

# THE SEARCH FOR EQUITY CAPITAL? IMPLICATIONS FOR WOMEN ENTREPRENEURS

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## ABSTRACT

It is believed that women are more likely to use personal savings and other types of internal funding for business growth in preference to external financing options. The nature of, reasons for, and implications of this lesser reliance of women on external finance is an important key to understanding women's entrepreneurial activity and growth strategies. This paper examines this topic, exploring New Zealand's private equity capital market from a composite perspective investigating both supply and demand side issues. A mainly qualitative approach is used to gather data from the formal venture capital and informal equity sectors and women entrepreneurs.

## INTRODUCTION

The external finance stream of research is an important area of enquiry because of an awareness that access to external capital may hold an important key to understanding business growth in the small and medium enterprise (SME) area (Winborg and Landstrom 2001). There has been some confirmation to suggest that women prefer to utilise internal sources like personal savings to finance and grow their business ventures (Haynes and Haynes 1999, Bennet and Dann 2000). Furthermore, given that women led businesses grow at a slower rate than those of their male counterparts (Cliff 1998, Isaksen and Kolvereid 2005), a study of what external finance options are open to women and why they appear less inclined to utilise them, is warranted.

Within the external finance literature, enquiry has shifted mainly between debt finance, the major source of external funds, and private equity capital. With respect to the latter, there is general research support that not only women-led businesses but also small businesses face an external equity finance gap, with corresponding implications for firm growth (e.g. Becchetti and Trovato 2002, Brush et al. 2001, Carter et al. 2003).

In relation to women's entrepreneurship and private equity capital, research has involved two broad strands: the venture capital (VC) market and the business angel market. Recently, the spotlight has been placed on the VC segment primarily with the research of the US Diana group (e.g. Brush et al. 2001). Attention has also turned to angel investment in women's business (e.g. Amatucci and Sohl 2004). Angel investors are a much larger market of informal venture capitalists who invest smaller amounts of capital relative to their more formal institutional VC counterparts.

As Leitch, Hill and Harrison (forthcoming) stress, however, much of the research has been conducted within the US setting and it is important to consider in greater detail other smaller regional contexts such as Northern Ireland where the equity capital markets may be less sophisticated. New Zealand's fledgling VC and informal angel equity market is of similar interest.

This paper examines the equity market with special reference to issues pertaining to the growth of women's businesses in New Zealand (NZ). In light of the rise in the absolute number of women-led enterprises in NZ (over the 1966 to 2001 census period, both women total employers and women self employed increased by almost 20% to 29.8% and 31.1% respectively), an investigation of factors influencing the growth of these businesses is of high value. Access to capital and financing strategies is an important concern for SMEs at both the start up and growth phases; however, there is also little research in this area with respect to entrepreneurial NZ women.

Generally extant research in the women's business-external finance domain has focused on either demand or supply side perspectives. Few studies have explored external capital market issues from composite supply and demand perspectives (Carter et al. 2004). Based on a large sample of NZ SMEs Hamilton and Fox (1998) concluded that debt levels and capital structure of small firms were strongly influenced by demand side decisions, mainly managerial decisions and preferences and were not only the result of supply side shortcomings. We therefore felt that a dual supply and demand side approach would be an appropriate way forward to mitigate the research gap on women entrepreneurs, particularly their financing strategies.

NZ is not rich in finance related business data. The first *Business Finance Survey*, conducted in 2004, revealed that 36 percent of businesses sought finance in the 12 months to August 2004. Debt finance was sought by 34 percent of businesses, with only six percent of businesses seeking equity finance (Statistics NZ 2005).

Our study addresses the following broad supply side research questions: Firstly the formal sector investigation asks: What is the state of the NZ venture capital industry? Are women significant players in the venture capital industry? What is the extent and nature of venture capital investment in NZ? Do women led businesses attract venture capital? Secondly we examine the informal angel equity market. Informed by the fact that many more businesses in NZ, probably at a ratio of 8 to 1, seek angel equity finance compared to VC funds (Infometrics 2004 p. 11) together with knowledge that fewer women seek external finance, we ask: What is the scope and profile of women business angels? To what extent do angel investors invest in women's business ventures and are these perceived differently from those of men? The broad demand-side picture is addressed with the question: What are the perceptions and experiences of external equity financing issues for NZ women entrepreneurs?

