FIELD HEARING IN PASADENA, CA: BRIDGING THE GAP - INCREASING ACCESS TO VENTURE CAPITAL FOR SMALL BUSINESSES

HEARING

BEFORE THE

SUBCOMMITTEE ON ECONOMIC GROWTH, TAX AND CAPITAL ACCESS

OF THE

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BRIDGING THE GAP - INCREASING ACCESS TO VENTURE CAPITAL FOR SMALL BUSINESSES.

TUESDAY, APRIL 5, 2016

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON ECONOMIC GROWTH,
TAX AND CAPITAL ACCESS,
Washington, DC.

The Subcommittee met, pursuant to call, 10:03 a.m., at Pasadena City Hall, 100 Garfield Avenue, Pasadena, California, Hon. Steve Knight, presiding.

Present: Representatives Knight and Chu.

Mr. KNIGHT. Good morning. This hearing will come to order.

Before we begin, I would like to sincerely thank our Ranking Member, Ms. Chu, for inviting me to be here with her today. She is an active participant in the Committee, she has been a staunch advocate for small business' concerns at every turn, and she works together with all our members in a bipartisan fashion. Again, thank you, Ms. Chu, for inviting me here to your district today.

I would also to thank each of our witnesses for taking time out of their busy schedules to be in our Subcommittee hearing this morning. I realize each of you are very busy and I appreciate your willingness to take time out of your schedules and appear before this Subcommittee to talk about increasing small companies' access to venture capital.

Small businesses are essential to America's economic competitiveness. Not only do they employ half of the Nation's private sector workforce, they also create two-thirds of new net jobs in our country. Yet in recent years, small businesses have been slower to recover from the recession and credit crisis, hitting them especially hard.

Starting a business can present challenges for all entrepreneurs, and many cite a lack of funding as a primary obstacle they face throughout their business life cycle. Unlike large enterprises that can obtain funds from commercial debt and equity markets, small businesses must often rely on their own personal assets, retained earnings, community banks, and credit unions for needed capital.

There is a clearer correlation to a small business owner's ability to hire and his or her ability to get financing. When small businesses can access adequate financing, they create jobs and spur the economy.

The financing needs of small businesses are as varied as the population itself. The life cycle of a small business can take many forms with very different implications for the types of risks and rewards that lenders and investors can expect. For new ventures that have high-risk profiles and high expected returns, the initial stages require commitments of equity capital sometimes from family and friends, and sometimes in the form of venture or private equity capital.

Data from the National Venture Capital Association has shown that venture capital funding has been on the rise for the past 5 years, but unfortunately has yet to reach pre-recession levels and continues to be difficult to obtain for small firms. Improvements are always welcome, and we can always do better.

Today we have an excellent panel of experts to discuss options to increase access to venture capital for small firms, particularly at those small companies that have had lower levels of venture funding participation. I am looking forward to listening to the discussion, and, again, I want to thank each of our witnesses for taking time to be here today.

I now yield to our ranking member, Ms. Chu, for her opening statement.

Ms. CHU. I would like to thank Congress Member Knight for coming here and chairing this meeting. It is a special privilege for me to be able to have a field hearing, and especially on such an important topic. But it would not be possible unless Congressman Knight were here to chair this meeting. So I really appreciate the fact that you have taken time out of your schedule to be here.

There is no doubt that women-owned small businesses are an undeniable force in today's economy. Over 9.8 million women-owned businesses, employing 8.4 million people, generate $1.4 trillion in annual earnings. Here in California, over 37 percent of businesses are women owned, the most of any State in the country. These female entrepreneurs employ over 1 million Californians and generate $200 billion in receipts.

Since the beginning of the recession, women have outpaced men in business creation. From 2007 to 2012, the number of women-owned businesses grew 28 percent versus just 8 percent for male-owned firms. However, many of these women-owned businesses still face one key obstacle to success: access to capital.

A Kauffman Foundation study found that 72 percent of women entrepreneurs listed access to capital as their most critical challenge to launching a new business. The Federal Reserve found that compared to men, women-owned businesses rely more on personal credit cards, their own savings, and capital provided by friends and family to finance their businesses. Moreover, traditional debt financing, like bank loans, does not work for certain businesses like startups that typically lack revenue streams and credit history, making them too high risk for traditional bank lending.

For these entrepreneurs, there are three forms of equity investment that typically target new and early stage firms: angel investing, venture capital, and regulated investment funds, like small business investment companies, or what we call SBICs. Angel investing generally refers to high net worth individuals who invest in and support startup companies in their early stages of growth.

In addition to angel networks, women-led businesses can seek venture capital. Because it is equitable in nature, VC is most attractive for new companies with limited operating history that are too small to raise capital in the public markets, and too undeveloped to secure a bank loan.

Beyond the purely private market, the Small Business Investment Company Program, SBIC, which is operated by the Small Business Administration, was created to inject government-backed capital into the market and spur additional investing. By the end of last year, the program had over $25 billion dedicated to small businesses.

Unfortunately this need for early stage startup capital, especially for women-led small businesses, is going largely unmet by the private market and SBA's existing investment programs. Babson College's Diana Project found out while women entrepreneurs have made considerable progress in obtaining venture capital since 1999, a wide gender gap exists.

They found that businesses that have all male teams are more than 4 times as likely as companies with even one woman on the team to receive funding from venture capital investors. More concerning was that companies that had a woman CEO only received a total of 3 percent of investments. This disparity exists despite the finding that businesses with a woman on the executive team are more likely to have higher valuations at both first and last stage of funding.

Furthermore, Babson researchers found that women venture capitalists are more likely to invest in women-owned businesses. Unfortunately the total number of women partners in venture capital firms has declined significantly since 1999, dropping down 6 percent from a high of 10 percent. I hope today's hearing will shed some light on the lack of women in venture capital.

On a positive note, SBICs made 280 investments in women-owned firms totaling $394.6 million over the past 5 years. More importantly, there has been a significant increase in such investments over the past 2 years. The number of investments has doubled, and dollars increased fourfold. Unfortunately, these investments in women-owned firms still only represent approximately 3 percent of the overall activity of the SBIC industry.

Today's hearing will examine the challenges faced by female entrepreneurs looking to obtain venture capital. Although woman-owned firms have made significant gains since the recession, these statistics show that they still lack comparable access to capital compared to their male-owned competitors. We will also explore ways to increase both access to investment style capital funding for women-led firms and the number of women investors.

