Strong **affinity** between VC and founders:

Affinity along gender, ethnicity and school ties

Assuming a start-up founder is looking for venture financing, the **probability** of receiving it from a VC with the same characteristics is much higher:

- Women: 20%
- Minority: 100%
- Same college: 70%

Because of different networks, who becomes VC affects who gets VC financing.

Could we leverage such affinity to more effectively target and coach female entrepreneurs?

Q2: Does diversity improve performance?

Yes Greater gender diversity leads to better VC performance

But Can't "fake" it.
Forced diversity can lead to sub-optimal hiring, friction and resentment

Our views and **biases** are products of our **life experiences**.

Past research has shown that **parenting daughters** has a significant impact on how we view **gender**:

- Fathers show more support for gender equity
- Congress members vote more liberally on reproductive rights issues
- CEOs more likely to enact corporate policies that promote diversity

Is there a **daughters' effect** in venture capital?

Our research team needs to collect the data first.

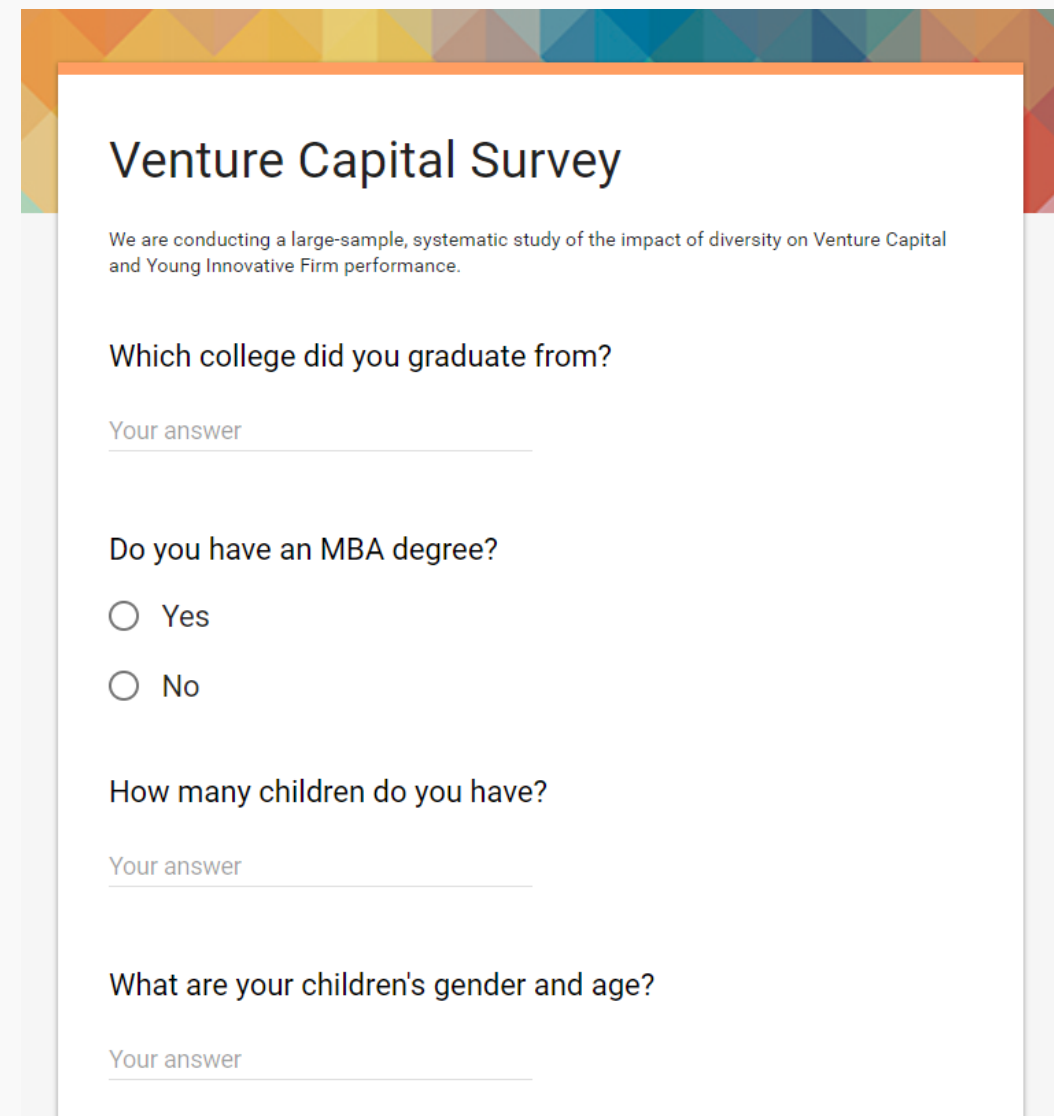
1. Reunion books:

