

**U.S. House of Representatives Committee on Small Business
Testimony Regarding the Challenges of Raising
Venture Financing for Women-Led Entrepreneurial Businesses**

**Presented by Louise J. Wannier, True Roses, Inc.
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Chairman Knight and Ranking Member Chu,

Thank you for the opportunity to share my thoughts with the House Small Business Committee today. I would also like to thank Andy Wilson, Pasadena City Councilman and Amy Millman, Executive Director of Springboard.org for recommending that I be asked to contribute to the discussion today.

I have long pondered why is it so easy for my male CEO/Entrepreneur colleagues have had, from my perspective, a much easier time raising sufficient capital to fund their ventures. I have often felt that I have had a disproportionately difficult time raising capital for the business plans I have presented. It has been extremely difficult and I have in the past failed twice to raise sufficient capital to be able to weather the economic downturns that inevitably occur in the cycles of our free-market economy. Each of those two companies had products that were well received in the market with either thousands of companies using the products or hundreds of thousands of consumers using the internet service and still were unable to raise the follow-on capital during the transition cycles following the drop of the market economy in 2000 and 2008 respectively. Of course, there are many reasons why ventures are unable to raise capital, and it would take a deeper study, but the facts are that I was unable to raise follow-on capital for ventures that had successful products in the market but were not yet profitable and needed growth capital, even after meeting with many individual professional venture capital firms nationwide, while, in my opinion, many ventures run by male colleagues were able to achieve follow-on financing for ventures that did not represent, in my opinion, as strong an investment opportunity for the investors. I am sure that this was not simply due to the difference between men and women but I do feel it was a factor.

So this request has given me the opportunity to reflect freshly on the question: Why do women have a harder time raising venture capital than men, or do they, and if they do/or do not, why so or why not?

I was trained in my undergraduate studies to think as a scientist. In 1978, I graduated with a Bachelors of Science with Honors in Astronomy from the California Institute of Technology, here in Pasadena, followed by a Masters in Business Administration with concentration in Management Science and Finance with Honors in June, 1980. For the first six years of my career I worked in the Los Angeles offices of the management consulting division of what was then Ernst and Ernst/Ernst & Whinney (what is now

E&Y) doing financial feasibility and strategic M&A studies for large healthcare organizations and other corporations in diverse industries. Following those years, I temporarily relocated to Sweden and as I often say, accidentally became an entrepreneur because I “didn’t have a job”. I was very fortunate to have the opportunity to work in Gothenburg, Sweden and gain my first experience as an intrapreneur, founding a company in education technology on behalf of Chalmers Industriteknik. Following that experience I returned with my family to the United States and ended up becoming one of the six principal founders of Gemstar Development Corporation and was instrumental in developing and executing the go-to-market strategy that resulted in VCR Plus+ being one of the most successful consumer electronics products worldwide.

In summary, as an experienced Corporate Director and CEO, I have chaired Boards of Directors and as CEO built companies in four different industries: Education Technology, Consumer Electronics, Information Management Software and Fashion/eCommerce. In my roles as Board Chairman and CEO, I have led capital raises, recruited board members and established advisory boards including bringing on independent non-financial board members to lend strategic industry experience. I currently serve as business advisor to entrepreneurs with venture to mid-size small businesses and non-profit community boards.

I was a member of the fifth class of women to graduate from Caltech and our ratio was one woman to ten men in the class at that time. Since then I understand the undergraduate percentage of women has risen to over 30% (perhaps higher) and there are now a significant number (although not that high of a percentage) of faculty members who are women and even, now retiring, one or more female senior members of the administration and board of trustees. So some progress has been made.

From this excellent training, I learned the scientific method, in which one first thinks hard about the problem, attempts to make a hypothesis and then looks at the data, or designs one or more experiments to gather data to then look at the question of whether or not the data supports the initial hypothesis.