I want to thank the chairman for traveling here today and to conduct this important hearing, and I look forward to hearing from today's witnesses. Thank you, and I yield back.

Mr. KNIGHT. Thank you very much. We've got 5 minutes for each witness. We will not cut you off, but please be mindful of the 5 minutes, and we will be as good as we can with you. But we want to hear from everyone and make sure that we get enough time for questions and answers.

I am going to have Congresswoman Chu introduce our witnesses, and we will get this hearing going.

Ms. CHU. Okay. It is my pleasure to introduce four exceptional witnesses today. Jeri Harman is a managing partner and CEO of Avante Mezzanine Partners, one of the only majority women-led and owned private equity funds in the country. She has over 30 years of financing experience, and is also the chair-elect of the Board of Governors of the Small Business Investor Alliance.

Jeri was inducted into the National Association of Women Business Owners Hall of Fame in 2013, and Mergers and Acquisitions Magazine named Jeri one of the top 25 female professionals in 2015. Jeri is testifying on behalf of SBIA. Ms. Harman, thank you so much for joining us today.

Now if you can do your testimony.

STATEMENTS OF JERI J. HARMAN, MANAGING PARTNER & CEO, AVANTE MEZZANINE PARTNERS, LOS ANGELES, CALIFORNIA, TESTIFYING ON BEHALF OF THE SMALL BUSINESS INVESTOR ALLIANCE; RENÉE LABRAN, GENERAL PARTNER, RUSTIC CANYON/FONTIS PARTNERS, AND SENIOR ADVISOR, IDEALAB, PASADENA, CALIFORNIA; LOUISE J. WANNIER, BOARD MEMBER/ADVISORY SERVICES, TRUE ROSES, INC., PASADENA, CALIFORNIA; AND LAURA YAMANAKA, PRESIDENT, TEAMCFO, INC., LOS ANGELES, CALIFORNIA, TESTIFYING ON BEHALF OF THE NATIONAL WOMEN'S BUSINESS COUNCIL

STATEMENT OF JERI J. HARMAN

Ms. HARMAN. All right. Good morning, Congressman Knight, Ranking Member Chu, and members of the Subcommittee. My name is Jeri Harman, and I am the managing partner & CEO of Avante Mezzanine Partners. As Congresswoman Chu mentioned, I'm also the chair-elect of the Board of Governors of the SBIA, Small Business Investor Alliance, and I'm here on their behalf.

SBIA is the primary voice of the lower middle market private equity industry, including small business investment companies, or small business investment companies, or SBICs. But let me start by telling you a little bit about my firm, Avante Mezzanine Partners. Avante is an SBIC firm based right here in Los Angeles, and we invest between $5 million and $25 million of debt and equity in lower middle market companies.

Avante has two SBIC funds. Our first SBIC we launched in 2009—yes, 2009—and that was $218 million. We just raised our second fund last year—yay—of $250 million. We're proud to have invested in 20 companies across the country to date and look forward to continuing those investments.

Avante is somewhat unique in the private equity industry, as was just mentioned, given the diverse leadership and ownership of our fund. 3 of the 5 investment partners at Avante are women. 4 of the 5 are women, minorities, or both. We're one of the only majority women-led and owned private equity funds in the Nation.

I also feel honored to have been recognized, as was just mentioned, as one of the top women in private equity industry by such organizations as NAWBO, Los Angeles Business Journal right here, and Mergers and Acquisition magazine. I was even on their cover, which thrilled my mother.

[Laughter.]

Let me tell you more about my views on women in private equity. According to the private equity research company, Preqin, senior women accounted for just 10.5 percent of all employees in private equity firms. We clearly need to improve diversity in the executive ranks of private equity funds. Many organizations, including SBIA, are bringing focus to this issue.

This increased attention, along with more senior women as role models, continuing changes in firms' cultures, and openness to flexible work arrangements, and increased access to capital, can make a difference. These steps can increase our pipeline and retention of talented women and minorities in private equity.

I believe that with increases of senior representation of women and minorities in private equity, there will in turn be more access to capital for diverse entrepreneurs. This is important not just because it is the right thing to do. It has been shown that diversity generates better results, better returns to shareholders as well as supporting job growth.

While there have been a number of studies that have been done over time and all consistent in their results, my written testimony mentions two recent studies that discuss gender diversity and corporate returns. For example, one study done recently by McKinsey & Company found that companies in the top quartile for gender diversity are 15 percent more likely to outperform their respective national industry medians.

Now, with my remaining time I would like to talk a little bit more about the SBIC program. The SBIC program has facilitated record amounts of private equity into SBICs, and, in turn, into the small business economy. From 2012 to 2015, SBICs have deployed $18.4 billion to over 4,400 companies nationwide. These recent SBIC financings created or retained over 385,000 jobs.

We've worked with this Committee and the SBA on many past initiatives, and we appreciate the Committee's work to improve SBIC operations. Thank you in particular for your work last year to pass the SBIC Family of Funds Limit into law. We're very grateful.

As more thoroughly detailed in my written testimony, though, we have a few more new recommendations and appreciate your consideration. The first initiative would expand access to capital for SBICs, and if we have more capital we can put more capital into these needy small businesses. Banks are a major source of capital for SBICs, and many of these banks would like to increase their amount of investment in SBICs. Many are precluded from doing so, however, by the SBIC Act, even though otherwise permitted by their banking regulators. The SBIA is working on a legislative solution, and we ask you to consider supporting this initiative.

We would also ask the Committee to consider technology updates at the SBA. The SBIC industry is interested in virtual data rooms which can be paid for by the private sector. This can help us better communicate and send reports to the SBA providing an efficiency not only to the SBA, but also to SBICs.

Finally we have several suggestions, as further detailed in my written testimony, related to timely SBA data releases, which are helpful for both the industry and Congress and further needed improvements in SBIC licensing and operations.

I am grateful to be a part of the SBIC program. I'm excited by the impact that it has had on capital access for small and middle market businesses, including women and minority entrepreneurs. The SBIA looks forward to working with this Committee.

Thank you again for inviting me to testify, and I look forward to questions.

[Applause.]

Ms. CHU. Now I would like to introduce Renée LaBran, who is general partner at Rustic Canyon/Fontis Partners, a growth stage investment fund based in my district.

