Entrepreneurship & Acceleration: Questions from the Field

SOCIALENTERPRISEGOIZUETA

Aspen Network of Development Entrepreneurs

Question #2 (August 2015):

At Unreasonable Group, we have a hypothesis that across markets, companies outperform other players in the market when they have more women in senior leadership and on their board of directors. And yet, these same companies seem to struggle in raising investment dollars relative to companies with more men on their teams. To this end, we have two questions: Do new ventures with women on their founding teams outperform their peers? And if a team has more women in roles of leadership, are they more or less likely to raise equity?"

Daniel Epstein
CEO, The Unreasonable Institute

Thanks for the question, Daniel.

The idea that ventures started by women are promising but under-supported is held by a large number of individuals and organizations. In addition to the work being done by the Girl Effect Accelerator, programs like 10,000 Women (Goldman Sachs), 5by20 (Coca-Cola), Value for Women, and WeConnect International are helping women-led ventures around the world to grow by providing them with investment, training, and network access. In this brief, we use our growing database to address some critical questions about gender and early-stage entrepreneurship.*

** **About the sample.** Since 2013, the Entrepreneurship Database program at Emory University has been collecting systematic data from entrepreneurs who apply to one of several participating accelerator programs. Because of the pronounced skew in the variables that are examined in this brief, we remove observations that are more than two standard deviations above the mean for each variable. The percentage of outlier ventures dropped from the sample ranged from 1.8% (all- women teams) to 4.3% (all-male teams). From our initial sample of 2,352 ventures, the following observations are based on 2,262 early-stage ventures.*

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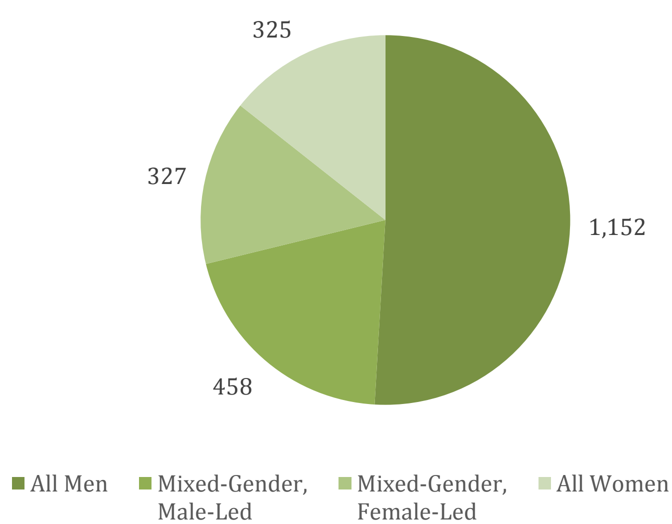
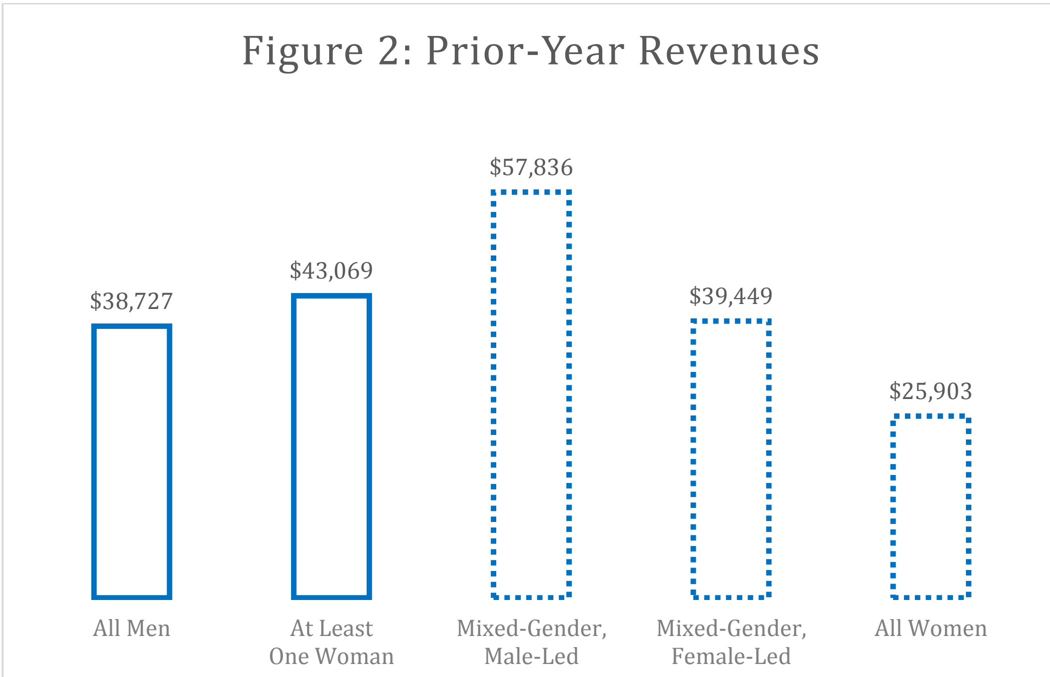
We begin with observations about the relative frequency of founding teams with differing gender compositions. Then, we examine the average revenue and employment performance of ventures with and without women on their founding teams. This is followed by a similar look at differences in early-stage financing outcomes. After honing in on the incidences of prior entrepreneurial experience, we close by showing that the accelerator programs in our sample are – intentionally or otherwise – addressing gender biases by accepting women-led ventures at a higher rate.

