Gender

How the Gender Balance of Investment Teams Shapes the Risks They Take

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Summary. There's solid research showing that women are more risk-averse than men when it comes to picking stocks, investing in venture capital, or making acquisitions. However, new research suggests that women may be more likely than men to take "social" risks — that... **more**

Women are more risk averse than men on average — at least that's what research and received wisdom seem to suggest. Women take fewer risks when picking stocks, investing in venture capital, and making acquisitions, for example. There are various explanations for these differences in appetite for risk. The most common one holds that in primitive societies men were forced to fight to gain status and to compete for positions of power. Women, on the other hand, were more likely to be caregivers. Another explanation suggests that men tend to have more sensation-seeking personalities, where risk is part of their enjoyment.

However, there are also academic studies — including our own research — suggesting that the truth is more nuanced. Our research on social entrepreneurship and impact investing has led us to believe that whether women are inclined to take risks depends on the context. In fact, in some circumstances women may be *more* likely to accept what we call "social risk."

Prior studies on risk-taking behavior among men and women tended to focus on quantitative decisions related to finance, including investments, acquisitions, and leverage. Yet many important decisions in investing, entrepreneurship, and business generally are about betting on people, addressing social problems, or trying to find the right balance among conflicting interests. This is what we mean by social risk: decisions that have important human or social consequences, in addition to financial ones.

In order to test this thinking, we observed a setting that involved both financial investments and social implications: impact investing. Venture philanthropy investors invest in social entrepreneurs who tackle social problems while also pursuing financial sustainability or even profit.

To construct a dataset, we contacted all dedicated venture philanthropy funds in Europe, the United States, Asia, and Australia; we identified a total of 104 active firms. Fifty of these firms agreed to share their data with us regarding their approach to investments, which allowed us to look closely at risk-taking behavior.

To measure risk-taking orientation in the various funds, we adapted a well-known survey measure of risk from the academic literature on entrepreneurship, which captures elements such as whether the investor searches actively for new investment opportunities, makes bold decisions despite uncertain outcomes, regularly makes substantial changes in their product portfolio — or, on the other hand, makes cautious investments, focusing on stability and steady growth, or funds stable, immature social enterprises (the last two are reverse-coded).

For each of the social investment firms, we identified the composition of their investment teams, focusing on the top management team, which makes final decisions. We looked at how many women were part of the top management team. Out of the 183 top managers working for the 50 investment firms, 70 (or 38%) were women. We then ran a regression analysis on the risk-taking orientation, the composition of the teams, and some control variables.

These regression models displayed a clear effect: impact investment firms with a higher proportion of women in the top management team took significantly more risks in their investment decisions. The average team in our sample (which has 1.7 female team members) scores 12 on our measure of investment risk. However, an investment firm with 3 women on its team scores 14.6 on our risk-taking measure. A team without any women, by contrast, takes risk to the score of 9.5. Hence, in this industry, teams with more women take significantly more risk than teams dominated by men.

This effect remained if we corrected for various potentially confounding factors, such as portfolio size and possible reverse causality. The previous work experience of these women, whether in investment banking or an NGO, didn't change the effect of the findings. When we followed up with interviews, trying to ascertain the reasons for the results, several respondents suggested that women — more than men — are willing to take a chance when it comes to social-impact issues. One investor commented, "In this sector, you are not being challenged on your financial success only; this makes women push the boundaries more."

We believe that these findings are important. In these firms, social impact is a deliberate goal — and that's increasingly true for firms in general. Businesses are no longer judged purely on their financial performance. Environmental, social and governance (ESG) factors are part of the equation. They also need to show strong financial performance, of course. But research is beginning to show that companies that take ESG factors into account have better long-term financial performance.

Leaving significant investment decisions to teams dominated by men — as is the case in most venture capital firms, which have been shown to be reluctant to recruit women because of their alleged risk aversity — creates the potentially dangerous situation that social risks are not sufficiently taken into account, and opportunities for a positive impact beyond mere financial success are missed.

Most, if not all, significant strategic decisions have non-financial implications. These may not be as easy to quantify, but they're often just as important as financial implications. According to our findings, women take such risks into account and are willing to take bets on those grounds. Missing out on female representation in investment and decision-making teams, therefore, is a risky thing to do.

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