

WOMEN ANGEL INVESTORS: THE ABCs (ACTIVITIES, BARRIERS and
CONCLUSIONS)

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ABSTRACT

Women have become a growing financial power within the United States and are becoming active in the equity financing of entrepreneurial ventures. To gain a better understanding of the emerging women angel market, research was conducted at the women angel organizational level. Fifty-eight percent of the women angel organizations in the US participated in the study, representing 300 women angel investors in 2003. Based on an analysis of the results several implications emerge. It appears that women angel groups provide a much needed venue for women entrepreneurs to pitch their business concept, with a third of the businesses being women owned or operated, three times larger than in the general angel population. In capital commitments the women angel groups in the survey had fewer investments than the general angel groups, but the percent of investments that were allocated to women led ventures were double the national average. When controlled by gender, the yield rate for women-led ventures lagged behind the general yield rates for women angel organizations. In general, women angels are active, they invest in a wide range of industries, and they provided a much needed venue for women entrepreneurs seeking equity capital. However, significant barriers exist, including investment inexperience, professional business inexperience and the inherent consequences for angel investing since the majority of the wealth is inherited. This research points to some significant market needs, including additional research on the investment process of women angels, developing educational forums for women angel investing and facilitating the development of women angel networks.

INTRODUCTION

There is a limited amount of research on the business angel market, yet it is well known that angels provide the majority of seed and start-up equity capital to high growth entrepreneurial ventures in the United States. This lack of understanding of the early stage equity financing of high growth ventures exacerbates the inefficiencies in the angel market and contributes to the capital gap. More importantly, there is a paucity of research on the role of women as angel investors, even though women are developing an increasing presence in the angel market.

Women have become a significant and growing financial power within the United States over the past twenty years. Women comprise 47% of all individuals with assets over \$500,000 (U.S. Labor Department, 1997). From 1996 to 1998 the number of wealthy women, defined as having investable assets of \$500,000 or more, grew by 68% while the number of wealthy men grew by only 36% (Merrill Lynch & Cap Gemini Ernst and Young, 2002). Women now control over 51% of the private wealth in the United States (Federal Reserve) and among top wealth holders in 1995, the average net worth for women was \$1.38 million, slightly higher than for male wealth holders, and the women carried less debt (IRS, 2001). These statistics indicate that women have attained significant financial power, and therefore have the wealth required to become major players within the realm of equity financing of entrepreneurial ventures. But are women considering membership in private equity organizations as an investment option? Of the over 200 angel organizations operating within the U.S., only 19 organizations are significantly affiliated with women. How are the women that are involved as angel investors participating? What are the underlying incentives and disincentives for women to become involved as angel investors?

Some of these underlying issues can be identified by analyzing the formation, structure and investment experiences of women affiliated angel organizations that do exist. How and why have these organizations formed? How are they administered and how active are they? What industries do they invest in and how is the investment decision made? The following research answers these questions and addresses the underlying implications of the findings on the future role of women as angels.

METHODOLOGY

Data was gathered using a combination of postal questionnaires and phone interviews. Organizations were targeted based on historical information indicating a membership of at least 25% women, or organizations which had at least 25% of entrepreneur presentations made by ventures with a female member on the management team. For this latter category, if at least 25% of the firms making presentations in a year were women led, then the corresponding angel organization was a potential respondent. The historical data used to identify these organizations was gathered from previous research conducted by the Center for Venture Research (Sohl, 2003). A primary contact (the executive director, board chair or president) at each organization was identified and this individual completed both the postal questionnaire and the phone interview. Questions for both the postal questionnaire and phone survey were developed with the goal of gathering information about the organization's structure and membership, as well as quantitative data related to historical investments. Phone survey questions and open ended questions on the postal survey were designed to capture the values, attitudes and beliefs of the respondents on the subject of women angels. Results were compiled and analyzed by the Center for Venture Research.