The paper is organised as follows. Firstly material outlining the NZ context is discussed in conjunction with the current evolutionary stage of the equity capital market. A diagrammatic representation of the participants, linkages and forces at play in the private capital market follows. The methodology employed is then outlined and discussed. Supply side findings and entrepreneurs perspectives are presented in the next two sections. A selected window study provides insight into actual growth and financing strategies and finally the discussion is synthesised, limitations are broached, implications discussed and proposals for the future outlined.

## POLICY FRAMEWORK AND PRIVATE EQUITY CAPITAL

Commencing in 1999, with the advent of the first Labour-led centre left Coalition Government, NZ began a new era in policy reconfiguration and a move away from a hands-off industry policy. Active industry policy and dedicated regional development, together with recognition of the critical importance of small and medium enterprises (SMEs) in the economy became an integral aspect of the policy agenda. In February 2002, the government announced a policy framework, *Growing an Innovative New Zealand*, to systematically bring NZ back into the top ranks of the OECD group. The Growth and Innovation Framework (GIF) identified key industry sectors – Information and Communications Technology (ICT), biotechnology and creative industries, to strategically focus government resources and help raise international competitiveness. Industry Taskforces for the ICT, biotechnology, screen production, and design industries were formed and reported on how to grow and tap the global potential of each of these sectors. Generally, encouragement and stimulation of the VC and private equity industry has been acknowledged as an important facet in reaping the growth potential of these sectors and developing NZ's innovation system.

The Government is committed to enhancing the institutional framework and directly supporting the private equity market. In line with an identified need to direct investment to early stage companies, the Government set up the NZ Venture Investment Fund (VIF) in 2001. The VIF Programme is designed to accelerate the growth of the VC industry with a pool of NZ\$100 million to invest with private investment capital on a 1:2 matching basis. Private sector Fund Managers are contracted to manage VIF seed funds to invest in early stage, (seed, start-up and early expansion) high growth potential, NZ companies.<sup>1</sup> The VIF programme has underpinned the movement of the VC industry to 'the teenage years' (Ernst & Young 2005 p.3). The \$100 million milestone was well exceeded in 2004 with a total investment of \$158 million – an 80% increase over the \$87.7 million invested in 2003 (Ernst & Young 2005 p.3).

A well functioning informal equity capital market is also critical to fulfilling the government's GIF objectives. The predominance of SMEs in NZ, adds further strength to the vital role the informal market, including business angel activity must play in financing businesses (Frederick 2004; Infometrics 2004). NZ's informal capital market however is under-networked relative to some other countries and within the last couple of years harnessing the potential of informal capital through the formation of business angel networks (BANs) through private-public partnerships has been on the policy agenda.

Although there has been a significant growth in the number of BANs over the last decade in the UK (Mason and Harrison 2002), in NZ their growth is a relatively new phenomenon. A push to foster such groups has been associated with regional economic development initiatives and the rise of innovation parks or business incubators in the country. Over the last couple of years or so five angel investor groups linked to regional economic development goals or incubators have been formed and another two are in the planning stage. Those BANs associated with Economic Development Agencies (EDAs) circumvent rigorous requirements of investment statements under the Securities Act 1978, by using an Exemption Notice.

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<sup>1</sup> See [www.nzvif.com](http://www.nzvif.com)

The activities of New Zealand Trade and Enterprise (NZTE) as the central government economic development agency and a lead agency in the GIF are also indicative of the broad supportive national climate for small business which forms the foundation for the growth of the private equity market. For instance the Government funded NZTE programme is the Escalator Service (see <http://www.escalator.co.nz>). This service seeks to enhance entrepreneurs' understanding of business growth funding issues and access to equity capital and/or strategic partnerships. It is aimed at assisting business growth by providing innovative SMEs and entrepreneurial New Zealanders who need capital to expand, diversify or commercialise a new concept with skills and assistance to pursue investment opportunities.