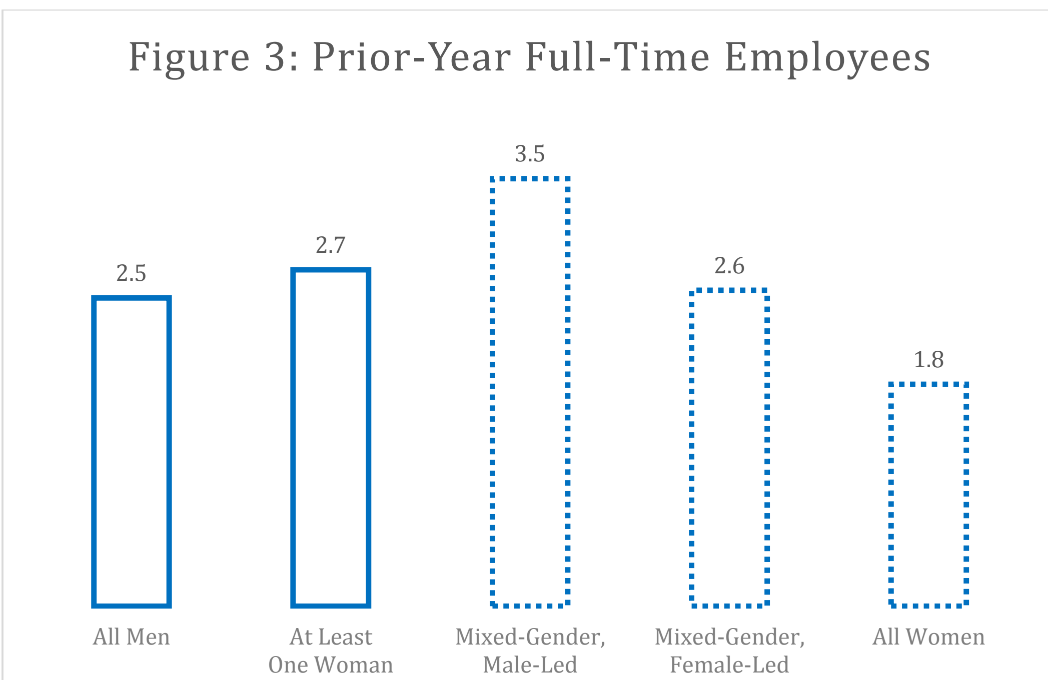
Gender composition of founding teams. Just under half of the ventures in our sample have at least one woman on their founding teams (Figure 1). Of these 1,110 ventures, slightly more than one-third are mixed-gender teams with a man listed as the first founder (N=458). The remainder is split evenly between mixed-gender teams with a woman listed as the first founder (327), and all-female founding teams (325).

