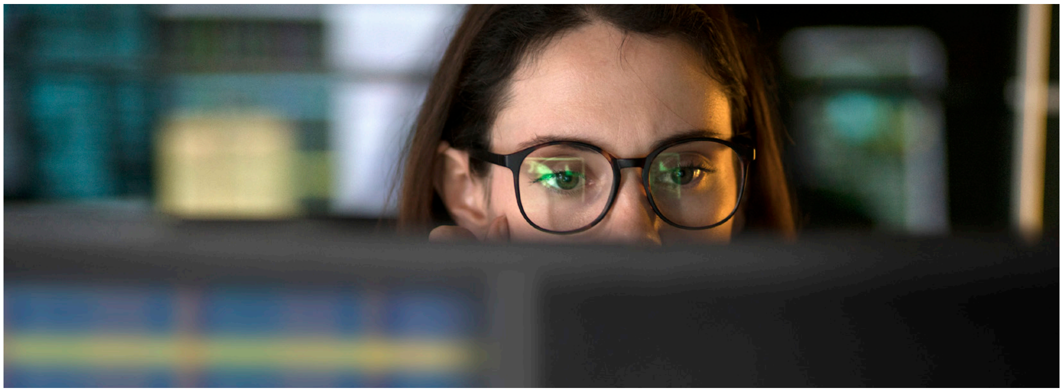
Perspective from
Franklin Templeton



WOMEN ENTREPRENEURS AND THE BENEFITS OF EQUAL ACCESS TO CAPITAL

March 2021

KEY TAKEAWAYS

- Increasing investments in female-founded companies is not only an ethical decision to make in terms of improving gender parity—it is also financially prudent. Research confirms that increasing gender diversity results in better financial outcomes. Companies with greater gender diversity outperform those with less—often by as much as 30%. One study suggested companies with female-executive representation showed increased returns on investment of 66%, on equity of 53%, and on sales of 42%.[1] Estimates indicate venture capital opportunity costs from withholding investment to diverse founders may be as high as US$4 trillion.
- Women-owned businesses, entrepreneurs and financiers represent one of the most promising market opportunities of our generation. In the United States alone, women are projected to manage nearly US$30 trillion in assets by 2030.[2] Despite this, only 15% of venture capital dollars are allocated to companies with at least one female founder, and less than 2% are allocated to companies with female-only teams.[3]
- Women entrepreneurs and decision-makers are woefully under-represented in venture capital, specifically in terms of receiving funding and decision-making responsibility. This is in part due to several factors, including unconscious bias and the "network effect."

IT'S NOT JUST EQUALITY, IT'S BUSINESS OPPORTUNITY

Increasing investments in female-founded companies is not only a principled decision to make in terms of gender parity, but also a prudent business decision. Female executive representation is correlated with increased profitability. An analysis by the Boston Consulting Group established that if women and men around the world participated equally as entrepreneurs, global gross domestic product (GDP) could rise by as much as 6%.

This would boost the global economy by US$5 trillion annually.[4] Similarly, a McKinsey Global Institute study estimated that if women play an identical role in labor markets to that of men, global annual GDP could rise 26% by 2025.[5]

According to one study, female-founded and female-executive representation increased return on investment by 66%, increased return on equity by 53% and increased return on sales by 42%.[6] While survivorship bias could be a factor in these results, that is, the best women teams being compared to average male teams, at a minimum it indicates more diverse and inclusive teams do better than less diverse teams.

