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Key Finding

Entrepreneurs take individuals' socio-cultural status as a cue for their general ability to build a business.

Business Application

It's imperative to be aware that there are opportunity inequalities in entrepreneurship and to intervene consciously to build a healthy ecosystem.

Entrepreneurship is considered an economically “good thing” in the sense that it creates jobs, boosts economic growth and reduces management inefficiency. Entrepreneurship is also considered a culturally “cool thing” in the sense that it is open to new ideas and new people that would not be easily accepted in a traditional business setting.

The Obama administration pushed hard on entrepreneurship as a driver not only of job growth but also of equality. In the world of entrepreneurs, we tend to believe that meritocracy works. However, that ideal has been subject to a vocal debate following a comment from a controversial Silicon Valley observer (of Indian-American heritage), Vivek Wadhwa, on CNN: “When I did raise venture capital, my buddies’ advice to me was, they said, ‘Get a white guy to be your front man, ... that’s the way the system works here. You might as well understand it, and then use it to your advantage.’” Indeed, several pieces of evidence suggest that the entrepreneurial world is still far from the ideal of equality of opportunities. First, racial minority or female founders experience greater difficulties in obtaining financial and human resources, which are critical to the start-up and survival of a business, than white male founders with similar qualities. Second, racial minority or female co-founders often take a less important role in the founding team or take a role that does not reflect their expertise. Founding members take individuals’ socio-cultural status (such as gender or ethnicity) as a cue of their general ability, which tends to hinder minority and female co-founders in accessing higher-ranked task positions within founding teams.

Finally, relative to white males, minority or female entrepreneurs face bigger challenges in crisis situations. For instance, after a natural disaster, US credit markets disadvantage minority-owned entrepreneurial firms relative to non-minority-owned entrepreneurial firms, leading to higher failure rates for the former. In my study of hurricanes that hit the US between 1999 and 2013, I found that firms in counties with high minority populations received 13% fewer loans and were 5–6% more likely to fail. In sum, opportunity inequalities also exist in entrepreneurship. It is imperative to be aware of them and correct them early on to prevent imprinting a culture of inequality within the firm and its ecosystem.

Read more: Jung, H., Vissa, B., Pich, M., (2017), “How do entrepreneurial founding teams allocate task positions?”, *Academy of Management Journal*, 60, pp. 264–94.

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Research interests: entrepreneurship and inequality, women in entrepreneurship, founding team diversity