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STILL A MAN'S WORLD? SECOND GENERATION GENDER BIAS IN EXTERNAL EQUITY TERM SHEET NEGOTIATIONS

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Women increasingly start and lead growth ventures yet receive a small proportion of external equity funding. Term sheet negotiation is a pivotal moment for obtaining growth capital. We employ a multi-method, mixed mode research design to explore strategies of women entrepreneurs who have negotiated term sheets and discuss our quantitative findings. Results indicate that women entrepreneurs in our sample worked hard to achieve optimal outcomes yet come up short because of exogenous and endogenous factors linked to second generation gender bias in the negotiation process. Propositions for future research are generated given the results of this exploratory research.

Keywords: Gender; term sheet negotiation; private equity; external equity; multi-method, mixed mode research design.

1. Introduction

Women entrepreneurs still obtain only a small amount of total external equity investment despite being increasingly involved in high growth ventures. There is a great deal of research on the different stages of the external equity investment process; however, much less is focused on term sheet negotiation that determines investments in growth ventures. Negotiated outcomes regarding valuation, anti-dilution protection, board representation and other issues can have detrimental effects after a deal is completed if care is not taken to manage the negotiation process and outcomes.

This paper originated after reviewing the literature on gender-related differences in negotiation styles, originally published by Babcock and Laschever (2003). If the authors were correct in their proposition that women were less proficient in their negotiation styles, then female entrepreneurs seeking external equity from venture capitalists (VCs) and/or

business angels could be significantly handicapped in the term sheet negotiation process. This exploratory research seeks to examine female entrepreneur negotiation strategies when obtaining external equity. In the next section we review existing research on gender and term sheet/contract negotiation and present our research questions. The third section discusses the multivariate analyses and we share the findings gleaned from statistical analyses, which suggest term sheet negotiations for external equity are highly idiosyncratic and no single set of strategies can be prescribed. The research methodology chosen to examine these questions was a multi-method, mixed mode design that integrates both quantitative and qualitative data collection and uses social networking sites for data collection. We discuss the implications of these results and generate propositions for future research.

2. The External Equity Investment Process and Term Sheet Negotiation

An extensive amount of existing research is focused on the external equity investment process, which includes equity transactions with both VCs and business angels. Some researchers have investigated the entire investment process (Paul *et al.*, 2007; Riding *et al.*, 2007; Fried and Hisrich, 1994; Mason and Harrison, 1996; Tyebjee and Bruno, 1984) while others focus on particular parts or stages of the investment process such as pre-investment procedures (Mittens *et al.*, 2012; Mason and Harrison, 2002), negotiation and decision-making (Amatucci and Swartz, 2011; Nelson *et al.*, 2009; Kelly and Hay, 2003; Landström *et al.*, 1998; Harrison *et al.*, 1997) or the post-investment period (Shepherd and Zacharakis, 2001; Parhankangas and Landström, 2003; Kelly and Hay, 2003). Compared to other stages in the investment process, there appears to be a dearth of research on contract, or term sheet, negotiation processes. Amatucci *et al.* (2008) first identified the topic of combining gender and external equity negotiation processes as a potential gap in entrepreneurship finance research.

2.1. Gender and negotiation

The organizational behavior, psychology and conflict management fields provide an established body of research on gender and negotiation (Bowles, 2013; Stuhlmacher and Walters, 1999). Research findings by Babcock and Laschever (2003, 2008) show gender differences in the negotiating process with women appearing to be more satisfied with less optimal outcomes than men. Much of the early research suggests negotiation is a man's game with women encountering a significant disadvantage (Bowles and Kray, 2013).

Recently more refined research has examined various social, situational and psychological factors that can influence the gender and negotiation outcomes. A second generation of researchers (Bowles *et al.*, 2005), proposed a contingency approach that moved away from strict adherence to preconceived gender-related stereotypes and sought contextual variables that moderated the gender-negotiation relationship. Consistent with this, Riley and McGinn (2002) point out that "sometimes gender matters, and sometimes it does

not.” They contend that a higher degree of “structural ambiguity” and the presence of “gender triggers”^a increase the effect of gender on negotiation expectations, behavior and performance. Similarly, [Bowles and Kray \(2013\)](#) suggest situational factors include (1) the degree of ambiguity in expected outcomes; (2) the role of female stereotype threat activation where women feel a need to behave in a manner that is consistent with the gender stereotype; (3) role incongruence where women may fear a social backlash against them when adopting more aggressive behavior typically associated with men; (4) ascribed power differentials; and (5) social cues such as face-to-face negotiations versus by computer. Although not focused on gender, [Brooks and Schweitzer \(2011\)](#) identify anxiety as a moderating variable in the negotiation process. Other factors include whether one is negotiating for self or on behalf of others ([Chen and Chen, 2012](#)) and the gender composition of the dyad ([Eriksson and Sandberg, 2012](#); [Bowles and Flynn, 2010](#)).

2.2. Gender, negotiation and external equity

Very little research exists on the role of gender on term sheet negotiations in the external equity investment process. In considering the impact of gender on financing female-owned ventures, [Constantinidis, Cornet and Asadei \(2006\)](#) call for more programs to develop knowledge in areas such as accounting, business plan development and human resource management, as well as behavioral skills, such as assertiveness and negotiating aptitude. In their study of female entrepreneurs who succeeded in obtaining business angel investment, [Amatucci and Sohl \(2004\)](#) found several respondents who, in retrospect, wished they asked for more and admitted that they under-estimated the financial needs of their ventures. Additionally they expressed concerns about not understanding some of the “hidden costs” such as subordinated debentures, anti-dilution or extra legal fees.