Female-founded or female executive team-represented startups' company valuations were 63% better than all-male teams.[7] In addition, teams of diverse founders (more than one gender and/or more than one race or ethnicity represented) create more innovation and better financial outcomes at venture-funded startups, on average. This includes 30% higher multiples on invested capital (MOIC) when companies are acquired or go public. For startups with at least one ethnically diverse team member reporting to the CEO, valuations were 65% better.[8]

Companies with at least one female founder also provide faster paths to exit,[9] and the number of exits grow at a much faster rate than companies with only male founders. When the proportion of female partners in venture capital firms increased in the United States, companies benefited with 9.7% more profitable exits, and a 1.5% "spike" in overall fund returns annually.[10]

Clearly, if it is an investor's fiduciary obligation to make the most prudent investment decisions, a massive opportunity is missed when female-founded companies only receive 2% of capital. Still, despite the difficulty accessing capital, 12% of the Forbes' list of the best dealmakers in venture capital in 2019 were women.[11]

WHY DIVERSITY WORKS

Goldman Sachs, a leading global investment bank, once called investing in women "one of the highest return opportunities available in the developing world." Clearly the data supports this assertion. The question then is, why?

There are likely many factors influencing these outcomes. Perhaps the most significant is diversity. Companies in the top quartile for gender diversity on executive teams were 21% more likely to outperform on profitability, and 27% more likely to have superior value creation.[12] Many other studies, including Pepperdine University's 19-year study of business performance and IPO performance research conducted by the University of Michigan and Cornell University, found that companies with greater gender diversity outperformed by as much as 30%.[13]

Research in psychology provides a clue as to why diverse groups may perform better. Analysis shows that heterogeneous groups are more successful at a variety of tasks because they may be more analytical and less prone to cognitive bias. Diversity brings new ideas, and may change group dynamics so that decision-making is more effective. This is because more inclusion from different backgrounds increases the collective intelligence of the workplace. A study published in *Science* magazine found that performance has little to do with a team's average intelligence, or the highest IQ of an individual team member.[14] Instead, the best indicator of success is how *socially intelligent* the group is. On average, women tend to score higher on tests of social skills and social intelligence, so having more female representation on a team is correlated with higher performance.

AN ENORMOUS MARKET OPPORTUNITY

> **"The biggest emerging market in the world is not China; it's women."**
>
> **Sylvia Ann Hewlett**

We view female economies—that is women-owned businesses, entrepreneurs, financiers and indeed consumers—as one of the most promising market opportunities of our generation. This is a massive emerging market, representing a consumer segment that has long been ignored, craves innovation, and has huge growth potential. In the United States alone, women are expected to control nearly US$30 trillion in assets this decade.[15]

Globally, it's estimated that women make 85% of consumer spending decisions. When united as a market, this represents the world's second-largest GDP. In the United States, women control roughly 50% of personal wealth and are the primary breadwinners in over 40% of households.[16]

Yet, despite possessing this substantial decision-making and buying power, only 2% of venture funding is given to women-led companies.[17] This may represent one of the largest arbitrage opportunities in the market today.

WHY AREN'T WOMEN GETTING FUNDING?

In most instances, it is very unlikely that a deliberate bias against women results in funding consciously being withheld. In some developing nations this may be the case, but in developed economies, it generally is not. So, this begs the question, why is it happening? Perhaps the most intuitive explanation for the disparity is simply that men don't always understand—or have insight—into women's needs. Hence, they don't see the business opportunity.

Consider the story of the inventor of the disposable diaper, Marion Donovan. In the 1940s, Mrs. Donovan sought funding and manufacturing for her innovative idea, but she was largely ignored by the male-dominated financing community. No one could see the value of her invention. This was not intentional bias, but rather unconscious bias. Consider that in those days most men did not change diapers regularly. They had no concept of removing soggy soiled strips of clothing, washing them, and then gently pinning them on baby's bottoms multiple times a day. For them, the problem Mrs. Donovan was fixing did not exist.

This unconscious bias is everywhere. Many everyday products and systems are designed by and for men—often ignoring women's unique needs, biology and wants. This bias is seen in buildings, consumer products and technology. For example, most of the popular wrist-worn health tracking technologies, when first released, lacked a way for women to track reproductive cycles—a fundamental component of women's health. This despite most of the users being women.

Other consequences are more sobering. When airbags were first introduced, hundreds of women and children were injured or killed because the automotive manufacturers only thought to test them against male body characteristics.

