Published on *The Parliament Magazine* (https://www.theparliamentmagazine.eu)

Bridging the gender divide in business

Written by Rudy Aernoudt on 6 May 2019 in Opinion
Opinion

Companies founded or co-founded by women offer significantly better financial returns, but women still face barriers in the male-dominated world of business, says Rudy Aernoudt.

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A lot has been said - and written - about the wage gap. Often, women earn less than men for the same work.

While this is true for the labour force, also consider the situation for entrepreneurs who have to assure their own revenue.

Do female entrepreneurs have a lower return than their male counterparts?

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Consequently, do financiers prefer to invest in the companies providing the highest returns, irrespective of gender?

The investors’ perception requires some analysis. Let’s look at the last question first.

Venture capitalists (VCs), as we know, are return-driven. They manage investors’ funds - not their own - and need to pay investors back at the highest possible rate of return.

By so doing, the fund managers will receive part of the profits (the so-called ‘carried interest’).

> “Companies founded and co-founded by women actually perform better over time, generating 10 percent more in cumulative revenue over a five-year period”

Therefore, fund managers are looking for the best possible opportunities in the market.

Reviewing the data, at first glance it appears that the best investment opportunities are found in male-led ventures, as 97 percent of all companies successfully obtaining VC funding are male-led.

The distribution of funds shows that 99 percent of European VC financing goes to male-led firms.

However, if there is a woman in an executive role in the company, the chances of obtaining venture capital diminishes.

None of this is unexpected, as 94 percent of VC managers are men; it’s a man’s world. Male investors consider that they can get the highest return by investing in male-dominated companies.

The banking world shares this view. Refusal rates for credit to female-led companies are 5-6 percent higher than those for their male counterparts.

On average, interest charged is 0.5 percent higher, whilst the amounts lent are generally 28 percent lower.

Surveys show that when a male replaces a female CEO, this leads to lower interest rates and other improved lending conditions.

However, perception is not reality. Based on a representative sample, the Boston Consulting Group calculated that investments in companies founded or co-founded by women averaged $935,000, which is less than half the average $2.1m invested in male-led ventures, clearly demonstrating a preference.

Companies founded and co-founded by women actually perform better over time, generating 10 percent more in cumulative revenue over a five-year period, and, when it comes to turning a dollar of investment into a dollar of revenue, companies founded or co-founded by women generate significantly better financial returns.

For every dollar of funding, female-led companies returned 78 cents, while male-led companies returned less than half of that - just 31 cents.

The average cumulative returns rate over a five-year period for female-led companies is 11.4 percent compared with 4.4 percent for male-led companies.

Furthermore, as highlighted by Mohammed Yunus from Grameen Bank, women are also considerably more reliable when it comes to repaying loans.

Yet there is one group of investors who buck the trend. Overlooked by professional financiers, crowdfunders show a preference for female-led companies.

Building on a societal stereotype - that women are more trustworthy - crowdfunders seem to prefer early-stage, female-led ventures.

Common sense prevails where sophisticated financial models and male stereotypes fail.

But has the EU done enough to recognise the value of its female entrepreneurs and the substantial return on investment they will bring to the European Union in terms of sustainable growth and jobs?

About the author

Rudy Aernoudt is a senior European Commission economist

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