# ADVANCING GENDER EQUALITY IN VENTURE CAPITAL: EVIDENCE-BASED INSIGHTS FOR VENTURE CAPITAL FIRMS

> **The venture capital industry has a lot to gain from greater diversity and inclusion of women in its ranks. Adding more women into the venture ecosystem – as investors, as founders, and as leaders of portfolio companies – is an evidence-based way to increase returns across the whole industry as VC firms with 10% more female investing partner hires make more successful investments at the portfolio company level; have 1.5% higher fund returns; and see 9.7% more profitable exits. Tapping into 100% of the talent pool is the smart thing and the right thing to do, but deeply ingrained industry culture, structural factors, and unconscious biases at the organizational and individual level can get in the way. The following research-based recommendations will help venture capital firms to level the playing field for women and men across the venture ecosystem by redesigning their practices to minimize bias and maximize diversity and inclusion.**

**1**   INSTITUTE MORE STRUCTURE INTO THE HIRING PROCESS FOR VC FIRMS AND PORTFOLIO COMPANIES

**1.1**   **Create formal and well-thought-out job descriptions.** Focus on required skills and competencies rather than check-the-box criteria (e.g., educational institution, past employer, or industry) and use inclusive, gender-neutral language to expand the talent pool you're reaching.

Evidence:

Gaucher, D., Friesen, J., & Kay, A. C. (2011). Evidence That Gendered Wording in Job Advertisements Exists and Sustains Gender Inequality. *Journal of Personality and Social Psychology, 101*(1), 109-128.

Stout, J. G., & Dasgupta, N. (2011). When he doesn't mean you: Gender-exclusive language as ostracism. *Personality and Social Psychology Bulletin, 37*(6), 757-769.

**1.2**   **Pre-determine evaluation criteria.** If the criteria for selection are not specified in advance, people tend to hire applicants who are similar to them regardless of qualifications. Agree upon your decision criteria and their relative importance before you start evaluating candidates.

Evidence:

Norton, M., Vandello, J., & Darley, J. (2004). Casuistry and Social Category Bias. *Journal of Personality and Social Psychology, 87*(6), 817-831.

Uhlmann, E., & Cohen, G. (2005). Constructed Criteria: Redefining Merit to Justify Discrimination. *Psychological Science, 16*(6), 474-480.

**1.3**   **Require diverse slates and balanced short lists in hiring.** Balanced candidate pools and shortlists lead to more diversity in hiring. Specifically, shortlists should have a minimum of two female and/or racially diverse candidates for them to have a fair shot at getting hired.

Evidence:

Johnson, S. K., Hekman, D. R., & Chan, E. T. (2016, April 26). If There's Only One Woman in Your Candidate Pool, There's Statistically No Chance She'll Be Hired. *Harvard Business Review.*

Samuelson, W., & Zeckhauser, R. (1988). Status quo bias in decision making. *Journal of Risk and Uncertainty, 1*(1), 7-59.

**1.4** **Implement structured interviews.** Structured interviews focus on skills and qualifications, enabling direct comparisons between candidates and thereby minimizing bias (see *Checklist for Structured Interviews*, pp. 5-6, for details).

> **Evidence:**
> Bohnet, I. (2016, April 16). How to Take the Bias Out of Interviews. *Harvard Business Review*.
> Dana, J., Dawes, R., & Peterson, N. (2013). Belief in the unstructured interview: The persistence of an illusion. *Judgment and Decision Making, 8*(5), 512–520.
> Levashina, J., Hartwell, C. J., Morgeson, F. P., & Campion, M. A. (2014). The Structured Employment Interview: Narrative and Quantitative Review of the Research Literature. *Personnel Psychology, 67,* 241-293.

**1.5** **Introduce work sample tests.** A work sample test that mimics the work candidates will actually do on the job – such as a coding exercise for a software engineering role, or a due diligence exercise for an investing role – is the most predictive hiring instrument and is less prone to unconscious biases than unstructured interviews or resume reviews. Develop a well-thought-out work sample test that allows you to evaluate candidates' skills for the type of work that they will be doing, and have all candidates take the same test to enable the most direct comparisons. Better yet, design an online test that you can evaluate anonymously, i.e., without knowing which submission belongs to which candidate, to reduce bias (see *3.4, Consider blind evaluations*, p. 3).

> **Evidence:**
> Schmidt, F. L., & Hunter, J. E. (1998). The Validity and Utility of Selection Methods in Personnel Psychology: Practical and Theoretical Implications of 85 Years of Research Findings. *Psychological Bulletin, 124*(2), 262-274.

