Entrepreneurs are facing a mental health crisis, according to report

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Credit: AI-generated image (disclaimer)

Mental health is a pressing concern in the startup community. Entrepreneurs face a number of unique challenges, including securing funding and meeting grueling performance targets—all while trying to achieve a work-life balance. These demands can take a significant toll on someone's mental health.

According to a report from the Business Development Bank of Canada, almost half of Canadian entrepreneurs are experiencing mental health challenges, mostly related to stress and finances.

Entrepreneurs are twice as likely to report a lifetime history of depression, three times more likely to have bipolar disorder and three times more likely to experience substance abuse and addiction. They are also twice as likely to attempt suicide or be hospitalized in a psychiatric institution.

Despite this, many entrepreneurs have difficulty accessing mental health support. Cost is the biggest barrier, but the risk of being seen as too vulnerable is also an issue. Many entrepreneurs fear that being seen as too weak or timid could jeopardize their chances of securing funding.

Since entrepreneurship is the backbone of economic growth, the importance of mental health support for entrepreneurs cannot be overstated. Recognizing and addressing mental health is not just a matter of compassion, but also an essential investment in society at large.

The 'founder's dilemma'

Steve Jobs, the founder of Apple, once likened starting a venture to putting a dent in the universe. In other words, it's extremely difficult. Many are drawn to entrepreneurship, but few manage to thrive commercially. And many quit for reasons they shouldn't.

Noam Wasserman, dean of Yeshiva University's business school, wrote about the "founder's dilemma" in 2008. According to him, this dilemma revolves around the tension between accepting money from outside investors and resisting losing control over one's company and, sometimes, being ousted altogether.

Fast forward 15 years, and things have changed in the startup space. Early investors are now able to secure generous stock option grants or loans from founders. Being in onerous debt amid financial uncertainty puts a firm's flexibility and capacity for innovation at risk.

Out of financial self-preservation, some founders fall into a cycle of constant fundraising to get them out of debt. The quixotic drive to balance short-term financing with long-term operational excellence can drive any entrepreneur into distress.

Mounting pressure

The pressure that startup founders face today is more intense than it has been for two decades. Entrepreneurs are now grappling with whether the hustle is still worth it.

First, their cash runway is a cliff face. During the first half of 2023, global venture capital funding slid by 48 percent compared to last year. In North America, second-quarter venture spending was the lowest in over three years.

Second, talent is scarce and expensive. Third, exit opportunities for later-stage founders—through an initial public offering or a sale to a bigger firm—are vanishing. This leads to layoffs amid intensifying pressures to find a "path to profitability" while early financial backers seek to liquidate their investments.

According to *Crunchbase News*, mergers and acquisitions for venture capital-backed companies based in the United States this year are on course to be the slowest since 2013. Investments in what were only last year considered booming sectors, such as health technology, have shrunk dramatically.

In this high-interest rate, scarce money, no-exit environment, startup founders are facing a financial and mental health crisis.

Addressing mental health challenges

Past research on business and entrepreneurial mental health can guide us toward promising new solutions. There are many potential low-cost or no-cost solutions to founders' mental health troubles in this current investment climate.

First, outside investors in private ventures need to be qualified not only in terms of net income or net worth, but also on the basis of their commitment to population health in general, and mental health in particular.

This builds on the wisdom and research behind the Founder Mental Health Pledge pioneered by serial entrepreneurs Naveed Lalani and Brad Baum and supported by founders globally. The pledge aims to de-stigmatize mental health and treat it as a business expense, including therapy, coaching and group support.

Investors should acknowledge the importance of protecting a founder's mental health by including the potential harms that may befall a startup on the term sheets. Practically, this could mean paying for more mental health benefits and memberships in peer support networks for founders. This strategy can build investor awareness and reduce the stigma surrounding mental health challenges.

Second, firms should establish expert advisory committees dedicated to protecting founders' mental health. This would encourage founders to speak openly to the committee about hardships they encounter. This would be another important step in the uphill battle to de-stigmatize mental illness and steer founders toward mental health supports.

Perhaps the most important way we can help entrepreneurs is to send honest messages about both entrepreneurial hardship 'and' hope. Nurturing a venture from birth to commercial maturity can be emotionally exhausting. And yet, with the right psychological supports, entrepreneurship can ignite passion, purpose and result in prosperity.

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