Using this foundation, I contemplated the question, reviewed my own experience and reflected on what my hypothesis is related to this issue of concern:

My reflections lead me to this initial hypothesis, which I offer for your consideration:

The data will tell us that:

- 1) A higher proportion of women-founded businesses succeed than do those started by men, **yet** women *are unrepresented significantly* in the proportion of venture capital financings both in number and average amount invested over the lifetime of a venture, and,
- 2) A higher proportion of women-founded businesses succeed by bootstrapping using personal financing/friends and family, credit-card

debt, and all other non-professional venture methods of financing and therefore result in lower-growth companies which succeed at a greater rate over the longer term than do the businesses founded by male entrepreneurs who tend to raise and risk larger sums of capital on average per venture; and

- 3) There is a venture capital “SEED and A-round” gap between what can be raised through friends/families/small angel investor networks and what can be raised through Professional VC’s. This trend affects both male and female entrepreneurs. The VC’s have been amassing larger and larger funds which has correspondingly resulted in a proportionally significant increase in the average amount raised per Series (VC round) simply because any one Venture partner cannot sensibly/fiscally responsibly manage simultaneously more than a certain number of investments so that they have to put a larger portion of assets to work at a time. This pushes the Professional VC’s towards higher and higher risk and this criteria does not tend to be the type of venture that women entrepreneurs more often gravitate towards.
- 4) There is a venture capital gap for first-time entrepreneurs. Entrepreneurs who do not have a prior-successful exit as a track record have an almost impossible time raising venture capital. Most VC’s and most Venture capital is invested in entrepreneurs who have already had successful exits.

I have personally experienced (I have had senior executive men tell me these things at various points during my career) and I believe overall that there is a cultural bias still remnant in our society that women are to be cared for as the nurturing portion of our society and that as a whole we are less capable in business than are men. There is a cultural bias that women often do not have a strong financial grounding and are incapable emotionally of making the tough decisions and choices that are necessary to be successful in business; that women are too compassionate and too emotionally biased and therefore will be unwilling to do what it takes to win in the US game of business.

I do NOT believe that this pertains to all men, and unlike most women, I have personally been very fortunate to have been able to raise significant amounts of professional venture capital for two different ventures (Enfish and MyShape). I was very fortunate to have the support Womens’ Growth Capital in DC and Intel Ventures for Enfish and to have the support of a rare woman partner, Emily Melton, at DFJ, a well-recognized “A” player, Venture firm in Silicon Valley. I feel this is largely because I was very fortunate to have been part of the early success of Gemstar coincidentally occurring during the first significant economic boom in the late 1990’s due to the advent of the Internet and Technology businesses. I have also raised significant amounts of Angel Capital from individual investors through my personal network of friends and colleagues. This gave me the track record that investors at the time would follow and it is this track record that is often difficult for women to establish, for the reasons discussed above.

Secondarily, women have until recent generations (and I see continual improvement and hope in my childrens' generations, work experiences and attitudes), not naturally developed the business and insider-friend-networks necessary to raise capital. Because women are naturally social; social media has been a strong enabler of facilitating womens' ability to raise funds and we are starting to see some shifts in this trend.

This is a brief summary and I recommend that a further study be made.
Thank you for the opportunity to be of service.

Kind regards,

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Footnotes:

1) Excerpt from: <http://www.kornferry.com/institute/ceo-insights-can-organizations-gain-edge-tapping-female-entrepreneurial-talent> and <http://www.inc.com/kimberly-weisul/study-shows-why-women-entrepreneurs-rock.html>.

2) Excerpt from: A new McKinsey Global Institute report finds that \$12 trillion could be added to global GDP by 2025 by advancing women's equality. The public, private, and social sectors will need to act to close gender gaps in work and society. <http://qz.com/645587/a-mckinsey-report-on-female-leaders-finds-women-are-unable-to-enter-the-tech-industry/>

