



How to Upgrade your Due Diligence with a Gender Lens (3.0)

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Introduction

Definition: The core of gender lens investing is to incorporate gender analysis into financial analysis to make better decisions. This is not simply about pointing our investments at women, either as entrepreneurs or as consumers, it is about incorporating knowledge about how gender works in the world, into how we make financial decisions. This is not just about counting, identifying the sex of the entrepreneur, but is about how gender informs what we value and therefore how we invest.

Purpose: This piece is a response to those who are asking how. They want to incorporate a gender lens into their investment processes, but want to know where to start, how to be methodical and get the most they can out of this approach. This piece will focus on direct investments, and lay out a framework based on **Values, Relationships, and Processes** that can be applied for upgrading due diligence with a gender lens.

Why this work: A gender lens doesn't need to be just one more burdensome screen, instead it allows investors to see better, and smarter, make better decisions. A gender lens can help investors understand the key performance indicators for a business in order to mitigate risk, maximize upside, keep investment efficient, and social achieve impact. Gender lens investing does this in three ways:

1. **Overcomes biases:** The reality is that there is widespread bias that leads to women and girls being undervalued. If you see real value that others don't, you will have a competitive advantage.
2. **Reveals opportunities:** Looking through a gender lens, opens up patterns of data that will let you see opportunities. For example, you might see women as decision-makers in consumer purchasing in way that is untapped potential for the company.
3. **Reveals risks:** Gender analysis also unveils risks that might have been hidden. For example, a lack of diversity can lead to long term blind spots in a company and decreased profitability.

Outcomes: This framework may lead to different sets of outcomes. Some of the approaches will provide a data point or two to inform the process, some will ensure that the system is working, providing another failsafe that you have looked at the right things, and some approaches will push at the core logic of the how you approach due diligence. In addition, the reality is that not all upgrades are instantly easier, there is always a learning curve. This piece begins to lay out a set of considerations that may overtime, shift how you make investment decisions. The framework is designed to be adapted to your own individual needs and interests, so pick and choose how you make use of these approaches.



Background: Often, “thinking about gender” just means counting women and girls. We ask: How many women on a board, how many female entrepreneurs, how many girls in the school? But counting only gets you so far. Counting only lets you operate in whole numbers, rather than more nuanced calculations. And, We need to do more sophisticated math. Gender is a dynamic concept that defines norms, behaviors, identities and how those are (or are not) valued in a culture. Gender analysis, like financial analysis, assesses how value is constructed and assigned.

If we want to incorporate gender analysis into our investment processes, we need to know how to develop and then apply a gender lens. We will walk through a framework that considers gender and examines how **finances assigns value, holds relationships in structures through processes defined as rulesets.**

VALUE: Gender analysis both allows us to see new patterns of the world and to assign value as we assess businesses in the context of a broader industry, sector, or geography. Within the work of Criterion Institute we have identified four general types of patterns:

- Patterns that are not seen
- Patterns that are seen but undervalued
- Patterns that are seen but overvalued
- Patterns that are shifting

Examples: Patterns that are not seen. Recently, in a report from Root Capital, “Applying a Gender Lens to Agriculture: Farmers, Leaders, and Hidden Influencers in the Rural Economy,” Root’s researchers identified “hidden influencers” within the supply chain. These were “people who provide advice and services to others in their industry, and who therefore have a disproportionately strong influence on their peers because of the information they share and the respect they garner.” From their work on agriculture they drew a wider conclusion: “women are often hired for and excel at office positions in accounting, marketing, sales and other mid-level management roles that are highly influential but less visible and therefore less studied and celebrated than top-tier leadership roles.” (page 7)

Women’s role as “hidden influencers” is an example of a common pattern that is not seen and therefore not valued accurately in investment analysis. Culturally, structurally, or legally, there are many contexts in which women might not be able to make purchases themselves, but are the actual influencers of the purchase. What happens when you take that into account? Suppose you’re talking about consumer or household purchases. Does the company you’re reviewing show an understanding of family level dynamics? Could women be invisible in the buying process, but actually shaping the decisions made?

Patterns that are seen but overvalued. Often, things “gendered male” are seen as more valuable. Famously, women-led companies receive only 3% of venture capital. Investors have put significant effort into creating a pipeline of high growth companies led by women, so that they can gain access to venture capital. But typically, women tend to build “normal” growth companies. What if, instead of drawing more women into high-risk ventures, normal growth



companies were valued? What if we prized the stability and the liquidity of alternative term sheets (sometimes blending debt and equity) that work well in these kinds of contexts?

