

The Gender Bias within Investors: An Opportunity Cost of \$4 Trillion

Nivedita Malu¹ and Alba Castaneda^{1#}

¹Jakarta Intercultural School, Indonesia

#Advisor

ABSTRACT

Estimates suggest that \$28 trillion could be added to the global GDP/year by 2025 if women play a significant role in businesses. This study focuses on the reasons hindering this phenomenon, while investigating the gender bias within investors, its potential impacts, and possible solutions and reforms. The study found that women are disadvantaged due to psychological and cognitive aspects of an individual's behavior. Including different biases, and differences in questioning processes relative to gender which stems from cognitive aspects such as gender stereotypes. The study has concluded that breaking the gender bias requires 3 steps. The first of which requires every investor to be educated about invalid stereotypes influencing their decisions while also being encouraged to break them down. Secondly, there is a requirement for an increase in female investors to mentor and provide women with the necessary tools. Lastly, the pitch process is in urgent need of reformation, whether it is to allocate funds that are categorized according to gender or to remove the pitch in its entirety.

Introduction

The lack of women in businesses is a potential loss of 4 trillion dollars if women give in their full potential in businesses, but the idea of women being a part of businesses is only a possibility. The compiled research answers the questions of what keeps them away from fulfilling these possibilities. The reasons stretch from psychological aspects to cognitive aspects. For a business to grow tools and support are needed, however women do not receive either to a full extent. Therefore, the compiled research explores the gender bias from the primary step, which is receiving financial aid for the development of a business. As the financial aid is usually pitched to a venture capitalist (VC), the research paper answers whether there is a gender bias within VCs, and if that is leading towards the downfall of female entrepreneurs.

With different research results, a hypothesis made is that there is a gender bias within VCs which may be unconscious but holds the consequence of partiality against a woman entrepreneur. The results obtained through the compilation of articles, interviews and journals would have the ability to prove whether there are various factors in a business that may have the involvement of gender inequality that has been a disadvantage for women. As a whole the consequence it holds would not only affect women but society, businesses and the global economy too.

Potential loss the global economy is facing

Start-up companies refer to projects or activities managed by an entrepreneur regardless of their gender to advance a good or service. However, while there are both men and women entrepreneurs establishing a startup, statistics indicate a gender bias during the process of making investments in the startup. A study from 2017 emphasized on why women were not proceeding to Silicon Valley; it was found that men were more likely to invest in companies that

were founded by men, given that 90% of VCs were men at that time of the study, it gives one an insight into why so many startups in the Silicon Valley are led by men and not women.

It is widely understood that if the number of female entrepreneurs increases, their access to capital funding simultaneously increases. However, studies by Brush and Colleagues (2018) indicate otherwise, ventures with just 1 female member are four times less likely to receive funding from VCs as compared to all-men venture teams. This trend has been seen globally, with only 2.7% of venture capital funded companies having a female Chief Executive Officer, while 86% of venture capital funded companies have an absence of women in managerial positions. Even though all-female (or at least 1 co-female-founder) venture teams have increased by 21% to approximately a total of 13 million between 2014 and 2019, the investments in these startups have not increased proportionally. In 2019, only 3% out of the total venture capital investments were given to all women-led companies.

While there were numerous negative economic impacts due to the Covid-19 pandemic, the global funding for startups grew. However, this expansion did not include women entrepreneurs/founders who have instead seen a 27% decline in funding. Exploring why this gender bias exists, researchers have provided two frames of reference. The first outlook is based on factors that have influenced the demand for funding female entrepreneurs. These factors are concentrated on a woman's individual characteristics that have been framed due to gender stereotypes; less self-confidence, less financial knowledge in some cases, and etc. The second outlook stresses on the macro level factors which include regional or societal views, which go beyond the jurisdiction of the female entrepreneurs. These factors include prevailing networks that preclude women, gender bias in an investor's decision making.

Further exploring the reason behind a gender bias, research on female inclusion in entrepreneurial projects has been going on since the late 80's. The research began with comparative studies that inspected the main aspects of female vs male led businesses. The results portrayed that the image of a male led start up was conveyed to be larger than that of women; gender stereotypes led investors to think that a successful outcome could only be showcased by men. Furthermore, the studies concluded that regardless of being at an equal education level, female founders often had a lack of financial knowledge and business experience. This questions the competence of female founders and implies that they were estranged from entrepreneurship. These findings have become stereotypes of women that persist until today, which then plays as a disadvantage for women entrepreneurs as these stereotypes imply negative individual characteristics of them. However, the fact is that there has been an increase of 3000% in women owned businesses since 1972. This points out that the stereotypes are more assumption-based rather than factual in current situations.

