International Journal of Social Sciences: Current and Future Research Trends (IJSSCFRT)

ISSN: 2790-4008

https://ijsscfrtjournal.isrra.org/index.php/Social_Science_Journal

How Does the lack of Funding and Network Support for Female Founders Create a Gender Disparity in Entrepreneurship

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Abstract

Entrepreneurship drives the economy - it entails the process of individuals i.e., entrepreneurs creating a new business or product and bringing innovation to the market. Whilst entrepreneurship has been defined numerous times in the literature, no one definition suggests a gender specification for what may be deemed as a successful entrepreneur. However, unfortunately, over the years, as a result of many societal biases and stereotypes, a common misconception has been created wherein it is assumed that only male founders have the necessary skills to be successful at entrepreneurship. Regardless of this not being true, it has unfortunately impacted the ability for female founders to successfully become entrepreneurs. Two of the most prominent ways in which this has happened is the lack of availability for financing for female founded companies as well as the lack of a strong female founder network. These aforementioned factors ultimately restrict the ability for female founders to successfully become entrepreneurs. This paper aims to analyze the existing literature to explain the potential reasons for this gender disparity in entrepreneurship and conclude by presenting potential suggestions for female entrepreneurs to overcome these.

Keywords: lack of Funding; Female Founders; Gender Disparity; Entrepreneurship.

1. Introduction

Entrepreneurship is the process of discovering and pursuing opportunities to create new businesses and products or to find new ways to deliver existing products and services. It involves taking risks and being creative. Over the years, unfortunately, a stereotypical image of an entrepreneur has been created. We're often caught picturing a white male tech startup founder. But that's not where entrepreneurship starts. It starts with an idea and the subsequent success of an individual as an entrepreneur is not dictated by one's gender. Just as entrepreneurship could start with a male founder, it could also begin with a young woman, sitting in an uncomfortable chair in a classroom, being told she can't be a doctor, an engineer, or a leader.

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Unfortunately, the constant stereotyping of women as being more nurturing than ambitious has led to many barriers being created for female founders seeking to pursue entrepreneurship. One of the most significant barriers, for example, is the access to traditional sources of funding. Most female founders find themselves struggling to receive funding, especially from male-dominated venture capitalists. This has led to a large gap in funding between female-founded companies and male-founded companies. This disparity in funding has further farmed the seeds of doubt in female founders' abilities to run a successful business, causing even more female founders to be discouraged from pursuing their entrepreneurial dreams.

Furthermore, having access to a network is also very important for entrepreneurs looking to succeed. Whilst male founders may have access to many fellow successful male founders, unfortunately, the same can not be said for female founders. Not having the correct guidance and support through the stages of entrepreneurship has in turn led to even fewer female founders entering the industry and even fewer female-founded companies being recognized as being industry-changing.

In a bid to address the gender disparity in entrepreneurship, this research paper aims to answer the question **'How does the lack of funding and network support for female founders create a gender disparity in entrepreneurship?'** The aim of this paper is to highlight the severity of the issue as well as uncover the underlying explanations for it as suggested by the existing research and literature.

2. Methodology

In order to answer the research question, this paper will first present a thorough analysis of the existing literature on entrepreneurship. In doing this, the main aim is to uncover the possible reasons that have been provided for female founders having fewer opportunities in entrepreneurship with a keen focus on hurdles they face when fundraising and attempting to access a network. The key findings will then be extracted and discussed with the appropriate theoretical application.

3. Findings - Literature Review

Entrepreneurship is a concept that has been defined several times in the literature. For example, Schumpeter [1] defines entrepreneurship as 'carrying out of new combinations of firm organization—new products, new services, new sources of raw material, new methods of production, new markets, new forms of organization' while Hart and his colleagues [2] define it as 'the pursuit of opportunity without regard to resources currently controlled but constrained by the founders' previous choices and industry-related experience'. In the simplest of terms, the main implication that may be derived from the several definitions is that an entrepreneur is ultimately a doer and possesses some key characteristics including ambition and self-confidence, willingness to take a risk, ability to learn from mistakes and trust in and respect for the team.