### THE PRIVATE EQUITY CAPITAL MARKET: A DEPICTION

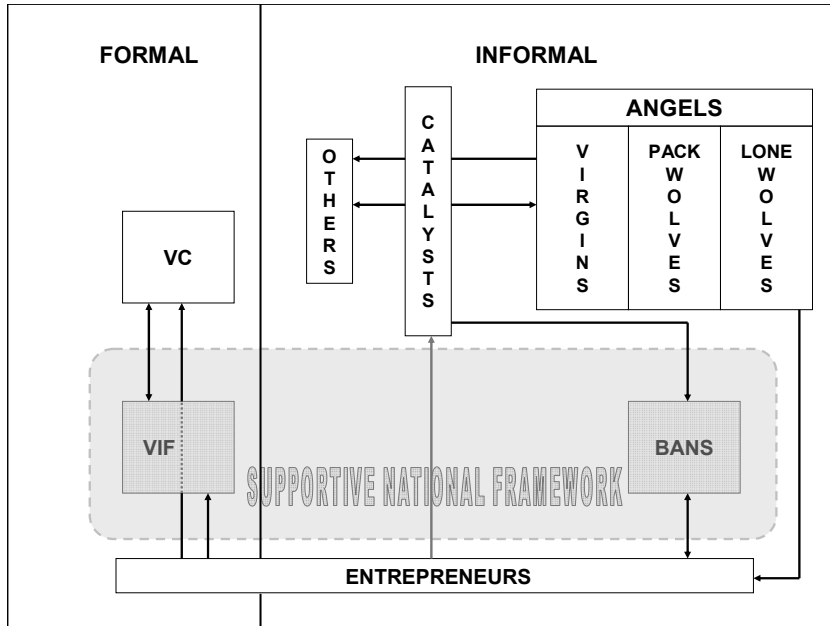
The evolving formal and informal private capital market in NZ, with its interlinked participants is illustrated in figure 1. Arrows indicate direction and flows of interaction. Underpinning both the formal and informal markets is the favourable climate of national commitment and support as indicated by the grey shading. This "supportive national framework" includes the VIF programme as well as the network of dedicated BANs that are often associated with the Government's Incubator Support Programme or EDAs. It also encompasses the possibility of an overarching umbrella organisation for BANs, spearheaded by the Economic Development Association of New Zealand (EDANZ).<sup>2</sup> In the figure, entrepreneurs are also depicted as spanning the equity market since funding is available to them from both the formal and informal sectors.

In the informal sector, we categorise angels into three groups using imagery evoking potential, new entry ("virgin angels") and joint action ("pack wolves") or sole ("lone wolves") operating modes. The majority of angels are lone-wolves whose investment decision making process is autonomous and *ad hoc* (May 2002). We extend the metaphor further to describe those angels who are more collaborative and have informal networking through their social and industry interaction (pack wolves). Cooperation between like minded individuals offers the chance to gather information, pool ideas and possibly financial resources as well. As animals are afforded protection and strength through community, so too are angels who run in packs. Potential angel investors or "virgins" (Coveney and Moore 1998) are another group in figure 1 and are a group about which little is known. Many high-net worth women could fall within this group.

In figure 1, we portray the recently set up BANS and other pre-existing networks such as MINE<sup>3</sup> as formalised BANs, to make a distinction from the less formally networking pack wolves. Catalysts, a group depicted on the left of figure 1, are intermediaries who broker deals between entrepreneurs and angels though catalysts might also direct entrepreneurs to other sources of funds i.e. non-equity funds such as grants, where appropriate. In this catalyst group we also include those brokering deals in the BANs. Independent brokers/catalysts approach the BANs and vice versa.

<sup>2</sup> EDANZ is a national body that promotes economic development, business growth and export opportunities in New Zealand. EDANZ represents the interests of independent Economic Development Agencies (EDAs) and economic development units within local authorities, city and district councils. EDANZ partners with key government agencies. See [www.edanz.org.nz](http://www.edanz.org.nz)

<sup>3</sup> This was an unpublished data set provided to us as researchers by MED

**Figure 1: The Multi Linkage Private Equity Market**

We show an outward flow from the angel investment loop to an “other” category encompassing EDA associated catalysts and other services aimed at assisting entrepreneurs to get investment ready. This is intended to show that EDA associated catalysts are involved in the overall support and development of businesses, especially SMEs. Over time, once these businesses reach the stage where they become viable angel investor material, it is feasible that there will be an inward flow to the BANS.

### RESEARCH APPROACH

Our study adopted a mainly qualitative approach. With the credibility of qualitative methods for entrepreneurship research now established (e.g. Gartner and Birley 2002) we felt that such an approach would provide rich data. Interview processes were designed to examine the topic from the experiences and perspectives of the interviewees and interviews were conducted over the 2004/2005 period. Table 1 summarises the angles of enquiry taken.