[Amatucci and Swartz \(2011\)](#) conducted an exploratory qualitative study of twelve female entrepreneurs who negotiated for external equity financing and found that effective negotiating strategies included: seeking a cooperative win-win situation, extensive use of metrics, using the same negotiators throughout the negotiation event, conducting several shorter sessions rather than one long one and knowing when to walk away from the table. Ineffective negotiation strategies included: being too aggressive or pushy, having long sessions and poor time management and under-estimating how much capital to ask for.

[Nelson et al. \(2009\)](#) suggest that women’s experiences in securing venture capital (VC) can best be understood by employing a sociological perspective that makes sense of women’s behaviors through the lens of institutional theory and symbolic interactionism. Therefore, the focus shifts from the gender divide to other social factors to explain the observed differences in participation rates in VC between male and female entrepreneurs. They posit that VC interactions inhabit a space highly circumscribed by a particular

^a[Riley and McGinn \(2002\)](#) define structural ambiguity as “the degree of potential variation in a party’s interpretation of the economic structure of the negotiation.” Examples of gender triggers include “gender-based social roles” and “gender-based performance stereotypes.”

cultural-cognitive environment. Therefore, the focus should be on the preparedness of the individual to participate in the VC game and that understanding the rules is as important as participating in the game. Moreover, respondents reported evidence of a shadow negotiation process that underpins the actual negotiation process (Kolb and Williams, 2000, 2003). This shadow process exhibits manifestations of second generation negotiation gender bias processes, including a lack of female role models in the VC industry, gendered career paths and occupations, a lack of network and sponsor access, homophily, and the double-bind that women face between being respected or being liked at work (Ibarra *et al.*, 2013). More subtle than outright discrimination, second generation bias is no less real or debilitating in the effect it can have on performance in the workplace.

In summary, negotiating a term sheet or contract is an important stage of the external equity investment process; yet, there is a lack of understanding of how gender plays out in this negotiation domain. An abundance of research examining the role of gender and negotiation processes emanates from organizational behavior, psychology and conflict management. Given the low representation of female entrepreneurs receiving external equity financing and the paucity of research focused on the term sheet negotiation process, we address a significant gap in the literature by applying the frameworks from these other disciplines to term sheet negotiations. The specific research questions we address are as follows:

- (1) Are female entrepreneurs' negotiating styles problematic as they participate in term sheet/contract negotiation for external equity investment?"
- (2) What strategies have been effective in closing the deal for female entrepreneurs?
- (3) What are some of the major challenges to closing a successful deal for female entrepreneurs?

3. Methods

3.1. Sample and procedures

Our sample consists of female entrepreneurs who negotiated for external equity with either VCs or business angels. All completed an online survey instrument containing quantitative and qualitative prompts. Survey instrument construction, piloting and data collection took place between 2010 and 2014. Female entrepreneurs were recruited through conventional networks and online social media sites used by female entrepreneurs. Respondents were recruited through other nodes in the conventional networks of the researchers, such as entrepreneur support organizations, professional associations and alumni groups. Data were gathered through posting a link to a questionnaire on a web-based online platform, Qualtrics, which allowed for anonymous completion. The multi-method, mixed mode research design (Gartner and Birley, 2002; Neergaard and Ulhoi, 2007) allowed us to organically include women who may or may not be actively involved with groups that advance the cause of female entrepreneurs; hence, our sample reflects the larger population of individuals who are building companies through raising external equity funding. A total of 52 responses were gathered and 39 were usable.

4. Results

4.1. Analyses and variables

Descriptive and multivariate analyses were conducted; this paper focuses on the multivariate analyses used to explore the relationship between negotiation outcomes, entrepreneur/firm/investor characteristics and strategies, using three separate dependent variables, all dichotomous. The first — “funding” — represented the percentage of funding sought that was actually raised. The second dependent variable — “equity” — represented the percentage of equity the entrepreneur had to give up to secure funding. The third dependent variable was “satisfied” and represented those entrepreneurs who described themselves as totally satisfied with the terms of their contract. Appendix A provides definitions for all variables used in this analysis. Given that both dependent and independent variables were dichotomous, the logistic regression procedure within SAS was used to conduct our multivariate analysis. The relatively small size of our sample limited us to four or five independent variables within each model.

4.2. Multivariate results

As stated above, to explore the relationship between negotiation outcomes, entrepreneur/firm/investor characteristics and strategies, we conducted multivariate analyses using three separate dependent variables. Regarding “funding,” those firms raising 90 percent or more of the funding sought were assigned a value of “1.” For the “equity” variable, those entrepreneurs who relinquished 25 percent or less of equity were assigned a value of “1.” Finally, for the “satisfied” variable, those entrepreneurs who described themselves totally satisfied with the terms of their contract were assigned a value of “1.”