In order to become an entrepreneur, one must think of an idea upon which a business can be built with the necessary skills required to turn a startup into a success. In this case, there should presumably be a level playing field between males and females wanting to pursue entrepreneurship. However, this is not the case. Men outweigh women heavily in the world of entrepreneurship and venture-capital-backed ideas. The main reason for this is commonly traced back to entrepreneurship being highly male dominated from the very beginning. This results in women facing several challenges including the lack of funding available to them and access to a much smaller network.

Unfolding business venture funding, firstly, there are many different ways that start-ups can fundraise. One of the most popular forms of traditional funding, however, is Venture capital (VC) - a type of private equity and financing method that investors provide to startups and small businesses that are believed to have long-term growth potential [3]. As per an article in Harvard Business Review [4] the ideal entrepreneur from a venture capitalists' perspective is one who is qualified in a 'hot' area of interest, tells a compelling story and is presentable to outside investors, has a good reputation and can provide references that show competence and skill, works diligently towards a goal but maintains flexibility, is sought after by many VC's and has realistic expectations about the process and outcomes. Whilst this may seem like a lengthy checklist, it is presumably one that is followed very closely as venture capitalists are noticeably successful at selecting new ventures [5].

As a result of the above, many studies have focused on identifying the venture capital criteria with one of the first being by Wells followed by Tybejee and Bruno [6], Hall [7], and Fried and Hisrich [8] more recently. The study that this paper will focus on is that recently conducted by Dhochak and Sharma [9] who found that there are seven factors that significantly influence the ability to raise venture capital including entrepreneur's characteristics, product or services, market characteristics, management skills, financial consideration, economic environment and institutional and regulatory environment. In line with this, the literature regarding entrepreneur characteristics entailing factors such as education, gender and previous start-up experience is expanded below.

Previous startup experience, for example, brings with it tacit knowledge that links to venture performance and may thus lower some risks that investors normally have to take on when dealing with startups [10, 11]. With regards to this factor, much of the evidence suggests that founders who have had previous experience will have much more success when raising traditional financing like venture capital. Eesley and Roberts [12] conclude that "the current firm has a higher chance of going public if the entrepreneur's previous venture was acquired". Furthermore, it is expected that prior experience will also have a strong positive effect on current firm revenues. Gomper and his colleagues [13] reiterate that this happens mainly because "successful serial entrepreneurs are more likely to replicate the success of their past companies" and that "skill is an important determinant of success for entrepreneurial startups". Therefore, entrepreneurs who have been successful in their previous ventures have a better chance of succeeding in the current business in all respects including funding.

A lot of the literature has attempted to explain the above in detail and the majority of them conclude that the reason founders who have some previous experience are advantaged in traditional fundraising such as VC is because they have a higher level of social and human capital. The former is explained through the entrepreneur being able to know and work with a range of people including capitalists, professionals, suppliers and customers. Connections with these people established in previous founding experiences increase the entrepreneur's stock of social capital [11]. Furthermore, the academic literature on the returns to human capital investments associated with training, work experience, and accumulated skills/knowledge [14] can explain how human capital can once again be leveraged by previous founders in the fundraising process. Literature suggests that, on the other hand, for entrepreneurs who do not have prior founding experience, there is no available track record for outsiders to infer their quality. Therefore, they will have to make an effort to signal their quality [15].

Education is another vital factor that has been found to impact how successful entrepreneurs are at raising finance. However, once again, the studies consider the correlation between the founder's education and success at raising traditional finance through venture capital and not other methods such as crowdfunding. A report by Extend Ventures [16], for example, looked at how VC has been invested in the U.K. between 2009 and 2019 — providing data on 3,784 entrepreneurs who started 2,002 companies over this period. One of the findings suggested that 42.72% of U.K. VC invested at the seed stage during the period was invested in founding teams with at least one member from an elite educational background (narrowly defined to mean Oxford, Cambridge, Harvard, Stanford and their respective business schools).