Psychological and cognitive aspects of gender bias

Multiple studies show that an explanation for the gender bias within the startup arena could be attributed to the phenomenon "similar-to-me". This is known as the similarity bias; *preference or tendency to appreciate people like us* (Poovathany). Social psychologist Bryne analyzed this phenomenon in 1971, with three fundamental theories. These included, the learning theory conveying the similarity that an individual perceives leads to an impersonal attraction, which influences their decision making. Secondly, the self-categorization theory hypothesizes that a person's conception about themselves is based on social categorization, in this situation: gender. Lastly, a common psychological theory which is fundamental is the social identity theory. It speculates that an individual's identity depends on the basis of their associateship in groups in regard to culture/gender. Moreover, due to stereotypes of women entrepreneurs, it stands as a barrier for investors to identify similarities between them and female entrepreneurs, becoming a prominent reason gender bias exists.

Another facet that contributed to gender bias in businesses is unconscious bias; an individual impulsively making quick judgments and decisions in compliance to a bias. Research shows that "*A favorable startup environment does not directly translate into female-led startups*" (Parisha et al.), this is an example of unconscious bias. Not preferring or visualizing a female as an entrepreneur represents stereotypes such as "men are breadwinners of the family" and proved that it has had an impact on an individual's mindset. Dr Michaela said, "*When meeting with*

investors, they always want to talk to me about the products and the brand. And when it comes to financial stuff, they always turn to my brother because they think I cannot answer those questions, when in fact I can.” This is one of the examples of investors having an unconscious bias. The unconscious bias brings light to internalized sexism within the investors, this can indeed be explained through explicit sexism and implicit sexism. Explicit sexism, is when sexist beliefs are publicly communicated, this includes not investing in a woman with a child. A female CEO quoted that a VC partner she came across, “admitted he always sends a junior 20-something trainee to interview the female founders but is inclined to send someone more senior to male founders.” (Kasera and Anand). On the other hand, an unconscious bias is represented via implicit sexism which can be defined as cognitively learnt and a part of an individual’s culture.

Another psychological aspect to a gender bias in the investment process is the difference in questions during the pitching process. The VC investment process consists of 4 stages: deal staging, pitching, due diligence, and closing. The investors have more control over the pitching stage, making it more hospitable to bias. The pitching process demonstrates an overconfidence of male entrepreneurs and investors; research supports this by demonstrating how men usually overvalue their competence, while women undervalue theirs (Parisha et al.). This plays as a disadvantage because it comes across as women having less ambition in their product. Additionally, while the entrepreneurs are questioned with both promotion and prevention based questions, it’s seen that investors tend to ask male founders more promotional questions: “How would you maximize profits?”, while female founders are asked more preventative questions: “How would you minimize losses?” The gender bias in the questioning session of the pitching process is conveyed by asking men to be successful and asking women to avoid failure. The impact of these differences is shown through Kanze and colleagues’ research; entrepreneurs who are asked more promotion based questions on an average raise 7 times more than those who encounter prevention based questions (Kanze et al.).

Impact on Businesses and the global economy

Multiple research including a Morgan Stanley report estimates that capitalists are losing businesses worth \$4 trillion in revenue per annum by not investing in women and minority-led businesses/startups. This concludes that an increase in investments in women entrepreneurs will not only benefit them, but also produce more success, innovation and reach in businesses. McKinsey & Company’s 2015 Global Institute report found that \$12 trillion could be added to the global gross domestic product by 2025 if advancements were made to close the gender gap. Gender parity could have a very positive impact on the global economy. But the question arises, how far is society from the positive impact? Certain steps need to be taken into account and followed to combat inequality in businesses, such as: equal pay, equal representation in leadership positions, and equal access to training in career-building (Carosella). It is also predicted that if women play corresponding roles as men in the market to full potential, 26% which is also equivalent to \$28 trillion could be added to the global GDP per annum by 2025. Missing out on a trillion-dollar opportunity because of a gender bias and gender inequality stops business success and could eventually lead to a huge negative impact on the global economy.

The debarring of women entrepreneurs in investment processes is a hazard to businesses and the global society. The lack of inclusion of women contributes to the phenomenon, “one-size-fits-men”. This was studied by a journalist focused on gender issues, Caroline Creide Perez. The phenomenon focuses on how the number of female VC partners impacts the thought process of companies. It has been predicted that the lack of female partners is leading to men becoming the standard or default gender. While this approach might not seem completely valid, there are some common examples that prove this. *The Apple health app, which was set in motion in 2014, had the ability to track blood alcohol levels, but it did not have the ability to track a woman's menstrual cycle. The same way the average length of a smartphone is 5.5 inches, which is known to be too large for a woman to hold and to fit in her pocket* (Topp). This is an issue for businesses because more than 85% of consumer purchases are made by women in the United States, and they have an influence on almost 95% of the goods and services purchased. The default gender for products being a man stands as an issue as the sales of products which would eventually drop.