Renee has over 25 years of experience in corporate and small company settings, and is in a range of industries that include internet, digital media, and technology, and consumer products. She is a senior advisor at Idealab, a local incubator based in downtown Pasadena, where she advises entrepreneurs on how to achieve their objectives.

Renee was appointed by Governor Jerry Brown to the Board of Trustees for the California State Bar in 2015.

Welcome, Ms. LaBran.

[Applause.]

STATEMENT OF RENEE LABRAN

Ms. LABRAN. Good morning, Chairman Knight and Ranking Member Chu. My name is Renée LaBran. I've worked in venture capital since 2000 when I helped start a venture capital fund called Rustic Canyon Partners, which was funded by the controlling shareholders of the company that I worked for at the time. In 2006, I helped Rustic Canyon spin out another fund called Rustic Canyon/Fontis Partners, which focused on underserved markets. That fund is now in its final stage, and we're harvesting those investments.

In addition to winding up the portfolio of Rustic Canyon/Fontis, I currently serve as an advisor to Idealab, a tech incubator that just celebrated its 20th anniversary. I also co-founded a startup competition for female entrepreneurs that's now entering its 4th year. I'm personally a small angel investor in several women-founded companies. All that said, I have a pretty good firsthand look at the challenges faced by women entrepreneurs as well as women in venture capital.

When I started in venture, there were a handful of women. Industry social events typically involved golf and cigars. I can only think of a few women who came to pitch companies to us. I'm pleased to say that things have gotten a little better, and I'm amazed at the number of women-focused events that have sprung up in the last few years.

But the statistics are still quite dismal. I'm sure many of you have read the Diana Project report that Congresswoman Chu also mentioned. It's tracked the women in venture capital and both sides of the table since 1999. For those of you haven't read it, here's a few key statistics. In 2011 to 2013, 15 percent of companies that received venture capital had a woman on the executive team, up from 5 percent in 1999. Great news, but still very small. Not as small as the percentage of companies that receive venture capital with women CEO, which was the 2.7 percent that was mentioned earlier.

Further, companies that had a woman on the executive team also tended to be at a later stage compared to the overall profile of companies receiving venture capital, leaving one to wonder where these companies found their capital in the first place. These are just the problems on the entrepreneur side.

On the venture side, the problem is even more severe. The number of women partners in venture capital fell from 10 percent to 6 percent between 1999 and 2013. This is particularly problematic because VC firms with women partner are 2 times as likely to invest in a company with a woman on the executive team, and three times as likely to invest in a company with a woman CEO. The reasons for this should be obvious, but just in case they're not, let me elaborate.

Entrepreneurs find venture capitals through their own networks; thus, venture capitalists invest in entrepreneurs who tend to run in their own circles and are much more like themselves. The proverbial old boy network prevails. When women do come to pitch, they find themselves facing a table of male partners who are more comfortable themselves meeting with other men who look like they look. There's plenty of other evidence in the press today about how women are often judged in ways that men are not.

It's even more difficult for women entrepreneurs to find seed investment since the vast majority of seed investors are men, and successful angels tend to invest in entrepreneurs they already know. When women do break into the VC side, they also face challenges. Many firms who have a woman partner have just one or maybe two, which is often an uncomfortable position to be in.

The shortfall on the VC side is the flip side of the entrepreneur coin. Men who have access to capital to start a fund often start them with close colleagues out of their own network. Successful entrepreneurs who have large exits often join VC funds, but there are fewer women at the top of firms to become successful or companies to become successful in the first place and achieve such exits. So breaking in is very difficult for women.

Some women have chosen to start their own funds, but often struggle to raise capital since most funds have to be raised from individuals, and, once again, the network effect comes into play. What I'm describing here is a vicious circle rather than a virtuous cycle.

The Diana Report urges VC firms to take corrective actions. However, despite the evidence that this might improve returns, I don't think we're likely to see those changes soon. If we're truly an economy that relies on innovation and entrepreneurship as our growth engine, we need to find ways to include the half of the population that's missing out. By the way, we're talking about women here, but male entrepreneurs of color face these same barriers.

Over the years there have been various programs for emerging managers that provided access to capital for first-time funds formed by women and minorities. However, these programs seem to be cyclical and have diminished rather than increased. Government is also in a position to provide incentives to potential limited partners to provide capital either directly or through funds that are more likely to deploy capital to those who currently lack access. Without incentives or nudges, I believe it will take far too long for these problems to self-correct, if ever.

These are just some of the issues facing both women entrepreneurs seeking venture capital funding and women seeking a career in the industry. There's so much more I could tell you, and I'm happy to answer any questions you may have today.

I appreciate the opportunity to testify. Thank you.

[Applause.]

Ms. CHU. Well, thank you so much, Ms. LaBran.

And now, I would like to introduce a constituent of mine, Louise Wannier. Louise is a serial entrepreneur that has chaired boards of directors and, as CEO, built companies in four different industries, including education technology, consumer electronics, information management software, and fashion e-commerce.

Among her many endeavors, in 2006, Ms. Wannier founded MyShape, the first online personal shopping platform. MyShape grew to over 800,000 members and partnered with over 200 fashion brands. It was financed with $27 million from venture capital firms.

Ms. Wannier, thank you for being here today.

STATEMENT OF LOUISE J. WANNIER

Ms. WANNIER. Thank you very much. Chairman Knight, and Ranking Member Chu, and members of the Subcommittee, and the public who's here today, thank you very much for the opportunity.

Thank you for the opportunity to share my thoughts with the House Small Business Committee today. I also would like to thank Andy Wilson, our local Pasadena City councilman, and Amy Millman, who's president of Springboard Enterprises, who works and has devoted her career to helping women to receive venture financing.

I've long pondered why it is so easy for my male CEO colleagues to, from my perspective, have a much easier time raising sufficient capital for their ventures. I've often felt that, and I suppose maybe every entrepreneur feels this way, but I had a disproportionately difficult time raising capital for the business plans I presented. I had to have more meetings with more venture firms, and in the past I have failed twice to raise sufficient capital for two ventures. Coincidentally, they were following the difficult economic downturns in 2000 and 2008.

I'm summarizing part of my testimony because it's slightly longer than the time allotted, but you can read the full details in the printed testimony. Each of those two companies have products that were already well received in the market. In MyShape's case, the 800,000 members already. In the prior case, they had thousands of different companies using the product.