THE "NETWORK EFFECT"

Another potential factor is something that is often described as the "network effect"; a reference to the implicit connectivity advantages that come with being part of the same social, business or academic circles. In venture capital, most allocations to entrepreneurs still come from male dominated organizations. Today, women are not a large part of this "network." Research shows that entrepreneurs demonstrate a strong predisposition to seek funding from, and allocate to, members of the same sex.

Academic studies have defined this tendency as homophily, and it holds true for both men and women. Given that men still dominate the venture capital arena, a negative feedback loop arrayed against female entrepreneurs exists. Only 12% of venture capital decision-makers in the United States are women.[18]

Organizations that include women in leadership positions are three to four times more likely to invest in women-led businesses. Increasing the number of women investors, therefore, becomes critical for increasing women's access to equity capital. Thus, creating a positive feedback loop for female-led business and innovation.

There are likely many other reasons for the gender disparity. Whatever the reason for the gap, clearly there exists untapped potential in the market for women-centered products and services. Things not just marketed to women, but created by them as well. Women entrepreneurs are uniquely positioned to see the pain points and needs of female consumers. In this way, new types of innovation, disruption and brand loyalty can be achieved.

A "lifehack" for female fundraisers

A 2017 study published in the *Harvard Business Review* analyzed the different types of questions venture capitalists ask female and male entrepreneurs. The results showed that women were asked twice as many "risk" questions, and men were asked twice as many "reward" questions. Those who were asked mainly the reward questions, i.e., the men, received an average of US$16.8 million in funding. Those asked mainly the risk questions, i.e., the women, received an average of only US$2.3 million in funding.

Interestingly, the research found that those entrepreneurs who answered the "risk" questions with "reward" answers received an average of US$7.9 million. Conversely, those who were asked "risk" questions and answered with "risk" answers received an average of US$563,000. It seems that if women pivot and answer the "risk" questions with "reward" answers, they can get more money.

FEMALE ENTREPRENEURS FUNDING EVOLUTION

Building fairer and more inclusive economies must be the goal of global industry leaders. To get there, instilling gender parity norms and tools across education, health, politics and particularly across all forms of economic participation will be critical. This goal includes 100% equal access to capital for female founders to start, scale and exit companies.

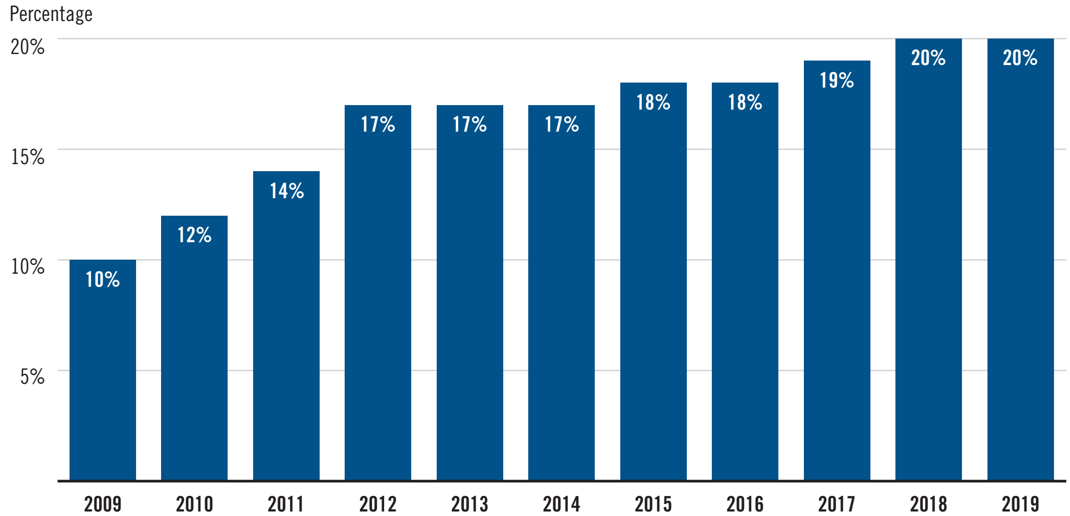
At the current rate of progress, some estimates suggest it will take another 108 years to reach gender parity. The biggest gaps to close are in the economic and political empowerment dimensions, which according to the World Economic Forum may take 202 and 107 years to close, respectively.[19] It should come as no surprise then that women entrepreneurs and decision-makers are significantly underrepresented in the world of venture capital.