4.2.1. Negotiation outcomes: Funding

Our first logistic regression model examined the relationship between the percentage of funding that was raised and the characteristics of the entrepreneur, her firm and the investor. It is written as follows:

$$\text{MODEL 1: Funding} = a + B_1 \text{ seeking} + B_2 \text{ negotiate} + B_3 \text{ age} + B_4 \text{ industry} + B_5 \text{ invmale} + e$$

Where the variable “seeking” represents the total amount of capital sought. It is possible that entrepreneurs requesting smaller amounts of capital are more likely to get the full amount requested. The variable “negotiate” identifies those entrepreneurs who had prior experience in negotiating term sheets. Given the complexity of the process, this experience should serve as an advantage. The variable “age” represents the age of the entrepreneur. Younger entrepreneurs (age 40 or less) may experience greater difficulty negotiating with investors who may have used age as a proxy for experience and maturity. The variable “industry” separates out those firms that are in either biotech or internet related fields. These industries may be particularly appealing to investors because of their growth and harvest potential. Finally, the variable “invmale” denotes investors or investor teams that are male rather than female or mixed gender. Prior research suggests negotiating outcomes

are affected by the gender mix of the parties participating in the negotiation. Prior research also suggests a certain degree of “homophily” in the investing process, which can have the effect of placing female entrepreneurs at a disadvantage. The results of Model 1 are included in Table 1 and reveal the variables representing age and industry were both positive and significant.

Thus, older entrepreneurs and entrepreneurs launching either biotech or internet-related firms have a greater likelihood of raising most or all of the funding requested. As suggested, the entrepreneur’s age may serve as a proxy for experience and maturity. Older entrepreneurs also have had more years to develop their professional networks, which can then be tapped for funding. Our results also confirm that industries typically associated with rapid growth and attractive harvest options have greater appeal to investors and are therefore more likely to raise the full amount of capital sought. Alternatively, neither the

Table 1. Characteristics of Individuals Engaged in Negotiation Process.

Model Fit Statistics					
Criterion	Intercept Only		Intercept and Covariates		
AIC	46.149		46.474		
SC	47.675		55.632		
-2 Log L	44.149		34.474		
Testing Global Null Hypothesis: BETA = 0					
Test	Chi-Square		DF	Pr > ChiSq	
Likelihood Ratio	9.6746		5	0.0850	
Score	8.3849		5	0.1363	
Wald	5.6651		5	0.3402	
Analysis of Maximum Likelihood Estimates					
Parameter	DF	Estimate	Standard Error	Wald Chi-Square	Pr > ChiSq
Intercept	1	-2.9320	1.7216	2.9006	0.0885
Seeking1	1	0.5550	1.0299	0.2904	0.5900
Negotiate	1	-0.9280	0.9880	0.8822	0.3476
Age	1	3.4699	1.5265	5.1670	0.0230
Industry	1	2.3475	1.2557	3.4948	0.0616
Invmale	1	1.1282	0.9905	1.2973	0.2547
Odds Ratio Estimates					
Effect	Point Estimate		95% Wald Confidence Limits		
Seeking1	1.742		0.231 13.114		
Negotiate	0.395		0.057 2.741		
Age	32.133		1.613 640.200		
Industry	10.459		0.893 122.566		
Invmale	3.090		0.443 21.533		
Association of Predicted Probabilities and Observed Responses					
Percent Concordant	75.8		Somers' D		0.553
Percent Discordant	20.5		Gamma		0.575

amount of capital sought nor the entrepreneur's prior experience in negotiating term sheets had a significant impact on the percentage of capital actually raised. Similarly, dealing with a male investor or male investment team did not appear to represent a disadvantage for female entrepreneurs within this context. We found the results pertaining to prior experience rather surprising because it would seem that entrepreneurs who have negotiated for external equity before have an advantage in doing so again. However, our findings may suggest that the process of raising external equity is highly idiosyncratic. Thus, past experience may not be a reliable predictor of future success.

Whereas Model 1 examines the characteristics of the individuals engaged in the negotiation process, Model 2 explores the effect of different strategies and their impact on the percentage of capital that was raised and is written as follows:

$$\text{MODEL 2: Funding} = a + B_1 \text{ advisory} + B_2 \text{ internet} + B_3 \text{ talkent} + B_4 \text{ ventfair} + B_5 \text{ genmale} + e$$

As in the Model 1, Model 2 uses the percentage of funding obtained as the dependent variable. The first independent variable "advisory" indicates whether or not the entrepreneur had a formal advisory board. In theory, a board of advisors with the appropriate skills and expertise should help prepare the entrepreneur for the negotiation event. The second variable "internet" identifies those entrepreneurs who used the internet as a way to gather information about the negotiation process. The variable "talkent" represents those entrepreneurs who prepared for their negotiation by talking to an experienced entrepreneur. We anticipate that this strategy would have a beneficial effect by allowing the entrepreneur to share in the knowledge and experience of someone else who has gone through the negotiating process. The variable "ventfair" identifies entrepreneurs who attended venture fairs and events to learn about the process of negotiating term sheets. The final variable — "genmale" — represents female entrepreneurs who used a male as their primary negotiating agent. This strategy may be a response to the expectation of "homophily" referenced above. The results of Model 2 are presented in Table 2 and suggest two strategies that increased the likelihood of raising at least 90 percent of the funding requested. These strategies included using the internet to gather information and using a male as the entrepreneur's principal negotiator. Although not always accurate, the internet does include a wealth of both factual and anecdotal information that may help female entrepreneurs prepare for term sheet negotiations. The significance of the variable representing the use of a male negotiator is similarly important, because it seems to confirm either the existence or expectation of homophily in the investment process. In essence, this finding suggests female entrepreneurs feel that they will not get a fair shake if they try to negotiate for themselves.