**1.6** **Consider a centralized process for bundled hiring.** In bigger VC firms and portfolio companies with a greater hiring volume, recruit for multiple open positions at the same time, rather than one at a time (or pool hiring firmwide as opposed to having each Partner hire for themselves). Joint and simultaneous evaluation results in higher-quality decision-making through better calibration, less bias, and more diversity.

> **Evidence:**
> Bohnet, I., van Geen, A. V., & Bazerman, M. H. (2016). When Performance Trumps Gender Bias: Joint Versus Separate Evaluation. *Management Science, 62*(5), 1225-1234.
> Chang, E, H., Kirgios, E. L., Rai, A., & Milkman, K. L. (2019). *The Isolated Choice Effect and Its Implications for Gender Diversity in Organizations* (University of Pennsylvania Working Paper).

**2** **WITHIN THE VC FIRM, EQUALIZE ACCESS TO FEEDBACK, MENTORSHIP, AND RESOURCES FOR SUCCESS**

**2.1** **Distribute resources and opportunities to succeed equally.** Minimize gender gaps in work allocation by ensuring that developmental opportunities, such as work presentations, speaking slots at conferences, and board observer positions, are distributed equally. VCs can also influence work allocation in portfolio companies by, for example, asking members of the leadership team to rotate presentation turns. Besides work allocation, other critical resources for success include data, support staff, budgets, as well as honest, comparative feedback on performance.

> **Evidence:**
> Bohnet, I. (2017, October 3). Tackling 'the Thin File' That Can Prevent a Promotion. *The New York Times*.
> Madden, J. F. (2012). Performance-Support Bias and the Gender Pay Gap among Stockbrokers. *Gender & Society*, *26*(3), 488–518.
> Williams, J. C., & Multhaup, M. (2018, March 5). For Women and Minorities to Get Ahead, Managers Must Assign Work Fairly. *Harvard Business Review.*

**2.2** **Make sure that everyone has mentors both inside *and* outside the firm.** Male VCs mentor their intra-firm female colleagues less than male ones, which is associated with 15% lower investment performance for women. To maximize everyone's bottom line, ensure that female VCs have mentors both in their own firms as well as externally.

> **Evidence:**
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> Gompers, P. A., Mukharlyamov, V., Weisburst, E., & Xuan, Y. (2014). Gender Effects in Venture Capital. *SSRN Electronic Journal.*

# 3 STANDARDIZE AND DE-BIAS THE FUNDING AND PITCHING PROCESS

**3.1** **Implement structured pitch sessions.** Formalizing the pitch process will level the playing field for founders and enable better, more objective, and less biased decision-making. This includes standardizing questions asked of founders and pre-determining evaluation criteria (see *Checklist for Structured Interviews*, pp. 5-6, for details).

> **Evidence:**
>
> Bohnet, I. (2016). *What works: Gender equality by design*. Cambridge, Massachusetts: The Belknap Press of Harvard University Press.
>
> Kanze, D., Huang, L., Conley, M. A., & Higgins, E. T. (2018). We Ask Men to Win and Women Not to Lose: Closing the Gender Gap in Startup Funding. *Academy of Management Journal, 61*(2), 586-614.

**3.2** **Assess pitches independently first, then discuss as a team.** To minimize the negative impact of groupthink and other cognitive biases on the evaluation process, first develop an independent assessment of the venture before conferring with fellow investors.

> **Evidence:**
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> Janis, I. (1982). *Groupthink: Psychological studies of policy decisions and fiascoes (2nd ed.)*. Boston: Houghton Mifflin.

**3.3** **Evaluate pitches and ventures jointly and simultaneously.** More diversity and more objective decision-making emerge when we make multiple decisions jointly and simultaneously as opposed to sequentially. Instead of assessing each pitch in isolation, compared multiple pitches against each other to calibrate your judgments.

> **Evidence:**
>
> Bohnet, I., van Geen, A. V., & Bazerman, M. H. (2016). When Performance Trumps Gender Bias: Joint Versus Separate Evaluation. *Management Science, 62*(5), 1225-1234.
>
> Chang, E, H., Kirgios, E. L., Rai, A., & Milkman, K. L. (2019). *The Isolated Choice Effect and Its Implications for Gender Diversity in Organizations* (University of Pennsylvania Working Paper).

**3.4** **Consider blind evaluations of pitch decks.** Taking founders' demographic information, such as gender and race, out of the equation will prevent unnecessary biases from impacting funding decisions. In the first round of review, consider having founders submit information for consideration through an electronic form so that personal information can be removed or blinded.

> **Evidence:**
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> Goldin, C., & Rouse, C. (2000). Orchestrating Impartiality: The Impact of 'Blind' Auditions on Female Musicians. *American Economic Review, 90*(4), 715–741.
>
> Rinne, U. (2018). Anonymous job applications and hiring discrimination. *IZA World of Labor, 48*(2).

