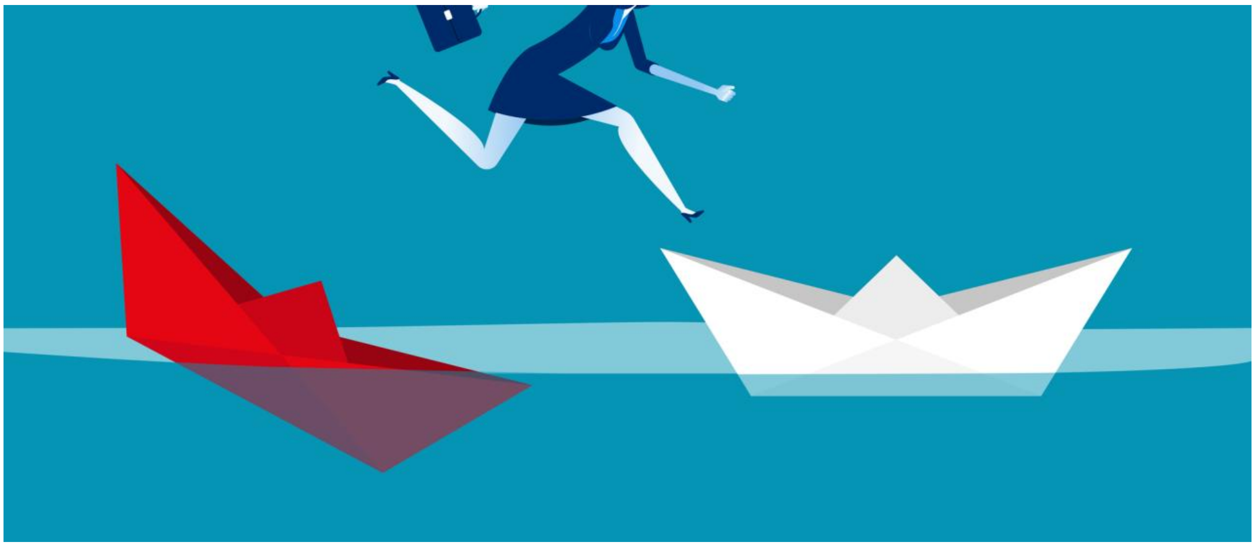
‘Pink Silos’ in Start-up Funding and How to Avoid Them



By Isabelle Solal , ESSEC Business School (INSEAD PhD)

Female entrepreneurs and female investors risk being boxed in if they seek only each other’s company.

“Don’t think of yourself as a woman in business,” Lori Greiner, a millionaire businesswoman on Shark Tank, a hit TV show in which contestants pitch their start-ups to a panel of investors, **advised female entrepreneurs**. “You are a *person* in business equal to anyone else.”

Unfortunately, the market for entrepreneurial finance is anything but gender neutral, and start-ups run by women struggle to raise capital on a par with male founders. A recent report **commissioned by the UK government** on diversity in venture capital estimated that 25 percent of the pitch decks reviewed by VC firms come from all-female or mixed gender teams, but that these firms only account for 11 percent of the invested capital. Things are no better in the United States where, **according to PitchBook**, female founders were involved in 5.4 percent of VC deals in 2018, but received only 2.2 percent of VC dollars.

Part of the explanation for this gap is that investors do not evaluate male and female entrepreneurs the same way. Studies suggest that investors **ask founders different types of questions** depending on their gender, and that **the language they use to describe entrepreneurs** reflects common gender stereotypes – in both cases putting women at a disadvantage.

But, as I show in my working paper, "**The Gender of Money: How Gender Structures the Market for Entrepreneurial Capital**", gender also affects investment in start-ups through *positive* biases. Early-stage investment is very much about the relationship between entrepreneur and investor, and both prefer to work with people who are like them. This conforms to the concept of *homophily*, which describes the tendency to associate with similar others, and in particular people of the same gender.

Homophily in early-stage investment has two important consequences. First, numbers matter. If female investors are more likely to invest in women, then bringing more women into VC firms should mean that more female-led firms will get funded. This is the argument made by **All Raise**, an organisation created by leading female investors to encourage greater female participation in the industry.

The second consequence of homophily is also its downside: Greater segregation by gender could ultimately lead to the creation of "pink silos" reserved for female entrepreneurs and investors, and exclude them from the rest of the market. This could harm the long-term performance and participation of women in entrepreneurship. For male investors, it could mean squandered investment opportunities. Some funds have seen their female founders **outperform** all-male teams, and more and more female-led start-ups like 23andMe, Glossier and Rent the Runway have joined the exclusive **unicorn club**.