The good news is this dynamic is changing.

Women are making strides toward equal representation in the workforce. The number of women-owned businesses has surged 58% since the Great Recession, compared to a 12% increase in overall businesses during the same period.[20] There are 12.3 million women-owned firms nationwide, according to research conducted by Endeavor. These firms employ close to 11 million people, and generated US$1.6 trillion in sales.[21] In 2018, 1,821 new women-owned businesses were launched daily, and the scale of women-owned businesses has increased by nearly 140% since 1997.[22]

FUNDED STARTUPS WITH A FEMALE FOUNDER 2009–2019

As of April 2019



Source: *Crunchbase news*, "Q1 2019 Diversity Report. Female Founders Own 17% of Venture Dollars."

Perhaps even more impressively, in 2019, more female-founded unicorns[23] were born than ever before. Additionally, women founded or co-founded 21 startups that became unicorns, compared to the previous high of 15 in 2018.[24]

If women continue to scale, not just within their own demographics but at the same rate as men, that could translate into potentially US$500 billion in additional productivity to GDP.[25]

So, while the potential for women entrepreneurs to spur economic growth has not yet been realized, small progress is being made. By investing in female founders, we have the power to change the face of capital markets and increase GDP significantly.

WE'VE STILL GOT A WAY TO GO

It's been just over 100 years since women in the United States secured, after a long struggle, the right to vote. A little more than a few generations—not that long in the grand scheme of things. Indeed, less than a generation for many minority women.

And, the United States is generally considered one of the more progressive developed nations in the world. Today, there are still many countries where basic rights such as voting are not afforded to women, or strongly discouraged through suppression and intimidation.

The point is, women are still fighting to close the gender gap, especially in certain industries. While in some areas good strides have been made in terms of women's civil rights, social standing, pay equality, participation in political activities and athletics, there is still a long way to go. The World Economic Forum's Global Gender Gap Report 2020[26] indicated it could take more than a lifetime to make equality a reality. The data indicate that many of us will not see gender parity in our lifetimes. That's a sobering finding.

On the bright side, there are areas where we can make strides in the near term, and where there is strong economic incentive to do so. Looking to the future, the report reveals that one of the greatest challenges preventing the gender gap from closing is women's under-representation in leadership positions in business and emerging technologies. For example, in cloud computing, just 12% of professionals are women. Similarly, in engineering and artificial intelligence (AI), the numbers are 15% and 26% respectively.[27]

This disparity has of course existed for decades. For example, as astonishing as this may be, it was not until the passing of the Women's Business Ownership Act in 1988 that women in the United States were no longer required to have male relatives co-sign business loan applications.

As we have discussed, women entrepreneurs and decision-makers are materially underrepresented in venture capital, specifically in terms of receiving funding and decision-making responsibility. Less than 15% of venture capital dollars are allocated to companies with at least one female founder, and less than 2% are allocated to companies with female-only teams.[28] We see this as a systemic issue. Because of this inherent bias, a lot of economic opportunity is being left behind.

Morgan Stanley estimated venture capital opportunity costs from withholding investment to diverse founders were as high as US$4 trillion, based on data from the US Census Bureau's 2012 Survey of Business Owners. We believe these opportunity costs have continued to grow throughout the decade.[29]

Capturing the unrealized potential of women in prominent roles as entrepreneurs and investment decision makers in the innovation economy is key. Despite the fact women make up 83% of all US consumption and represent over half the population,[30] they still don't have leadership roles in the solutions being designed. Women aren't receiving significant capital to scale, and aren't being given enough prominent seats at the necessary tables. This needs to change. Representation matters when trying to cast a wide consumer net. As the largest consumers and decision makers in their households, it is imperative that women have a hand in creating solutions that impact them directly. This can be done by putting equal access to capital in the hands of women entrepreneurs. The untapped potential of female entrepreneurs and female economies is enormous. Women need to play a more prominent role in both investment decision-making and entrepreneurial pursuit.

