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Uneven Steven

The Great Recession, it seemed, didn't play favorites; nearly everyone suffered. A [new paper](#) co-authored by a UC Santa Barbara researcher, however, reveals that female entrepreneurs were much more likely than men to suffer discrimination in getting financing.

"Unequal Hard Times: The Influence of the Great Recession on Gender Bias in Entrepreneurial Financing," in Sociological Science online, by [Sarah Thébaud](#), an assistant professor of sociology at UCSB, and Amanda Sharkey of the University of Chicago, examines how and why the financial downturn disproportionately affected businesses run by women.

Thébaud, whose research has focused on gender inequality in entrepreneurship, explained that during the height of the recession, a combination of financial uncertainty and stricter lending standards led lenders and venture capitalists to favor men over women. Known as cognitive bias, it worked like this: In an environment in which lenders lacked objective information, they unconsciously relied on cultural stereotypes that hold men are more competent entrepreneurs than women.

"There's a lot of literature suggesting that when there's uncertainty in the environment or the outcomes of a particular performance are going to be unclear," Thébaud noted, "under those circumstances people are more likely to rely on stereotypes about cultural categories like gender or race when they're making evaluative decisions."

In “normal” times, Thébaud observed, lenders make decisions based on objective information, and the gender of the entrepreneur is not as significant a factor. But one of the hallmarks of the Great Recession was uncertainty.

“You would think in times of uncertainty people would be more rational than they would otherwise, which would mean they would be relying more on these objective indicators,” Thébaud said. “But in fact we find the opposite, so people are even less rational in these times. I think the uncertainty makes people go a little nuts. They go back to an older way, if you will, of evaluating these companies. Maybe they see a male-led firm and they think, ‘He fits the part more’ in terms of what we would expect for a successful company. That’s a cognitive bias.”

In addition, Thébaud said, firms led by women were held to stricter standards during the recession. “Women-led firms that had a low credit score were especially likely to be penalized, whereas if men-led firms had a low credit rating, it didn’t matter,” she explained.

Thébaud and Sharkey analyzed data from a study that followed a sample of 4,928 businesses started in 2004. They found that even in “good” years of stability and adequate objective information, firms led by women fared slightly worse than those led by men. The bias isn’t nearly as pronounced as what they found during the recession, Thébaud noted.

“We’re comparing male- and female-led firms that are the same size in the same industry, making the same money with the same credit rating — all of that sort of thing,” Thébaud said. “When we do that we find that in general, female-led firms, even net of all of those things, they tend to be less likely to successfully get financing. But that gender gap is only really significant or meaningfully large during those recession years. During non-recession years we actually find that it’s not that big. It’s still a negative affect, so women-led firms are still getting less money, but it’s not as big.”

About UC Santa Barbara

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