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Building the fundraising gender gap in Europe: Why can't women entrepreneurs find investors?

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Abstract

This paper investigates the persistent fundraising gender gap in European startup ecosystems despite efforts to promote diversity and inclusion. Drawing on recent research and 35 interviews with women entrepreneurs, we highlight unconscious biases and gender stereotypes as key factors hindering funding for women-led startups. The study underscores the need for diversifying the investor ecosystem through institutional interventions as well as designing initiatives to empower women investors. By raising awareness and fostering inclusivity, the paper calls for collective action to address this systematic challenge and unlock the full potential of Europe's entrepreneurial landscape.

Keywords: Female entrepreneurship, investment, startup ecosystems, inclusion, European policymaking

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Gender equality in startups isn't just about fairness; it's about unlocking the full potential of our economy and society.
Sheryl Sandberg

Less than a year ago, the French NGO SISTA[1] released the results of its annual study aimed at measuring the extent of the fundraising gap between male and female entrepreneurs. Unlike previous reports, the current study expanded its scope beyond the domestic context of France – where discriminations have been addressed for decades now – to several European countries including the UK, Sweden, Germany, and Spain, with the hope of identifying a gender parity champion that could inspire other ecosystems. As it turned out, in spite of the countries' different public policies, initiatives, and efforts, the evidence leads to the same conclusions: Women entrepreneurs in European startup ecosystems continue to encounter unwelcoming conditions.

Overall, in 2022, women-only startups accounted for merely 2% of the total amount of funds raised. Women-only teams raised on average 4 times less than men-only teams and only 2 women-founded startups succeeded in raising more than 50 million euros versus the 215 startups founded by men. And those figures are becoming more concerning year after year, as studies in France showed that women-led startups funded between 2008 and 2019 were 2.4 times less funded than men-led startups at the time, as opposed to the current "4 times less" figure (SISTA, 2022)[2]. As the European startup ecosystem grapples with one of the worst economic crises in recent history, women find themselves disproportionately impacted and are thus, unfortunately the first to bear the downturn. Why is this concerning discrimination phenomenon persisting, and even *accentuating* over time?

This question becomes even more pertinent as this phenomenon seems particularly counterintuitive, especially considering the numerous benefits we would collectively gain if there were more substantial investments in startups led by women. Women make up 50% of the population and therefore, have the right to shape the future through startups. Excluding women from obtaining funds is equivalent to preventing them from becoming an active part of our economy. Accessing funding is a critical determinant of startup success (Cassar, 2004). According to Cassion et al. (2021), "the allocation of venture capital is one of the primary factors determining who takes products to market, which startups succeed or fail, and as such who gets to participate in the shaping of our collective economy". This also implies that products and services are currently only designed by men and consequently also *for* men, which only fuels underrepresentation and exacerbates the lack of inclusiveness in solutions on the market. Ensuring a balanced representation of industries is crucial for the functioning of an entrepreneurial ecosystem (Roundy, Brockman, & Bradshaw, 2017). Moreover, in one of the recent ethnographies at an Investment Fund that one of the authors of this paper conducted, she found that women entrepreneurs are typically more motivated by societal impact and sustainability than their male counterparts (Gerges-Yammine, 2024). Thus, funding women entrepreneurs could also mean funding more high-impact startups that are motivated by metrics of success (i.e., social, environmental) other than traditional measures of success such as growth and exit. While traditional measures are not flawed per se, taking into account alternative measures could

[1] https://wearesista.com/

[2] The study indicates that in 2022, 26% of fundraising efforts involved founding teams with at least one woman (7% women only / 19% mixed-gender team). Thus, while 7% of the applying firms were carried out by women-founded team, they received only 2% of total amount of funding.

enable investors to rethink their ways of evaluating success, and encourage investors to support impact startups.