On the supply-side, our study spanned two research phases. The first phase covered the nature of the formal VC sector, women’s involvement in the industry and the extent of VC investment in women-led businesses. We conducted interviews with key informants from the VC and venture catalyst industry and followed up with a email questionnaire to the broader VC industry in order to verify the information gleaned from the CEO and VIF manager interviewees with a larger sample. The second phase investigated informal angel equity financing, with a particular focus on business angel networks (BANS). We canvassed the issues concerning BANS

and angel investment with seven CEOs/ facilitators or other key actors involved with fostering BANs or promoting angel investment at a regional level in NZ. Three of these seven informants were linked to business incubators or a technology park and the others were from the economic development arms of local governments. The eighth angel informant was a woman angel member of a BAN.

**Table 1: Composite Approach**

Supply Side	Demand Side
<p><b>Phase 1: Formal Venture Capital Market</b></p> <p>6 semi-structured VC interviews</p> <p>3 industry informant interviews (women)</p> <p>Email survey of VC sector</p> <p>2 in-depth interviews with venture catalysts</p> <p><b>Phase 2: Informal Equity Market</b></p> <p>9 Business Angel Informants (interviews and email communication)</p> <p>Women Angel Survey Data</p>	<p>43 In-depth entrepreneur interviews</p> <p>2 Window Studies (not reported in this paper)</p>

In line with literature claims that there is a preference amongst informal investors to remain anonymous (Benjamin and Margulis 1996), we met with difficulty in finding women angels to interview. We nevertheless did conduct a face to face interview with a woman angel and also draw on a demand side interview – an entrepreneur who had exited her business and was now an active angel and business mentor. Data gathered is supplemented by information provided by the Ministry of Economic Development (MED)<sup>3</sup> on women captured in their angel survey conducted in 2004.

On the demand side, to obtain the entrepreneur perspective, we interviewed growth oriented women entrepreneurs. We sought to understand the full experiences and perceptions of the 43 women entrepreneurs. From these rich demand side empirical findings, this paper draws out the private equity financing issues.

In light of the paucity of information on women entrepreneurs in NZ (Dupuis and de Bruin 2004), we were keen to obtain as much material as we could to mitigate this knowledge gap. It was anticipated that a less structured interviewing approach would yield a wealth of data not only on the reasons for entrepreneurial success of the interviewees, but also on any facets of their entrepreneurial experience they chose to share and reflect on. It was also assumed that these ‘successful’ entrepreneurs would not be shy about telling their stories. This assumption has been confirmed as realistic by other researchers. As Johansson points out: “Successful entrepreneurs have developed a reputation as ‘raconteurs’” (2004 p. 283). The interview dialogue probed experiences with respect to financial resources for the woman’s business.

In each phase of the research, we adapted the “window study” approach (Czarniawska, 1997 p. 65) as dedicated focal points to illustrate the financial solutions of named women-led businesses. We outlined the experiences of a large export business (de Bruin and Flint-Hartle 2005a) and then turned the spotlight on a small, born global company in the Information and Communications Technology industry (de Bruin and Flint-Hartle 2005b). These studies are therefore not included in this paper.

## SUPPLY SIDE FINDINGS

In phase one, focusing on the formal VC perspective, several pertinent issues emerged from the interviews and email responses. In total there were 35 responses representing a 47% response rate.

Firstly, male dominance in the industry was confirmed. Only 11% of companies in the sample employed women in decision making roles. This figure reduced to 6% when two women included in this number were discovered to work off shore in an international arm of one company. It was noteworthy that one prominent NZ company had a woman at the helm and albeit influential, she was a lone figure at this level. Despite this lack of female representation, without exception the view that gender was not an issue was clearly, and in some cases vehemently expressed. One view was that the explanation for the relative absence of women from boardrooms was “historical” and this would change over time, accelerating with increasing visibility and participation of women at more influential business levels.

Secondly, VC investment in women led ventures was minimal. The median scale of investment ranged from \$1 million to \$20 million and was mainly at the business growth phase. This precluded the majority of woman entrepreneurs who made up the demand side sample in this study. Only 3% of all investment opportunity in 2003 related to women’s ventures. An explanation advanced by one of three women industry informants, was that women prefer to use their own capital or angel finance, as borne out by our demand side interviewees.