Of course there are many, many reasons why ventures are unable to raise capital, and it would take deeper study. But the facts are that at the same time that I was unable to raise follow-on capital for those two companies, even after meeting with many different firms, ventures that, in my opinion, were comparable or less comparable, less deserving of capital, raised many millions of dollars of capital in the same timeframe. I'm sure this was not simply due to the difference between men and women. I'm sure it was also due to other differences. But I do feel it was a factor.

So this request to testify today gave me a fresh opportunity to reflect on this question: why do women have a harder time raising venture capital? Is it simply the network effect as we've just heard, or, if not, why not?

For my undergraduate studies, I went to Cal Tech here in Pasadena. I graduated in 1978 with a degree in astronomy, following that, an MBA at UCLA in 1980. For the first 6 years I worked in management consulting in the Los Angeles office of Ernst doing strategic M&A studies, doing financial feasibility studies, and working with corporations across diverse industries.

Following those years, I temporarily relocated to Sweden, and what was interesting is that I accidentally became an entrepreneur because the men there gave a young woman from America, who was only 30 at the time, an opportunity to build and finance my building a new company working in a very interesting area. From that experience, I returned with my family to the United States, and fortunately became one of the six principle founders of Gemstar Development Corporation, and I personally was instrumental in developing and executing the go to market strategy that resulted in VCR Plus becomimg one of the most successful consumer electronic products worldwide.

Congressman Chu, thank you. You've already summarized what I've done in my career. But I think that background and from my early background and training in the scientific method, I made a hypothesis. I reflected on what has happened and came to this conclusion. The data, as we've already heard, tells us that a higher proportion of women-founded businesses succeed than do those started by men. Yet women are underrepresented significantly in the proportion of venture capital financing. Only under 3 percent of women CEOs represent the VC funding.

That's not just the proportion of venture capital financings in number, but also in total dollars invested over the lifetime of a venture. A higher proportion of women-founded businesses succeed. They have tenacity. They persevere by bootstrapping using personal financing, friends and family, credit card debt, all other nonprofessional venture capital methods. Therefore, unfortunately, they result in lower growth companies, which in turn are less attractive to the larger venture capitalists 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.

Number three, there's a venture capital seed and A-round gap between what can be raised through friends and families and what can be raised through professional venture capitalists. The trend affects both male and female entrepreneurs. The venture capitalists have been amassing larger and larger funds which has correspondingly resulted in a proportionately significant increase in the average amount that they need to invest, and that raised per series in any one venture round.

I think it's partly or simply because any one venture partner cannot sensibly, fiscally, responsibly manage simultaneously more than a certain number of investments. They have to put a larger portion of assets to work at any time. This pushes the professional VCs towards higher and higher risk, and this criteria does not tend to be the type of venture that women entrepreneurs more often gravitate towards.

There is a venture capital gap for first-time entrepreneurs, because of the network effect. Entrepreneurs who do not have a prior successful exit as a track record—in my case I did with Gemstar—have an almost impossible time raising venture capital. Most venture capitalists and most venture capital is invested in entrepreneurs who already have had successful exits.

I have some other remarks, which are stated here. I do see, however, one bit of positive news here. Women are natural collaborators and naturally social. Women have taken advantage of the recent trend in social media, and there is a recent article in Forbes and other places which has pointed to the fact that social media has now become a strong enabler of facilitating women's ability to raise funds. We're starting to see potentially some shifts in this trend.

This is a brief summary. I recommend a further study be made. I thank you very much for the opportunity to be of service.

[Applause.]

Ms. CHU. Thank you, Ms. Wannier. Thank you for your testimony.

Now I would like to introduce Laura Yamanaka, president of teamCFO, Inc. Since its inception, teamCFO has received several regional and national awards, including the Asian Business Leadership Award by Wells Fargo, and the U.S. Asian Pacific Chamber of Commerce, and the Women in Business and Accountant Advocate Award by the SBA.

Laura has also been featured in news and radio sources on the subject of small business and finance, including the Los Angeles Business Journal and the Los Angeles Times. Laura is currently chair of NAWBO, the National Association of Women Business Owners, where she has also served as treasurer and is past president of the organization. She is here today on behalf of the National Women's Business Council.

Ms. Yamanaka, we are so happy to have you here today.

STATEMENT OF LAURA YAMANAKA

Ms. YAMANAKA. Thank you very much. Thank you very much, Congressman Knight, and Ranking Member Judy Chu, and distinguished members of the Subcommittee, for inviting me to speak on behalf of the National Women's Business Council.

I'm going to give you a brief background on myself. I think it's wonderful that you've established this panel of witnesses because I think you're getting a broad cross-section. In my business, we outsource CFOs, so we actually work with the businesses who are hopefully attempting to get funding and move through the next levels of funding. So it's been very interesting for me to see actually half of my testimony here, which you will see. I'm not going to read through it because everybody has covered it quite admirably. Since

I'm a numbers person, I have a lot more numbers behind it, so in case you need it, look at it here.

I am speaking on behalf of the National Women's Business Council, and it is a non-partisan Federal advisory council created to serve as an independent source of advice to the United States Small Business Administration, Congress, and the White House on issues of impact and importance to women business owners, leaders, and entrepreneurs.

Interestingly enough, it was created by the Women's Business Ownership Act of 1988, which for the first time allowed a woman to have a business loan without a male co-signer. 1988 isn't that long ago frankly, and so, we don't even think about it right now. But when you look and hear of all the stats that are presented, we have made a lot of progress on the positive side with a long way to go.

Let me see. I'm going to pass through this.

Women's access to capital is a priority for all the reasons that we've indicated. I think what was interesting per Council research, we found out that men start their businesses with nearly twice the amount of capital as women, $135,000 versus $75,000. This disparity is slightly larger among firms with high growth potential, $320 to $150, and it's huge among the top 25 firms, $1.3 million versus $210,000.

At the lower levels we're behind, but not so behind, and as we get larger and larger, the gap becomes larger or greater. We get about 40 percent of the funding that men do at the highest level or at the lowest level, and men get 400 percent at the highest level. If the idea is that as a small business you grow, and multiply, and develop your businesses, but when you are a larger company you can do it at a much higher rate, we are immediately behind the eight-ball. Much more relying on the credit cards that, thank goodness, the other legislation put forward.