Beyond the type of products and services designed, research indicates a strong positive connection between diversity within co-founding teams and the startup's financial performance (Ko, Wiklund & Pollack, 2021). Therefore, diversity of gender is indeed beneficial for the startup success. Finally, despite receiving considerably less funding, women-led startups still yield over twice the revenue per dollar invested compared to those led by men (BGC, 2018). Therefore, women entrepreneurs do perform exceptionally well when they receive funding. Thus, the question arises: Why are investors hesitant to fund women-lead startups?

Investors do not fund women

For years, research on women entrepreneurship highlighted several explanations to justify the lack of investment. For instance, studies have argued that women fail to obtain investment because they display less confidence, are less prone to take risk and are more likely to attend to personal obligations such as childcare (DiBenigno & Kellogg, 2014), all these factors potentially marginalizing them from the startup ecosystem. Other explanations have suggested that women may be less inclined to establish startups in high-tech– a sector that predominantly relies on venture capital funding (Snellman & Solal, 2023). While these explanations may carry some truth to them, they remain insufficient in explaining the magnitude of the alarming funding gap, particularly for women-led startups *actually* seeking funding.

Therefore, recent research that has focused on providing an answer to this particularly puzzling question pointed towards the same direction: negative stereotypes and gender biases are at the core of the problem (e.g., Kanze, Huang, Conley, & Higgins, 2018).

In some instances, without even realizing it, investors are biased by their own preconceived ideas on what an entrepreneur should look like, how he or she should behave, and what qualities he or she should display. Women often do not conform to these stereotypes. Let's try this exercise. Picture an entrepreneur or try to name one. You'll probably think of a thirty-something ambitious white man who desires wealth and works hard to attain it. The archetype may resemble figures such as Jordan Belfort in *The Wolf of Wall Street* (2013), or Adam Neumann in the recent *WeCrashed* series maybe (2022). Studies have revealed that even women entrepreneurs tend to picture their male counterparts in a similar light, describing them as "ambitious", "authoritarian", "strategic", "self-confident", and "powerful" (Women Initiative Foundation and BNP Paribas, 2018). Yet however caricatural and unrealistic this entrepreneur stereotype may seem, it remains a powerful, deeply rooted representation laden with specific expectations. Women often fall short of meeting these expectations.

Recent research, such as "the role of incongruity theory" (Eagly & Karau, 2002) and "the lack of fit theory" (Heilman, 2001) suggests that women face discrimination due to societal gender role expectations conflict with stereotypes of leadership roles. In essence, women are deemed unsuitable for entrepreneurship, thus explaining investors' struggles in considering them as potentially successful startup founder's worth of financial support.

Moreover, women entrepreneurs suffer from another unconscious bias – homophily – defined as an individual's tendency to associate with his or her peers, namely other individuals sharing the same sociological characteristics. Entrepreneurship research showed that investors tend to fund founders who look like them (Snellman & Solal, 2023).

Investment remains a male-dominated occupation where women tend to be often underrepresented (Snellman & Solal, 2023). The share of women investing partners in the top 100 VC firms was recently estimated at 7% (Teare & Desmond, 2016a), another concerning figure highlighting the lack of diversity in investment funds. Therefore, given that investors are primarily men, it is only natural that they unconsciously favor male-led startups as they may feel more involved in their startups.

Given the underlying mechanism of unconscious biases in explaining the funding gap, it felt urgent for us in this paper to raise awareness on how those pernicious mechanisms worked during the fundraising process and how they could be better addressed by investors and entrepreneurs.

The role of gender biases: how do they manifest?

When assessing a startup's potential and investment opportunity, investors typically take into account a series of factors. They consider the market potential for growth, benchmark with key competitors, and study first leads and tractions. Yet they primary focus, especially at early stages, on founders' background and previous experience – for instance, whether they attended top universities, worked at prestigious organizations, already ran a successful business, or exited.

Throughout the investment evaluation process, investors inevitably take note of the gender of the founders. However, what they often fail to recognize is that contrary to being a trivial consideration, gender is indeed a determining factor in securing funding (Cassion et al., 2021). Irrespective of the founders' qualifications or the potential of the startup, the gender of the founder is one of the decisive factors in determining whether the venture will receive investment. Furthermore, recent research has pointed that not only do ventures led by women receive less funding compared to those led by men, but also mixed-gender teams where a woman holds the CEO position face similar disparities (e.g., Snellman & Solal, 2023).