Respondents emphasised that the sex of the entrepreneur was irrelevant and the most important factor in determining investment was a satisfactory and sustainable investment return of between 10% and 30%. Additionally trust, confidence and an alignment of business aspirations and competencies between investors and entrepreneur were critical. It was felt that the VC industry focus on investment in certain business sectors like high technology, information technology and biotechnology areas, are sectors in which women do not traditionally figure in great numbers. It was suggested that communication avenues in the VC industry could work to the disadvantage of women. Meetings still tended to be male dominated and off putting to some women; websites “spoke” more directly to men and measurements of success were based on commonly accepted masculine gender norms. However there was some cognisance of the fact that this may be slowly changing and NZ was certainly ahead of Australia in this respect. There was a general perception that both men and women could benefit from more and better communication from the VC industry and one interviewee suggested that there could be a push to grow a pool of VC and private capital (accessible irrespective of sex) by allocating of a portion of the NZ Government Superannuation fund for this purpose.

An interesting part of phase one research was a brief excursion into the *venture catalyst* market where match making between investors and entrepreneurs occurs. An industry interviewee termed this option as a “soft bank model” in which private capital is sourced from “seasoned or sophisticated investors”. Information from leading venture catalyst industry informants indicated that there is a concentration on the IT, retailing and biotech sectors mainly at the start-up stage. However, “fringe activities” investment in areas like boat building, fashion design and innovative property development opportunities were not precluded. In the catalyst industry contact from women-led business was much higher – estimated at around 50%. Investments ranged from NZ\$ 20,000 to 1.5 million. Networking amongst women e.g. the WISE women network was a major source of referrals to venture catalysts.

In the second phase, to examine the extent and influence of women in the informal equity market pre-existing survey MED data was drawn on. Only 16 or almost 5% of the angel respondents were women with the majority (13) in the mature 40-59 group. Only 15 women respondents actually answered most of the questions so the sample size is effectively 15. Demographic details of the group are outlined in tabular form below (see table 2).

In sourcing potential investment opportunities, these women angels tended to rely on their own research, whilst also utilising contacts such as friends and family, brokers and business contacts. In some cases firms directly approached the women investors. Avenues such as investment clubs and networks ranked very poorly with only two out of 15 women indicating they had used this as a means to identify opportunities. These results linked in with another section of the survey which showed investment via business incubators was also small, with active involvement by only three women angels. Similar results were found in relation to businesses spun-off by Crown Research Institutes.

Reasons for failure of many investment proposals were a perceived high risk level, lack of managerial expertise and a poor business plan. The investment criteria rated as most important when assessing potential investments were the quality of the management team, personality and attitude of the entrepreneur, competitive advantage of the business and the quality of business plan.

In relation to the preferred stage of business development, only one respondent chose the seed stage. Those who opted for the start up stage were also willing to inject money into the early expansion and expansion stages. Eleven out of 15 had invested at start up, mostly in product development and marketing. Nine also invested at early stage expansion where cash-flow was still negative and six invested at later expansion in commercial production and marketing. Eleven women had multiple investments. Only two women invested as part of syndication and the others preferred the lone wolf approach. Table 2 provides a summary of the survey findings.

We interviewed nine informants from the informal equity market, including two woman angel investors using face-to-face interviews with five of the nine informants, and phone and email communication with the others. Since our research was attempting to elicit information particularly on women’s participation in the newly formed regionally linked BANs and the extent of BAN lending to women entrepreneurs, we drew informants associated with the recent moves to develop these groups.



**Table 2: Angel Survey – Women Data Summary**

<b>Demographic</b>	<b>Findings</b>		
<ul style="list-style-type: none"> <li>• 87% mature women (40-59 years )</li> <li>• Experienced business owners</li> <li>• Average household incomes \$100,000-\$500,000</li> </ul>	<i>Investment motivations</i> <ul style="list-style-type: none"> <li>• expected yield</li> <li>• challenge of building a business</li> <li>• use of accumulated skills and experience</li> </ul>	<i>Preferred stage</i> 73% in start-up 60% early expansion 40% later expansion 7% seed stage (does not total 100% due to investment in more than one stage)	<i>Sector preference</i> <ul style="list-style-type: none"> <li>• none</li> </ul>
	<i>Reasons for acceptance of investment</i> <ul style="list-style-type: none"> <li>• perceived growth</li> <li>• investment return</li> <li>• quality of management team</li> <li>• personality and attitude of entrepreneur</li> <li>• competitive advantage</li> <li>• business quality</li> </ul>	<i>Reasons for decline of investment</i> <ul style="list-style-type: none"> <li>• perceived high risk level</li> <li>• lack of managerial expertise</li> <li>• poor business plan.</li> </ul>	<i>Deal sourcing methods</i> <ul style="list-style-type: none"> <li>• own research</li> <li>• friends and family</li> <li>• brokers</li> <li>• business contacts</li> <li>• direct approaches from firms seeking investment</li> </ul>
	<i>Involvement</i> <ul style="list-style-type: none"> <li>• 60% passive</li> </ul>	<i>Mode of operation</i> <ul style="list-style-type: none"> <li>• 87% lone wolves</li> </ul>	