Two additional variables in this analysis, advisory and talkent, were actually significant and negative. Thus, entrepreneurs who use these two strategies were less likely to raise 90 percent or more of the funding requested. These are not results we anticipated. It is possible that the process of negotiating term sheets is so situation specific that advice from others is less beneficial and may actually give the entrepreneur a false sense of security. Another possible explanation is that advisors and experienced entrepreneurs may

Table 2. Impact of Negotiation Strategies on Percentage of Capital Raised.

Model Fit Statistics					
Criterion	Intercept Only		Intercept and Covariates		
AIC	49.092		41.589		
SC	50.675		51.090		
-2 Log L	47.092		29.589		
Testing Global Null Hypothesis: BETA = 0					
Test	Chi-Square	DF	Pr > ChiSq		
Likelihood Ratio	17.5029	5	0.0036		
Score	14.3734	5	0.0134		
Wald	8.2971	5	0.1406		
Analysis of Maximum Likelihood Estimates					
Parameter	DF	Estimate	Standard Error	Wald Chi-Square	Pr > ChiSq
Intercept	1	1.1144	1.0271	1.1772	0.2779
Advisory	1	-2.4143	1.1432	4.4600	0.0347
Internet	1	2.7175	1.2543	4.6943	0.0303
Talkent	1	-2.9370	1.3745	4.5656	0.0326
Ventfair	1	0.6433	1.2520	0.2640	0.6074
Genmale	1	2.3574	1.2457	3.5814	0.0584
Odds Ratio Estimates					
Effect	Point Estimate	95% Wald Confidence Limits			
Advisory	0.089	0.010 0.841			
Internet	15.143	1.296 176.939			
Talkent	0.053	0.004 0.784			
Ventfair	1.903	0.164 22.134			
Genmale	10.564	0.919 121.383			
Association of Predicted Probabilities and Observed Responses					
Percent Concordant	84.9	Somers' D	0.729		
Percent Discordant	12.0	Gamma	0.752		

encourage female entrepreneurs to raise larger amounts of capital to fund anticipated growth or guard against unforeseen events. These larger requests could have the effect of lowering the percentage of funding awarded relative to that requested.

4.2.2. Negotiation outcomes: Retention of equity

Our second set of logistic regression models examined the extent to which the entrepreneur was able to retain equity in her firm through the negotiation process. This outcome is closely linked to the issue of valuation, which our entrepreneurs cited as their most important concern in the negotiation process in our qualitative results. As in our first funding model, our first equity retention model examines the effect of owner, firm and

investor characteristics on the entrepreneur's ability to retain a high percentage of equity in her firm. The model is written as follows:

$$\text{MODEL 3: Equity} = a + B_1 \text{ seeking} + B_2 \text{ negotiate} + B_3 \text{ age} + B_4 \text{ industry} + B_5 \text{ invmale} + e$$

In this instance, the dependent variable "equity" denotes those entrepreneurs who gave up 25 percent of equity or less. The independent variables used in Model 3 are the same variables used in our initial funding model (Model 1). As in the case of Model 1, we anticipate that firms seeking smaller amounts of capital would give up smaller percentages of equity. Similarly, we anticipated that entrepreneurs with prior negotiating experience would retain larger equity shares as would older investors. In terms of industry, it is our expectation that entrepreneurs launching firms with the potential for rapid growth and harvest have a stronger bargaining position in terms of their ability to retain equity. Our final independent variable — "invmale" — represents cases in which the entrepreneur was negotiating with an all-male team of investors. Prior research attests to the lack of women in senior decision-making roles in angel and VC organizations. In light of that, we anticipate that male investors may have more experience in negotiating complex issues such as valuation. The results of Model 3 are included in Table 3 and the model reveals that the only significant variable included in the equity model was the variable representing industry. Thus, as predicted, entrepreneurs launching firms in growth-oriented sectors with the potential for harvest were able to retain a larger share of equity in their firms at the conclusion of the negotiation process. Conversely, the variables representing the amount of funding sought, prior negotiating experience, the entrepreneur's age and the investor's gender were not significant.

Whereas Model 3 examined the impact of entrepreneur, firm, and investor characteristics on the percentage of equity retained by the entrepreneur, Model 4 examines the effect of different strategies on her ability to retain equity and is written as:

$$\text{MODEL 4: Equity} = a + B_1 \text{ advisory} + B_2 \text{ internet} + B_3 \text{ talkent} + B_4 \text{ genmale} + e$$

In this instance, the dependent variable "equity" is paired with the same independent variables used in the second funding model (Model 2). We anticipate the entrepreneurs with a formal advisory board have access to expertise that would enable them to retain a larger share of equity. Similarly, using the internet to gather information and talking to an experienced entrepreneur were both strategies that were significant and positive in the funding model. Thus, we anticipate those strategies would be beneficial in negotiations pertaining to equity. We deleted the independent variable representing attendance at venture fairs and events (ventfair) because that did not appear to be an effective strategy in our Model 2 results. Our final variable — "genmale" — identifies those entrepreneurs who used males as their principal negotiating agents. As in the case of "internet" and "talkent," the "genmale" variable was significant in our second funding model. The results of Model 4 are presented in Table 4 and reveal that the only variable that was significant in predicting the entrepreneur's ability to retain at least 25 percent of the equity in her firm was the strategy of using a male as her principal negotiating agent.