CONTRIBUTORS

Jenny Johnson
CEO

Franklin Templeton

Sara Araghi, CFA
Director

Franklin Venture Partners

Regina Curry
Chief Diversity Officer

Franklin Templeton

Shelly Kapoor Collins
General Partner

Shatter

Lisette Cooper
Vice Chair

Fiduciary Trust International

Endnotes

1. Source: *The New Economy*, "Anita Borg report makes strong case for investing in women," April 9, 2014.
2. Source: *Quartz*, "US Women will Take Control of an Additional $20 Trillion in Wealth This Decade," July 29, 2020.
3. Source: *Crunchbase news*, "Q1 2019 Diversity Report. Female Founders Own 17% of Venture Dollars," April 2019.
4. Source: Boston Consulting Group, *Want to Boost the Economy by $5 Trillion? Support Women as Entrepreneurs*, July 30, 2019.
5. Source: McKinsey Global Institute, *How Advancing Women's Equality Can Add $12 Trillion to Global Growth*, September 1, 2015.
6. Source: *The New Economy*, "Anita Borg report makes strong case for investing in women," April 9, 2014.
7. Source: *Forbes*, "The Value of Investing in Female Founders," March 29, 2019.
8. Source: *Forbes*, "Diversity As $uperpower: The (Well-Known) Data Against Homogeneous Teams In Venture Capital," September 22, 2020.
9. An exit strategy may be executed to exit a non-performing investment or close an unprofitable business. In this case, the purpose of the exit strategy is to limit losses. An exit strategy may also be executed when an investment or business venture has met its profit objective. For instance, an angel investor in a startup company may plan an exit strategy through an initial public offering (IPO).
10. Ibid.
11. Source: *Forbes*, "Meet The Top Women Investors of the Midas List in 2019," April 2, 2019.
12. Source: McKinsey & Company, *Delivering through Diversity*, January 2018.
13. Source: Padnos. C., *High Performance Entrepreneurs: Women in High-Tech*, Illuminate Ventures, 2010.
14. Source: Massachusetts Institute of Technology "*Collective intelligence: Number of women in group linked to effectiveness in solving difficult problems*," October 2, 2010.
15. Source: *Quartz*, "US Women will Take Control of an Additional $20 Trillion in Wealth This Decade," July 29, 2020.
16. Source: *Forbes Women*, "Why Products Designed by Women are the Next Big Thing," December 22, 2017.
17. Ibid.
18. Source: *PitchBook*, "All Raise Report on Venture Financing in Female-Founded Startups Shows Progress, Yet Continued Gender Inequity," November 12 , 2019
19. Source: World Economic Forum, "108 Years: Wait for Gender Equality Gets Longer as Women's Share of Workforce," Politics Drops," December 19, 2018.
20. Source: *WBENC*, "Behind the Numbers: The State of Women-Owned Businesses in 2018," October 10, 2018.
21. Source: Endeavor, "Upcoming Endeavor Insight Research on Women Entrepreneurs," March 17, 2020.
22. Source: *Inc*, "New Research Finds Women Are Starting 1,821 New Businesses a Day," August 22, 2018.
23. A unicorn is a term used in the venture capital industry to describe a privately held startup company with a value of over US$1 billion.
24. Source: *Crunchbase*, More Female-Founded Unicorns Were Born in 2019 Than Before, Data Shows, December 18, 2019.
25. Source: Endeavor, "Upcoming Endeavor Insight Research on Women Entrepreneurs," March 17, 2020.
26. Source: World Economic Forum, Global Gender Gap Report, 2020.
27. Ibid.
28. Source: Padnos. C., *High Performance Entrepreneurs: Women in High-Tech, Illuminate Ventures*, 2010.
29. Source: Morgan Stanley, Beyond the VC Funding Gap, 23 October 2019.
30. Ibid.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal. The value of investments can go down as well as up, and investors may not get back the full amount invested. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments. Investments in emerging markets involve heightened risks related to the same factors, in addition to those associated with these markets' smaller size and lesser liquidity. Investments in fast-growing industries like the technology sector (which historically has been volatile) could result in increased price fluctuation, especially over the short term, due to the rapid pace of product change and development and changes in government regulation of companies emphasizing scientific or technological advancement or regulatory approval for new drugs and medical instruments.