Stanford, Harvard, Yale,
Princeton, Penn

Over 800 partners

2. Email surveys

Over 450 responses



Venture Capital Survey

We are conducting a large-sample, systematic study of the impact of diversity on Venture Capital and Young Innovative Firm performance.

Which college did you graduate from?

Your answer _____

Do you have an MBA degree?

Yes

No

How many children do you have?

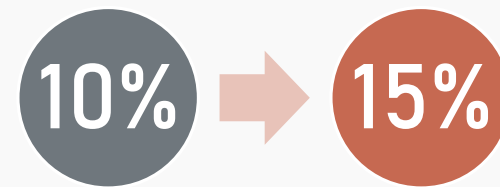
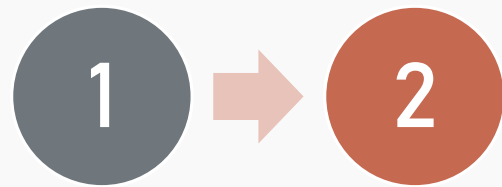
Your answer _____

What are your children's gender and age?

Your answer _____

We find parenting daughters leads to more **gender diversity**.

↑ 1 More Daughter ↑ 5% Women Hired



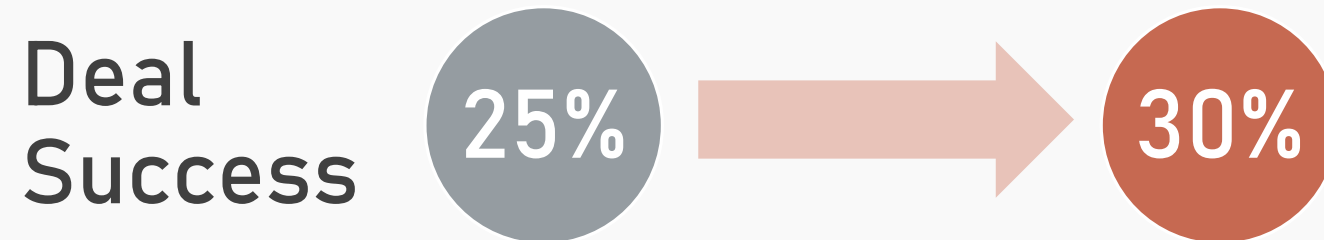
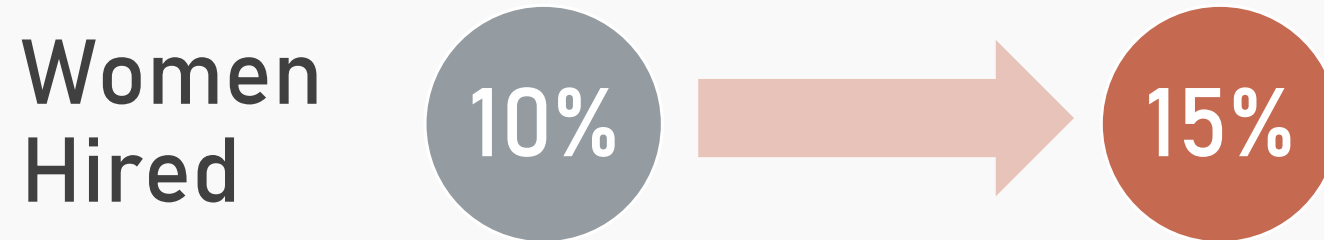
- The effects are dominated by **senior** partners' daughters, not junior partners
- The effects are larger for **teenage** daughters, than pre-teen daughters

We find parenting daughters leads to more **gender diversity**.

