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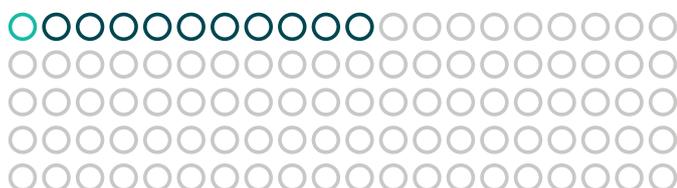
# Bridging the gender gap impacting female founders



The venture capital (VC) and private equity (PE) landscapes in the UK are pivotal in driving innovation and growth. Despite their importance, there exists a notable gender gulf in funding allocation for female founders, and even more so for Black and Asian female founders.

## All about the data

The statistics paint a stark picture. The percentage of UK female-founded startups receiving VC investments over the past five years has hovered between 1% and 2%<sup>1</sup>, a staggering underrepresentation considering the country’s thriving startup ecosystem and amount of capital raised over that period. This gap impedes the growth and success of female-led ventures and limits the diversity and innovation potential of the UK startup scene, ultimately hindering today’s scaling businesses from becoming the household names of tomorrow. A 2021 report on VC gender diversity from the British Business Bank revealed that for every £1 of investment, all-women founder teams receive less than one pence, whilst mixed-gender teams receive around 10 pence<sup>2</sup>.



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Closing the funding gulf is essential for our economy. The Alison Rose Review of Female Entrepreneurship found that £250 billion could be added to the UK economy if women started and scaled new businesses at the same rate as men (equivalent to four years of economic growth)<sup>3</sup>. According to BCG, female-founded companies deliver twice as much revenue per dollar invested despite receiving less than half of the investment capital of their male peers<sup>4</sup>.



In recent years, there has been an increased focus on tracking this critical data—through important reports such as this one by PitchBook, through initiatives such as the Gender Index (the first accurate analysis of UK companies by gender), and through the efforts of the Investing in Women Code. Such data highlights the issues within VC and PE and is now easily accessible, allowing regular benchmarking for us to hold the industry accountable.

## Understanding the causes

So what factors are driving this marked gulf?

- Dominance of male-centric industries receiving capital**  
The contrast between funding for male-centric tech industries and female technology (femtech), which focuses on women’s health, is a clear example of this imbalance. Tech industries focused on software or artificial intelligence (AI) attract significant VC investment, whilst femtech, despite its importance for half the population, struggles to gain support. This raises a broader issue in VC funding: Sectors crucial to women’s health and well-being are being overlooked, leading to a lack of innovation in these areas.
- Networking biases play a significant role**  
Investors often fund within their networks, creating a cycle in which funding becomes more accessible to those within a like-minded circle. This echo chamber effect limits the diversity of entrepreneurialism, inadvertently reinforcing gender and cultural homogeneity in the types of businesses and innovations that receive support.
- Economic turbulence worsens the gap**  
In response to recent economic uncertainty, VCs have become risk-averse, restricting the amount of capital they deploy and typically reverting to familiar, proven investments, which do not often include ventures led by underrepresented groups such as women. This conservatism narrows the scope for innovative investments, further widening the funding gap.

1 [“Women Miss Out on AI Venture Capital Investment, New Analysis Finds,” The Alan Turing Institute, October 4, 2023.](#)  
 2 [“UK VC & Female Founders Report,” British Business Bank, n.d., accessed January 25, 2024.](#)  
 3 [“The Alison Rose Review of Female Entrepreneurship,” NatWest Group, Alison Rose DBE and Kevin Hollinrake MP, February 22, 2023.](#)  
 4 [“Why Women-Owned Startups Are a Better Bet,” BCG, Katie Abouzahr, et al., June 6, 2018.](#)

## Lessons from the past

During the 2008 financial crisis, investors veered away from less conventional ventures, including those led by women or minorities, leaving them struggling for funding. In emerging sectors, such as clean energy and sustainability, female-led startups faced significant challenges.

Learning from this, we must ensure that critical sectors are not overlooked. For example, reduced investment in female-led AI startups presents significant concerns about the development of AI platforms leading to unrepresentative solutions. Without sufficient investment in female founders, there is a risk of perpetuating existing biases in AI applications, limiting their potential to address societal challenges in critical fields such as healthcare, education, and social services, where AI can make significant impacts. Equitable investment in female founders is essential for the holistic and responsible development of AI technologies.

