TOMORROW'S CHALLENGES

SILVER LINING? COVID-19 AND THE ENTREPRENEURIAL GENDER GAP

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The pandemic has encouraged more women to be entrepreneurs. How can we adapt the ecosystem to suit them more?

As we pass the one-year mark of the pandemic, it is clear that the pandemic has hit women harder than men across much of the world.

From increased vulnerability of job loss to drops in research and work productivity and increased risk of falling into poverty, the pandemic has disproportionately affected women across all social strata; a situation mirrored across 55 high- and middle-income countries according to a United Nations study.

One reason for this greater effect on women is that the pandemic is significantly increasing the burden of unpaid care, which is disproportionately carried by women. Another reason is that women are more likely to hold temporary, part-time and precarious jobs than men.

Although women are overrepresented in essential care-sector fields, public health concerns in other women-oriented sectors such as brick and mortar stores, restaurants and education have negatively impacted employment opportunities for women. Additionally, these jobs are often associated with lower pay, weaker legal protection and difficulties accessing social protection.

Despite this potentially grim outlook, many women are ditching traditional employment to launch a business.

A recent FT article indicates that the US, UK, France, Germany and Japan all have recorded significant increases in new company registrations since the pandemic started. The U.S. Census Bureau reports that new business applications have dramatically increased — up 73% year-over-year since January 2020. Using LinkedIn data that tracked changes in women's titles to "founder," the Washington Post reported a 5% increase year-over-year since March 2020.

Women-led high-growth startups also appear to be accelerating as we approach the one-year anniversary of the pandemic. According to Pitchbook, more than $6.8 billion in venture capital was secured across 664 deals with women (co-)founded companies in the fourth quarter of 2020 – the highest quarterly total on record.

Despite these advances, companies founded solely by women garnered only 2.5% of the total capital invested in venture-backed startups in the US and other inequalities and biases are still widely reported in the entrepreneurial ecosystems across much of the world. So, what can we do to improve the situation?

As advocates of gender equity and scholars in entrepreneurship and social innovation, we recently published a research article that offers hints on how to create startup ecosystems that appeal to women entrepreneurs.

Expanding entrepreneurial options

Commonly held wisdom and research seem to suggest that women are more risk-averse than men when it comes to financial decision-making. This perception extends to entrepreneurship where men

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have been hypothesized as more likely to create a startup enterprise in part because they are more risk-seeking than women.

Our recent research challenges this notion. We argue new entrepreneurial ventures such as the emergence of social enterprises – organizations that use market-based mechanisms to solve social and environmental problems – may be more attractive to prospective women entrepreneurs.

To explore this question, we performed an experiment with 649 business-school students soon to enter the labor market in Peru. Our experiment varied risk conditions and prosocial preferences – the amount of social value created – across three potential labor options. Subjects had to choose between a managerial job at a company, starting a commercial business or starting a social enterprise.

The experimental design isolated and tested the influence of (1) type of value creation and (2) risk propensity. The results were then statistically analyzed to test for differences between the two gender groups.

Our results indicate that both individual preferences and social biases are operative in labor-market entry decisions. In low-risk scenarios, women preferred the social enterprise option relative to men. In high-risk scenarios, women preferred the commercial enterprise option relative to men.

In other words, our findings demonstrate that women have similar, if not stronger, preferences for entrepreneurial labor options.

Our research complements recent academic studies that suggest the risk-taking behavior of men and women is more nuanced. Our experimental research has led us to believe that whether women are inclined to take risks depends on the context. In fact, in some circumstances women may be more likely to accept risk; what recent academic work on gendered risk-taking in the related field of impact investing has been described as “social risk.”

We believe that these findings are important. In social enterprises, positive impact is a deliberate objective – a feature that’s increasingly true for firms more broadly. Environmental, social and governance (ESG) criteria are becoming a key piece of the corporate equation.

Firms need to not only show strong financial performance, but also demonstrate their impact on society and the environment. Mounting academic evidence asserts that firms that identify and respond to material ESG issues outperform benchmarks.

Additionally, we must collectively address the structural barriers that women face in the entrepreneurial landscape. Leaving entrepreneurial firm-creation (and funding to scale them) to teams dominated by men – as is the status quo in venture capital – could potentially lead to a situation in which social risks are not sufficiently considered and consequently, in which opportunities that prioritize social and environmental impact are overlooked.

To this end, the rise of gender lens investing is one promising arena to accelerate equal opportunity in innovation.

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Our findings suggest supporting entrepreneurial ecosystems that emphasize non-financial aspects of business creation can also help reduce entrepreneurial inequality.

As lockdowns are lifted and we start to emerge from the economic crisis caused by the pandemic, many observers have suggested now is the time for a Great Reset.

If we put these pieces together, we believe the pandemic may be wrapped in a silver lining: a collective will across investors, entrepreneurial ecosystems and corporate environments to close the gender gap in entrepreneurship.

We believe that women, and entrepreneurial women in particular, will be central to driving the agenda forward.

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