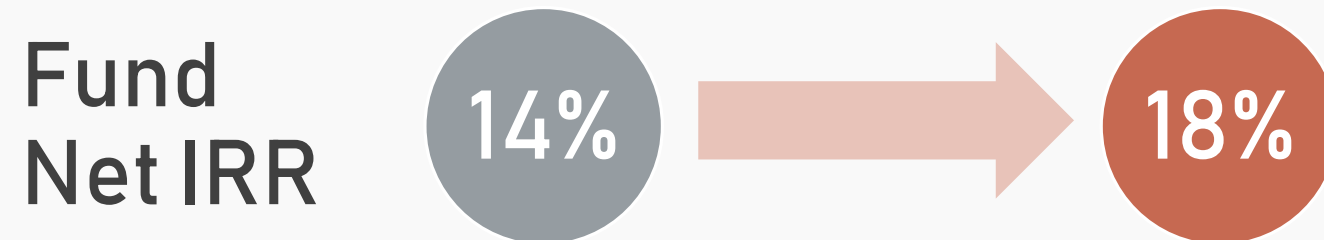


- Nature **randomizes** a child's gender.
- It induces an exogenous change in the gender diversity of the firm.
- If this change corresponds to better performance subsequently, you can conclude that gender diversity improves performance.
- It is not just correlation, but **causation**.

Greater gender diversity improves the bottom line



This is better performance
by **one standard deviation**



This is the difference
between the **top quartile**
fund and the **next quartile!**

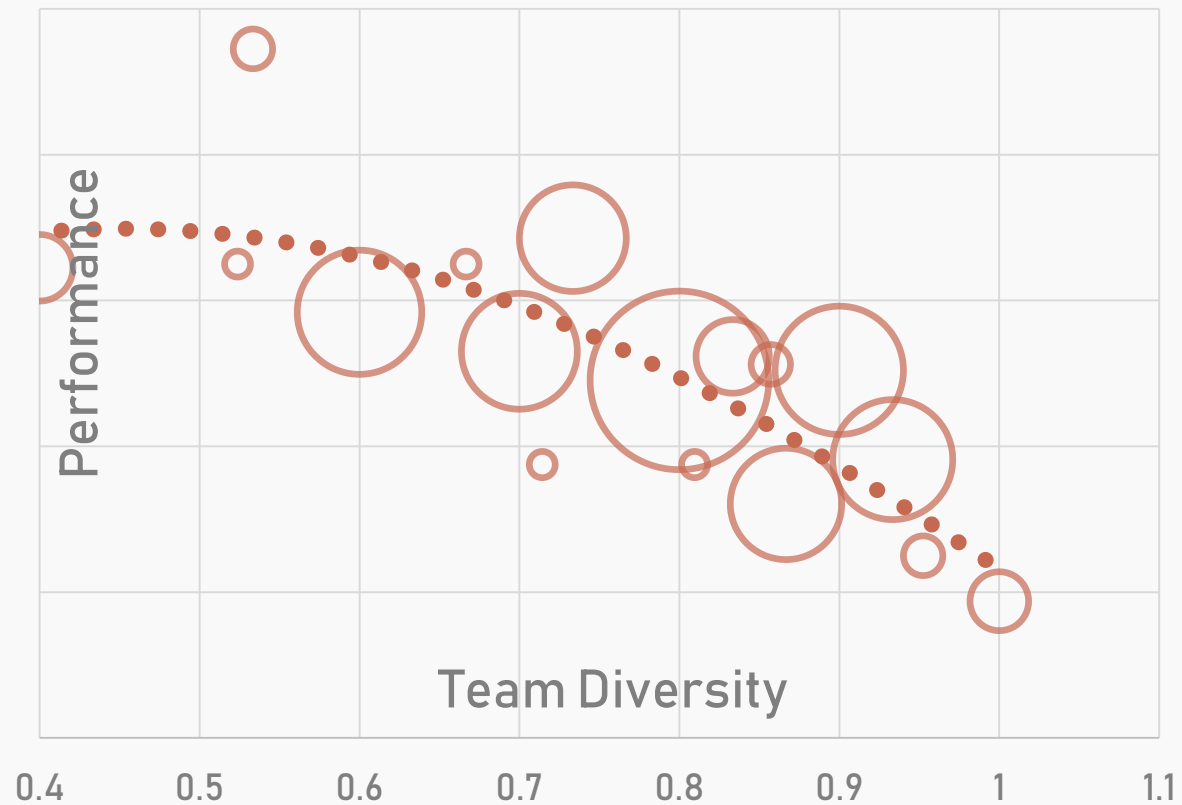
Why does diversity improve performance?