A comprehensive postal and phone survey was distributed to 25 organizations that appeared to meet the inclusion criteria for the study. Of these 25, a total of six were found to not be angel groups. Of these 19 organizations, 11 participated in the study, representing a response rate of 58%. The angel organizations surveyed represented 236 women investors in 2002, and 292 women angel investors in 2003. It should be noted that this research represents the first study of women angel investors and as such is exploratory in nature. The statistics reported are descriptive and based solely on the 11 respondents. It is important to note that this study is limited to investments made by angels that are members of organizations and does not include individual angels. These individual angels represent a larger proportion of the angel market. Thus, given the small sample size and the restriction to angel groups, the ability to generalize the results to the population of women angels is restricted. However, the high response rate (58%) and the number of women investors (292) represented by the organizations both lend support to the potential value of the descriptive statistics.

ORGANIZATION STRUCTURE AND FORMATION

Seventy three percent of the organizations that responded were formed as entirely new entities, while the remaining groups formed as new entities derived from another organization. Half of the groups are comprised of 100% women. Of these, all stated that one of the reasons that the organization formed was to encourage more women to become involved as investors. A majority of the groups indicated that the reason for forming was to provide support to women entrepreneurs.

The majority of the responding angel organizations have chosen to organize as non-profit entities and to have affiliations with external private equity organizations. These external relationships are a common practice for angel organizations, which often partner with venture capitalists or other angel groups for both increased deal flow and potential sources of additional funding. In describing their modus operandi, the responding women angel organizations are split between those who meet regularly to review investment opportunities and ones that facilitate the angel investment process by organizing meetings or events that include angel investors and entrepreneurs. These types of organizational structures are also prevalent in the more general angel population. All of the organizations had a net worth requirement for membership, most common being that their members are accredited investors. Many organizations include an additional layer of membership requirement, such as past investment experience, the ability to pay membership fees or industry specific expertise.

It is interesting to note that the responding women angel groups differ with respect to the source of investment capital. The majority of the groups obtain investment funds on an individual basis, while the rest have a pooled fund from which investments are drawn. Most of the organizations conduct educational seminars for angel investors, while some conduct seminars for entrepreneurs. Of the respondent contacts interviewed, half felt that women face a barrier as angel investors due to their lack of experience and knowledge as investors in general. It appears that women angel organizations are trying to develop their members by offering educational opportunities. However this practice only addresses the women who have already joined the organization and not potential women angel investors outside of the groups.

INVESTMENT ACTIVITY

The majority of the organizations surveyed note that their primary method for identifying investment opportunities is networking. This indicates that women use social contacts to learn about potential future investments. This preference for personal connections when considering potential investments is in line with the characteristics of most angel groups, angel investors in general prefer to rely on personal or social connections for deal flow. The notion of social capital, or the value associated with a given person's network, is relevant on both sides of the angel investment relationship. However gender may have an impact on this notion to the degree that women typically have different social networks than men do. The results on this social dimension are mixed, with 30% of the contacts interviewed indicating that they feel women face a barrier as angel investors because they are on the outside of traditional social networks, and others believing that women are at an advantage because they have better access to women entrepreneurs and women-led deals. While women may interact within different networks, leading to the possibility of losing deals with entrepreneurs who move in traditionally male dominated social circles, women in angel groups may have better access to deals where the business is led by a woman or a woman is a member of the management team.

On average, each women angel organization had 32 firms present their business concept to their membership over the course of 2002, of which 33% were women owned or operated. In 2003, on average about 28 firms presented and 32% of these firms were women owned or operated. In comparison to all angel groups, these figures indicate that women angel groups

Figure 1 about here

appear to be attracting more women owned and operated firms than angel groups overall. However, the degree to which women angel groups miss opportunities or deals due to their lack of a presence within traditional networks can not be measured.

Of the women organizations that actively considered investments in 2002, 86% made an investment, resulting in an overall average of 4.1 investments per organization for 2002. Of these investments, 10.5% were in women owned or operated firms. In 2003, of the organizations that actively considered investments, all did so and made an average of 2.8 investments, per organization, for the year. Of these investments, 13.3% were in women owned or operated firms. These investment patterns are similar to those of all angel groups during the 2002-03 time period. The one notable exception is that in 2003, while the women angel groups in the survey had fewer investments per group than the general angel groups, the percent of investments that were allocated to women led ventures by the respondents were double the national average.