Figure 1: Gender Composition of Founding Teams

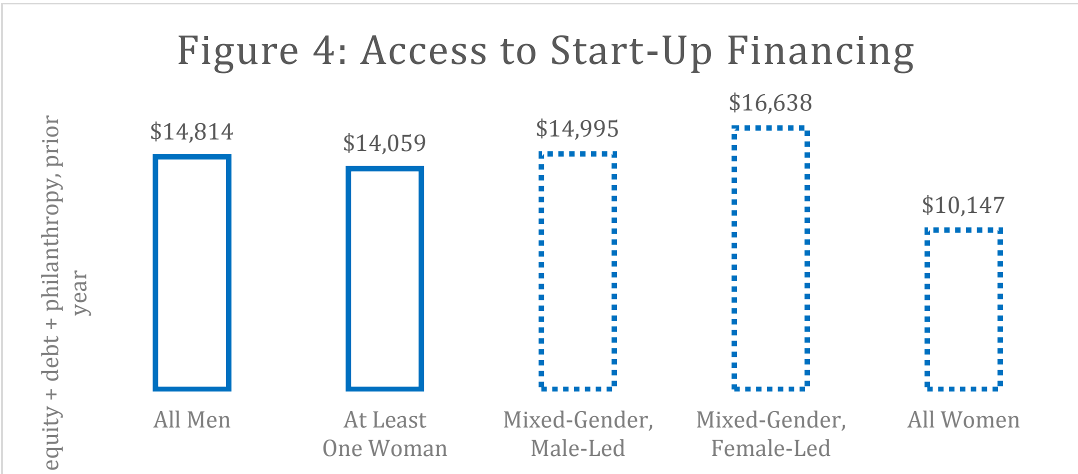


(Small) performance advantages for ventures with women founders. Two common indicators of early-stage venture performance are revenue and employment levels. Average revenues are higher among ventures with women on their founding teams, although this difference is not statistically significant (Figure 2). Among ventures with at least one woman founder, mixed teams with male leads outperform mixed teams with female leads, which outperform all-female teams. The same pattern is revealed when we shift focus to the number of prior-year full-time employees (Figure 3).

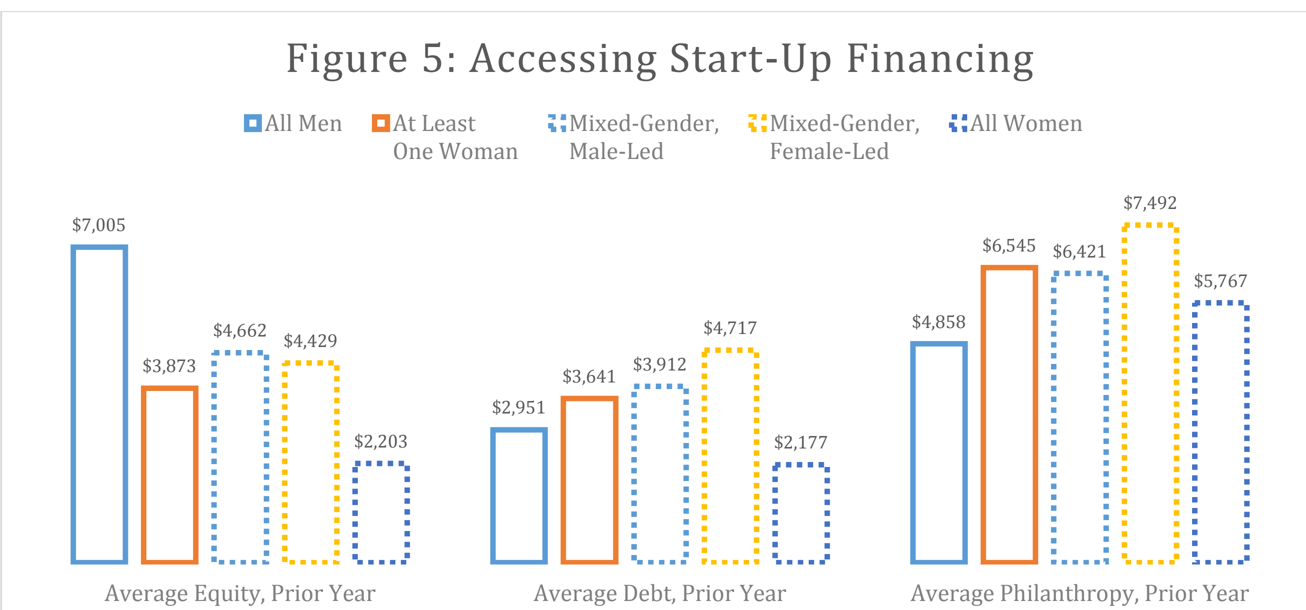




Gender influences start-up financing. The average venture in our sample reported $5,468 of prior year equity investment, $3,290 of prior year debt, and $5,686 of prior year philanthropic support. When we sum these three types of start-up financing, we find that founding teams with at least one woman received marginally lower prior year financial support; an average of $14,059 compared to $14,814 for all-male teams (Figure 4). However, the all-female teams were at a considerable disadvantage compared to both categories of mixed-gender teams.