Swimming with sharks

Shark Tank offers an opportune setting in which to observe the influence of gender on investment behaviour. Unlike with data on concluded deals, here we can observe those pitches that didn't attract any offers, and offers that got turned down – providing valuable insight into how investors and entrepreneurs decide whom to team up with to move the business forward.

Investors on the show – who always include at least one woman – inject substantial amounts of their own money into businesses in exchange for equity or royalties. Therefore, while the show is formatted for entertainment value, we can expect that both entrepreneurs and investors engage with each other and make decisions in a way that they believe will best serve their interests – just as they would off-stage.

My analysis of 570 pitches across multiple seasons of Shark Tank (in the US as well as the UK and Canada, where it is known as Dragons' Den) turned up three key findings highlighting the role of gender in determining how investors and entrepreneurs select each other:

1. Investors prefer to invest in someone of their own gender

   Being of the same gender as the investor increased the entrepreneur's chances of receiving an offer by 6.3 percent for men and 7.5 percent for women. Put simply, men tend to want to invest in men, women in women. This is consistent with trends in **crowdfunding** and **angel investing**. It also compares to the high rate of **ethnic similarity** between early-stage investors and start-up founders, suggesting that when investors anticipate building a connection or relationship with an entrepreneur, preferences for someone who looks like them will likely influence their selection.

2. Female entrepreneurs disproportionately seek out female investors

   In my data, female entrepreneurs were almost 22 percent more likely to respond positively to an offer from a female investor than to one from a male investor. No similar effect was observed for male entrepreneurs. One possible reason could be that female entrepreneurs are looking not only for capital but also for coaching, mentoring and emotional support, which they believe they are more likely to obtain from women than from men.

3. Female investors are more likely to invest in female-typed businesses

   Female investors on Shark Tank, regardless of their background and experience, tended to end up in investment deals involving businesses that were stereotypically female – either because the pitch specifically targeted women consumers, or operated in an industry seen as predominantly female like fashion or early-childhood education. Female investors made more offers on female-typed pitches (and fewer on male-typed pitches), and entrepreneurs leading female-typed businesses were more likely to accept offers from female investors. This could be the result of a shared belief that female investors are better able to identify and add value in female domains. It could also be a symptom of female investors playing up to expectations that it is their job to invest in women. As one woman I spoke to put it: “Male (VC) firms add at least one woman on their staff to focus on that (female founder) deal flow. It’s like, ‘we need one of those mobile social people, and we need one of those ‘women’ people.’”

Tearing down ‘pink silos’

There is evidence to suggest that same-gender preferences affect investment behaviour beyond the Tank, in particular in **venture capital**. Yet while women investing in women can help to diminish the gender gap in the short run, in the long term this type of gendered decision making by both men and women risks segmenting the market and creating what I refer to as “pink silos”, where female investors invest in female entrepreneurs heading up female-typed businesses. In a world where there are still very few women entrepreneurs or founders, this means that women are likely to find themselves isolated in smaller, less diverse and more peripheral networks with access to fewer resources. Not to mention the fact that **homophily** doesn’t necessarily lead to good investment outcomes.

To avoid these pitfalls, part of the burden falls on women themselves to ensure that they develop gender-diverse networks. No doubt it can get very uncomfortable. Sarah Turner, who founded angel investor network Angel Academe in London to invest in tech companies with at least one woman founder, told the ***Financial Times***: “Most of the women we’re investing in have stories about some sort of bias including real #metoo incidents where they think they’re meeting an investor and they think it’s a date over a drink.”

But it is also the responsibility of men to not dismiss women entrepreneurs, or leave them to their female colleagues, if for no better reason than to continue to get access to the best deals. Kevin O’Leary, known for being a tough talker on Shark Tank and no fan of investing with a social purpose, told ***Barron’s Magazine*** he places his money almost exclusively in companies founded and run by women simply because they give him better returns.

Ultimately, perhaps the best recommendation for entrepreneurs and investors alike is to seek out and to make investments inclusively. To paraphrase A. G. Gaston, the celebrated African-American businessman, money has no gender.

Find article at
https://knowledge.insead.edu/entrepreneurship/pink-silos-start-funding-and-how-avoid-them

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About the research

"The Gender of Money: Investor Gender Effects on Early-Stage Venture Financing" is published by INSEAD.

About the series

Diversity, Equity and Inclusion

In the wake of the tragic death of George Floyd in the United States and protests in over 60 countries, global attention to DEI (diversity, equity and inclusion) has experienced a long-overdue resurgence. As the need for more inclusive forms of leadership and culture becomes apparent, we focus here on the informed perspectives of INSEAD experts focusing on race, ethnicity, gender, sexual orientation, and their intersections. These thought leaders -- both faculty and their close collaborators with rich experience in practice -- inform understanding of how to develop DEI and address identified DEI development needs.