The yield (acceptance) rate is defined as the percentage of investment opportunities that are brought to the attention of investors (by the angel organization) that resulted in an investment. For the overall angel market, based on data collected in previous research by the Center for Venture Research (Sohl, 2003), market yield rates were 7.1% in 2002, and yield rates for women-led ventures were 5.2% for the same time period. For the women angel organizations of this study, yield rates for all investment opportunities, regardless of gender, were 9.9% in 2002 and 8.2% in 2003, similar to the general angel population. However, for women-led ventures presenting to women angels, the yield rates were 6.2% in 2002 and 5.6% in 2003. It appears that in both years yield rates for women-led ventures lagged behind the

general yield rates for women angel organizations, although this gap is less pronounced in 2003. Since the percentage of women presenting to women angel groups is three times as large as the number presenting to all angel groups, this lag in yield rates is even more prominent.

For the investments made, 65% were made in seed and start-up ventures in 2002 and 56% were in seed and start-ups for 2003. This is a key point because in general angel groups have decreased investments at the seed and start-up stages in order to allocate dollars to later stage investments as follow-on financing. For the general angel population seed and start-up investing accounted for 50% of total investments in 2002 and 52% in 2003.

The findings for the women groups in this study indicate that women may be filling a critical gap in the development of new firms by choosing to invest at earlier stages. The United States has a critical need for seed and start-up capital and if women are inclined to invest at this stage, they will both be meeting an economic need and exploiting a potential for high returns by electing a riskier investment position. However, the results of the study could be explained by the fact that 90% of the women's angel organizations are within the first four years of their life and may not have had an opportunity to provide follow-on rounds of financing to existing portfolio companies.

In terms of the industries or sectors in which women angel organizations invested, there was a fairly diversified representation and even dispersion. This indicates that women angel investors are not concentrating their efforts into one sector and are diversifying their investments appropriately. The results indicated that the majority of investments were in the high tech sector with manufacturing and software receiving the largest percentage of investments. One notable point is that the investment in the retail segment is significantly higher for women than for all angel groups overall. Research conducted by the Center for Venture Research (Sohl, 2003) identifies, for 2002, that for all angel groups, retail investments comprised only 5.5% of all investments, while the women angel groups invested 12.5% in retail.

When asked why they believe women angel investors do not make more angel investments than currently reported, the survey respondents stated that the primary reason was that women angels lack the early-stage investment experience. Respondents also stated that they believe women lack experience in pricing and structuring the investment deal, and that women have a lack of experience in conducting due diligence and monitoring the investment. Some respondents indicated that women angels lack the funds needed to make more investments. Three out of the top four reasons given indicate that a lack of experience or knowledge of early stage equity investing is the most significant barrier preventing women angels from investing more actively. This response is consistent with the findings of the telephone survey, where half of the respondents stated that a significant barrier for women angels is a lack of investment experience or knowledge. In the general workplace women are still struggling to attain professional parity with men in the fields of finance, accounting and investments. Consider that 75% of the workforce in the banking industry is comprised of women, but only 25% of these women hold executive level positions within the industry (Sraeel, 2003). Gender differences and biases in professional fields may have resulted in a current female population that is less skilled as investors, which in turn may require women angels to spend more time on education and development than their male counterparts

Angels often indicate that there are non-financial incentives for making investments in entrepreneurial ventures. In terms of the non-financial aspects of the investment, women respondents indicated the biggest non-financial motivator for women angels was the desire to assist women entrepreneurs. This response was followed by the feeling of social responsibility, the desire to assist entrepreneurs in general and the opportunity to increase the access to capital for women entrepreneurs. These findings indicate that women angels are motivated by the chance to help other women to succeed in their ventures, given that the potential investment meets their financial criteria.

BARRIERS AND ADVANTAGES FOR WOMEN ANGELS

The differences between men and women as investors are significant. A Simmons Market Research Bureau study released in 2000 revealed that women investors are both fewer in numbers and tend to be more conservative in their investment choices (Whelan, 2001). How are women angels at an advantage or disadvantage as investors? To address these issues phone interviews were conducted with the individual respondents. A third of these individual respondents interviewed felt that women are at a disadvantage as angel investors because their sources of wealth are more often inherited than earned. Women angels who have inherited their wealth may not have the professional experience or credibility of investors who have created their own wealth. Additionally, individual respondents felt that women are at a disadvantage as angel investors because they tend to be more risk averse by nature, leading to missed investment opportunities in riskier deals.