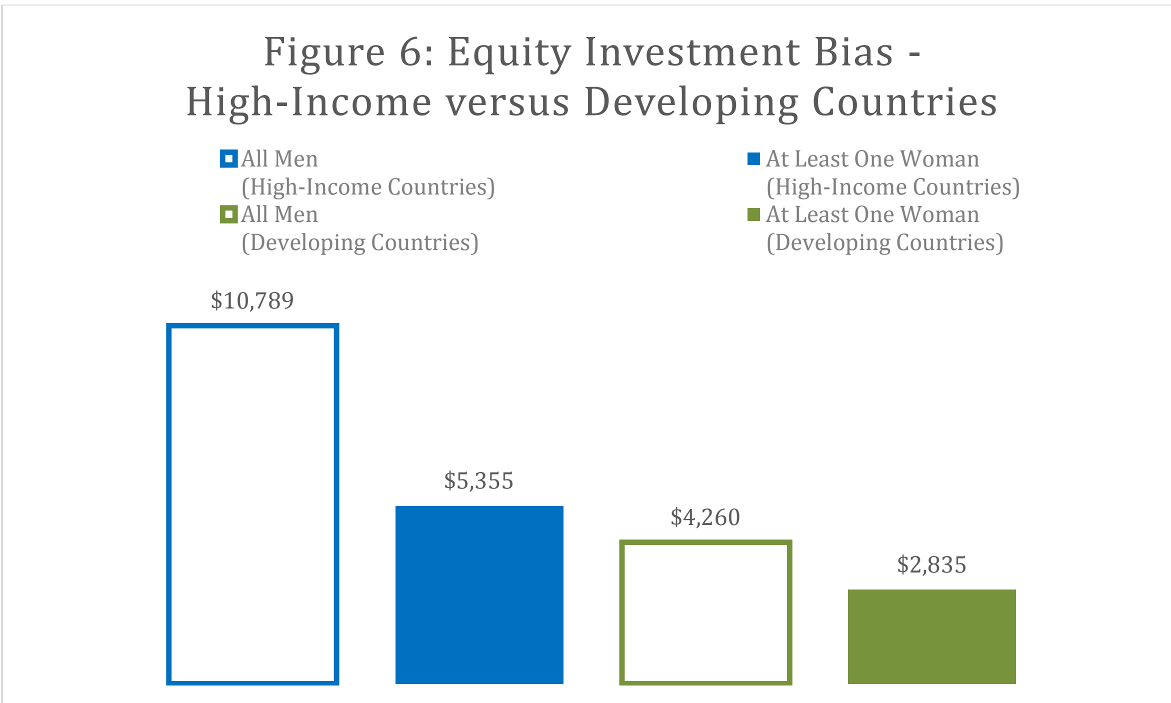


The pattern changes, however, when we isolate the three different types of early-stage capital. Notwithstanding the small revenue and hiring advantages among ventures with at least one woman founder, their <u>average prior-year equity investment is significantly lower</u> (Figure 5). Average levels for the two categories of mixed-gender teams are lower than the average for all-male teams. The all-female teams dramatically underperform their all-male counterparts, with average reported equity investments of just $2,177. The corresponding differences for prior-year debt financing are not dramatic, although all-female teams again perform worse than teams with all or some male founders.



A different pattern emerges with prior-year philanthropy, which is higher for ventures with women on their founding teams; $6,545 compared to $4,858. The biggest philanthropic advantage is found among mixed-gender teams with female leads.

The equity investment bias is especially salient in the developed world. We also looked for differences in the gender-based equity investment bias across high-income countries and the developing countries represented by ANDE. While ventures with female founders have lower average equity investment in both sub-samples, the bias is larger (and statistically significant) in the high-income countries (Figure 6).



