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TESTIMONY of

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House Small Business Committee

Subcommittee on Economic Growth, Tax and Capital Access

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Chairman Tim Huelskamp and Ranking Member Judy Chu and distinguished members of the Subcommittee, thank you for inviting me to speak on behalf of the National Women’s Business Council today before the U.S. House of Representatives’ Subcommittee on Economic Growth, Tax and Capital Access for this *Bridging the Gap – Increasing Access to Venture Capital for Small Businesses* hearing.

I will begin with some brief background on myself. I co-founded teamCFO in 2000 to improve performance and support the growth of the private business community through a “hands-on” financial working relationship with their clients. As a long-time champion of financial literacy for women business owners, I have lectured on the subject to diverse audiences, including young girls who are aspiring business women. I have also been a key collaborator in the curriculum design for financial literacy. Additionally, I have spoken at several national seminar series on the subject of financial literacy for business owners. I have also served as the National Chair of the National Association for Women Business Owners (NABWO) as well as the Chair for the Los Angeles Chapter.

The National Women’s Business Council (NWBC) is a non-partisan federal advisory council created to serve as an independent source of advice and counsel to the U.S. Small Business Administration, Congress, and the White House on issues of impact and importance to women business owners, leaders, and entrepreneurs. The NWBC was established via the Women’s Business Ownership Act of 1988 (HR. 5050), a landmark piece of legislation that most notably eliminated individual state laws that required women to have a male relative cosign a business loan. The Council is committed to producing best-in-class, actionable research on the most relevant issues facing women in business and those who aspire to start and lead businesses. Compelling, rigorous research is the springboard for action and change. We act as convener, collaborator, and councilor; it is our mission to be a resource, to put forth actionable policy recommendations, and then to engage and support influencers, stakeholders, and decision makers in the implementation.

I was appointed as a Council Member of the National Women’s Business Council in June of 2013. The Council is composed of 15 dynamic women; we are small business owners, we are members of women business organizations, we are diverse in industry, stage of business, geography, race, story, and more. It’s so important that we are a representative Council, and truly represent the ever-growing and ever-diversifying population of women in business.

Women-owned firms represent an important segment of the business sector. As of 2012, women-owned businesses comprised 36% of the country’s businesses, a significant increase from 28% in 2007.<sup>1</sup> As of 2012, there were nearly 10 million women-owned businesses<sup>2</sup> in the United States.<sup>3</sup>

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<sup>1</sup> Womenable. “The Growth and Development of Women-Owned Enterprises in the United States, 2002-2012” (Commissioned by NWBC, 2016). <https://www.nwbc.gov/research/SBOTrends>.

<sup>2</sup> The term “women-owned” refers to enterprises that are at least 51% owned and operated by a woman or group of women. Businesses equally-owned by a man and a woman (or equal numbers of men and women) are not included – primarily because the way that equally-owned firms have been identified has differed in each of the past four business census years, thus precluding accurate trend analysis.

These firms generate an estimated \$1.4 trillion in sales and employ over eight million people. Between 2002 and 2012, the number of women-owned firms increased at a rate 2-1/2 times the national average (52% vs. 20%), employment in women-owned firms grew at a rate 4-1/2 times that of all firms (18% vs. just 4%), and the growth in revenues generated by women-owned firms paralleled that of all firms (up 51% compared to 48%).<sup>4</sup> As women-owned business increase in number, revenue per firm, and employment per firm, it is important to address the needs of this growing population.

### **Women's Access to Capital is a Priority**

Access to essential business assets – capital and markets – continues to be a challenge for too many women. Our work here focuses on changing the infrastructure, and increasing and improving resources, so more women can access the capital they need to start and grow their businesses, and enter new and emerging marketplaces, which will help them grow even more. Per Council research, on average, men start their businesses with nearly twice as much capital as women - \$135,000 vs. \$75,000. This disparity is slightly larger among firms with high-growth potential - \$320,000 vs. \$150,000; and it is much larger in the Top 25 firms - \$1.3 million vs \$210,000. High-growth businesses have considerable economic impact – think revenue and receipts, but they are much more likely to rely on outsider financing, both debt and equity. Among high-growth firms, differences across gender exist with regards to amount of financial capital used, as well as the source of that capital. It is in the best interest of the economy to understand any barriers to these firms' success. With lower levels of capital, regardless of growth aspiration or potential, women-owned businesses are no doubt on different trajectories. We believe that a multifaceted approach – involving all components of the entrepreneurship ecosystem – is critical to increasing women's access to capital.