However, respondents feel that women angels also possess significant advantages as investors. Nearly half of the individual respondents stated that they see women as being better at research and more willing to ask questions and seek information when considering an investment. Also, many believe that women are more inclusive and approachable, willing to look at deals that might have been overlooked by other investors. A number of respondents also felt that women are more patient than men, which translates positively to deals that have long exit horizons, which are quite common for angel investments. Women are not expecting immediate results and are willing to nurture the investment over its life. Finally, half of the respondents felt that women are less ego driven and can work more collaboratively as investors. One respondent illustrated this difference when describing two meetings, one of male angels and one of female angels. In the male angel meeting, members frequently interrupted each other and competed for time to prove their ideas. Also, several of the men seemed to dominate the discussion. In the meeting of women angels, the members shared the speaking time, did not interrupt each other, and no one person dominated the speaking time. Personality differences in men and women seem to have an effect on the way angels interact as investors. It appears that the ability to work collaboratively and in a supportive way would have a positive effect in the area of angel investing, where much of the skill involves working with and supporting entrepreneurs.

FUTURE OUTLOOK FOR WOMEN AS ANGEL INVESTORS

It appears that women face significant barriers as they consider the option to become involved as angel investors within angel groups. It is clear that a significant number of women have the wealth required to become involved, but the fact that women are still to a large extent on the outside of traditional networks, networks which often serve to spread awareness to potential angel investors, indicates that women may not even be aware of the opportunity to become involved as angel investors. Fortunately, the lack of awareness can be

addressed by educational movements. Nearly half of the survey respondents suggested that well publicized success stories of women angel investors would be the best way to assist the future growth and development of the women's angel market. A third of the respondents also suggested that the best way for women to overcome barriers as angel investors is to form special forums or organizations to help women learn the skills they need and to learn how to become involved. Some women angels suggested that promoting the concept of angel investing through social networks would raise awareness. Strategic communications initiatives are both possible and essential in order to increase the number of women who are involved as angel investors. Continuing and targeted education programs will help to ensure that any increase is sustainable over the long term.

Women may also face a bias if their wealth has been inherited versus earned, or if they do not have enough relevant professional and investment experience to be considered valuable to general angel organizations. Fortunately women are making great strides in attaining higher education, professional positions and roles as business owners and community leaders. Over half of women today are earning college degrees, one third more than men. Fifty percent of law graduates today are women and 40% of MBA graduates are women (Barletta, 2003). According to the U.S. Economic Census, the number of women-owned businesses has increased by 16% and the revenues from those businesses have increased by 33 % since 1992 (Brush, 2001). In comparison, the number of all U.S. firms grew at a rate of 6% with a 24% increase in revenue (Brush, 2001).

CONCLUSION

The research findings indicate that the women angel organizations that do exist are active and invest in a wide range of industries and sectors. Women angel groups are motivated by the desire to attain financial returns, but also have a desire to assist women entrepreneurs in growing their ventures. It was also found that women angel organizations have invested primarily in seed and start-up ventures which indicates that women angels are filling a critical gap in the financing of entrepreneurial ventures.

Women still face barriers in the private equity community, related to their investment inexperience, professional inexperience and inherited wealth. As women continue to make progress professionally and socially some of these barriers may be overcome. As women continue to advance themselves, it will be essential to provide ways to educate and promote the concept of angel investing to women. The subject is largely uncovered territory for women and there is no established network for communicating the opportunities that exist for women angels. Facilitating the development of women networks, both formal and informal, the development of educational forums, and an improved understanding of the investment process of women angels will help in accelerating the development of a sustainable women angel market. For the number of women angels to grow in the future, targeted research, and educational programs must be employed in order to raise awareness and promote understanding.

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Figure 1: Percent Women Entrepreneurs Seeking Capital