Thanks to great innovation in the capital space with crowdfunding, peer-to-peer lending, micro financing, and more, women have a greater opportunity to pursue and raise capital that they need. I think everybody has cited the Diana Research Project, I think it's landmark research. It also says to me we need more research in this area. If this is the citing source for all of us, it's good, don't get me wrong. But there should be more. There should be better research, right? This can't be really one of the singular studies in place, which is why it's so important to fund organizations or entities like the National Women's Business Council.

It was very interesting in that study. I think we didn't really specifically speak about it. But there was a question about whether women entrepreneurs were not being funded at that rate because they really didn't have the experience that they needed to get there, and this was a study that was done in 1999. What's really interesting is you would think because of the pipeline effect, and as there's been more interest, more access, more availability, government resources, private resources, you would think that percentage would go up. But as my fellow witnesses have indicated, actually that percentage has been dropping. Stats are in here.

One of the bright spots is that actually women-owned businesses or just women in general, own and control a huge amount of assets in the world and particularly in the United States. One of the proposals that we could put forward is a little bit of a focus on the fact that if we could direct, encourage, communicate, let people know, let women know the disparity in investing, if we could get some of the personal investments into this broader area, we could possibly even out or increase the funding of women in this area.

Let me skip ahead to our recommendations. 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, and this research confirmed that men are starting businesses with significantly more capital. We already know that. Female ownership was negatively correlated to the proportion of capital coming in from external sources. That's also been cited. That woman-owned businesses exceed their own expectations regarding growth. That's huge.

Basically what that's saying is two businesses, male, female, the guy is going to shoot for the moon, and the woman is going to go, hey, if I just get to the coast, I'm fine. She's not setting her expectation out there, which means she's blowing past those expectations, and which is huge when you're going up for external funding, right?

We would like to suggest several remedies to this situation that we think that we could put forward. We would like to propose eliminating the carried interest loophole for venture capital firms. I'm not sure how we feel about this over here, but that is one area that we could explore so that funds who do not fund female-owned or female-led firms proportionately to male-owned or male-led firms, we could possibly use that as an inducement. We could introduce tax credits for investment income in women-owned and women-led businesses to provide incentive for investors to seek out woman-owned and women-led firms who are generally under capitalized

We can increasingly improve the promotion of capital opportunities and sources to broaden and diversify the outreach for many women. We can strengthen the pipeline of women in careers in finance by specifically increasing the numbers on the financing and the investment side. That has been particularly of concern to us because that pipeline has gone down, even though you see more and more women going into the financing field. So that's of interest to us.

We would really like to see providing entrepreneurial support, particularly in the form of education and membership, early and consistently so those positions of possibly not shooting for the moon and just shooting for the coast, we can—we can stop that. If you don't go for it, you're never going to get there, right?

In conclusion, as the government's only independent voice for women entrepreneurs, the Council's mission is twofold: to support and conduct groundbreaking research and provide insight into women-owned business enterprises from startup to success, and 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. We are committed to sustaining the potential that women entrepreneurs represent.

We know women have ideas. We know that they're leaders. We know that they're launching businesses at great lengths. We just have to give the opportunity for these women to scale at the comparable levels and remove those barriers to their opportunity. Thank you very much.

[Applause.]

Mr. KNIGHT. Thank you very much to our panel. I think we have got some good questions, and some exceptional information.

I would like to start off quickly with an opening question, and all four of you can answer this. My wife is in, well, up to maybe 20 years ago, a hundred percent women business or women industry. It was nursing, and over the last 15 or so years we have seen men go into nursing.

We sat down one night and we talked about another business that was maybe a hundred percent men, and in my district it is aerospace engineering. We figured that about 20 years ago it was probably pretty close to 100 percent men. Today there are an awful lot of ladies that are in aerospace engineering, and I think part of that is because of some of the programs that have started out.

This is where my question is going to come from. Because of that phenomenon in aerospace engineering, they started off with a VEX program with robotics, with Legos, with all of these different programs that got kids involved in STEM, but also got our young girls to be involved in engineering. We've seen some of the robotics programs go from a hundred percent boys to now about 50/50 in most of the programs that we see across this State.

That is kind of a grassroots, maybe an out of the box thinking of how to get young ladies involved in something that they probably weren't involved in or they weren't thinking of. I have two boys, young girls are very adept at math, and we want to push them into this arena if they have that aptitude.

So there is my question. I understand that we do not have as many women CEOs as we would like to have. Do we have as many women going into certain industries, and I will pick the finance industry, as we need so that we can cultivate some of these young ladies, so that in 20 years or 25 years they are CEOs of businesses and they are taking over?

Ms. HARMAN. That is a very broad question.

Mr. KNIGHT. That is what I am all about.

Ms. HARMAN. It is a very important question, of course. I think we can learn a lot from what has already been successful, which is STEM is a great example. I mean, there has been a concerted effort to make sure that young women and girls continue to excel at math and sciences and so forth, and encourage them to pursue careers there.

But, as you have noted and I mentioned in my testimony, we have not seen a lot of progress in the private equity finance industry, and that has been continual. I mentioned the 10.5 percent of senior women in private equity overall. You can subdivide that in venture capital buyouts, et cetera. It is the same, you know, and it has been flat and declining in general.

I think there is no single answer on that. I think part of it, just like with STEM, is to reach into the educational system and make sure that women understand that there are great opportunities and power in going into financial careers, in particular private equity, but they have to see role models. They have to see women succeed, and that is why I mentioned, the more there are people like Renee, myself, and many others around us, organizations like PE WIN, Private Equity Women Investor Network, which I am on the steering committee, which is senior women in private equity, over 200 members throughout the U.S., and it is going global.

Creating these networking ecosystems shows that there are women who can and do have success in private equity, and there is a career path. But it also takes an ecosystem where we are, showing diversity in all firms, which is a firm culture issue. There are a lot of women opting out who are not even in the pipeline because they do not see this as a viable career path either because there is lack of role models or because they view that the lifestyle, typically going to investment banking first and then you go into private equity from there, well, that is a lifestyle that involves a lot of travel, et cetera. That is not always attractive to women, especially as they come in and they decide not to stay in and go up the ranks, so it is really a combination of things.

The final point on that, and we all mentioned it, is access to capital. If there is more obvious accessibility, to women, both entrepreneurs as well as fund managers like myself, where there are capital pockets that we know are available to us that are outside of the old network, and in the new network, and that includes public pension funds have been putting emerging manager programs together, some of which focus on women and minority managers or investors.