Do we value venture capital because it performs for us financially, or because it has the culturally valued "male" characteristics of risk taking, big rewards, and big wins?

A second example: A fully dedicated entrepreneur who puts everything else on hold to dedicate himself completely to the business is valued. On the other hand, we question the commitment of Women entrepreneurs with families. Yet, a recent article in [Inc.](#) magazine points to the level of depression in entrepreneurs and how that affects health of the business. Is this always a gender issue? Of course not. Sometimes it boils down to a question of whether an entrepreneur is mentally stable. But in general, women more than men structurally end up with multiple priorities, whether they are caring for children or aging parents, and so they are more likely to be affected when we overvalue "total commitment" to a business.

Patterns that are seen but are undervalued. Women make 70-85% of purchase decisions for the home. And we're not just talking about consumer purchases. Looking at the data about business-to-business sales, based on purchase order sales analysis, reveals that women make significantly more of the business decisions than men. Buying power can show up across unexpected areas. In the US, consider car sales and consumer electronics. 65% of new car decisions made by women. 51% of consumer electronics decisions are made by women. The stats are fantastic. Women are the primary decision makers in so many areas we'd assume were governed by "the man's decision."

And, yet, women and girls are still dismissed as a "niche market." There are too many stories of entrepreneurs being told not to describe their product as a women's or girl's product for fear of being dismissed. Products targeted to women customers remain chronically under-invested. The data is there about the significant impact of women's purchasing power, and newer investment companies like [Portfolia](#), [Pique Ventures](#), [Atalanta](#), [SheEO](#), and others have been seeking to capture this value, but we aren't seeing a wholesale shift in how businesses are valued.

Patterns that are shifting. Gender is not static. Like other social systems, it's constantly changing. How, then, do we assess the potential of a company, not simply based on how gender dynamics operate today but in light of shifting trends--including even intentional efforts to change these dynamics?

What is the long view on the status of women? Is the company you're evaluating looking at market trends or engaged in market formation activities that capture...? How would you evaluate clothing for women presidents of companies or gear for women executives who travel? Women do not dominate these markets now, but what is the role of a brand in expanding the market?

20 years ago, women were not a target market for cars. But they make 65% of automobile purchasing decisions. Now they are perceived by car companies as valuable decision makers. Where are the investments positioned to capture the next trend? Shifting patterns hold potential for building a unique portfolio.



Looking at gender patterns in specific industry helps to hone a gender lens, so you can look for the shortcuts that let you see opportunity, mitigate risk and take the bias out of investment decisions. These gender patterns need to be seen within contexts.

Defining the context allows the investment opportunity to be understood within relative constraints and opportunities. By considering geography, industry/sector, population, market, and other social or environmental themes a gender lens can better defined by its context. Below are different ways to break down the context with gender considerations that be incorporated into the due diligence process .

Examining geography in context such as the status of women, politically, economically, and culturally or how gender patterns differ across urban, peri-urban and rural areas can reveal interesting insight. For example, for an investment in healthcare- location and timing of health centers and posts may not facilitate women's access given differential mobility constraints (cultural and distance) as well as work schedules. Ability to pay for health care may also differ for women and men. In some situations, men may be the "gatekeepers" influencing women's decisions and ability to access health services.

Considering gender patterns in industries or sectors can highlight labor practices in the supply chain, and expose potential threats such as violence against women. Having a background understanding of how the population is gendered, both in terms of the ecosystem and stakeholders, can mitigate risk and reveal new opportunities. It's not just with female customers that gender norms get in the way. Take pilates, a "women's thing." One health care practice Suzanne invested in realised ahead of their competition that men benefitted from and loved pilates once they were doing it. But men weren't being marketed to because it was assumed it was a "women's thing." Seeing an opportunity, they found that the head coach of the LA Lakers basketball team was doing pilates with his guys, and talked about him as a role model. Pilates strengthens your gut, and both men and women dig that. (You might think of a gender lens as pilates for your investment gut.)

When the market is viewed with a gender lens, a new set of opportunities emerge. Both determination of the market size and stage of market formation can be made with assumptions that are gender biased.