### **Closing the Venture Capital Gap**

Thanks to great innovation in the capital space, with crowdfunding, peer to peer lending, microfinancing, and more, women have greater opportunities to pursue and raise the capital they need. However, women continue to lag behind men in terms of equity investment. The Diana Project research conducted in 1999 explored the reasons why fewer than 5% of all ventures receiving equity capital had women on their executive teams. It was hypothesized then that women entrepreneurs were neither prepared nor motivated to found high-potential businesses; and were thus not good candidates for venture capital investors. But this groundbreaking research found otherwise, concluding: “fundable women entrepreneurs had the requisite skills and experience to lead high-growth ventures.” The research concluded that women were consistently left out of the networks of growth capital finance and appeared to lack the contacts needed to break through. Updated research, performed by Babson College, found that of the

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<sup>3</sup> NWBC Analysis of U.S. Census Bureau 2012 Survey of Business Owners.

<sup>4</sup> Womenable. “The Growth and Development of Women-Owned Enterprises in the United States, 2002-2012” (Commissioned by NWBC, 2016). <https://www.nwbc.gov/research/SBOTrends>.

6,793 companies funded by venture capital between 2011 and 2013, only 2.7% of the companies had a woman as the CEO. More than a decade later, and the percentage has dropped!

Only one woman raises equity financing for every nine men who do. Early-stage venture capital investing represents the greatest proportion of the total venture capital investments, 49% (3,166 out of 6,512), while later-stage venture capital comprised 31% (2,042) and seed capital made up 20% (1,301). Companies with a woman executive on the team were more likely to receive later-stage funding, or 21% (421) of these investments. On the other hand, companies with a woman executive received only 13% of the total investments in the early stage and only 9% in the seed stage.<sup>5</sup>

Per Council research, women-owned businesses are receiving only 2.0% of equity funding – as opposed to 18% for men-owned businesses. When more than a third of all business is women-owned or women-led, and they receive less than three percent of the available venture capital, the flag is raised. Women stand to benefit greatly from a more balanced venture capital landscape. Women are majority owners of nearly 10 million businesses in the country. And, per the Global Entrepreneurship Monitor, 36% of women with established businesses want to grow their ventures which show that the appetite for funding outpaces the current supply.<sup>6</sup> Babson College has concluded the lack of sufficient capital funding for women entrepreneurs will cost the economy nearly six million jobs over the next five years.<sup>7</sup>

### **Women Investing in Women – An Opportunity**

One explanation for the disparity is that the number of women in the upper echelons of investment firms is down – in 1999 it was at 10%; and as of 2014 only 6% of top management and investment firms are women.<sup>8</sup> About a year ago, in a Tech Crunch article, “The Real Unicorns Are Female Angel Investors,” Kristi Zuhlke wrote “to get more women in tech today, we need women investors.” She continued to assert that “women investors are important because they signal to women *YOU* belong here.”<sup>9</sup> Venture capital firms with female partners are reportedly two and one half times more likely to invest in companies with women on the

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<sup>5</sup> Brush, Candida, Patricia Greene, Lakshmi Blachandra, and Amy Davis. “Women Entrepreneurs 2014: Bridging the Gender Gap in Venture Capital.” The Diana Project. 2014. <http://www.babson.edu/Academics/centers/blank-center/global-research/diana/Documents/diana-project-executive-summary-2014.pdf>.

<sup>6</sup> Kelley, Donna J., Candida G. Brush, Patricia G. Greene, Yana Litovsky, and Global Entrepreneurship Research Association. “Global Entrepreneurship Monitor: 2012 Women’s Report.” Global Entrepreneurship Monitor. 2013.

<sup>7</sup> Stengel, Geri. “Money’s There if Small Businesses Know Where to Look.” Forbes. 2014.

<http://www.forbes.com/sites/geristengel/2014/03/05/moneys-there-if-small-businesses-know-where-to-look/>.

<sup>8</sup> Brush, Candida, Patricia Greene, Lakshmi Blachandra, and Amy Davis. “Women Entrepreneurs 2014: Bridging the Gender Gap in Venture Capital.” The Diana Project. 2014. <http://www.babson.edu/Academics/centers/blank-center/global-research/diana/Documents/diana-project-executive-summary-2014.pdf>.

<sup>9</sup> Zulkhe, Kristi. “The Real Unicorns Are Female Angel Investors.” Techcrunch. 2015. <http://techcrunch.com/2015/08/31/the-real-unicorns-are-female-angel-investors/>.

management team (34% vs. 13%).<sup>10</sup> Based on the argument that women investors would be more likely to invest in women entrepreneurs, the declining number of women investors is a concern.