We have capital from some of those pockets, but there are not many of those pockets, and that has not been growing. That would be helpful to grow as well.

I assume you heard me.

[Laughter.]

Ms. CHU. We heard you loud and clear. It was a wonderful answer.

Ms. LABRAN. Thank you. To add onto Jeri's comments, I think having more women going into STEM and some of the more scientific areas I think can benefit on the entrepreneurial side, that you have more women who are going to work for some of the tech companies and becoming entrepreneurs.

However, a couple of other observations. One of the things that has been interesting to me about women entrepreneurs now, because of the ability it is much easier to start a company today. There are platform technologies that enable companies to get started from much less capital, and do not require as much technical expertise. You are seeing a lot of women at tech conferences starting businesses that are not necessarily software and deep technology, but are e-commerce, fashion, but are considered tech because of the platforms they operate on. So I do think those things will happen.

I am not quite sure on the finance side, though, to be honest. I do not believe that the problem is that there are not enough women going into finance. I think if you look at accounting, accounting has worked very hard at getting women into their companies because they have a shortage of accountants. I think on the aerospace side, they knew they were growing. They needed more engineers. They had incentive which was if I cannot fill the jobs, I cannot grow, to hire more women and to increase their talent pool.

I know the accounting firms are very focused on this right now because they cannot keep enough people, so they have to figure out how to get more people in the door and keep them. I do not think that is a problem in venture capital and private equity. There are way more people who want to get into that business than there are jobs.

I get bombarded with women coming out of business school, and men, who want to get jobs in venture capital, but there are very few jobs. There are just not that many firms, and the people who get the jobs are people who have a connection, and you just get in this cycle. So if there was a shortage, then absolutely.

I think this is a very efficient market. If there is a shortage, people will do what they are incented to do. If there are financial incentives, they will follow the money. But right now there are plenty of people applying for those jobs, plenty of access to very smart young people, and there are a few firms. I have some colleagues in venture capital here who are finally realizing that there are a whole bunch of companies out there being started by women, and that maybe if they had women in their own ranks that they would have broader access to a wider range of talent. But it requires an awakening on their part, which takes some time.

So I think it can't never hurt. Everything helps. But, you know, that seems to me to be the bigger barrier.

Mr. KNIGHT. Thank you very much. I am going to have Ms. Chu ask questions.

[Laughter.]

Ms. WANNIER. Are we done with that question? I thought you said everyone would answer.

Ms. CHU. I am sorry. I am sorry.

[Laughter.]

Ms. WANNIER. I would like to——

Mr. KNIGHT. I forgot because the microphone went over there. I am sorry. Yes, ma'am.

Ms. WANNIER. No, no. Absolutely no problem, Chairman Knight. I probably feel quite differently to everyone else here. As a woman CEO for the last 30 years and as a woman entrepreneur, I have a slightly different perspective. I believe that the issue of women-run companies is the same as women-run businesses. It is a factor that there is not the society and cultural ability for women to have balance in their lives. For women in general, balance is more important often than men. Men have for many, many years been willing to sacrifice their families and other aspects of their lives.

Now, what I observe, I have four grown children. I managed to have them at the same time, and I see it to be different in that generation. My kids in their relationships, the men are starting to take some of the balance. They are participating. My son-in-law is going to be on paternity leave as well as my daughter taking her leave when their child is born shortly. They seem to have a different attitude on diversity. They do not seem to see the differences as much as I think my generation sees the differences.

The number of lawyers graduating who often become venture capital partners, you have to look at what makes a venture capital partner. They either tend to be attorneys or they tend to be successful business people. How do you get to be a venture capitalist? You do not get there from being a startup. I mean, yes, you could go from business school to becoming an associate at a venture capital firm, which is really a research position. But you cannot really go from there to becoming a lead partner without either putting in many, many years or going out and making a success of yourself some other way. At least I have not seen that.

There is another factor. I really think that we need to move to a world where we are not distinguishing bias based on men or women, but we are actually putting in place some specific criteria on which investments should be made, and we are putting in place some independent panel review. I think venture capitalists would benefit from this, even though they might not like the idea.

I think the venture capitalists would do better to adopt a system similar to what scientists use for peer review. I think that investments should be peer reviewed. I think that there are systems that could be put in place that would mean that our capital is more wisely deployed.

Mr. KNIGHT. I agree.

Ms. WANNIER. Okay.

Mr. KNIGHT. I firmly agree that if I was putting out capital and it was my life savings to go into business with a friend, that I would have everything that you are saying in mind, that you better successful. You are taking everything that I have, and you better be successful.

I think sometimes in venture capital, you have got a lot of people that have an awful lot of hold on money, and they can do a hundred issues as opposed to my life savings and one issue.

Ms. WANNIER. Right.

Mr. KNIGHT. I can take a lot of risks with friends because I have a relationship with them. And so, if I lose out on this and I lose out on this, well, hopefully, a couple of them will come through. I think that that is a problem.

I firmly believe that if you are going to be involved in venture capital, it should be all about the risk reward factor. How much do they bring to the table, and what is the reward that might come from this? I do not care who owns it, and I do not care who started the business. What can I get out of this? But I agree that there is a lot of relationships, and a lot of good old boy thinking, and a lot of, well, yeah, absolutely, I can help you out because we have known each other for so long.

That should not be the way it is. The way it is, is that I am going to be involved in this business, and I want this business to be successful. So what is your strategic plan? What are you going to do? Where are we going to be in 2 years? Where are we going to be in 5 years, and so on, and so forth? That should be it in my thinking.

But it is not today, and that is part of what this panel is about is how do we get past some of those barriers, and how do we get to the best for the business owner, the best for the community, and the best for success because success brings opportunities. The opportunities are going to be more jobs, and more help for our economy, and all of those things. That is what we should be working toward.

Yes, ma'am.

Ms. YAMANAKA. So with that, I think that nobody at this table, these tables, would disagree with that fact that you need to be a solid business with a solid plan, with, you know, a niche market. You got to have all your marbles in order, absolutely.

I think that the issue is that in this world where we live in right now, you are absolutely right. Am I going to invest my money with somebody I do not know off the street or one of my friends, you know, that I know I have done business with before? I know how hard they work. I know what kind of lifestyle they have, what kind of judgment they have. I do not care if you are a man, or a woman, or whatever, you are going to make that decision based on all the quantitative factors and the soft part of it.