It is important to identify where gender is defined within an issue and how social or environmental themes emerge. For example, do women, men, boys and girls have equitable access to information? In the case of healthcare education many cases adolescent girls know less about HIV than boys of the same age. Different literacy levels, access to technology and access to resources can influence who receives and benefits from health information. Health services may give priority to specific health themes and information on issues relevant to the health of women and girls may not be available (e.g. contraception).

Enterprise

We can enter into a deeper level of an analysis when we apply a gender lens upon a specific enterprise that exists within a context. By breaking down the aspects of an enterprise: product/service offering, customers, marketing, sales and distribution, the management team,



suppliers/service contractors/partners, operations, financial and key performance indicators, as well as governance and ownership.

Asking questions about how gender assumptions emerge in the product or service offering can inform the investment. Consider if the problem the product is solving is felt any differently by

men versus women. Do you have any data about how women versus men make their decisions in this area?" Are there any gendered assumptions that are driving your view of this solution? At a recent convening of members of the [Global Alliance for Clean Cookstoves](#), a member shared that the cookstoves that have the best properties for saving money, saving fuel, and saving Hair pollution, are not necessarily the ones that women in certain markets want to buy. Their buying criteria actually prioritize aspirational style and reliability more highly. If we made the mistake of believing that the product with the most efficacy would naturally win out, we would miss what is really going to sell.

When looking at customers, consider "where are women in your target audience or customer base? Are you communicating with them in a way that works?" Perhaps distinguish between buyers and users: "What percentage of your product is bought by men but mainly used by women? And vice versa?" For example, an eyewear company deal focused on emerging markets, we were talking about whether there were differences in opportunities for girls/women than from boys/men, both as salespeople and customers. There was evidence in their research for one large country that wearing glasses as a young woman would cause her not to be marriageable. But change the norm, and you change the size of the market. A strategy to change the norm would give the company a market advantage. An investment would need to build in time for that kind of market formation work, and the leaders of the company would need to build partnerships with allies who could focus on that kind of cultural shift.

Consider marketing, sales and distribution and ask "do men or women turn out to be better word of mouth referrals for new customers? Is there a significant difference between men and women in their lifetime value as customers?" Better yet, go deeper. Ask: "What key assumptions are you making being about the market, the customer, the features and benefits of the product? Do those assumptions work if you factor for women's experience?" Within the supply chain see if women or men performing better in your supply chain? In what sectors and are you playing to those strengths in your business?" You might want to add: "Where are women's disproportionate strengths undervalued in the value chain for this business and if we looked at this more closely, might we see opportunity or risk?" "Are there are particular barriers or opportunities created by extending your retail hours by 2 hours, in order to accommodate people who pick up their children from school?" "Do you see any differences between men and women in your sales or distribution team? Are you capitalizing on that?" For example, in a customer service setting, men and women respond to women's voices better than to men's voices. Documented fact. That means, among other things, that some companies have a bias towards hiring more women into those roles. But many other areas where women might have disproportionate strengths are less documented--particularly in higher paid roles.



Consider the risks and opportunities based on governance & ownership with gender dynamics that might arise. For example, franchising has always been a strong way for businesses to scale. In order to buy a franchise, in some countries, you need to have property as collateral or owning the franchise requires an equity investment. But in some of those countries, women can't own property. One of the most important barriers is women's unequal access to property and land. In Kenya only 1 percent of land titles are owned by women, with 5 to 6 percent held in joint names. Unequal access to land and property means that women are unable to secure loans for their businesses - (including loans to set up franchises.) (Source: IFC/FIAS : Voices of

Women Entrepreneurs in Kenya Report) Even where the franchisor understands that women make better franchisees in certain industries, if they're not thinking differently about the rules, they may be missing out on having access to the most potentially successful franchisees.

Relationships in Structures

PLAYERS: Within the relationships in investment structures, various players exist that occupy different roles. By identifying who these players are and how gender patterns emerge within these relationships, investors can better navigate power dynamics, advocate for their entrepreneur, and lead to better outcomes. The players may consist of: other investors, entrepreneur and their team, stakeholders within the enterprise, organizational partners, industry experts auditors, and the investing team- specifically the due diligence committee.

An example of an angel in New York is working to build the practice of incorporating day care and health care in the uses of capital to ensure that the women entrepreneur has what she needs to be an effective leader. Interestingly, we think about a benefits for workers, but often not for founders. Yet they are the first to cut their own support when the going gets rough--and those are exactly the moments when they need to keep their own safety nets. Building safety nets into the uses of capital is an interesting way to support the entrepreneur.