Such discrimination occurs unconsciously during the whole fundraising process, but it becomes particularly striking when founders pitch their startup to investors. During this face-to-face ritual, where the founder's identity is exposed, investors' decisions have proven to be particularly biased by gender stereotypes. For instance, it was demonstrated that investors show less interest in pitches narrated by a female voice compared to the same pitch narrated by a male voice that they tend to find more persuasive, logical, and factual (Brooks et al., 2014; Malmstrom et al., 2017). Similarly, the same qualities observed in a founder pitch are perceived differently whether the person behind the pitch is a man or a woman. Thus "young" individual will be considered by investors as "promising" if they are a man but rather "unexperienced" if they are a woman, leading to unfortunate impacts on the amount raised by founders, with women raising around 25% of the applied-for amount and men about 52%.

Even more surprising, research found that investors tend to bias the fundraising process themselves as they ask founders different questions depending on whether they are male or female, thus, although indirectly, still influencing the amount of investment received by the startup (Kanze et al., 2018). For instance, research has indicated that men are often asked promotion-focused questions, to which they respond with promotion-focused answers, whereas women are asked prevention-focused questions to which they respond with matching prevention-focused answers. Consequently, while men's Q&A only help them build their case and as a result, leave a positive impression on investors, women's answers focus much more on risk management or problem-solving topics, that only reinforce investors' confirmation bias that these founders do not fit the position.

Moreover, some studies have tried to explain the gender funding gap in relation to industry – investors simply display preferences towards certain industries that are naturally overrepresented by men entrepreneurs. For instance, according to the SISTA study mentioned at the beginning of the paper, women are inclined to create startups in consumer industries such as fashion, wellness, lifestyle, and healthcare, all industries that are less attractive to investors, as opposed to other highly attractive industries such as Fintech. To illustrate – in France in 2022, FinTech received 1.77 billion euros of investment as opposed to FashionTech that counted as one of the least funded industries with 74 million euros of investment. While these studies could lead us to believe that the funding gap is primarily linked to the type of industries that are attractive to investors, we believe that these numbers still point towards inherent structural inequalities. On the one hand, given the low representation of women investors, it is only expected that male investors will have a preference to invest in traditionally more "masculine industries" such as Fintech. On the other hand, the SISTA study finds that even within industries dominated by women (i.e., Fashion, Lifestyle, Wellness, and Healthcare), women-led startups still raise significantly less than their male counterparts.

This shows just how decisive gender bias is in investors' decision-making, and therefore, in determining a startup's future. The ability to secure funding is not only determined by an entrepreneur's qualities, exceptional track record, or the brilliance of their idea, but it is also largely influenced by one's gender.

This naturally leads us to ask this question: Are women entrepreneurs aware that gender could penalize them in their career? And if so, what can be done about it?

Raising awareness in the ecosystem

In an attempt to explore gender biases in relation to the fundraising process, we conducted a study where we interviewed 35 women entrepreneurs operating in multiple European countries and the UK. The vast majority spontaneously mentioned gender stereotypes and biases as a source of funding inequalities. Thus, even when not prompted to speak about inequality, it emerged as one of the biggest challenges they faced. We were surprised to hear one interviewee explain:

"Entrepreneurship is associated with risk-taking, with men, with technology, with developers. So, it's a surprise [for investors] to meet women. There's always this stereotype that this world is not a place where women are supposed to be the best. People are influenced by those stereotypes, they have biases, and I think we need to bring all that to light."

The striking majority of the women we interviewed encountered sexism from investors, at times bordering on harassment. For instance, many of them endured ignorance, remarks undermining their capabilities as CEOs, and even instances of mockery. Women in mixed-gender teams, in particular, noted disparate treatment from investors compared to their male counterparts, leading them to realize that such behavior could only stem from their gender.