**3.5** **Expect investors to explain reasoning when female and minority founders are not funded.** Female founders already face an uphill climb to securing venture funding because they don't fit the (white, male) stereotype of a successful entrepreneur. Asking investors to explain their judgments – especially when counterstereotypical founders or ventures are about to be rejected – reduces the likelihood of biased decisions by giving VCs a chance to sense-check their gut.

> **Evidence:**
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> Kalev A., Dobbin, F., & Kelly, E. (2006). Best Practices or Best Guesses? Assessing the Efficacy of Corporate Affirmative Action and Diversity Policies. *American Sociological Review, 71*, 589–617.

**3.6** **Provide constructive, specific, actionable feedback to founders.** Female founders have less access to mentorship and coaching than their male counterparts, so feedback from investors is important to give them an equal chance at success in the long term.

> Evidence:
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> Ramaswami, A., Dreher, G. F., Bretz, R., & Wiethoff, C. (2010). Gender, mentoring, and career success: The importance of organizational context. *Personnel Psychology, 63*(2), 385-405.

## 4 TRACK DIVERSITY AND INCLUSION-RELATED DATA TO EXPOSE INEQUITIES AND SET TARGETS TO REMEDY THEM

**4.1** **Track diversity and inclusion data for the VC firm and all of its portfolio companies.** What gets measured gets done, and vice versa. Knowing your data will help you decide where to focus your efforts and deploy your resources for maximum impact (see *Recommended Diversity Data to Track in VC Firms and Portfolio Companies*, p. 7, for details).

> Evidence:
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> Harkin, B., Webb, T. L., Chang, B. P., Prestwich, A., Conner, M., Kellar, I., … Sheeran, P. (2016). Does monitoring goal progress promote goal attainment? A meta-analysis of the experimental evidence. *Psychological bulletin*, *142*(2), 198-229.

**4.2** **Set diversity and inclusion targets for the VC firm and all of its portfolio companies.** Targets help to focus energies, marshal resources, and institute accountability for results. They should relate directly to the metrics that are being tracked. Diversity and inclusion targets within a firm should be ambitious yet realistic, and collectively agreed-upon.

> Evidence:
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> Epton, T., Currie, S., & Armitage, C. (2017). Unique Effects of Setting Goals on Behavior Change: Systematic Review and Meta-Analysis. *Journal of Consulting and Clinical Psychology, 85*(12), 1182-1198.

**4.3** **Assign specific accountability for meeting diversity and inclusion goals.** Assigning accountability for diversity efforts and outcomes is an evidence-based method to bring about positive change. Accountability can lie within a single individual in smaller firms or a combination of individuals and task forces in larger firms.

> Evidence:
>
> Kalev A., Dobbin, F., & Kelly, E. (2006). Best Practices or Best Guesses? Assessing the Efficacy of Corporate Affirmative Action and Diversity Policies. *American Sociological Review, 71*, 589–617.

**4.4** **Consider sharing some data, goals, and/or progress publicly.** Data disclosure and transparency are essential to building a social movement toward greater diversity and inclusion in venture capital. Sharing data will also help keep VC firms and individual VCs accountable for driving progress.

> Evidence:
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> Lerner, J., & Tetlock, P. (1999). Accounting for the Effects of Accountability. *Psychological Bulletin, 125*(2), 255-275.

# CHECKLIST FOR STRUCTURED INTERVIEWS

**Traditional, unstructured interviews where candidates get asked whatever questions interviewers want are a breeding ground for bias because they do not allow for direct and objective comparisons across candidates. Instead, they give interviewers the freedom to base their questions and evaluation on personal opinions and experiences, making them susceptible to such biases as *homophily,* or our tendency to bond with similar others*; the *halo effect*, in which an initial positive impression colors how we perceive a person overall; *confirmation bias*, which leads us to favor evidence that confirms our existing beliefs and ignore evidence that challenges them; and the *peak-end rule,* where we make judgments based on the most intense and memorable experiences rather than the average or overall experience. Structured interviews minimize these problems because they focus on job qualifications; enable direct comparisons across candidates; and thereby lessen the impact of unconscious biases.**

**The checklist below is intended for interviews in a hiring context and has been adapted from Bohnet (2016). It can also be modified for use in the entrepreneurial pitch process and in pitch meetings to increase standardization and to ensure fair, unbiased, and objective treatment of all founders and their ventures.**

## BEFORE THE INTERVIEW:

❑ **Determine the target number of interviews (use your own data!).** There is no magic "correct" number of interviews – this varies from one company to the next. Track your patterns over time and determine how many interviews you need to conduct before candidates' scores start to converge and additional interviews yield no meaningfully new information.