One could ponder over the dialogue surrounding how investors have an impact on this phenomenon, or what can they do to make it better? Investors need to come to a realization about the impact of the one-size-fits-men phenomenon and the reason behind it, which is the lack of knowledgeable input from women and female-founded companies. Companies that are made by women hold benefits that a men-founded company cannot have; the ability to understand the needs/wants of a woman who are indeed a bigger part of the consumer purchasing (Topp). Therefore, not investing in female founded startups may even lead to a drop in the sales of products following into less flow of income in business.

Combating Gender Bias

Combating gender bias in the VC world consists of 3 main steps. Firstly, changes in the pitching process need to be made. This would include allocating pools of money by gender; it eliminates gender bias because females would only be competing in opposition to other females. Funds such as ‘Female Founders Fund’ have already started using this approach. Mrs Sujatha Kartic, the managing director of Donracks, a female entrepreneur, has been a jury member for ‘The Women Global Pitch Competition 2021’ which was a pitching competition between women. It has had a very positive impact, as many women came under the spotlight and across many new funding opportunities. It has a fair impact as it looks more into the efficiency and practicality of the product. Additionally changing the pitch process definitely includes changes in the way entrepreneurs respond to questions and how investors ask questions. Initially, investors need to learn to differentiate between overconfidence and the confidence of entrepreneurs. This is because founders that have an overconfident pitch usually overvalue their skills simultaneously. Furthermore, investors should ask an equal number of prevention/promotion-based questions to both genders or depending on the product rather than the entrepreneur's gender. Lastly, female founders can improve their pitch by modifying their responses. Now that female entrepreneurs are conscious of the gender bias, difference in questions asked and the influence of their response they can answer prevention-based questions in a promotion based approach, obtaining an optimistic result.

The second remedial measure is to appoint more female investors and mentors. The lack of gender diversity within investment teams also has an impact on the funds being allocated. Research has disclosed that all-female venture teams were only less preferred to male investors, as female investors actually preferred products of an all-female team. Only 12% of VCs are female, and increasing that percentage by appointing more women as investors would bring more gender diversity within VC teams. Additionally, while female investors are appointed, concurrently female mentors should also be appointed. Mentors help entrepreneurs launch their startup by distributing their knowledge from their experiences. Every entrepreneur needs a mentor to guide them, and for female-founders having female mentors would be more effective as they may have conquered similar difficulties in their journey.

The final remedial measure relies on the encouragement and improvement in regards to breaking down gender stereotypes and sexism within the VC world. While many entrepreneurs may be disheartened due to past experiences, or current figures it is vital that they receive encouragement, outlook and alternate measures they can take to finance their business. Encouragement includes educating entrepreneurs and investors about the gender bias that exists and how they can personally make a change. These changes would include eliminating explicit sexism and trying to gain self-awareness about how they might be exhibiting implicit sexism; unconsciously referring to a man when anything related to finances comes up, they can personally make a change by referring to a woman instead.

On the improvement aspect, VCs need to improve on eliminating stereotypes. An article in the New York Times showcases stereotypes that have impacted a woman's startup. It talks about how female entrepreneurs are repeatedly resembled to Ms Elizabeth Holmes, the founder of a startup that had collapsed in a scandal. The article further talks about Ms Zhang’s experience who is a female entrepreneur and had tried to raise funding for her drug discovery startup. She shared that, “*One adviser told her that when her start-up came up in conversation, people responded by cracking jokes about Ms. Holmes.*” (Griffith). Ms.Zhang was bewildered as her product had no simi-

larities in comparison to Ms Holmes product. “*I could see no similarity besides the fact that we’re both women in the hard-science space.*” said Ms Zhang. Female entrepreneurs till this date are trapped under Ms Holmes’s shadow, because investors have created a stereotype related to failure for women in science or technology. The elimination of these stereotypes has so much importance because it stands as a barrier for women entrepreneurs to launch a startup, finance it and succeed. Mrs Nishma Singhal, the owner of Zoivane Pets, mentioned the lack of impact of gender stereotypes in her professional experience. She never looked at the gender of those that she was hiring, “I always looked at those who have the caliber and worked hard for the company. Looking back at the count, I have more female workers than male.” With these gender stereotypes breaking, more people with distinctions are hired rather than decisions being biased in regard to gender. Lastly, the improvement that needs to be made is normalizing failures. Lelemba Phiri, a female VC said, “Currently, there’s a higher social penalty for women who fail at building a business.” (Kasera and Anand). Both genders should be allowed to fail, without major consequences because it is a part of growth and learning. Continuous success is not realistic, and it should be normalized to fail, because failure teaches you more about the path to success.

