Gender gap in start-up investment a global problem

Crucial OECD study reveals that start-ups with at least one woman in the team of founders are less likely to receive funding by 5-10pc.

It's a well-known reality that compared to their male counterparts, women start-up founders are experiencing a definite gender bias when it comes to raising investment.

But now a study from the OECD (Organisation for Economic Co-operation and Development) entitled Levelling the Playing Field: Dissecting the Gender Gap in the Funding of Start-ups has confirmed that the problem is rife all across the developed and developing world.

It points out that while even start-ups with high-potential and innovative ideas may face barriers to obtaining finance, scaling-up and succeeding for a variety of reasons such as asymmetric information, policy barriers or social norms.

"One example of such missed opportunities is that start-ups founded by women are generally less likely to receive funding than male-founded ones," the reports authors said. "Moreover, even if they receive financing they tend to receive less capital. The reasons for this are not well understood."

The study cited Crunchbase which showed that less than 6pc of start-ups on its database have been founded by women, while just 15pc have at least one woman among the founders.

"The gender gap in innovative high-potential start-ups is thus much larger than the gender gap in entrepreneurship in general.

"The analyses confirm the presence of a gender gap in access to venture capital using various measures of start-up financing."

According to the study, in the first analysis start-ups with at least one female founder are significantly less likely to receive venture capital funding than start-ups founded exclusively by men. "The likelihood of funding for all male start-ups is around 10pc higher than for those with at least one female founder."

Accounting for the differences in start-up characteristics (sector, the number of founders, etc) and the non-gender characteristics of founders themselves (past education degree and employment experience), the gender gap is reduced by a third, and even eliminated for start-ups with female founders only.

Secondly, it found that conditional on receiving venture capital, the amount of funding received by start-ups with at least one female founder is a third less than that for male-led start-ups.

“The penalty associated with the presence of one woman in the team of founders is thus economically large and robust as the gap does not close, even after controlling for company and other founders characteristics.”

Thirdly, the OECD study found that the gender gap is also visible when looking at incidences of successful ‘exit’s such as M&As and IPOs.

“More specifically, start-ups with at least one female founder are half as likely to be acquired as those founded by men only. In contrast, there is no gender gap in probability to go public via an IPO; however this exit strategy is less common and its importance is declining in certain countries such as the US.”

The OECD study found that country differences exist in terms of gender gap in start-up creation and the likelihood of receiving funding. Italy and the US have the highest share of start-ups with at least one female founder (17pc and 16pc, respectively).

The study found that differences between gender in the probability to get any funding is mostly present in Europe where companies with at least one female founder are less likely to get funding by more than 10pc.

In the US the difference is smaller and only marginally significant while in Asia no difference is found. However, for those that receive funding the gender gap in funding amount is similar for Europe and the United States.

“Identifying the underlying mechanisms of the gender gap is crucial for understanding the need for and type of potential policy responses. To the extent the gap is attributable to observable skills differences, closing it would require a holistic approach, including through policies to tackle gender gap in the education system and labour market. In addition, more general policy levers associated with social policy (i.e. parental leave) can have positive implications for female entrepreneurship. ·

“Still, the overall pervasiveness of the gender gap indicates that unobservable factors play a strong role,” the report’s authors concluded.

“These can include gender bias on the investors’ side, unintended effects of policies but also personal traits and preferences that cannot be accounted for with available data. Further research can help understand the remaining gender gap and make the case for an effective and appropriate policy response.”

Written by John Kennedy

Published: 24 June, 2019

John Kennedy is an award-winning business and technology journalist and is Editor of [ThinkBusiness.ie]