3) Some researchers attribute women's lower levels of participation in growth-oriented entrepreneurship to gender differences in key resource inputs in human, social, and financial capital (Carter et al., 1997; Coleman, 2007; Fairlie & Robb, 2009; Menzies, et al., 2004; Orser, et al., 2006; Robb & Wolken, 2002). An increasing number of studies have examined access to capital as a possible impediment to the growth of women- owned firms (Brush et al., 2001; Brush, et al., 2004; Coleman & Robb, 2009). Recent studies indicate that women-owned entrepreneurs raise smaller amounts of capital to finance their firms and are more reliant on personal rather than external sources of financing (Coleman & Robb, 2009; Coleman & Robb, 2010). Within the context of growth-oriented entrepreneurship, this distinction is important, because growth-oriented firms typically require substantial amounts of external capital in both debt and equity. If women entrepreneurs do not seek, or if they are not able to obtain, external capital, their prospects for growing their firms are diminished considerably.

4) **Excerpt from** (Forbes 2014)

- A financing gap. A high fraction of these survey respondents cited financial capital as a critical challenge to launching their firms (72.1 percent), and the majority (nearly 80 percent) used personal savings as their top funding source. This was surprising, given that about 31 percent of these respondents used angel investors and 14 percent had venture capital financing, much higher levels than businesses more generally and even high-tech firms, specifically. Building the financial capabilities of women and ensuring access to outside financing is among the recommendations we list in the following report.

- Recent studies suggest that women entrepreneurs are making gains in fields previously dominated by men (National Women’s Business Council 2012 Annual Report), but there is still a significant gap in fields such as information technology, manufacturing, construction, and transportation (Hackler et al., 2008; Developments in Women-owned Business, 1997–2007, 2011). These gaps are important to understand because these industries provide fertile ground for both revenue generation and employment opportunities.

The data revealed interesting facts about how women’s mindsets control our destiny more than we know and it is our responsibility to pick out chairs in the board rooms and hire the next generation.

Myth #1: WOB are less likely than their male counterparts to have rapid firm growth in the first several years. False. Dr. Alicia Robb and Susan Coleman reported to the NWBC that in fact WOB kept pace with male counterparts however women were less likely to expect high growth during the same period and conversely, were surprised when the growth exceeded their projections.

Myth #2: WLB/WOB are less likely than male counterparts to be approved for external equity. False. The same research showed WLB/WOB received only 2% versus 18% for male businesses from outside equity sources in total funding however the reason was surprising. Women are more likely to be discouraged from applying for loans due to fear of having their applications denied. I gained insight into this surprising mindset from Carol S. Dweck, PH.D. author of *Mindset The New Psychology of Success*. Studies found that grade school boys received 8x more criticism than girls thus leading researchers to conclude men have learned a higher resistance to outside opinions and less likely to take negative comments as an accurate evaluation of themselves. Dr. Dweck states frankly, even women at the pinnacle of success allow other people’s attitudes to affect them.

5) **Excerpt from** NWBC.gov <https://www.nwbc.gov/research/national-womens-business-council-releases-provocative-piece-women-led-businesses>

Important highlights from the infographic include:

- **Women have a greater economic impact than most think - 36% of employer firms are either women-owned or women-led.** 17.5% of employer businesses are 51% owned by one or more women. Yet, 18.8% of employer firms are at least 30% owned by women and have a woman in a leadership role. When those two numbers are added together, women’s economic impact is much clearer. That makes 36% of employer firms that are either women-owned or women-led. When not focusing on women’s leadership role within a company, the numbers look even better. 42.4% of businesses are at least 30% owned by women. These firms capture 26.1% or \$2.6 trillion in receipts.
- **Successful women-led businesses have a variety of trajectories and strategies for growth. There is no one right way to grow.** NWBC’s new research shows that firms with more owners make more money based on median receipts. Additionally, women and men-owned firms that have owners of the other gender perform better when looking at median receipts than firms owned just by men or women. Despite this, women do not take on partners as much as men do; 89% of firms entirely owned by women have just one owner.