Entrepreneurial experience factors into the equation. One variable that tends to influence the performance of early-stage ventures is the amount of prior entrepreneurial experience on the founding team. We counted the total number of prior for-profit and nonprofit start-up experiences reported by each of the sampled teams. Overall, there are no salient differences between entrepreneurial experience levels reported by all-male teams, compared to those with women. However, all-female founding teams tend to report significantly lower levels of prior start-up experience (Figure7).

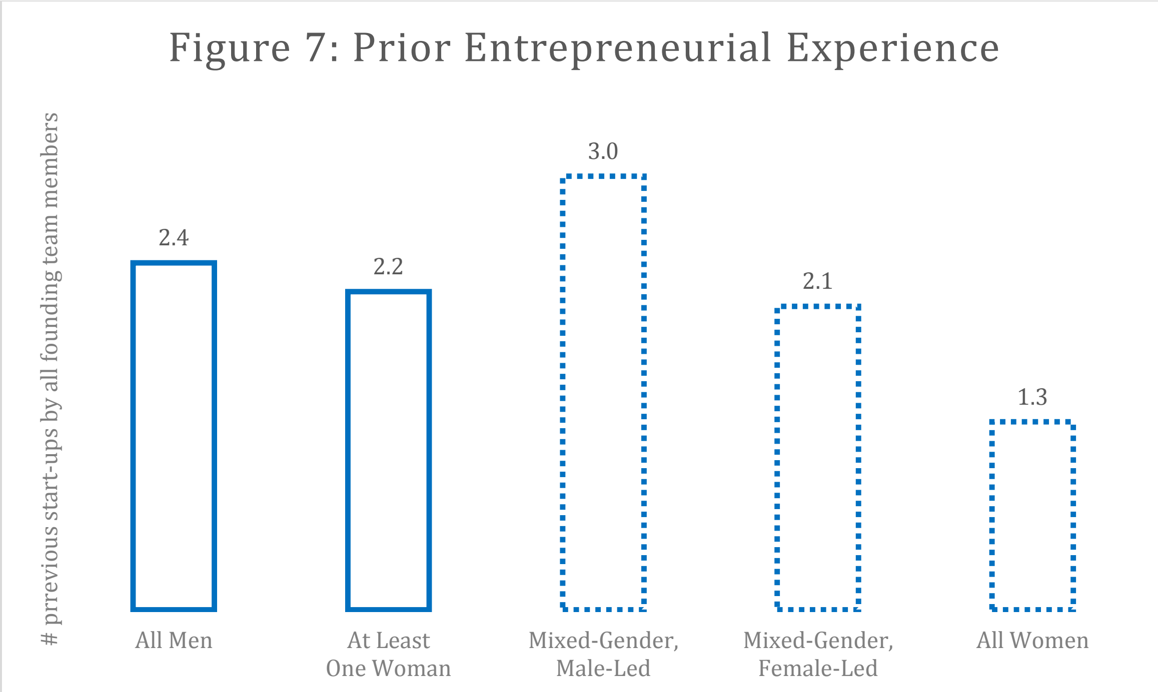
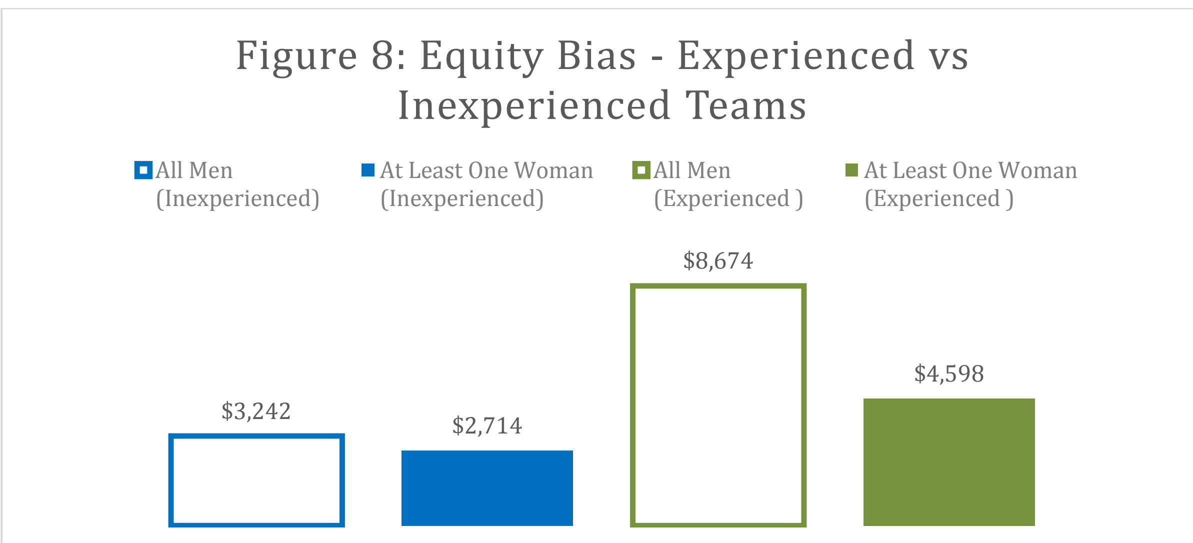
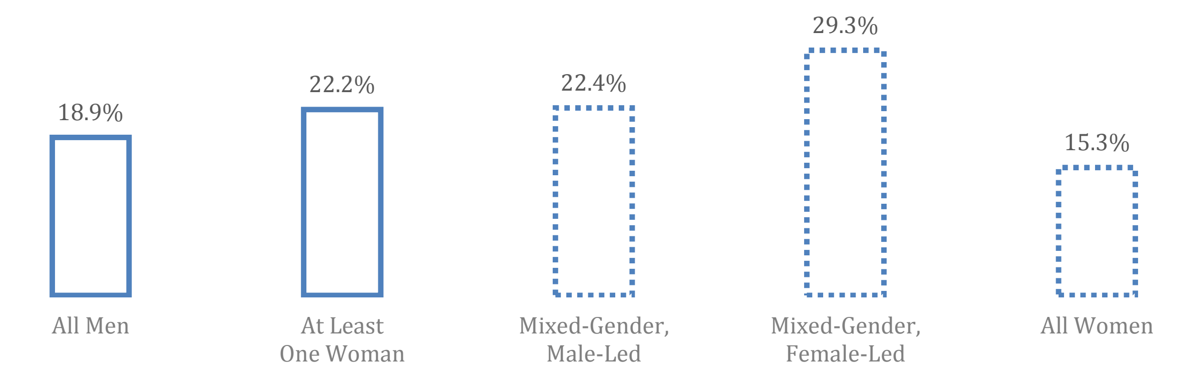


