



FEMALE ENTREPRENEURS ARE A BETTER INVESTMENT

by Prof. Rudy Aernoudt

Especially at the occasion of the women's' day of 8 March, a lot is said - and written - about the wage gap. Indeed, often, women earn less than men for the same work. While this is true for the labour force, we should also consider the situation for female entrepreneurs who have to assure their own revenue. Indeed, one should not forget that on top of this salary gap, there is a funding gap. Where the salary gap concerns female employees, the funding gap concerns female entrepreneurs.

Gender issue and banks

When starting or developing a business, entrepreneurs often seek bank-financing. Theoretically, in most countries, the banking sector doesn't make any difference if the borrower is male or female. Statistics however show that refusal rates for credits to female-led companies are five 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.

One could argue that the default rate of women-led companies is higher than the one of male-led companies, which could justify the bankers' attitude. This corresponds however not with reality. On the contrary. As highlighted by Mohammed Yunus from Grameen Bank, women are also considerably more reliable when it comes to repaying loans. Studies confirm that women have indeed a lesser default ratio but that they are more reluctant than their male-counterpart to accept mortgage on the family house.

Gender issue and venture capital

Do venture capitalists have a better understanding of women-led business than bankers? Unfortunately, not. First of all, it's a man's world: 94 percent of VC managers are men. In relation to business angels, less than 10% are female. Male investors apparently consider that

they can get the highest return by investing in male-dominated companies. Indeed, reviewing the data, 97 percent of all companies successfully obtaining VC funding are male led. Surveys show that if there is a woman in an executive role in the company, the chances of obtaining venture capital diminishes.

At first glance we could hence assume that the best investment opportunities are found in male-led ventures. This hypothesis is however contradicted by the facts and figures. Companies founded or co-founded by women offer significantly better financial returns. 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. 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.

The clever crowd

Yet there is one group of investors who buck the trend. Overlooked by professional financiers, crowd-funders show a preference for female-led companies. Building on a societal stereotype - that women are more trustworthy - crowd-funders seem to prefer early-stage, female-led ventures. Common sense prevails where sophisticated financial models and male stereotypes fail.

Companies founded or co-founded by women generate significantly better financial returns. In relation to credits, their default ratio is lower. Despite this, women still face barriers in the male-dominated world of finance. It's time to adapt perception to reality. Bankers and venture capitalist should learn from the common sense of the crowd. Sensibilisation events such as the female World Business Angels Investment Forum (see diplomatic World n° 63) or female awards for entrepreneurship are, unfortunately, still more than needed to achieve this objective.