One of the pieces of research the National Women's Business Council has indicated, and I think some of my fellow witnesses here have indicated, that your contacts are important. Part of that start is getting people started in the beginning, women, minorities, whomever, starting in the process of coming together, having the same types of experiences so they can progress on that journey together.

I think what we are finding out, and it has only been recent, that there are other obstacles along the way. So trickle up is not exactly trickling, right in my field, finance CPA firms. If you look at accounting classes, accounting majors, more than 50 percent of people coming in are women. In CPA firms, a lot of times your entry class is more than 50 percent. However, we have been close enough to come to the cycle of partnership, and you see that women fall out at a much higher rate than men, perhaps, Louise, some of the reasons why you have indicated, perhaps other reasons.

I think somebody had indicated it is not one facet. It is multiple. It is a complex problem. We need to have complex solutions that encourage people to start in the beginning, encourage that equal. It does not matter if you are male, female, whatever, you go for it and have those same common experiences.

On the other hand, along the way, I think it is important to assist that leverage, okay, so that it evens it a little bit, not because it is, you know, the right thing to do or whatever, and it is the right thing to do, but because it is good business, as we have indicated. That diversity is so important. If we can get that faster through certain types of encouragement in the short run, we all benefit to that. I think it is just coming out to the exact specifics, you know, which is why we are all here.

But, again, if we look at our eye on the ball and getting that diversity and always here, it is going to mean more money for everybody, more jobs for everybody.

Mr. KNIGHT. Thank you very much. Now, I will go to Ms. Chu. I agree. This panel is hitting it right on the head, though. I have invested with three friends. I have made three tax write-offs.

[Laughter.]

So, you know, instead of using my head, I used my heart, and I think that a lot of venture capital goes to I have got a relationship here. And, yes, he did something good, he did something bad, but I have got a relationship with that person, so I am going to invest with that person, instead of looking into the numbers and saying this is a sound investment. So thank you.

Ms. CHU. Thank you so much, and I am eager to ask questions to all of you. I am going to ask the first half of my questions, and then we will do a second round of questions.

First, I would like to ask Jeri Harman specific questions related to SBIC. The reason I want to focus in on this with you since you are an expert in this is that the SBIC program, the Small Business Investment Company programs, are a direct result of the SBA's attempt to have more investment going; thus, we, since the House Small Business Committee has oversight over the SBA, we could have some say-so in terms of what the future direction of SBIC is.

What we see is that there are still too few SBIC investments in women-led firms and even fewer SBICs with women partners. While SBIC programs have a higher proportion of female managers than the broader VC community, more must be done to increase the numbers in both realms.

So, Ms. Harman, in your opinion, what role does the SBA have in improving the SBIC program to better serve women? Is there a way to work within the SBIC program to ensure that more women are qualified to become fund managers when the opportunities become available?

Ms. HARMAN. Yeah, I mean, clearly there is a lot more work to be done. There are not that many senior female women in the SBIC program, but I think it is changing. I think there is more of a focus. People are shining the light both at the SBA as well as the SBIA to educate people about the benefits of the SBIC program.

But it still becomes an issue. In order for women to raise a fund like I did, you still have to get the private capital, the private equity capital. That is the foundation for the firm, and then we can use the SBA leverage for the rest of the capital. That is how, as you know, the SBICs are done.

So we still have to have access to the capital to start our funds that is outside what the SBA provides. And that is where these emerging manager programs, whether they are coming from public pension funds, endowments, foundations, family offices, individual investors, et cetera, all of them are providers of that capital. But there has to be that network that we have all talked about, whether that network is women or a broader network, that provides the access to those types of LPs, limited partners, that support the total fundraising environment.

We are trying in SBIA to create more of those opportunities. There have been women's networking events at each of our regional and national events, women investors as well as women LPs. So both the GPs and the LPs, which is that the key ecosystem. If we can put those people together, then that creates access to capital, start the funds and then, of course, the SBA and the SBIC program provides the leverage to increase the access to capital.

I think the more the SBA focuses on supporting the SBIC program honestly it has been very successful in getting money to small businesses. Whether that is women- and minority-owned businesses, or LMI urban, you know, located business, veteran-owned businesses, et cetera. We have done women-owned businesses, we have done LMI, located companies, et cetera.

We all have to deliver results to our shareholders, so we have to find the best opportunities out there. But still, it all starts back to access to capital. Again, the networking and the shining the light on this.

I am chair-elect of the SBIA. The vice chair is another woman. We have two women prior to this as senior people on the SBIA executive committee. We are starting to represent, but there is more work to be done.

Ms. CHU. In 2014, the SBIC program experienced an uptick in investment in women-led firms. The number of deals doubled, and the dollars invested grew nearly fivefold. What are the reasons for this positive trend, and what can Congress do to help continue this trend?

Ms. HARMAN. It is hard to say the reasons. I think there has been an increasing pipeline—I think Renee talked about it and some of my fellow panelists here—on the increasing pipeline of qualified entrepreneurs so there is more opportunities to invest in many of these women diverse managed firms. There has been more exposure through studies that have shown that investing in diversely managed companies generates better results, which is, just better business.

As I said, the increased attention that has happened at the SBA and the SBIA, if you will, has been helpful, but I do want to caution. I do not think what I would call subsidies or, in other words, lowering any standards for qualifying for capital, whether it is SBICs qualifying for capital, a company is qualifying for capital, is the answer. There are plenty of very talented women and minorities who are running businesses who are in the private equity field.

When we raised our funds, we did not ask people to look at anything except our track record, our strategy, the experience of our team that we could benchmark against anybody, but we needed the open doors to be able to tell that story. That is the access. That is having those emerging manager programs, you know, encouraging. I think the government can do more to encourage public funds to go into the LP side of things outside of the SBIC program, provide more capital as a limited partner to qualify emerging managers.

Ms. CHU. There were strategic plan initiatives, like the SBA's Impact Investing Fund and Early Stage Initiative. The SBA tried to spur additional investment in underserved markets through this initiative. The goal was laudable, but the program was not particularly popular with the investor community.

Ms. HARMAN. Right.

Ms. CHU. How could we change these programs to make them more attractive to investors like yourself and better serve the intended beneficiaries?