6) **Excerpt from** “Women-Led Businesses Outperform

<http://www.truewealthinnovations.com/2015/08/women-led-businesses-outperform/>
This is one of my favorite subjects and the underlying impetus to start True Wealth Ventures Fund 1. While I was the executive sponsor for a Fortune 500 company’s global women’s form, I became familiar with the studies showing that large companies with more women in leadership performed significantly better financially, like 41% higher return on equity and 56% better operating results according to a ground breaking McKinsey study.Let’s take just a quick look at the implications for venture capital (VC) fund performance too. In my last blog I referenced the fact that there are only 4.2% of women in the deal making, partner level jobs in venture capital firms, and the number of women in VC seem to have a direct correlation to the amount of VC money going to women-led start-ups with women CEO receiving 3% of the total VC dollars (\$1.5B of

50.8B from 2011-2013). So, how did these risky firms investing in women led businesses fare? An SBA sponsored study that used all investments by U.S. based VC firms in U.S. based companies between 2000 through 2010 found that indeed VC firms that invest in women-led businesses performed better than all men-led businesses. No surprises there given the underlying numbers. Yet, Shark Tank's investing star Kevin O'Leary recently surprised himself when he accidentally discovered that the companies returning on his investments were all led by women and he didn't "have a single company run by a man that's outperformed the ones run by women."

7) Further Internet References supporting my testimony:

- <http://www.theatlantic.com/business/archive/2016/03/unpaid-caregivers/474894/>
- <http://www.mckinsey.com/global-themes/employment-and-growth/how-advancing-womens-equality-can-add-12-trillion-to-global-growth>
- <http://www.entrepreneur.com/article/247767>
- <http://www.illuminate.com/perspectives/>
- <https://www.pinterest.com/springboardent/springboard-column-on-inc-com/>
- <http://thegedi.org/research/womens-entrepreneurship-index/>
- <http://www.womenable.com/>
- <http://gender.stanford.edu/women-entrepreneurs-o>
- <https://criterioninstitute.org/>
- http://www.goldmansachs.com/our-thinking/pages/access-to-capital-for-women-entrepreneurs.html?cid=PS_01_19_07_00_00_01
- http://www.kauffman.org/~media/kauffman_org/research%20reports%20and%20cov ers/2014/11/sources_of_economic_hope_womens_entrepreneurship.pdf
- <http://www.babson.edu/Academics/centers/blank-center/global-research/diana/Pages/home.aspx>
- <http://10years.firstround.com/>
- <https://www.virgin.com/entrepreneur/female-entrepreneurs-are-more-successful-according-to-research>
- <http://econpapers.repec.org/article/ibgijejou/>
- http://casefoundation.org/blog/breaking-down-the-barriers-for-women-entrepreneurs/?nabe=6232213679505408:o&gclid=CiUMydTA2ssCFQ1ahgodjz8OrQ&utm_referrer=https%3A%2F%2Fwww.google.com%2F
- <http://www.forbes.com/sites/geristengel/2016/02/03/women-entrepreneurs-fuel-social-change-and-economic-growth/#12333f1070e8>
- <http://docplayer.net/2732500-Research-on-women-entrepreneurs-challenges-to-and-from-the-broader-entrepreneurship-literature.html>
- <https://hbr.org/2013/09/global-rise-of-female-entrepreneurs>
- http://siteresources.worldbank.org/EXTGENDER/Resources/Female_Entrepreneurship_database042213.pdf
- <http://thenextweb.com/insider/2015/07/21/the-next-billion-entrepreneurs-will-be-women/#gref>
- <http://news.mit.edu/2013/3q-fiona-murray-on-female-entrepreneurship-0612>
- <https://nycfuture.org/research/publications/breaking-through>
- <http://www.catalyst.org/media/talent-management-systems-unwittingly-biased-against-women-according-latest-catalyst-research>
- <http://myturnstone.com/blog/ensuring-equity-crowdfunding-lives-promise-women-entrepreneurs/>
- <http://www.gem-spain.com/wp-content/uploads/2015/03/GEM-2014-womens-report.pdf>
- Amy Millman, President, Springboard Enterprises, [202-242-6282](http://www.springboardenterprises.com/202-242-6282)

