

Does Gender Matter? Cognitive Biases and Entrepreneurial Funding

Anushka I Daunt, University of Pittsburgh, USA

Entrepreneurs are often viewed as eccentric, bold, and impulsive. Embracing these characteristics helps entrepreneurs overcome the hurdles of establishing their product or service in the market, but does it impact the amount of funding they receive? More importantly, female-led new ventures tend to receive significantly less funding. Our research addresses this disparity by asking, can women leverage cognitive biases to increase their funding and overcome this disparity?

Displaying Cognitive Biases to Increase Funding

The first step for entrepreneurs to gain funding is usually to pitch their product or service to investors. However, the newness of the endeavor can hinder traditional means of evaluation. Despite the lack of historical information, entrepreneurs must find ways to convince investors of the potential value of their endeavor. By displaying cognitive biases - a systematic manner of thinking that allows individuals to make fast decisions with limited data - during their pitch, entrepreneurs alter the image investor's have of them, positioning themselves in a favorable light.

New research suggests that entrepreneurs who display cognitive biases, (such as overconfidence, an illusion of control, and generalizing from small numbers), in their pitches affect the amount of investor funding they receive. Our analysis of a popular television show combined with results from an experimental study show how the language used in these pitches can and does directly impact funding received by entrepreneurs. The effects of each of the biases is summarized below:

- Entrepreneurs who use words such as “revolutionary”, “unique”, and “novel” may present themselves as overconfident. This suggests to investors that the entrepreneur creates new and exciting opportunities by taking bold. This overconfidence also demonstrates an entrepreneur's own belief in their product or service and can help persuade investors to join in their vision.
- Using language such as “I know” or “I will” may demonstrate an illusion of control and can potentially lower an investor's perceived risk, making the endeavor a more attractive opportunity. Displaying this cognitive bias may

suggest to investors that an entrepreneur has additional knowledge about the future outcome of the product or service.

- Sharing a founding story that includes how a few observed events led to the creation of a product or service suggests that an entrepreneur generalizes from small numbers. This may imply an entrepreneur's knowledge about potential problems, an ability to create new solutions, and provides investors a better understanding of the entrepreneur's motivation for creating their endeavor.

However, while these cognitive biases can be beneficial to entrepreneurs, they have different outcomes for male and female entrepreneurs.

Does Gender Matter?

Media depict a generally fair portrayal of the entrepreneurial pitch process, however there is significant research to suggest that investors prefer male entrepreneurs over female entrepreneurs. To combat these conscious or unconscious preferences, our research study reveals ways in which female entrepreneurs can better present themselves to overcome this disparity and increase their funding.

We find that female entrepreneurs who display cognitive biases during their pitches benefit significantly more than male entrepreneurs. Based on historical funding decisions, male entrepreneurs are expected to display certain levels of attributes associated with successful entrepreneurs. By using language such as "revolutionary", "I will" and sharing their founding story, female entrepreneurs demonstrate attributes congruent with the expected male role, positioning themselves as a favorable investment.

Indeed, findings of this study reveal that when female and male entrepreneurs both displayed the same cognitive biases and pitched the same material, investors tended to reward the female entrepreneurs with significantly more funding than male entrepreneurs. This difference was especially apparent when displaying overconfidence and an illusion of control. In these instances, male entrepreneurs could be perceived as disingenuous or arrogant, negatively affecting their funding, while female entrepreneurs were viewed in a more positive light, being perceived as passionate and dedicated.

This suggests that female entrepreneurs may be able to manage preconceived images investors have of them by using cognitive biases to their advantage. By displaying these biases, they effectively mimic entrepreneurial attributes that are

commonly portrayed and expected in successful entrepreneurs. This can provide female entrepreneurs with an advantage over their competition and may be used to increase the amount of funding they receive from investors.

CONTACT: Anushka I Daunt; ani23@pitt.edu; (T) (412)-648-1522; University of Pittsburgh, Katz Graduate School of Business; 245 Mervis Hall, Roberto Clemente Dr., Pittsburgh, PA 15260 USA.