We found that in the BANs there were only a handful of women angels. This is not unexpected, given the immaturity of NZ's angel capital market and not unlike other countries at similar stages such as Norway (Reitan and Sorheim 2000). In one BAN based in a farming area and linked to an ag-biotech innovation park, the proportion of women to men angels was 5:90. These women were all related to a male – wife, daughter, daughter-in-law etc. The ratios of women to men in other BANs with formalised membership were 1: 53 and 6:105 and of these latter six, four were potential investors with one in a husband partnership. In another BAN where there was no formal membership system, there were 25 attendees (11% of 234 invitees were women) to an investment evening and two were women. Neither of these women were investors – one was from the sponsoring EDA and the other an interested onlooker from a financial institution.

The nature of the industry, according to a male BAN informant, explained the lack of women angels:

*We haven't had a great track record with women. The dairy industry, the meat industry, dairy processing, meat processing, not too many women have made their fortunes out of those sectors. We are looking at high net worth individuals who have made their money out of that space.*

There were very few women entrepreneurs seeking investment through BANs. We found as follows: women to men presentation ratio in one BAN was 1:7 and this woman was not funded; another informant reported of four out of the 15 funded, none were women; and another less formal BAN had attracted 33 applications for funding with only one from a female driven venture and 8 involved women in partnership.

A male informant attributed the low demand from women entrepreneurs for angel finance, to the focus of many BANs on the high-technology industry sectors:

*Yes, it's a bit blokeish in nature, and in its engineering. It's not like we are doing creative industry, or media arts or anything where you would get a higher proportion of females.*

Interestingly, the sole woman presenter to one of the BANs was a business involving 'high-end' wear for expectant mothers. This business has since been funded by a woman angel outside the BAN (a lone-wolf) who possibly felt empathy with the business. This agrees with research showing the necessity for business plans to engage with angels on an emotional level (Mason and Stark 2002). We found that any business with growth potential, a good business plan and scope for high return, irrespective of the industry sector, could move to presentation stage. As one key BAN informant stressed:

*I would like to think that the members were so business hardened that they would not see gender as any issue in business whatsoever, and a good opportunity they would see as a good opportunity, regardless of the gender of the people presenting the opportunity.*

A female BAN informant felt that there were fewer women making application to BANs because generally women entrepreneurs did not wish to be in the limelight. She also felt very strongly that the current male dominated environment of BANs was not conducive to either female angel or entrepreneur participation. Some women (angels or entrepreneurs) feel intimidated by the male culture – a view also expressed in the formal sector.

BAN facilitators/CEOs, especially those with a regional development focus (in figure 1 these would be those who move applicants on to the "other" group) would ideally have zero tolerance for gender considerations. For example channelling into the Escalator programme (described earlier), so that growth considerations including equity funding, could be addressed, was mentioned by more than one BAN informant.

## ENTREPRENEUR PERSPECTIVES

In this section we present views of 43 growth oriented women entrepreneurs on their financing strategies and experiences mainly in relation to equity capital.

Women's reliance on internal funding for business growth outlined in the literature was confirmed by our findings. However, in the science and technology sectors in particular, there was recognition that equity capital for expansion was inevitable at some stage:

*I'm looking for another four to six million and that's a lot of money for them (Crown Research Institute) to find. There is every possibility that I will have to go out VC fundraising ...*

There was a clear awareness of the need to foster good relationships with equity financiers. For one woman this was the case even at the stage when external equity investment was not immediately necessary:

*When we were looking into setting up the company and buying the company we invited the venture capitalists to come along and talk to us about means and ways of raising money and what their role may well be within the company. They were very keen to be involved in the company but as we had sufficient funds to buy the company at the time we felt that we didn't actually need their involvement but we haven't ruled that out as being involvement when we need to grow the company in the future and we have actively said that we want the company to grow...*

Only nine of the 43 interviewees indicated resistance to equity involvement. The reasons for this reluctance are summarised as: caution about growing too fast; uneasiness about a loss of control; being protective of their lifestyle; fear of having to compromise the values and philosophy of their businesses and the wish to protect the name of a family business. However, these issues could relate to women and men alike.

