Discrimination in the Venture Capital Industry: Evidence from Two Randomized Controlled Trials[1]

Ye Zhang[2]

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Abstract

This paper examines the presence of discrimination in early-stage investors using two randomized controlled trials with real venture capitalists mainly from the U.S. The first experiment invites real U.S. investors to evaluate multiple randomly generated startup profiles, which they know to be hypothetical, in order to be matched with high-quality startups from the collaborative incubators. Investors can also donate money to randomly displayed startup teams to show their anonymous support during the COVID-19 pandemic. The second experiment utilizes a new email technology which traces detailed information acquisition behaviors of global VC investors to hypothetical pitch emails with randomized startup's information. I find three main results: (i) Investors are biased towards female, Asian and older founders in lower-stake situations while biased against female, Asian and older founders in higher-stake situations. (ii) The source of bias comes from implicit bias, statistical discrimination and taste-based reasons. (iii) I detect a temporary stronger bias against Asian founders during the COVID-19 outbreak, which started to fade since April 2020. I also develop a consistent decision-based heterogeneous effect estimator by using within-individual level randomization.

Key Words: Venture Capital, Entrepreneurship, Discrimination, Field Experiments
JEL Classification: C93, D83, G24, G40, J15, J16, J71

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[2] Columbia University Economics Department. Email: yz2865@columbia.edu.