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Male entrepreneurs are the beneficiaries of the overwhelming majority of venture capital investments. But are their ideas really better investment opportunities for VCs than those pitched by women?

According to our research, the answer is "not necessarily." In a two-part study, we observed that venture capitalists adopt markedly different stereotypical notions of female and male entrepreneurs during their decision-making processes. These stereotypical notions, which cast men as having traits better suited to starting successful companies, don't hold up when compared with venture performance data from annual reports. In other words, there is no statistical evidence that a host of myths about female entrepreneurs is true.

Before presenting our study, some context is helpful. For several years, Sweden has been ranked number one in the EU Gender Equality Index. Nonetheless, statistics show that women-owned businesses, which account for one-third of Swedish businesses, are not granted the corresponding proportion of government venture financing; in fact, women-owned businesses receive only 7%. This percentage is remarkable because Swedish government venture capitalists must adhere to national and European equality regulations when granting financing to entrepreneurs.

To better understand this puzzling incoherence, we used interview data to study how 11 venture capitalists from two Swedish government organizations used notions of gender in their assessments of applications by 126 entrepreneurs (43% women and 57% men). We then collected objective performance data from accounting reports for the corresponding 126 ventures to statistically analyze relevant performance indicators and accounting information.

Our results reveal striking differences between venture capitalists' gender-stereotypical beliefs and actual performance of these ventures. We identified four gender-stereotypical notions that reveal major differences in how VCs evaluate a venture's potential based on the entrepreneur's gender:

Assumption 1: Women are cautious and risk-averse, whereas men are ambitious and risk-taking. This is one of the most common beliefs among the VCs we studied. Real statements categorized under this notion include:

"She is very cautious, as women often are, and she is careful in what she does, and she does not dare to invest."

"It's a fact that women are more cautious in their investments."

"She is a typical woman: extremely risk-averse."

In addition, when VCs discussed smaller investments, they targeted female entrepreneurs. Why? They perceived that women's supposed risk aversion meant that women are reluctant to take on large financial obligations. One statement in particular highlights this: "It is enough with small financial means to achieve motivational effects on women's venturing — they are not willing to invest that much, so it's enough to support them with small financial means."

In contrast, men were characterized as ambitious, risk-taking, and eager to test their ideas. This notion is reflected by statements such as "We have seen similar examples of driven, competent men who take risks and manage to make it thrive," and "He has proven to sustain his persistence all the way." Men's ventures are often characterized as risk-taking ventures that need considerable financial support: "Usually, these producing companies are in need [of] the heaviest investments," and "I have to say that great men are the ones making the heaviest investments compared to women."

Assumption 2: Women are reluctant to grow their businesses, whereas men are willing to do so. The belief that women's ventures are unprofitable investments became apparent in statements such as:

"We should finance where we can contribute to high leverage and prioritize such businesses instead of financing hand-to-mouth enterprises, which women typically run."

"She is extremely cost aware — this is not how you grow a company."

In contrast, men were viewed as willing to grow their ventures. Typical statements portraying men as growth-ambitious and in need of financing include:

"*His major problem is to find enough financial capital for the investments to grow.*"

"*He owns a big share of the company, and of course he wants to increase the production volume to raise the profitability and expand.*"

"*He is looking for a company to buy. That shows some guts to grow.*"

Assumption 3: Women do not have resources to engage in high growth, whereas men do. The VCs stated that, in all cases, they need to evaluate each venture's financial status. They seemed especially sensitive to situations where female entrepreneurs failed to meet their standards, however. They often described women as lacking the resources to engage in high growth: "She just talks a lot and wants to get her hands on the money. The question is if she can rely on her own abilities." This notion is also evident in statements about women's lack of personal financial capital: "She doesn't even have any savings to use for investments."

