

An Investigation of Venture Capital in Women- and Minority-led Firms

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Subcontractors: Dr. Patricia G. Greene, Dr. Myra M. Hart, Dr. Nancy Carter, Dr. Elizabeth Gatewood
CB Associates, 590 Washington St., Duxbury, Mass. 02332
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Purpose

A substantial body of venture capital research examines equity fund flows, investor criteria, and the nature of the relationship between investors and owners exists, but little research focuses on women- and minority-led ventures. This research attempts to identify the extent to which women- and minority-led businesses are utilizing equity capital, and whether or not there are disparities in the amount and timing of venture capital. This preliminary glimpse of venture capital investment in women- and minority-led firms is needed to offer assistance to policymakers, and to point to research directions for future study of equity investment in women- and minority-led ventures.

Scope and Methodology

The researchers used two data sets. First, they conducted a literature review and analyzed the nature of the venture capital industry. Using *Pratt's Guide to Venture Capital*, they created a proprietary database reflecting women's involvement in the venture capital industry in 1995 and 2000. These data provide a summary of women's participation and their roles in venture capital companies.

Second, they analyzed the *Venture Economics* data set, which focuses on private equity investments by venture capital firms over a period of more than 30 years. The analyses considered business location, size, industry, and business sector, which enabled them to create a picture of venture capital investment in women-led-firms over time and to test for gender differences. Although the data set specified gender

and minority identification in its collection procedures, there were no minority data available. Therefore, the researchers collected anecdotal information on minority access to capital through a website search and follow-up phone calls.

Highlights

Women business results:

- A very small percentage of investments are made in women-led ventures for all years, but a slight increase in investments occurred recently (between 1995 and 1998).
- Women-led ventures more likely to receive funding are those in early stages, located in the West and Northeast, and in computer hardware/software business sectors.
- Investments in women-led ventures differ from those in men-led ventures by business sector and stage of investment.
- Regional initiatives designed to advance venture capital investment did not appear to specifically target women or minority businesses.
- Present trends suggest women-led ventures are faring better than they were previously. However, the proportion of funds that women-led ventures receive remains extremely small. This raises the possibility that women could be "left behind" in the wealth creation process.

Minority business results (because of data limitations, results are limited):

- Venture capital funds, angel investment programs, and organizations providing equity funding to minorities focused their efforts on businesses specializing

in computer and information systems, health care services, and communications.

- Regional initiatives designed to advance venture capital investment did not appear to specifically target women- or minority-led businesses.

- Recent minority businesses investment conferences were fostering networking and contacts among members.

- Minority women seeking capital may face greater barriers than white women or minority men.

Ordering Information

The full text of this report and summaries of other studies performed under contract to the U.S. Small Business Administration's Office of Advocacy are available on the Internet at www.sba.gov/advo/research.

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