We are pleased to see that women are establishing funds for women. Examples include: Golden Seeds – a woman-focused early investment fund; Astia – a nonprofit dedicated to identifying and supporting high-growth women entrepreneurs; and Texas Women Ventures – an investment firm giving millions to women entrepreneurs in Texas. Women are establishing funds that specifically look for companies with women founders and leaders. Golden Seeds has invested over \$70 million in more than 65 women-led businesses since 2005.<sup>11</sup>

### **Spreading the Wealth – Increasing Women’s Access to Venture Capital**

The Council is committed to broadening the dialogue through engagement of the full entrepreneurship ecosystem and the exploration of innovative ways to increase investment in women-owned and women-led businesses. In 2014, the Council conducted research on Access to Capital by High-Growth Women-Owned Businesses; this research confirmed that 1) men are starting businesses with significantly more capital; 2) female ownership was negatively correlated to the proportion of capital coming from external sources; and 3) women-owned firms exceed their own expectations regarding growth. Other Council research, also conducted in 2014, on Undercapitalization as a Contributing Factor to Business Failure for Women Entrepreneurs, confirmed that all things being equal, undercapitalization negatively impacts business survival.

In September of 2015, the Council hosted a conversation on women’s access to venture capital, featuring: Jules Pieri, co-Founder and CEO of The Grommet, an entrepreneur-in-residence at Harvard Business School, and one of Fortune’s Most Powerful Women Entrepreneurs in 2013; Julia Pimsleur, CEO of Little Pim, founder of Double Digit Academy, a bootcamp training for women planning to raise venture capital or an angel round of \$500k+, and author of *Million Dollar Women: The Essential Guide for Female Entrepreneurs Who Want to Go Big*; Jeanne M. Sullivan, an advisor, speaker, investor and connector and the co-Founder of StarVest Partners, a venture capital firm in NYC; and Trish Costello, Founder and CEO of Portfolia, a collaborative equity investing platform, and recognized internationally for her pioneering work in educating and preparing venture capital investment partners, through the prestigious Kauffman Fellows Program. During this online session with over 200 participants, a panel discussed the importance of venture capital for women-owned and women-led firms, shared best practices and actionable insights on how to secure venture capital, and proposed solutions to eliminate this gender gap. Trish Costello asserted: “Five million women are accredited investors - either they make more than \$200K or have \$1 million in assets. Collectively, women own about \$10 trillion in private investable assets. So when we look at these numbers if women just began to put a very small

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<sup>10</sup> Brush, Candida, Patricia Greene, Lakshmi Blachandra, and Amy Davis. “Women Entrepreneurs 2014: Bridging the Gender Gap in Venture Capital.” The Diana Project. 2014. <http://www.babson.edu/Academics/centers/blank-center/global-research/diana/Documents/diana-project-executive-summary-2014.pdf.com>.

<sup>11</sup> “Who We Are.” Golden Seeds. 2015. <http://www.goldenseeds.com/who-we-are>.

amount of investment wealth behind the [women-led] companies they want to see, we could greatly shift what is happening in entrepreneurship world.”

In our 2015 Annual Report, which we shared with this esteemed committee, the Council proposed a few potential remedies, including:

- Eliminating the carried interest loophole for venture capital firms that do not fund female-owned or female-led firms proportionally to male-owned or male-led firms – to ensure higher levels of investment for women ventures.
- Introducing tax credits for investment in women-owned and women-led businesses – to provide incentives for investors to seek out women-owned and women-led firms that are generally undercapitalized and face a higher burden to securing.
- Increasing and/or improving the promotion of capital opportunities and sources – to broaden and diversify the outreach to the many women that do have investment-ready firms.
- Strengthening the pipeline of women into careers in finance – Specifically increasing the number of women on the financing and investment side, as angel investors, members of venture capital pitch committees, investment bankers and more – to diversify the perspectives and authority in the decision-making process.
- Providing entrepreneurial support – particularly in the form of education and mentorship – early and consistently for women – to better prepare women as they seek to start and grow their businesses.

### **Conclusion**

Dan Primack just published an article last week, titled: "Venture Capital Still Has a Big Problem With Women" in Fortune. They used PitchBook to compile a list of all U.S.-based venture capital firms that had raised at least one fund of \$100 million or more since the beginning of 2011. They found: "Among firms that had raised funds of \$200 million or more, the percentage of female decision-makers was 5.67%. For firms that had only raised funds of between \$100 million and \$199 million — a much smaller group — it was 5.97%." As the government's only independent voice for women entrepreneurs, the Council's mission is two-fold: to 1) support and conduct groundbreaking research that provides insight into women business enterprises from startup to success, and to 2) share the findings to ultimately incite constructive action and policies. The numbers confirm that the full economic participation of women and their success in business is critical to the continued economic recovery and job growth in this country, and we are committed to sustaining the potential that women entrepreneurs present. We know women have innovative ideas and that women are leaders. We know women are launching businesses that create value and solve problems. And we believe women with innovative and scalable ideas should be able to grow their businesses, increase their receipts and create more jobs; it's good for business, and good for the economy overall.

Thank you for this opportunity to testify, and I look forward to your questions.