IMPORTANT LEGAL INFORMATION

This material is intended to be of general interest only and should not be construed as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy. It does not constitute legal or tax advice.

The views expressed are those of the investment manager and the comments, opinions and analyses are rendered as at publication date and may change without notice. The information provided in this material is not intended as a complete analysis of every material fact regarding any country, region or market. **All investments involve risks, including possible loss of principal.**

Data from third party sources may have been used in the preparation of this material and Franklin Templeton ("FT") has not independently verified, validated or audited such data. FT accepts no liability whatsoever for any loss arising from use of this information and reliance upon the comments opinions and analyses in the material is at the sole discretion of the user.

Products, services and information may not be available in all jurisdictions and are offered outside the U.S. by other FT affiliates and/or their distributors as local laws and regulation permits. Please consult your own financial professional or Franklin Templeton institutional contact for further information on availability of products and services in your jurisdiction.

Issued in the U.S. by Franklin Templeton Distributors, Inc., One Franklin Parkway, San Mateo, California 94403-1906, (800) DIAL BEN/342-5236, franklintempleton.com—Franklin Templeton Distributors, Inc. is the principal distributor of Franklin Templeton U.S. registered products, which are not FDIC insured; may lose value; and are not bank guaranteed and are available only in jurisdictions where an offer or solicitation of such products is permitted under applicable laws and regulation.