The above could be explained on the basis of venture capitalists themselves having very extensive education. As per the Diversity in UK Venture Capital Report of 2019, personnel in the venture capital industry exceed national averages for education across all metrics. 96% of venture capital professionals have a university education, 28% attended a Russell Group university and 13% studied at Oxford or Cambridge. It was also found that female venture capitalists actually attain a higher level of education than men. For example, when the number of degrees held or the percentage of employees with a postgraduate research degree (such as a PhD) is measured, female venture capitalists typically have a greater level of education than men. In fact, in senior investment positions, women hold an average of 1.5 degrees – compared with 1.3 for men.

When focusing on a very important factor i.e., gender, things get slightly more complicated. Financial capital is a critical resource for entrepreneurial firms that seek to expand quickly [17, 18]. Research has often considered that perhaps women do not want to operate high-growth ventures [19, 20, 21] or that women may not seek growth capital for their ventures at the same rates as men [22, 23]. In line with this, [24] found that female entrepreneurs receive less funding from banks. In this case, when they turn to venture capital, as per Lins & Lutz [25] they are once again likely to receive less venture capital. This phenomenon is a result of the dominant perspective in the literature that highlights that women neither want nor seek out VC funding for their ventures. This perception leads to an evident gender bias when raising venture capital wherein female entrepreneurs face significantly greater challenges than their male counterparts. This gender disparity is further proven in the literature and data including statistics such as 83% of deals in the UK VCs made in 2021 having no women at all on the founding teams.

The underlying explanation for the aforementioned was provided by Greenberg and Mollick [26] through the concept of induced homophily - which reflects the likelihood that those in a particular social category will affiliate and form networks. The venture capital industry is commonly characterized as male-dominated, small, and geographically concentrated. It has been reported that entrepreneurs who are invited to present their plans are very likely to be meeting with partners who are "white males between the ages of thirty-five and fifty who got their MBAs from Harvard or Wharton." As per Trish Costello, CEO of the Center for Venture Education: "Most venture capitalists have a tight and trusted circle of business colleagues who act as gatekeepers for high-potential deals and women have rarely been networked into this small inner circle" [27]. Therefore, if we consider the theory of homophily which reiterates that people tend to associate with others like themselves then the lack of women occupying the investment decision-making positions in the venture capital industry indicates that women entrepreneurs have less access to gatekeepers and, thus, fewer points of entry to the negotiating table than their male counterparts.

In order to further understand the impact of gender in raising venture capital, researchers have attempted to observe the Q&A interplay that takes place between investors and entrepreneurs during the pitch. As per a research published by Kanze and his colleagues [28] in the Academy of Management Journal, male entrepreneurs receive more promotion-focused questions which focus on the gains. On the other hand, female entrepreneurs tend to be asked prevention-focused questions which are focused on losses. The respective entrepreneurs then respond to these questions with a matching regulatory focus. As a result of this, when the male founders are asked promotion-focused questions, they raise significantly higher amounts of funding than those who are asked the prevention-focused questions i.e., the females.

On the whole, the underlying patterns of discrimination in venture capital have resulted in female entrepreneurs attributing a failure in raising finance to their gender [29]. As a result of this, it has been found that women tend to downplay their gender in order to avoid the stereotype and improve their chances of funding. However, when evaluating the different types of financing available to start-ups, the literature finds that, on the whole, crowdfunding, a newer form of fundraising, offers some definite benefits over the more traditional financing route such as venture capital and would be more successful for female founders. The main reason for this is that crowdfunding, which entails raising money from the general public online, challenges many of the patterns exhibited within the more traditional model of entrepreneurial finance. This is because investor groups on crowdfunding platforms are different whereby, they entail people who are deemed more 'casual investors' and are looking for products or services based on genuine passions and interests [30]. This differs from traditional investors who are more return-oriented and prefer mostly profitable high-tech businesses that are coincidently mostly male-dominated. With female founders starting businesses that connect to people's passions, female successes in crowdfunding [e.g., 31] are heightened and contrast the relatively poor funding outcomes in traditional venture capital.