However, perhaps due to the difficulty in identifying gender biases, only a minority of the women we spoke with considered it as the primary factor explaining funding inequalities. Surprisingly, the vast majority of the entrepreneurs we interviewed attributed the main cause of discrimination to *themselves* – that is, to characteristics that are rather unrelated to their gender. For example, multiple women in our sample blamed their own lack of self-confidence, poor posture in front of investors, ineffective presentation style, weak business models, and industries' choices on the negative investment outcomes. One of our interviewees explained:

"I always had a little voice in me saying, 'He'd be crazy to invest in my company'. Frankly, I don't know if it's going to work. Maybe it's going to fall apart."

We found these findings disheartening as they revealed that mere awareness was insufficient to bring swift and lasting change in the ecosystem. Consequently, we sought to elicit women's perspectives on the most effective solutions to narrow the funding gap and mitigate inequalities. In essence, what do they believe is necessary?

Potential solutions: How can we put an end to this status quo?

A diversified venture capital ecosystem

While the majority of studies address women entrepreneurs directly by emphasizing particular behaviors that predict investment outcome, we argue that we need to direct our attention to investors themselves. As mentioned at the beginning of this paper, investors are mostly men. In the European Union, women represent between 5% and 15% of venture capital workforce only, and occupy mainly junior, non-decision-making positions, where there is very little opportunity for advancement. When women entrepreneurs meet investors, they typically encounter men who may harbor various biases against them. Thus, one of the most effective and tangible solutions to combat gender biases among investors would be to diversify the venture capital ecosystem. By having more women entrepreneurs involved, akin to their male counterparts, they could leverage the homophily factor to enhance their likelihood of securing funding. Research has indeed shown that venture firms with female founders and a notably high proportion of female partners exhibit high levels of investment in women entrepreneurs (Teare & Desmond, 2016).

To achieve this objective, the majority of the women interviewed advocated for institutional intervention (i.e., policy) and the implementation of quotas in investment funds. Although this measure is controversial, it has proven to be the most effective, at least in the short term. More than ten years after the Copé-Zimmermann law, which mandated a minimum quota of 40% women on listed company boards in 2011, France ranked first globally in terms of gender parity in corporate governance, with over 46% of women (Sénat, 2021). The recent Rixain law further strengthened this framework by extending the requirement to all companies with over 1,000 employees. All of our interviewees welcomed these measures, hoping for institutional pressure to shift the narrative of discrimination within the startup ecosystem as well.

Yet, investor representation may not be enough. In a recent ethnography at an angel investment fund conducted by one of the authors, initial results point to "invisible" power dynamics that emerge between men and women investors. Therefore, although representation and quotes are important in driving this change, policymakers should also empower women investors to have a voice, especially when they represent a minority.

Raising awareness amongst both men and women investors would be the first step in allowing for a better overall performance of angel investment collectives. Furthermore, mentoring women investors may be essential to equip them with the tools needed to navigate emotional stress they might face, while also reducing tensions amongst genders and enabling them to forge healthy connections with their male counterparts.

Conclusion

The persistent gender gap in startup funding across Europe presents a multifaceted challenge that requires urgent attention. Despite efforts to promote diversity and inclusion, women entrepreneurs continue to face significant barriers to accessing funding as evidenced by the stark disparities in fundraising outcomes. The root causes are complex, ranging from unconscious biases and gender stereotypes among investors, to structural inequalities within the investor ecosystem. Addressing these challenges requires a comprehensive approach that involves raising awareness, promoting diversity among investors, and implementing institutional interventions. By diversifying the investors ecosystem and empowering women investors, we can create a more inclusive environment that impacts eventual investment outcome. Additionally, fostering mentorship and support networks for female investors can mitigate the effects of bias and discrimination in the startup ecosystem. Ultimately, closing the funding gender gap is not only a question of fairness, but also a strategic imperative for unlocking the full potential of our economy and society. By working collectively to challenge stereotypes, dismantle barriers, and foster a culture of inclusivity, we can create a future were all members of society have equal opportunity to shine.

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