A number of possible explanations:

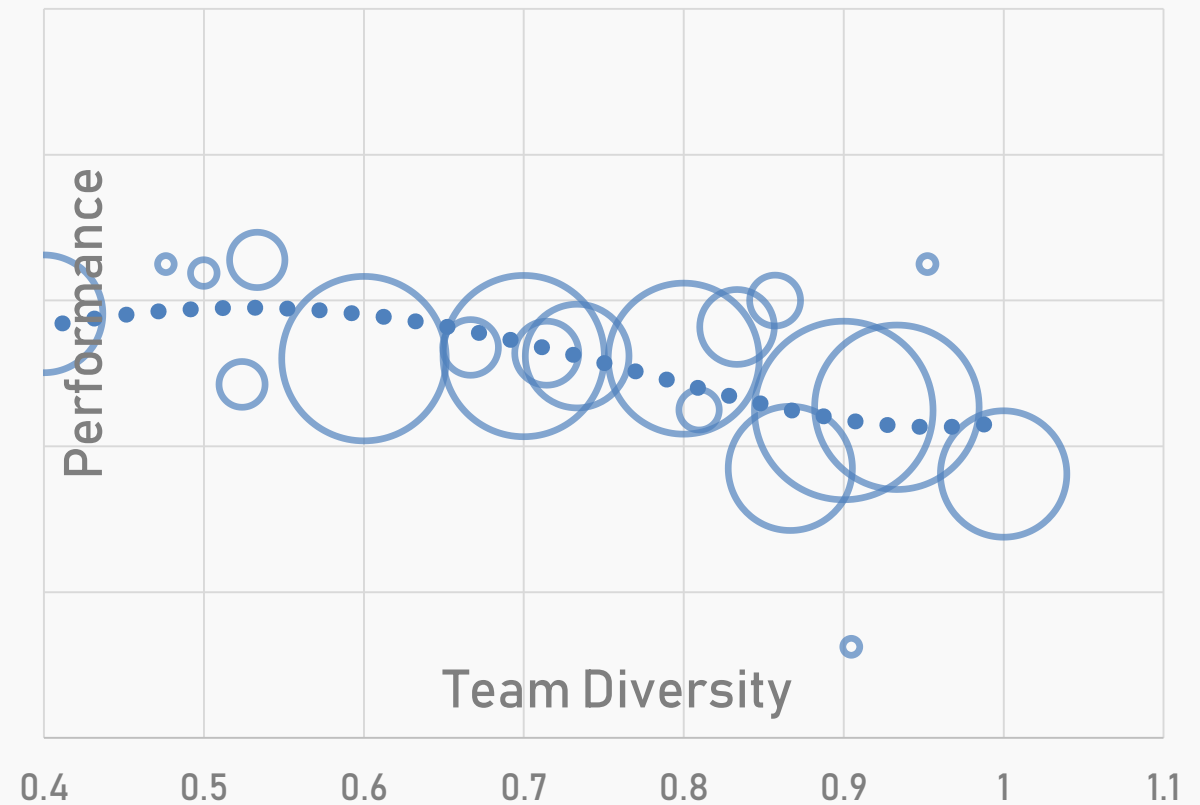
- Access to a wider set of **talents**
- Broaden the **deal flow**
- Improve **collective** intelligence

A **Cautionary** Tale Against Forced Diversity: HBS Field Course

Forced diversity **hurts**
performance



Organic diversity **restores**
performance



Conclusions and Next Steps

1. The lack of diversity in venture capital is stark and persistent
2. Gender diversity **improves VC performance**, but it can't be forced
3. Investigate **why** (genuinely) diverse teams help:
 - Talent vs. deal flow vs. collective intelligence
 - Crucial to convince more stakeholders
 - Participate in our pilot study!
4. Explore **how** to reap the diversity benefits:
 - Role models and mentoring
 - Systematic selection processes

Thank you!

Questions?

sophiecalderwang@g.harvard.edu

References:

Calder-Wang and Gompers, “[And the Children Shall Lead: Gender Diversity and Performance in Venture Capital](#)”, Harvard Business School Finance Working Paper No 17-104, 2017

Calder-Wang and Gompers, “[Homophily in Entrepreneurial Team Formation](#)”, Harvard Business School Finance Working Paper No 17-104, 2017

Calder-Wang and Gompers, “[Diversity and Innovation](#)”, NBER Working Paper No. w23082, 2017