4. Discussion - key takeaways

On the basis of the literature review, there are some key takeaways regarding the extent to which female founders struggle through entrepreneurship particularly because of the lack of funding availability and networks.

Entrepreneurs most commonly seek traditional funding like venture capital as successfully raising rounds of the same may emit a positive signal and improve future prospects of fundraising. However, such forms of traditional funding have been repeatedly highlighted as being male dominated resulting in a "birds of a feather" phenomenon being created wherein venture capitalists prefer to hire, invest in, or co-invest with those that are similar to themselves in characteristics such as gender. This obvious homophily has led to lesser female representation in entrepreneurship which has subsequently implied a relatively smaller network of female founders in comparison to their male counterparts. The combination of both the aforementioned factors, i.e., the vicious cycle of homophily induced funding and lack of mentorship from a wide network, explains greatly the reason as to why female founders oftentimes struggle with succeeding in gaining the appropriate financing to launch a venture. However, some feasible suggestions may be made to make it easier for women to navigate entrepreneurship.

With regards to fundraising, it is evident that there is a wide gender disparity when it comes to accessing venture capital. However, due to the prospects, this form of funding is very attractive so women should not be derailed from attempting to raise the same. Instead, some valuable insights are that when women are faced with prevention-focused questions in a pitch, they should counter them with promotion-focused answers - this is a way to reduce the level of gender disparity that exists in raising venture capital. Also, network connections are incredibly important. Whilst it might be difficult for female founders to take full advantage of these as a result of the minimal number of pre-existing female investors and founders, more knowledge of the disparity should be created in order to trigger an increase in the number of female venture capitalists themselves so that opportunities for highly qualified women entrepreneurs to establish network links is enhanced.

Moreover, the literature repeatedly highlights the democratizing impact of crowdfunding. What this means is that this type of fundraising represents a more accessible source. When this is connected with gender, it is found that women in fact can benefit from showcasing their gender. Equality is an increasingly prominent concern in crowdfunding, as casual investors are less likely to chase financial returns and more motivated by social causes. Women support other women because they remind them of themselves and the hurdles they have faced [26], and men support women because they are interested in justice and want to level the playing field [32]. Therefore, whilst women might be cautious of their gender in the context of traditional fundraising, when it comes to crowdfunding, it is strongly recommended that women signal their minority membership and resilience by tagging themselves "female founder" as it may encourage investors to support them [33]. The other steps to success involve using more female-centric language, using less promotion language, founding in male-dominated sectors, and setting higher campaign goals.

5. Conclusion

The main focus of the paper was to establish how limited access to funding and the lack of a strong network prevents female founders from successfully enjoying the rewards of entrepreneurship. The overall consensus is that despite being one of the most lucrative investments, venture capital investments make up a tiny percentage of female-led startups. As seen, this is largely due to the existing systemic biases that lead investors to perceive female founders as being a smaller investment opportunity than male founders. Furthermore, as a result of the aforementioned, the network of female entrepreneurs is also minimal. This can have adverse impacts on women wanting to pursue entrepreneurship as they do not have easy access to other women founders who can guide them and act as mentors. Thus, it will take an additional effort from the industry as a whole to fully realize the gender disparity that exists in entrepreneurship and start to make an effort to amend and reduce this.

Whilst the conclusion has been derived on the basis of all the research presented in this paper, it is also important to acknowledge that there is a lot more scope for further research. For example, some vital insights could be obtained by conducting primary research to truly integrate accounts from female entrepreneurs who have had to navigate the fundraising landscape previously. Moreover, using databases to access fundraising data of companies founded by varying gender teams could also provide a quantitative analysis and understanding to such a paper.

Overall, unfortunately, entrepreneurship is still a man's game, however, with the right amount of knowledge and action, female founders can most definitely start to enjoy their fair share of the pie in the coming years - specially with the increasing popularity of democratizing sources of funding such as crowdfunding.

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