Table 3. Effect of Owner, Firm and Investor Characteristics on Retention of Equity.

Model Fit Statistics					
Criterion	Intercept Only		Intercept and Covariates		
AIC	47.234		48.695		
SC	48.760		57.853		
-2 Log L	45.234		36.695		
Testing Global Null Hypothesis: BETA = 0					
Test	Chi-Square	DF	Pr > ChiSq		
Likelihood Ratio	8.5388	5	0.1289		
Score	7.5699	5	0.1816		
Wald	5.8766	5	0.3184		
Analysis of Maximum Likelihood Estimates					
Parameter	DF	Estimate	Standard Error	Wald Chi-Square	Pr > ChiSq
Intercept	1	-2.0550	1.4566	1.9905	0.1583
Seeking1	1	0.5018	1.1625	0.1864	0.6660
Negotiate	1	-1.4982	1.0293	2.1187	0.1455
Age	1	1.2888	1.1813	1.1903	0.2753
Industry	1	2.6579	1.1480	5.3603	0.0206
Invmale	1	-0.1155	0.9107	0.0161	0.8991
Odds Ratio Estimates					
Effect	Point Estimate	95% Wald Confidence Limits			
Seeking1	1.652	0.169 16.123			
Negotiate	0.224	0.030 1.681			
Age	3.628	0.358 36.748			
Industry	14.267	1.504 135.371			
Invmale	0.891	0.150 5.309			
Association of Predicted Probabilities and Observed Responses					
Percent Concordant	75.1	Somers' D	0.564		
Percent Discordant	18.7	Gamma	0.602		

As in the case of our Model 2 results, this finding confirms either the existence or expectation of gender bias in the negotiating process. Thus, female entrepreneurs deliberately use men as negotiators on their behalf because they are less confident they will be able to negotiate favorable outcomes on their own. Alternatively, other strategies, including having a formal advisory board, using the internet to gather information, or talking to experienced entrepreneurs were not effective when it came to retaining equity. These results combined with those for Model 1 provide further evidence of the highly idiosyncratic nature of external equity negotiations. Our findings for Model 4 further suggest that issues of valuation are highly company and situation specific. Thus, there is no universally accepted strategy or set of rules that can be gleaned from advisors, mentors, or even by one's own past experience.

Table 4. Effect of Different Negotiation Strategies on Retention of Equity.

Model Fit Statistics					
Criterion	Intercept Only		Intercept and Covariates		
AIC	48.180		51.422		
SC	49.735		59.199		
-2 Log L	46.180		41.422		
Testing Global Null Hypothesis: BETA = 0					
Test	Chi-Square	DF	Pr > ChiSq		
Likelihood Ratio	4.7575	4	0.3131		
Score	4.4759	4	0.3454		
Wald	3.9536	4	0.4123		
Analysis of Maximum Likelihood Estimates					
Parameter	DF	Estimate	Standard Error	Wald Chi-Square	Pr > ChiSq
Intercept	1	-1.4425	0.8721	2.7356	0.0981
Advisory	1	0.3498	0.7740	0.2043	0.6513
Internet	1	0.7214	0.7793	0.8569	0.3546
Talkent	1	-0.7930	0.8484	0.8737	0.3499
Genmale	1	1.4751	0.8694	2.8788	0.0898
Odds Ratio Estimates					
Effect	Point Estimate	95% Wald Confidence Limits			
Advisory	1.419	0.311 6.468			
Internet	2.057	0.447 9.476			
Talkent	0.452	0.086 2.387			
Genmale	4.372	0.795 24.026			
Association of Predicted Probabilities and Observed Responses					
Percent Concordant	67.8	Somers' D	0.430		
Percent Discordant	24.8	Gamma	0.464		

4.2.3. Negotiation outcomes: Satisfaction

Our final model examines factors contributing to the entrepreneur's overall satisfaction with the outcomes of her term sheet negotiations. It is written as follows:

$$\text{MODEL 5: Satisfaction} = a + B_1 \text{ age} + B_2 \text{ industry} + B_3 \text{ invmale} + B_4 \text{ funding} + B_5 \text{ equity} + e.$$

The dependent variable "satisfaction" refers to those entrepreneurs who described themselves as being "completely satisfied" with the terms of their term sheet contract. The independent variable "age" was included in light of the fact that older, more mature entrepreneurs may have an advantage in negotiating more favorable outcomes, thus leading to higher levels of satisfaction. Alternatively, they may also have more realistic expectations than younger entrepreneurs, and may be more easily satisfied. The "industry" variable has been significant in our other models for funding and equity retention;

therefore, it is reasonable to assume that entrepreneurs in “favored” industries such as biotech and the internet will be more satisfied with the results of their negotiations. We included the variable “invmale” to test the possibility that female entrepreneurs may be less satisfied when dealing with an all-male team of negotiators rather than a female or mixed gender team. This possibility would be consistent with a belief on the part of female entrepreneurs that they will be treated less favorably by providers of external equity than male entrepreneurs.