Interest in gender and the lives of women and girls opens up new partners for the business. Those may be women's rights organizations, or networks that focus on women and girls, but they may also be investors or philanthropists who have a particular interest. Bringing these kinds of partners into the capital stack allows you to rely on their expertise and connections to mitigate for or enhance the gender dimensions within the business.

LEGAL STRUCTURES

The structure of the investment itself is typically taken into account during the due diligence process. It is important to note the governance structures and whether there is an advisory board or governing board, that is either paid or unpaid. In the case of a private equity fund it is important to be aware if the relationships are structured as a general partnership (GP) or limited partnership (LP). Paying attention to the capital stack and the nature of the relationships between the investor and the company as well as the web of other relationships and their gender patterns will lead to better decision making.



There is a significant statistical correlation between increased profitability of public corporations and diversity in board of directors. If you are having challenges with the governance structure, one step, perhaps not a silver bullet but a statistically good bet, is to mandate the next director be a woman. Or make sure your seat is occupied by a woman. Or introduce some powerhouse women to the venture, and the board, as prospective board members.

TERMS

Terms applied with a gender lens provide investors with the ability to shape an investment and consider how different uses of capital in a deal can reflect gendered relationships. For example, you may have concerns about gender but they aren't a deal breaker. Think through how to monitor the issues within a regular reporting, and have that baked into the term sheet. There is actually very interesting data that says that women will tend to round down in their projections of future success and men tend to round up. This is an interesting factor in calculating whether you should discount the projections or take them at face value. Incorporating a gender lens analysis provides a new way of looking at ways to change terms.

POWER

Within relationships a set of powers exist that set price, govern, hire/fire, initiate businesses/force closure, and lastly exit. All of these relationships are gendered and these dynamics are most visible in the exercise of power. Who can do perform these activities is an indicator of who can exercise power. Activities that may seem harmless, like a sexual innuendo, is actually a form of sexual harassment. This behavior disrupts the power dynamic between men and women and diminishes the effectiveness of the investor community.

Through Processes defined as rulesets

Due diligence in itself is a process that has its own gendered characteristics. Gendered processes arise at different stages including the design of the investment thesis, sourcing and pipeline development, due diligence, valuation, negotiation, impact reporting, and exiting. Consider where the investments are looked at, who are being invited and are women self-selecting out. How do pitch fests or on-line applications create or limit opportunities for women? Are these processes repeated in a way that they become standard and defined as rulesets?

If you had asked us a few years ago if there were any companies working on for-profit solutions to labor rights issues, we would have said no. Then we started looking, and then we discovered several companies actually tackling these issues. Likewise, if you had asked us a few years ago if there were good worker-owned cleaning cooperatives that are scaling and changing the landscape for house cleaners, we would also have said no. Now we know about at least four. (Yes we knew you would ask: WAGES, Ecomundo, Home Green Home, Si Se Puede, just in the US) And these opportunities, as with all opportunities, may come from the startup universe, corporate spinouts, non-profit organizations, public sector spinouts, and more. Start looking for companies already working with a gender lens, and let yourself be surprised.

During the due diligence process itself, it is important to consider who controls what is on the checklist, and are the people using the check list, equipped to listen to patterns around gender? Are women in the company spoken to, and how is their perspective being taken into account?



Conclusion

We still have lots of work to do as a field. We have to continue to build the proof points and tools that support making excellent investment decisions incorporating a gender lens. But while we continue to build the tools, we encourage you to start somewhere. You wouldn't be starting alone. Investors across the globe are asking the same questions you are, seeking the same answers, and working to incorporate analysis of gender into their investment strategies.

Upgrading your due diligence with a gender lens will make you a smarter investor, able to spot risks and opportunities and make smarter picks in companies.

What happens next with this guide? We know already it's not enough. Criterion TOOLKIT provides additional resources to emphasize and help investors navigate through a gender lens investing framework. The TOOLKIT is designed for both short form and long form workshops that can be made accessible to angel groups, accelerators and others. Through participating in conferences and events, networks such as Women Effect, using resources including Gender Lens Investing: A State of the Field Report, and sharing the message with others, will help to build the gender lens investing field.

The interest in making investments with a gender lens is high. This guide, TOOLKIT, and Women Effect are providing the tactical tools to enable investors to reasonably incorporate this kind of analysis into their due diligence. Enjoy. Send us your feedback as you work to upgrade your due diligence with a gender lens. If you haven't started, decide to start. And let us know what else you need.

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