An interviewee, a high profile designer fashion exporter, had pursued an alternative avenue to equity finance in order to cope with the financing requirements of rapid growth. She utilised factoring.<sup>4</sup> We draw attention to the possibility that for those entrepreneurs who are concerned about equity finance compromising autonomy or values, factoring as well as other forms of external finance such as supplier credit, could present worthwhile alternatives.

Interpersonal trust plays a key role in the external equity decision (Amatucci and Sohl 2004). In our sample too, trust was a central consideration in relation to equity financing. As a woman interviewee aptly put it:

*... I want to see the whites of their eyes ... I just don't want to go into business with anybody and so I'm waiting for that (right) person to come along.*

A need for trust also underlies a notion that emerged in a few cases – that entrepreneurs could fall prey to opportunists in the VC and private equity industry.

It is widely recognised that the social networks/social capital of entrepreneurs play a significant role in acquisition of resources for start-up and growth (e.g. Aldrich and Zimmer 1986; Shane and Cable 2002). It has also been argued that diversity and extensiveness of networks are significant in explaining successful financing strategies of women (Aldrich 1989). Similarly, Carter et al. (2003) have pointed to the significance of social capital, in addition to human and financial capital, for women entrepreneurs who break through to equity financing. Acknowledging

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<sup>4</sup> With factoring the borrower's accounts receivable asset is sold to the 'lender' i.e. the factor

the vital importance of social capital in securing equity capital, we take this argument a couple of steps further. First we highlight, following Baron and Markman (2000) that social skills such as impression management and appropriate presentation skills, are an important contributor to the process. This nevertheless applies to women and men alike. Second, we argue that women may in fact possess a social advantage that they can choose to exploit when seeking equity finance. Coupled with social skills, women can stand-out from the crowd particularly in male-dominated industries.

Our interview material demonstrated that women in the new economy sector who were actively open to equity finance for international market expansion were quite aware of the competitive advantage that social skills and the stand-out factor afforded them. This is aptly encapsulated in the quotation below:

*Being a woman – if you can use some of your charm – works pretty well on these guys ... and they are not used to seeing women doing this and I think it makes you a bit more memorable. They are not seeing a woman every single day talking to them about multi-million dollar investments particularly in the scientific area. I think it makes you stand out a bit.*

We found that attitude to the possibility of external funding and involvement reflected pragmatism of some and illustrated the interaction of personal values, philosophy and circumstances of the entrepreneur. For example an interviewee's formative years in a farming community had assisted her in dealing with practical problems. Her attitude to business development and favourable view of growth through external funding had been influenced by personal experience of the negative effects of under funding at start-up and early stage.

Mentoring advice and networking opportunities facilitated by central and local government were viewed in a positive manner by several interviewees. For instance the NZTE Beachhead programme was cited as helpful in moving one of the export oriented businesses towards the goal of establishing a successful presence in the US market. This entrepreneur also mentioned that through Beachhead she had the opportunity to tap into Silicon Valley equity capital but she felt that the extent of capital she could justify was "below their radar". Whereas women may display a conservative tendency in the anticipation of financial requirements, their male counterparts tend to foresee a need for greater financial input (Babcock and Laschever 2003). There might also be some resonance with a study by Cliff (1998) that found that women business owners tended to be more cautious and conservative in their pace of growth compared to men. Our examination of the VC industry also indicated that the minimum level of investment required by formal equity investors exceeded the anticipated requirements of women businesses.

To conclude this section we emphasise that many of the women interviewees felt the search for equity capital was a level playing field: ...*I've never noticed any barriers to be honest.*

### LIMITATIONS

The supply side of our study may have limitations of representativeness, being essentially a sample of convenience. However, studies of large markets e.g. the UK, have faced similar issues

(see e.g. discussion in Mason and Harrison 1997). Given the small size and youthfulness of the NZ market, resort to a convenience sample is reasonable. There is also the likelihood of selection bias. For example, those associated with the BANs, were spokespeople contacted and invited to be part of our sample. They were likely to report personal views and these could not necessarily be construed as viewpoints of the group. Likewise individual viewpoints expressed could be further coloured by a tendency to be self-serving (Mitchell 1997). We recognise that some of the views expressed may have been influenced by a desire to inform advantages rather than disadvantages of BANs. Similarly we acknowledge that interviewees in the VC industry would be imprudent to admit prejudice to women's businesses. The view that in accessing finance women face 'more invidious, complex and multi-faceted constraints arising from gendered characterizations' could be relevant here (Marlow and Patton 2005: 722).

