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Is Being Trustworthy Always Rewarded? Think Twice!
Trust Penalty for Women Entrepreneurs

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Entrepreneurship is inherently full of risks and uncertainty. Whether you are an entrepreneur or an investor, you cannot avoid facing these risks. Yet you try to reduce them as much as possible. Getting funding is a way to do that, for entrepreneurs. Access to finance is a key success factor, particularly in the start-up and growth phases. Thus, entrepreneurs frequently seek funding from investors.

Investors, also, try to reduce the risks and uncertainty. One factor they heavily rely on when making investment decisions is the trustworthiness of the entrepreneur: investors' beliefs as to whether this entrepreneur would do good to them. Some investors clearly state that:

> *"A lack of trust would often cancel out any of the business idea's merits, growth potential, or ROI potential in the minds of the angel investors. The entrepreneur has to be trustworthy."*[1]

The role trust and trustworthiness play in entrepreneur-investor relationships has been long studied. Academic studies in both economics and management consistently show that trust is essential and a prerequisite for an entrepreneur to secure capital investments from investors. This mostly builds on the notion that trust reduces transaction costs and risks inherent in entrepreneurship. In other words, parallel with common sense, the more trustworthy an entrepreneur is perceived by the investors, the more likely he or she is to get an investment.

Existing research does not specify the boundary conditions on this association between trustworthiness and securing investment, meaning that this relationship is valid, no matter who you are. But is this really the case? Does being trustworthy really help "all" entrepreneurs?

In this study, by scrutinizing the effect of perceived trustworthiness on investment decisions, we examine the conditions under which trustworthiness could be beneficial or costly. In doing so, we draw on stereotypes literature and propose an inverse u-shaped relationship between trustworthiness and investment for women entrepreneurs meaning that it is the moderate levels of trustworthiness that help women entrepreneurs the most. In other words, neither being perceived untrustworthy nor very highly trustworthy is good for women seeking entrepreneurial investment.

Why? Because "stereotypes color the meaning of the behavior"[2] and gender as a stereotype has been found to manifest different interpretations of the same behavior exhibited by women and men. For example, altruistic behavior, workplace humor, and even academic grades generate uneven results. In our research, we apply such a lens and examine the gendered treatments of trustworthiness in the domain of entrepreneurship and investment decisions. We suggest that while moderate levels -compared to low levels- of trustworthiness positively affect the investment decisions for both women and men, high levels of trustworthiness have adverse effects for women. In other words,

[1] Sudek, R. 2006. Angel Investment Criteria. Journal of Small Business Strategy, 17(2): 89–104
[2] Kunda, Z., & Thagard, P. 1996. Forming impressions from stereotypes, traits, and behaviors: A parallel-constraint- satisfaction theory. Psychological Review, 103(2): 284–308.

what is rewarding for men might be punishing for women. And we expect this punishment to be stronger in societal contexts where women are less represented in entrepreneurship.

We test our proposed model with a series of experimental studies finding support for our hypotheses. Contrary to common sense and empirical evidence indicating that perceived trustworthiness is good for -all- entrepreneurs in investment decisions, we show that it is not so straightforward. Our results reveal that investors' evaluations of trustworthiness depend on the gender of the trustee. Whereas men benefit from being highly trustworthy, women are penalized. We also find that there is a difference between what respondents claim that they would do (intention) and what they do in reality (investment amount). In other words, investors talk the talk but do not actually walk the talk. While they say they would invest more in highly trustworthy entrepreneurs irrespective of gender (intention), they do so only for male entrepreneurs.

Understanding the biases in entrepreneurship and recognizing their differing consequences for female versus male entrepreneurs are also of practical and managerial relevance. Women own 42% of all businesses in the US, yet they are allocated only 2% of VC financing. This significant gap shows the disadvantage women face, as access to finance is crucial for the performance of entrepreneurial ventures. Our study uncovers a hitherto unsuspected mechanism, trustworthiness, through which gender-based inequality is created and perpetuated in entrepreneur-investor relationships. In addition to the behavioral underpinnings of this mechanism, we show how macro-level societal factors affect individual-level investor perceptions and how these individual-level biases have an impact on the firm-level outcomes of entrepreneurial ventures. Overall, we highlight the dark side of trust and conceptualize trustworthiness as a parameter that contributes to and reproduces the investment gap between female and male entrepreneurs.

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