The Alan Turing Institute's recent report "Rebalancing Innovation: Women, AI and Venture Capital in the UK" found that gender imbalance also exists in VC decision-making teams, with only 5% having equal or majority female representation.<sup>5</sup>

It also found that female-founded AI startups receive:

- Less than 3% of total VC funding, with all-female teams getting only 0.3% of capital.
- On average, only 15% (£1.3 million) of the average capital raised by all-male teams (£8.6 million).

**5%** Equal or majority female representation in VC decision-making teams

## Inequality beyond just funding

Beyond the headlines, we need to develop the conversation around inequalities continuing to impact female founders on their journey. Data shows that women typically agree to lower valuations and relinquish more equity than men for equivalent investment levels, leading to lower ongoing valuations for further investments—and resulting in a more rapid dilution of their ownership of their companies.<sup>6</sup> The rate at which women own less of their companies, as equity investments increase, is almost twice that of men: a 25% reduction compared to 13%.<sup>7</sup> This may lead to less strategic control and a lack of motivation to attract further investment—with female-powered businesses also facing a lack of resources.

Reduction in ownership as equity investment increases



5 ["Rebalancing Innovation: Women, AI and Venture Capital in the UK," The Alan Turing Institute, Dr. Erin Young, Judy Wajcman, and Julia De Miguel Velazquez, 2023.](#)

6 ["Top 200 Female Powered Businesses," J.P. Morgan and Beauhurst, April 2021.](#)

7 Ibid.



## Efforts to bridge the gap

Despite these challenges, there are growing efforts to bridge the gender gap in VC funding. Representing a step in the right direction, the UK's Investing in Women Code commits firms to improving female entrepreneurs' access to tools, resources, and finance.

It will require a collaborative effort to move the dial, involving:

- **More than basic mentorship**  
Moving beyond basic mentorship means creating specialised educational programs that delve into the nuances of VC funding and entrepreneurship; developing programs tailored to address the unique challenges faced by women and underrepresented groups; and empowering through advanced skills, insights, and confidence.
- **Broadening investment criteria**  
VC firms must adopt inclusive investment criteria to recognise the potential of diverse businesses, evaluating ventures on their potential to innovate and contribute to diverse markets. VCs should promote behaviours to eliminate gender bias, conscious or not, which still exist in the decision-making process. Adopting improved recruitment and promotion processes, fostering an inclusive culture, monitoring investment practices, and diversifying the ecosystem is essential.
- **Building inclusive communities**  
The creation of communities and ecosystems that support and uplift female entrepreneurs is crucial. They offer more than just funding; they can provide mentorship, networking opportunities, and a platform for collaboration, fostering a supportive environment for women-led startups to thrive.

This approach requires government, industry bodies, and VC firms to set incentives and targets for hiring and promoting women, increasing transparency, supporting flexible working environments, and addressing potential biases in investment decisions. It involves broadening the access to talent and actively promoting diversity in team compositions and investment choices.

This content was originally produced for Pitchbook's report: [\*\*European All In: Female Founders in the VC Ecosystem\*\*](#)

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## Shoosmiths' involvement in closing the funding gap

The creation of an ecosystem to support and uplift female entrepreneurs was the key driver behind the formation of Shoosmiths' spHERE network for founders and venture capitalists. Its goal is to create a forum for meaningful networking opportunities, helping to address the disparities that exist between female and male entrepreneurs, by connecting companies at all stages of their lifecycles with investors. In 2023, we hosted our spHERE Summit "Leading Successful Change," featuring Grace Beverley (founder and CEO of fitness brand TALA), Caroline Plumb OBE (CEO of Gravita), and other successful female influencers from academia, the private and public sectors, and retail banking. The event aimed to inspire and action real change to break down barriers.

Building on the amazing work of the spHERE network, with a second summit on the horizon for 2024, Shoosmiths is a proud partner of the Gender Index, which provides a detailed picture of where gender gaps exist in the small to medium sized enterprise (SME) space.

As the most active law firm advising on VC deals in the UK (and the second most active in Europe), Shoosmiths is proud to use its platform to support female founders on their funding journey and to proactively play a part in closing the funding gap through our collaborations and partnerships.

### **Helen Burnell**

CORPORATE PARTNER AND  
HEAD OF SHOOSMITHS' SpHERE NETWORK

**FOR  
WHAT  
MATTERS**