In situations where men entrepreneurs had a poor financial footing, the venture capitalists were more forgiving, frequently overlooking financial issues and occasionally weighing men's lack of financial status against their overall competence. For instance, in direct relation to men's poor financial footing the VCs repeatedly expressed views such as: "I did [see] him as very competent. He knows what he is doing, and we have seen similar competent men before." When male entrepreneurs did make sound investments, their successful resource acquisition was emphasized: “We saw that he is investing his own money in this,” and “He has the capacity to carry out the investment.”

Assumption 4: Women’s ventures underperform, whereas men’s ventures perform well. The VCs often questioned the performance of women’s ventures, claiming they underperformed: “I can’t say that she is a bad entrepreneur, but the business is struggling.” Instead of acknowledging cases where women performed well, they commonly expressed doubts regarding women’s abilities to run businesses. The VCs even seemed surprised by women’s success at times: “She has zero understanding of running a business, but surprisingly, it seems to go well anyway.”

The venture capitalists’ expectations of men were completely different. They often defended men or found excuses when men’s venture performance was poor. Example statements reflecting the notion that men generally perform well in their business venturing include “With some help, he will succeed” and “He succeeded with his earlier business, so I think he can pull this one off.” Despite no clear evidence that several men’s ventures had performed or would perform well, the VCs trusted that these ventures would succeed: “His venture is not up and running yet, but he is on his way” and “He is approved for funding because he has worked in the industry for two years, so he has some experience.”

What the Data Actually Says

All four categories of beliefs shape VCs’ foundational views of entrepreneurial potential and the way that VCs evaluate this potential. But can these notions be substantiated? To test the substance of these notions, we accessed (through corporate identification number) and compared the venture performance data of the entrepreneurs that the VCs evaluated, at the time of their evaluation, using accounting information and key performance indicators. Such data reflects these businesses’ actual performance, the decisions made by the entrepreneurs regarding how they run their businesses, and their venturing activities such as sales, investment in facilities, employment, and production. We then chose specific measures to evaluate each of the four beliefs.

Risk-taking. We analyzed companies’ debt-to-equity ratio, equity ratio, risk buffer, property mortgage or the mortgage of the venture’s real estate ratio, the use of bank overdraft facilities/approved checking account ratio, and long-term liabilities or loans ratio. (For a full look at why we chose these measures, as well as the measures for the other three beliefs, see our methodology sidebar.)

Methodology

Here is a full rundown of how we measured the performance of ventures for each gender stereotype addressed in our research:

1) Women are cautious and risk averse, whereas men are ambitious and risk-taking.

According to these measures, our results indicate no statistically significant differences between the ventures run by the women and men who applied for finance.

Growth. To determine the validity of the notion that women are more reluctant to grow businesses than men are, we compared the following indicators, which relate to venture size and changes in venture size: turnover, growth in turnover, number of employees, and growth in number of employees.

Again, according to these measures, our results show no statistically significant differences between women and men who applied for finance.

Growth resources. To determine the validity of the notion that, unlike men, women lack the necessary resources for high growth, we considered information that reflects wealth potential that can be used to generate growth. We compared operating margin, the value of real estate, the value of machinery, information about shareholder contributions, dividendable capital, and approved checking account or bank overdraft facilities.

Our results indicate no statistically significant differences between women and men who apply for finance when analyzed using these measures.

Underperformance. To determine the validity of the notion that women's ventures underperform, we compared accounting data on efficiency and profitability. This includes return on total capital or assets ratios, return on capital employed, profit margin, the turnover per employee ratio, capital turnover ratio, and earnings before interest and tax or operating profit.

These results show no statistically significant differences between women and men who apply for finance.

In total, none of the beliefs VCs expressed about female versus male entrepreneurs could be backed up by data related to how ventures actually performed.

Our research shows that VCs clearly evaluate entrepreneurs differently when it comes to gender. Because of this, female entrepreneurs may face difficulties in gaining credibility because different standards are used to evaluate their performance. At the same time, these beliefs have no basis in fact. The unique study design allows for the positioning our results as a means for pushing hard for VCs' self-examination. We encourage VCs to reevaluate how they discuss entrepreneurs and how they distribute funding.

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