The final two independent variables, “funding” and “equity,” denote those entrepreneurs who (a) raised at least 90 percent of the funding they asked for and (b) retained at least 25 percent of the equity in their firms. Our expectation would be that those entrepreneurs who achieved the more favorable outcomes would also have the highest levels of satisfaction. The results for Model 5 are included in Table 5 and suggest that the primary

Table 5. Factors Determining Overall Satisfaction with Negotiation Outcomes.

Model Fit Statistics					
Criterion	Intercept Only		Intercept and Covariates		
AIC	46.252		42.982		
SC	47.748		51.961		
-2 Log L	44.252		30.982		
Testing Global Null Hypothesis: BETA = 0					
Test	Chi-Square	DF	Pr > ChiSq		
Likelihood Ratio	13.2700	5	0.0210		
Score	11.6360	5	0.0401		
Wald	8.4729	5	0.1320		
Analysis of Maximum Likelihood Estimates					
Parameter	DF	Estimate	Standard Error	Wald Chi-Square	Pr > ChiSq
Intercept	1	-3.6714	1.6187	5.1444	0.0233
Age	1	0.7661	1.3202	0.3367	0.5617
Industry	1	1.2837	1.0359	1.5355	0.2153
Invmale	1	1.4232	1.0332	1.8974	0.1684
Funding	1	0.6694	1.1253	0.3539	0.5519
Equity	1	2.0152	0.9807	4.2228	0.0399
Odds Ratio Estimates					
Effect	Point Estimate	95% Wald Confidence Limits			
Age	2.151	0.162 28.609			
Industry	3.610	0.474 27.497			
Invmale	4.151	0.548 31.448			
Funding	1.953	0.215 17.725			
Equity	7.502	1.098 51.280			
Association of Predicted Probabilities and Observed Responses					
Percent Concordant	83.1	Somers' D	0.692		
Percent Discordant	13.8	Gamma	0.714		

factor determining entrepreneur satisfaction was the ability to retain a significant percentage of equity in the firm.

Older entrepreneurs were not significantly more likely to be highly satisfied, nor were entrepreneurs in more growth-oriented industry sectors. Similarly, the gender of the investor's principal negotiating agent did not have a significant effect on satisfaction suggesting that these female entrepreneurs were not averse to negotiating with men as long as they secured the outcomes they wanted. We found it somewhat surprising that the percentage of funding raised was not a significant predictor for satisfaction. This could suggest that women asked for larger amounts of funding than they actually expected to receive and were thus satisfied with less. Alternatively, it may suggest that the ability to retain ownership and control was such a powerful motivator that it "trumped" other less pressing outcomes.

5. Discussion

Our findings suggest a nuanced situation with respect to gender during the negotiation process for external equity consistent with prior research on the role of context, situational ambiguity and stereotypes (Bowles and Kray, 2013; Riley and McGinn, 2002). The female entrepreneurs in our sample demonstrate that it is feasible to raise capital for entrepreneurial ventures and our data shows the issues affecting negotiation terms and valuation of companies are highly specific to industry and company situation. Female entrepreneurs in our research do not approximate the helpless and naïve actors that some research and the media often portray; rather, they exhibit agency and purpose in their pursuit of capital while being challenged by second generation gender bias (Ibarra *et al.*, 2013) issues during the negotiation process. We interpret our findings in relation to the specific research questions we addressed concerning negotiating styles, strategies and challenges to successfully closing deals.

The multivariate results show that a number of variables were significant and positively related to raising funding, retaining equity and being satisfied with the outcome of the negotiation process. The age of the entrepreneur was positive and significantly related to the percentage of capital obtained from investors (Model 1 regression analysis), yet not significant in terms of the retention of equity in Model 3. Similarly, industry as a variable proved significant and positively impacted the percentage of capital raised (Model 1) and the retention of equity. These results suggest that growth industries such as biotechnology or pharmaceuticals, or internet-based companies headed by older entrepreneurs with experience would be regarded favorably by investors (Tinkler *et al.*, 2015).

Prop 1: Older female entrepreneurs in science-based industries are advantaged in raising risk capital for growth companies.

Female entrepreneurs in our sample worked extremely hard to equip themselves adequately for participating in the "game" of raising risk capital. Our results show this preparation is vital and reinforces recent research (Brush *et al.*, 2012) on the importance of ensuring all organizational, technological and strategic issues are taken care of BEFORE

investors are approached. This “readiness” consideration is important and, although our questionnaire did not specifically address “readiness” as a discrete concept, many of the facets discussed by Brush and her co-authors were represented in our instrument. Indeed, the technical aspects related to financing of companies, in particular how to compute and understand valuation, equity and dilution, emerged as issues of confusion and concern to a considerable number of our women entrepreneurs. Research by Tinkler *et al.* (2015) reinforces the importance of technical knowledge when negotiating with investors. These authors demonstrate that when women pitch to investors, they are most advantaged when demonstrating non-prototypical competences such as being highly educated or qualified in fields such as the sciences or technical areas. We posit this would extend to include women who are highly financially educated or who demonstrate experience in entrepreneurial finance or negotiation. Conversely, women are negatively impacted when they do not possess or demonstrate these competences to investors.

Prop 2: Women with training in finance or quantitative disciplines are advantaged when negotiating term sheets.