Methodology

The research paper includes qualitative data in regard to the gender bias within investors, portraying its impact on the economy as a whole. These include interviews of different women entrepreneurs and their experiences. The qualitative data collected has been confirmed through secondary research methods: journals and articles. These secondary sources created a framework of quantitative data. It has shown the aspects of quantitative data such as figures that show women as a part of businesses in comparison to that of a male, and statistics about the possible increase in GDP and potential loss faced in percentages. With the databases and information collected, the research paper has analyzed them to provide accurate statistics and quotations to substantiate claims made. This research paper focuses on gender bias within investors when the funding process of businesses takes place. This gender bias roots from patriarchal standards, which is conveyed both implicitly and explicitly. Even though several research reports investigate claims of gender bias, the impact it holds and its solutions, this paper focuses on all these aspects together in relation to each other. The first study (Parisha et al.) explained the problem with valuable statistics, alongside the reasons for gender bias. This study focuses on the psychological aspects of the cause such as similar and unconscious biases. Through more exploration of this source, it was understood that the root of the problem was gender stereotypes that built on implicit sexism within individuals. The second study written by Sophia Junginger & Lauren Desrosiers further explores how gender bias is portrayed and its economic impact. Firstly, the study shows how the pitching process had an inclusion of gender bias. It further explained that it is shown through the difference in the questioning process that takes place. This stands out, primarily as the terms, “promotion-based questions” and “prevention-based questions” are unheard of. The study also provided information from a Morgan Stanley research report that stated that the opportunity cost of VCs not investing in women is a trillion-dollar opportunity. Study 3 written by Samantha Mei Topp argues that while there has been an increase in the number of female entrepreneurs, it is not enough, as the gender bias continues. It talks about the impact of gender bias rather on society as she brings up an unheard phenomenon: “the one-size-fits-men”. This phenomenon explores why gender bias could be dangerous to society, as it pushes to make the default gender a male. The last 2 sources: a study written by Akansha Kasera & Malika Anand, and an article on crunchbase.com and the second study conveys valuable inputs on combating the gender bias in investment processes. These texts talk about changes in the pitching process, such as gender allocated funds or ditching the pitch as a whole. Moreover, they talk about encouragement and improvement in regard to breaking down gender stereotypes: this would be through rethinking attitudes, calling themselves out and providing more opportunities to women. Lastly, it brings in the idea of an increase in the employment of women mentors and investors: creates a more balanced ratio, decreasing the area of similarity biases and increase in guidance and support for female entrepreneurs.

Conclusion

Through this compiled research, my hypothesis can be deemed correct, as various different articles and journals demonstrate that female entrepreneurs have faced a gender bias whether that be through implicit or explicit means. The gender bias within VCs is made up of various different aspects such as psychological theories, cultural implications, internalized and implicit sexism that some investors may even be unaware of, and gender stereotypes that have built an impression of female entrepreneurs all over the world. Firstly, the psychological aspect expands on how investors unconsciously may prefer investing in men-founded companies as they have developed a similar-to-bias, which makes them believe that men have similar characteristics to them: bold, successful, smart. Secondly, the cultural implications and internalized sexism is an explanation to the unconscious bias that investors may have. It focuses on how the gender bias may have been due to societal views that have been cognitively learnt. Lastly, there are certain stereotypes that have outspread globally which convey a flawed and incorrect image of a woman as sensitive, afraid and apprehensive. This stands as a barrier for investors to invest in their companies as they perceive women to be weaker and not confident. While these may be reasons for gender bias, it is shown in different ways. These include explicitly saying it out, and differences in the questioning process. For example, some investors explicitly show their bias by having a preference for male entrepreneurs.

While other investors may portray their gender bias through asking promotion-based questions to men and prevention-based questions to women. This may not seem as much of a problem; however research concludes that entrepreneurs who are questioned with promotional questions raise funds 7 times more than those answering prevention-based questions. This negative impact does not only affect women entrepreneurs, but it also has a global impact. As women hold a higher percentage of consumer purchases, they would purchase products that come within their interest. And no male entrepreneur would understand a woman's interest more than a woman herself: female entrepreneur. Another phenomenon that also holds a negative impact and is caused by the lack of female entrepreneurs is called the one-size-fits-men phenomenon. This focuses on how the default gender is becoming male which means more products would be designed for them, and female consumer purchases, which is more than half, would drop. Solving these issues has become vital not only for the female entrepreneurs but also because of the negative impacts on society and businesses. These solutions eliminate possible gender biases and gender stereotypes: allocating fundings by gender, adjusting pitching process; balancing prevention/promotion-based questions, appointing more female mentors and investors, and lastly encouragement including normalizing failure and improvements such as educating the VC world about implicit biases that they may hold and steps to break them.

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