

Growing startups should worry about rising 'diversity debt,' say researchers

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Startups should pay attention to gender diversity from the get-go. UvA Economics and Business researchers Dr. Yuval Engel and Dr. Tanja Hentschel, together with colleagues in the US, conducted research about

why women are underrepresented among startup employees. They discovered a self-reinforcing pattern of what they refer to as 'diversity debt.'

Their publication "Signaling Diversity Debt: Startup Gender Composition and the Gender Gap in Joiners' Interest" was published in the *Academy of Management Journal* in November 2022. It describes this problem as a situation where startups with very few female employees encounter more difficulties attracting women to join them. They then end up hiring fewer women. This process results in a vicious circle that creates an increasingly lopsided workforce with very few women.

Track record

According to Engel, the common argument that women simply cannot be found in the tech industry does not hold water.

"Companies may sometimes not see enough women entering their candidate pools and quickly conclude that women are just not there to begin with. However, employers might also not see qualified women because these women just won't apply to workplaces with a bad [diversity](#) track-record. If you were a woman, would you want to work for a company where you are by far in the minority? Some do, most don't."

Diversity debt

The diversity [debt](#) imbalance emerges after hiring a homogeneous group in the initial period after establishing a company. "This can be destructive for both the culture and further growth of the company," explains Engel. Yet little research has been done into its causes. "In the world of startups, two facts keep repeating themselves over and over

again."

"The first is that finding staff is one of the [startup](#)'s biggest challenges, the second is that women are underrepresented in these companies. But very few considered these two facts might be linked. Startups might be missing the talent they need to grow because their current gender imbalance hurts their chances to attract women."

Rapid growth

According to Engel, the rapid growth that some startups experience is one of the reasons they have a lack of diversity in their workforce.

"When a startup is rapidly growing, not much attention is paid to recruiting and hiring a diverse group."

"This aspect is neglected until it becomes a problem beyond repair. But it can become an issue even in the early stages. It takes several recruitment rounds to straighten out the difference between 5 men and 1 woman. You can imagine how much more difficult this gets if you start working a year later trying to address the difference between 50 men and 10 women."

Signaling and communication

According to Engel, the road to a more balanced workplace starts with the timely identification of the moment when this lopsided growth arises. "Our research shows that women interested in a startup want to know more about the gender distribution in the workplace. If they see startups that signal diversity debt, women could worry about how they might be treated. Companies that realize they may be accumulating diversity debt in the early stages can focus on communication that openly acknowledges this issue."

"They can send a message that they are aware of the problem and are not trying to conceal it. And they can then clearly state how they intend to deal with it. Diversity debt doesn't mean you're doomed and will forever scare women away from joining your startup. It just means you need to find other ways to make [women](#) feel safe."

What is diversity debt and why is it a problem?

"Diversity debt" is an initially skewed gender composition that persists throughout the growth stages of a startup. The more this diversity debt rises, the more costly the measures that are needed to deal with it. From an employer perspective, diversity debt can represent the future obligations and costs associated with growing a [gender](#) homogenous workforce (e.g., developing a toxic company culture, missing out on relevant talent, having more difficulties hiring, etc.).

From the perspective of job seekers, diversity debt is also a signal that provides information about past hiring practices. It is an indicator of whether a potential hire might expect to encounter bias or discrimination once they join the organization.

More information: Yuval Engel et al, Signaling Diversity Debt: Startup Gender Composition and the Gender Gap in Joiners' Interest, *Academy of Management Journal* (2022). [DOI: 10.5465/amj.2021.1197](https://doi.org/10.5465/amj.2021.1197)

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