Many of our respondents understood that to raise capital they need to access their social networks and extend those to include formal networks that would provide access to capital, including Springboard Enterprises and Astia. One respondent who raised funds for an internet-based start-up in Berlin commented on the importance of a strong relationship with potential investors:

“I have a strong network of experienced founders and I knew all the investors from before. I was lucky to have good investors who were good matches. I have no idea how people without a network start companies”.

Tinkler *et al.* (2015) show that strong social ties with VC investors benefit women entrepreneurs more than male counterparts because of a reduction in uncertainty about the competence and capabilities of the entrepreneur. This is in line with research by Heuven and Groen (2012) in which less experienced entrepreneurs appeared to benefit from strong tie referrals to access financial resource providers. Strong social ties with potential investors reduce gender bias. Therefore, the entrepreneurs we quote appeared to be, wittingly or unwittingly, actively engaged in uncertainty and gender bias reduction. This is extremely important given our findings about homophily and gender bias in the process of negotiation. Interestingly, the women entrepreneurs in our sample appear to understand these issues of homophily and, at times, they perhaps *choose* to exploit these processes, as one third of the companies in our sample used a male as their principal negotiating agent. The supply side in entrepreneurial finance is dominated by males and our sample mirrors that with 60 percent of investors being male, while only nine percent were female and 31 percent were teams of mixed genders. Our multivariate analyses show that two variables increased the likelihood of raising 90 percent of capital sought: internet use to research aspects of the negotiation process and using a male as the primary negotiating agent (Model 2). The latter variable was also positive for retaining at least 25 percent of equity in

the firm (Model 4). The use of a male on the negotiating team would be a highly rational choice in cases where female entrepreneurs nursed concerns about achieving a positive outcome to the negotiation. Those who were determined to raise funding understood the need to be pragmatic and used male negotiators to “bring home the bacon” in line with research that shows investors still preferred male pitches (Brooks and Schweitzer, 2011).

Prop 3: Strong social ties between investors and the entrepreneur’s negotiating team lead to successful negotiation outcomes.

Prop 4: A male surrogate as principal agent in the negotiation process leads to higher funding levels and lower levels of equity ceded by the entrepreneur.

Our final regression model (Model 5) tested for the effect of entrepreneur age, industry, male negotiator, funding raised and equity retained on the dependent variable “satisfaction” with the outcome of term sheet negotiations. The variable “ability to retain a significant percentage of equity” in the firm was positively related to satisfaction and suggests that women prized the retention of ownership and control over their company. Although it was surprising that raising capital did not emerge as significant, our descriptive results showed that 83 percent of respondents agreed that their awareness of the need for subsequent rounds of financing affected their decisions.

We recommend that research in the area of gender and negotiation in term sheet negotiation continues along the lines of a “gender-in-context” perspective suggested by others (Bowles and Flynn, 2010; Halpern and Parks, 1996; Carli, 1990) as a frame for viewing the impact of gender at the dyadic or group level rather than the individual level. Gender-related effects have to be examined within the social context of the negotiation process and not separately. Using this frame, our findings suggest some evidence of second generation gender bias (Ibarra *et al.*, 2013) in term sheet negotiations. Second generation forms of bias are devoid of overt discrimination and yet the tacit processes that undergird it continue to hamper progress. Our qualitative findings suggest that female entrepreneurs reported no experience of overt forms of discrimination. This is clearly at odds when juxtaposed with our multivariate analyses on gender. Second generation gender bias scholars such as Ibarra and Kolb have discussed the manifestations of the phenomenon in the workplace in general in the form of a lack of leadership role models, lack of access to networks and sponsors, gendered career paths, double binds that equate to women having to conform to stereotypical female behaviors.

Therefore, the challenge is now to define the characteristics of second generation gender bias in negotiating term sheets. We believe our research results provide a means of deconstructing some of the tacit behaviors and processes at play in settings that form part of the entrepreneurial finance ecosystem. Our results demonstrate that female entrepreneurs are striving to achieve mastery of negotiation skills and, through this, to achieve a degree of “fit” with the cultural-cognitive environment (Nelson, Maxfield and Kolb 2009) inhabited by investors, both angels and VCs. Our data shows a lack of comfort or clarity about the negotiation process and we consider at what price women were successful in achieving their funding goals. Although 80 percent of our respondents in the qualitative

data reported they were fairly treated, in response to another question, 43 percent had concerns about the terms of their contract and seventeen percent were unsure.

Individuals who felt comfortable in negotiation settings would have clearer perspectives and would have been able to speak more categorically about their experiences. The minority of respondents who did have concerns, voice a discomfort with the cultural-cognitive environment in the phrases they used in the qualitative feedback — “having no options” — or “feeling squeezed and manipulated.” Furthermore, if we consider that only 61 percent knew their BATNA (Best Alternative to a Negotiated Agreement), it appears that a sizeable minority were unschooled in even the language of the game. Therefore, it is no surprise that our data shows age and industry as positively related to the percentage of capital obtained and for retention of equity.