❑ **Determine a list of questions in advance (use your own data!).** Ideally, the questions you ask in interviews are actually predictive of people's performance on the job (similarly, questions asked of founders in pitches should ideally help predict the future success of their venture). Start tracking the questions that are asked in job interviews and their correlation with employees' success on the job.

## DURING THE INTERVIEW:

❑ **Interview one-on-one (no group interviews).** As humans, we are prone to *groupthink* whereby we subtly and unconsciously influence each other's decision-making. Multiple interviewers are not able to produce genuinely independent assessments of a candidate; rather, they will influence each other's perceptions. Therefore, interviews should always be conducted one-on-one to yield the best data.

❑ **Ask questions in same order and stick to it.** Following this practice will enable the least biased and most direct comparisons across candidates (see *recency bias* below).

❑ **Score answers to each question separately and score immediately afterwards.** *Recency bias* causes our minds to overweight the most recent information and discount earlier data. By scoring each answer in the moment, your evaluation of an earlier question will not influence your evaluation of the candidate's performance on the current question.

❑ **Be aware of your biases.** While simply being aware of your biases isn't enough to eliminate their effects, remembering that your brain isn't a perfect decision-making machine will allow you to examine and re-examine your impressions and check for overtly biased assessments.

## AFTER THE INTERVIEW:

❑ **Compare answers to questions across candidates, one question at a time.** For the most accurate and unbiased comparisons, assess all candidates' responses to a particular question to calibrate your judgments and minimize the impacts of *homophily, recency bias,* and the *halo effect*.

❑ **Use pre-assigned weights for each question to calculate a total score.** In case all interview questions are not weighted equally, weights should be pre-assigned to prevent *confirmation bias* whereby we seek evidence that confirms our existing opinions (and to prevent us from re-tooling systems to yield the results we want to see).

❑ **Submit your scores to the lead evaluator.** Each interviewer or evaluator should evaluate a candidate independently to minimize *groupthink*; the lead evaluator (which can be software) should simply collect and compile all scores and share them in aggregate.

❑ **Meet as a group to discuss controversial cases and calibrate.** Any group discussion should occur at the very end of the hiring process to minimize *groupthink* and the influence of any power and status dynamics on decision-making.

HARVARD Kennedy School
**WOMEN AND PUBLIC POLICY PROGRAM**
*Ask what you can do to create gender equality*

# RECOMMENDED DIVERSITY DATA TO TRACK IN VC FIRMS AND PORTFOLIO COMPANIES

> The following is a list of recommended data for VC firms and their portfolio companies to collect and track regarding diversity and inclusion. These data and metrics may not be applicable to all firms and contexts, so the list below should be viewed as a starting point. While examples are given for gender, the same data could be collected and tracked by any category of diversity (e.g., race, LGBTQ status, disability).

## HIRING AND DEMOGRAPHIC DATA

- ❑ **Full workforce** by gender, race, level, and function
- ❑ For VC firm: **total workforce of all portfolio companies** by gender, race, level, and function
- ❑ Number and percentage of female and male **job applicants** by role/level and by channel (referrals, networks, own website/LinkedIn/other job sites, campus recruiting etc.)
- ❑ Number and percentage of female vs. male **candidates hired**, broken down by level

## PROMOTION, PERFORMANCE EVALUATION, AND DEVELOPMENT DATA

- ❑ Number and percentage of women and men **promoted**, broken down by level
- ❑ **Tenure in previous role before promotion**, broken down by gender and level
- ❑ **Performance scores and evaluations** given to women and men, broken down by level/rank, tenure in the organization, tenure in the current role etc.
- ❑ **Correlation between performance scores and promotions** by gender
- ❑ **Professional development and developmental programs**, e.g., leadership trainings, by gender (both who is invited to participate and eventual attendance)
- ❑ **Work/project assignment** by gender

## COMPENSATION DATA

- ❑ **Total compensation** by gender, controlling for level, office/geography, tenure, education, etc. (analyze all possible components of pay: salary, equity, performance bonuses, discretionary awards from peers/managers etc.)
- ❑ **Starting pay for new hires** in the organization, controlling for level, office/geography, tenure, education, etc.

## OTHER DATA

- ❑ Number and percentage of **employees leaving the organization**, broken down by gender, level, and tenure at company at the time of exit
- ❑ **Qualitative data from satisfaction/engagement surveys or exit interviews** (analyze by gender to identify any gaps)

## DEAL SOURCING DATA

- ❑ **Meetings taken** by founders' gender
- ❑ **Formal pitches heard** by founders' gender
- ❑ **Investments ultimately made** by founders' gender