### CONCLUDING COMMENTS

On the supply side we confirmed that currently there are few women venture capitalists and business angels within the BANs studied and that few women entrepreneurs seek finance through these avenues. There was no evidence of any predisposition towards investment selection bias against women. Nevertheless this apparent absence of discrimination should be interpreted with caution, given the nature of our sample and its possible selection bias.

We hope that the multi-linkage equity market framework portrayed in this paper will be a springboard for an enhanced understanding of the mosaic of interconnections and underpinnings of equity market activity. A new pack wolf typology of business angels could complement other typologies put forward earlier.

In NZ, there is an eagerness to encourage angel involvement at a regional development level. Yet the question raised by an EDA associated informant of whether or not the BAN model is 'the best way to go' remains. Commercial sensitivity may mean that presenting to a network could sometimes be less attractive. However, such group exposure reduces the need to locate and network with a large number of potential lone wolves at the initial navigation stage.

The embryonic attempt to establish a national coordination mechanism for BANs is commendable. NZ is a small country and organisational economies could be obtained through national coordination and deal flow. A centralised matching mechanism could go a long way in encouraging the aggregate level of activity on both the demand and supply sides, with consequent flow through to women entrepreneurs and angels.

A BAN informant spoke of plans to create a passive angel fund. There was a hope that the Government would contribute matching funds. This would mirror the NZ Venture Investment Fund where private investment capital supplements government funds. It was felt that particularly high net worth professionals such as surgeons and lawyers would appreciate such a scheme as they:

*...clearly don't have the time or the expertise to help, who would be happy to invest into a fund that was managed by someone else who was going to be investing in young companies.*

Yet another innovative way of tapping into the virgin angel market that may prove effective in increasing potential female market participation is the formation of women-only angel groups. This has proved successful in other countries, for instance in the US there are many such angel groups operating and these groups have become popular and supportive environments for women angels and entrepreneurs alike (e.g. the Springboard Enterprise venture capital forum). Such groups can address any lack of investment knowledge and experience through group education in addition to providing networking opportunities, thus increasing individual and collective social and human capital. Women-only angel groups are likely to attract more women entrepreneurs seeking equity finance since as a woman entrepreneur in our study stressed, women often feel more comfortable amongst other women. A BAN informant felt the formation of women-only groups was extremely important and also suggested similarly targeted and dedicated groups for other minority groups for the purpose of coaching and encouraging investment activity. She asserted that the “white male culture” of current BANs could well be intimidating to these minority groups. Whether women networks will generally favour women-led businesses could be a fruitful area for further research. Dedicated ethnicity based angel groups might be a way to break the negativity to external equity investment expressed by some ethnic groups in our interviews. In fact it was suggested by one of the BAN informants that there could be significant unreleased investment potential within NZ’s ethnic migrant communities. The formation of ethnic angel investor “pods” was mooted.

NZ’s sector specific growth initiatives and a wider innovation systems approach in the policy arena could be a fruitful way ahead for providing the foundations for enhancing the VC and broader private capital industry to the benefit of a strengthened entrepreneurial platform. This is likely to then result in positive spillovers to women entrepreneurs.

The experiences of the demand side interviewees yielded rich data on financing strategies. A finding of note here was that extending the importance of networking and social capital to encompass social skills and utilisation of the female point of difference, could be a positive factor in the acquisition of financial resources, especially informal equity capital. Although individual perceptions of gendered financing prevailed in a few instances among informants on both the demand and supply side, generally gender appeared irrelevant to either the investment decision or resort to equity capital. A greater tendency for informal equity investment in technology based businesses was also suggested. Since these businesses have high growth potential and usually high capital requirements for growth, this is not surprising. Unlike in some other occupational areas such as the service sector, however, women businesses are less common in the science and technology sector. As systemic factors are addressed, women’s entrepreneurial activity in this sector will nevertheless correspondingly increase. Similarly therefore, central and local government efforts to promote the overall growth of the equity capital market together with initiatives to support the players involved, will be positive for women equity investors and entrepreneurs alike.

This paper explored the attitudes of equity lenders to women entrepreneurs and in turn the financing experiences and attitudes of women entrepreneurs particularly in relation to their demand for private equity finance. In light of our interpretive research approach, however, we mention that the findings are based on recent patterns and should be treated as suggesting future tendencies rather than future inevitabilities.

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