Figure 8 shows that the equity investment bias is considerably more prevalent among the experienced teams. Without prior entrepreneurship experience, the equity investment deficit for founding teams that include women is $528 ($3,242 minus $2,714). For teams that have prior start-up experience, the equity investment bias is more than seven times greater; $4,076.



Accelerator programs are working to level the playing field. Among other things, accelerator programs aspire to increase the flow of investment into early-stage ventures. As such, it is interesting to see how gender factors into the acceptance decisions of the programs represented in our data. Ventures with women on their founding teams have a significantly higher probability of participating in the programs in our sample; 22.2% versus 18.9% (Figure 9). This gender advantage is skewed; mixed teams with female leads are most likely to participate (29.3%), while ventures with all-female founding teams have the lowest likelihood of participation (15.3%).[1]

Figure 9: Probability of Participating in Accelerator Programs



What does this mean? In many respects, our data support the hypotheses laid out by our colleagues at the Unreasonable Group. Ventures with at least one woman founder tend to report (slightly) higher revenue and employment levels. However, when it comes to attracting equity investment, they lag behind ventures with all-male founding teams; especially when they have prior entrepreneurial experience and when they work in the developed world. A closer look at the figures in this brief, however, suggests that the most problematic outcomes are found among ventures with all-women founding teams. These 325 ventures lag behind the other three categories when it comes to revenue and employment generation, and when it comes to attracting early-stage equity and debt financing. They also tend to launch ventures with less prior entrepreneurial experience, and tend to have the hardest time getting into accelerator programs. To the extent that we believe there is promise in these ventures – along with the other ventures with at least one woman founder – we must think about how to ensure that this promise is realized.

[1] *We will not know whether this tendency to accept and work with more ventures with women founders helps to address the gender-based equity bias until we analyze the follow-up data that are being collected from the (participating and non-participating) entrepreneurs in this sample.*