Australia: Issued by Franklin Templeton Investments Australia Limited (ABN 87 006 972 247) (Australian Financial Services License Holder No. 225328), Level 19, 101 Collins Street, Melbourne, Victoria, 3000 / **Austria/Germany:** Issued by Franklin Templeton Investment Services GmbH, Frankfurt, Mainzer Landstr. 16, 60325 Frankfurt/Main, Tel 08 00/0 73 80 01 (Germany), 08 00/29 59 11 (Austria), Fax +49(0)69/2 72 23-120, info@franklintempleton.de, info@franklintempleton.at / **Canada:** Issued by Franklin Templeton Investments Corp., 200 King Street West, Suite 1500 Toronto, ON, M5H3T4, Fax (416) 364-1163, (800) 387-0830, www.franklintempleton.ca / **Netherlands:** Franklin Templeton International Services S.à r.l., Dutch Branch, World Trade Center Amsterdam, H-Toren, 5e verdieping, Zuidplein 36, 1077 XV Amsterdam, Netherlands. Tel +31 (0) 20 575 2890 / **United Arab Emirates:** Issued by Franklin Templeton Investments (ME) Limited, authorized and regulated by the Dubai Financial Services Authority. Dubai office: Franklin Templeton, The Gate, East Wing, Level 2, Dubai International Financial Centre, P.O. Box 506613, Dubai, U.A.E., Tel +9714-4284100, Fax +9714-4284140 / **France:** Issued by Franklin Templeton International Services S.à r.l., French branch., 20 rue de la Paix, 75002 Paris France / **Hong Kong:** Issued by Franklin Templeton Investments (Asia) Limited, 17/F, Chater House, 8 Connaught Road Central, Hong Kong / **Italy:** Issued by Franklin Templeton International Services S.à.r.l.—Italian Branch, Corso Italia, 1—Milan, 20122, Italy / **Japan:** Issued by Franklin Templeton Investments Japan Limited / **Korea:** Issued by Franklin Templeton Investment Trust Management Co., Ltd., 3rd fl., CCMM Building, 12 Youido-Dong, Youngdungpo-Gu, Seoul, Korea 150-968 / **Luxembourg/Benelux:** Issued by Franklin Templeton International Services S.à r.l.—Supervised by the Commission de Surveillance du Secteur Financier–8A, rue Albert Borschette, L-1246 Luxembourg, Tel +352-46 66 67-1, Fax +352-46 66 76 / **Malaysia:** Issued by Franklin Templeton Asset Management (Malaysia) Sdn. Bhd. & Franklin Templeton GSC Asset Management Sdn. Bhd / **Poland:** Issued by Templeton Asset Management (Poland) TFI S.A.; Rondo ONZ 1; 00-124 Warsaw / **Romania:** Franklin Templeton International Services S.À R.L. Luxembourg, Bucharest Branch, at 78-80 Buzesti Str, Premium Point, 8th Floor, Bucharest 1, 011017, Romania. Registered with Romania Financial Supervisory Authority under no. PJM07.1AFIASMDLUX0037/10 March 2016 and authorized and regulated in Luxembourg by Commission de Surveillance du Secture Financiere. Telephone: + 40 21 200 9600 / **Singapore:** Issued by Templeton Asset Management Ltd. Registration No. (UEN) 199205211E. 7 Temasek Boulevard, #38-03 Suntec Tower One, 038987, Singapore / **Spain:** Issued by Franklin Templeton International Services S.à r.l.—Spanish Branch, Professional of the Financial Sector under the Supervision of CNMV, José Ortega y Gasset 29, Madrid, Spain. Tel +34 91 426 3600, Fax +34 91 577 1857 / **South Africa:** Issued by Franklin Templeton Investments SA (PTY) Ltd which is an authorised Financial Services Provider. Tel +27 (21) 831 7400, Fax +27 (21) 831 7422 / **Switzerland:** Issued by Franklin Templeton Switzerland Ltd, Stockerstrasse 38, CH-8002 Zurich / **UK:** Issued by Franklin Templeton Investment Management Limited (FTIML), registered office: Cannon Place, 78 Cannon Street, London EC4N 6HL, Tel +44 (0)20 7073 8500. Authorized and regulated in the United Kingdom by the Financial Conduct Authority / **Nordic regions:** Issued by Franklin Templeton International Services S.à r.l., Contact details: Franklin Templeton International Services S.à r.l., Swedish Branch, filial, Nybrokajen 5, SE-111 48, Stockholm, Sweden. Tel +46 (0)8 545 012 30, nordicinfo@franklintempleton.com, authorised in the Luxembourg by the Commission de Surveillance du Secteur Financier to conduct certain financial activities in Denmark, in Sweden, in Norway, in Iceland and in Finland. Franklin Templeton International Services S.à r.l., Swedish Branch, filial conducts activities under supervision of Finansinspektionen in Sweden / **Offshore Americas**: In the U.S., this publication is made available only to financial intermediaries by Templeton/Franklin Investment Services, 100 Fountain Parkway, St. Petersburg, Florida 33716. Tel (800) 239-3894 (USA Toll-Free), (877) 389-0076 (Canada Toll-Free), and Fax (727) 299-8736. Investments are not FDIC insured; may lose value; and are not bank guaranteed. Distribution outside the U.S. may be made by Templeton Global Advisors Limited or other sub-distributors, intermediaries, dealers or professional investors that have been engaged by Templeton Global Advisors Limited to distribute shares of Franklin Templeton funds in certain jurisdictions. This is not an offer to sell or a solicitation of an offer to purchase securities in any jurisdiction where it would be illegal to do so.

Please visit www.franklinresources.com to be directed to your local Franklin Templeton website.

CFA® and Chartered Financial Analyst® are trademarks owned by CFA Institute.

FRANKLIN TEMPLETON