In addition to age being a proxy for experience and demonstration of competence (Tinkler *et al.*, 2015) could it also be a proxy for learning about the cultural-cognitive environment, particularly behaviors that investors would expect of CEOs in certain sectors such as biotechnology and internet-based businesses? Both of these industries have certain rituals that are clearly understood, such as certain conferences that are essential to attend, specific deal structures for particular types of investment and crucially, good sources that provide some of the information required to frame a “good” deal. Our data shows that “advisory board” and “talking to an entrepreneur” were both negative variables in the regression analysis and we are trying to interpret this. The qualitative data and our interviews with respondents indicated that women perceived access to an advisory board and an experienced entrepreneur as having been very helpful during negotiations. We posited earlier in the paper that advisory boards and experienced entrepreneurs would lead women to ask for deal terms that were not acceptable to investors, thus leading to less funding being raised. Is this a failure? Conversely, is this a better outcome because the entrepreneurs knew when to walk away from a less than optimal deal? At least one entrepreneur shared a story of doing exactly this because she felt that the investor was unreasonable in changing deal terms AFTER agreeing to terms more favorable to the entrepreneur. She knew her BATNA, chose to leave the deal on the table and subsequently secured investment through a different, male, angel investor.

6. Conclusions and Implications

Our findings mirror prior research findings in the area of female entrepreneurs and negotiation and we note that the use of male lead negotiators rather than female negotiators appears to be more effective at securing more funding and ceding less equity. Therefore, our contribution reinforces what Brooks and Schweitzer (2011) have shown for investors’ preference for pitches by male entrepreneurs, even when the information they present is identical to pitches by female entrepreneurs. These authors considered physical attractiveness — a variable that we did not consider in our research. They found physical attractiveness was not impactful for female negotiators but was for males. Clearly, although this use of male “surrogates” demonstrates how little progress has been made in terms of changing of the cultural-cognitive milieu, the behavior of the female entrepreneurs in our sample is quite a rational response to secure funding while

protecting equity. Further research might explore this issue from the perspective of the investors, as suggested by Brooks and Schweitzer (2011).

This paper makes a valuable contribution about the interplay of gender, industry, age and a desire to control a significant percentage of equity in the company. We believe these findings can help partially demystify and suggest strategies that female entrepreneurs can employ as they enter the process of raising capital and negotiating term sheets while noting there is no “one size fits all.”

Our findings have limitations and we wish to suggest avenues for additional research. First, these findings are limited to our very specific sample of primarily U.S. based companies, headed by well-educated, experienced and mature female entrepreneurs. Our findings currently suggest these attributes serve women well when negotiating. Of course, there are many women who do not approximate this picture but we note the importance of these attributes in industries such as biotechnology and internet-based sectors. A second limitation is that we were unable to establish a broad set of prescriptions that apply across the board to all industries. What did emerge as important is that the entire process of negotiation is just that: a process that should NOT be reduced to an event. Entrepreneurs must prepare well for the entirety of the process and, in the case of women, there are specific behavioral attributes that moderate outcomes.

As stated earlier, despite the growing number of female-owned ventures, women receive a very small proportion of total external equity investment dollars as compared to men (Brush *et al.*, 2014; Robb and Coleman, 2009). Term sheet or contract negotiation during the external equity investment process is critical to obtaining badly needed financial resources under reasonable conditions related to relinquishing equity and control. The contribution and relevance of this research is to narrow down the gender-related differences that may exist for female entrepreneurs as they participate in contract negotiation for external equity investment. Our review of the literature and the data collected and analyzed in this research support other contributions to the second generation body of research, which stresses the role of context when evaluating gender-negotiation processes. The qualitative data in our research support the proposition that behavior among these female CEOs spans a gamut of multifaceted responses to the challenge of negotiating access to external equity. It is important to recognize the *real* rather than *apparent* challenges women encounter during the process of raising external equity capital so that corrective measures may be developed to level the playing field.

Appendix A. Definitions of Variables

Dependent Variables:

Funding: If the entrepreneur raised 90 percent or more of the funding amount requested, the variable “funding” was assigned a value of 1. If she raised a lower percentage of the amount requested, the variable “funding” was assigned a value of 0.

Equity: If the entrepreneur gave up 25 percent of equity or less, the variable “equity” was assigned a value of 1. If she gave up a higher percentage, the variable “equity” was assigned a value of 0.

Satisfied: If the entrepreneur was completely satisfied with the terms of the contract, the variable “satisfied” was assigned a value of 1. If the entrepreneur was not sure or had some concerns, the variable “satisfied” was assigned a value of 0.

Independent Variables:

Seeking: Assigned a value of 1 if the entrepreneur was seeking \$1 million or less.

Negotiate: Assigned a value of 1 if the entrepreneur had prior experience in negotiating a term sheet.

Invmale: Assigned a value of 1 if the investor’s principal negotiating agent(s) was male.

Genmale: Assigned a value of 1 if the entrepreneur’s principal negotiating agent(s) was male.

Age: If the entrepreneur is over 40, the variable “age” was assigned a value of 1. If the entrepreneur is 40 or younger, the variable “age” was assigned a value of 0.

Industry: If the entrepreneur’s firm was in the biotech or internet-related industries, the variable “industry” was assigned a value of 1. Other industry sectors were assigned a value of 0.

Internet: Assigned a value of 1 if the entrepreneur used the internet to obtain information about term sheet negotiations.

Talkent: Assigned a value of 1 if the entrepreneur spoke with others entrepreneurs who had negotiated term sheets.

Ventfair: Assigned a value of 1 if the entrepreneur attended venture fairs to learn about the term sheet negotiation process.

Advisory: Assigned a value of 1 if the entrepreneur established an official advisory board.

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