Ms. HARMAN. First, we have to recognize that all SBICs are doing impact investing. We have invested in women-owned companies. We have invested in LMI urban located, however you define "impact." So to me, the solution really is to support the general SBIC program and continuing to provide education and money to support that program.

It is hard because venture capital and leverage do not go hand-in-hand. One of the big benefits of the SBIC program is the low-cost leverage that it provides at the fund level for us to in turn make these investments. But you do not really want to have a lot of leverage if you are doing venture investing, which is a little bit earlier stage investing, because your mistakes are magnified.

If you have a couple of poor performers early in the fund, you are done because the leverage magnifies those problems. I think it can be potentially a mismatch between levered SBIC program type capital and true venture impact, you know, funds. That has been part of the program, and venture investors know that. They do not want to increase their leverage and increase that risk profile, so they do not see the other benefits then of partnering, if you will, with the government because that has been the major advantage.

Ms. CHU. Ms. LaBran, although women control over half of all the wealth in this country, the Diana Project found that the number of women in venture capital actually decreased from 10 percent to just 6 percent as you pointed out. Are women leaving the venture capital industry, or does this statistic mask other factors that are in play?

Ms. LABRAN. I do not think women are leaving. I actually tried in the report to find the actual numbers as opposed to just the percentages, and I could not find it because I do see more women now at the junior levels of venture capital firms, again, very small numbers.

I speculate that what may have happened is that when we had the shake out in the market that the number of firms being formed, and I think you referred to the smaller amount of dollars being invested in venture, the number of firms contracted. Therefore, maybe the newer firms, which I would also speculate that probably more of the women were in newer, younger firms, those firms just did not get re-funded, so they just moved on to something else.

I think, maybe, it was attrition of the venture capital firms that they were associated with, and you did not have many women coming in at the partner level because it does take a long time. Maybe they were junior at some other firms, and those firms, again, did not raise as much capital. Unfortunately, firms only hire generally when they raise a new fund. So people call you all the time and say, hey, I am looking for a job, and, it is great, we will be hiring in 5 years when we raise the next fund or 3 years.

So it is very difficult just to increase the numbers because of the length of time unless you have new funds being formed.

Ms. CHU. Well, I have more questions, but let us do another round.

Mr. KNIGHT. I will go back to my broad question. We are in the age of the baby boomers. The baby boomers are retiring and/or preparing to retire. The 1946 to 1964 folks are in that period where a lot of them moving on and a lot of them going into social security, and Medicare, and things like that that we have to deal with I am sure in the next 10 or 12 years.

Because of that, are we seeing possibly an opportunity because we are going from a very large workforce where an awful lot of men have maybe dominated in some of these areas or these arenas, and now giving a lot more opportunities for young ladies that are graduating from our great universities to get into some of these positions and work their way up, or are we not seeing that at all?

Ms. WANNIER. Again, that is a good, broad question. Yes, as I said in my prior remarks, I believe that the generations of my children who are in their late 20s and early 30s, that I am seeing a very significant difference in their workplace to the workplace that I worked in. I was 1 of 10 women in my class at Cal Tech. I was 1 in 5, I think, at UCLA for business school. In the work world I was often working with mostly male colleagues, but that has shifted dramatically. Now Cal Tech has over a third women. That is a change of a factor of 3.

But what is required, and we have not yet spoken about, are mentoring programs. We need to get more women of experience who may not have chosen to go the path of CEO, but who have nevertheless significant corporate experience into corporate boards. We need to get diversity in our board room, which then in turn some of those board members will also become venture partners, because venture partners are grown from within as well as come from the outside.

We need to establish, similar to STEM, kind of a long-term mentoring program I believe. There are several very good organizations, and just at this moment I am not remembering the name of the one. I can get it to you afterwards. There are several very good organizations that are trying to work on long-term mentoring of young women going through the corporate ranks and going through venture ranks as well. I know that each of you do a certain amount of mentoring as well. I know there are many opportunities for that. But, as Laura said, it is a very, very diverse problem, and it is going to attack from many directions.

I do want to add one little point that I mentioned in my last remarks about a system. I had one example of implementing such a system, and actually, Renee, you were on that committee. We had an approach here in Pasadena, an organization called EntreTech, and we started something sponsored by PricewaterhouseCoopers at the time.

We started an entrepreneur award, but we based our award on a very systematic approach. We opened up the applications to all kinds of companies at different levels of early-stage ventures, and we said that there were two criteria. We were going to evaluate them on both the potential size of the market that they had to potentially realize, as well as the specific activities and results that they had achieved, which demonstrated that they were likely to achieve the investment results. We had a diverse committee involved in making that decision. On the committee we had CEOs, we had venture partners, and, again, thank you, Renee, for your service. We had members of the advisory professional services firms.

That diversity of thinking also brought good results. I believe one of the prior members of that committee came to see me recently and had coffee with me and said, Louise, do you realize that every single one, I do not even think there was an exception, he said, of the people we gave the award to had a successful exit.

Ms. YAMANAKA. So you talked about the baby boomers exiting out, and I think one of the really interesting stats for women in general coming out of maybe a corporate workforce or having successfully raised their children is they are more likely to start businesses at an older age. I think that this is an opportunity point that we are going to see people are keeping themselves in better shape, we are living longer, we have more opportunities. The internet provides a lot more access to across the world and globally. I think we are going to see a significant increase in the number of people transitioning out into "early retirement" into becoming business owners for both men and women.

Regarding the question about that pipeline and getting people in, hey, you know, capitalism works. Supply and demand works. If there is a need and somebody sees you can make money at it, even if perhaps they are not so inclined or their network does not allow for it, they are going to go after whatever they need to fulfill that product or that service. They are going to get who they need to fulfill that product and service.

So I think it just takes perhaps a little bit longer as it is going up, filtering up. But over the long run, it makes economic sense.

Mr. KNIGHT. I am going to keep the microphone with you and ask you one quick question. We have seen new mechanisms on the internet—crowdfunding, peer-to-peer, things of this nature—that might not bring in mammoth amounts of money, but can bring in pretty substantial amounts of money. Are they helping? Are they giving a new opportunity?

Ms. YAMANAKA. The jury is still out because it is a very short period of time for data. But preliminary results have indicated that, yes, it is working. In fact, I have a site here that I will get you specifically. It says there an increased level of 21 percent of funding for woman-owned businesses as opposed to male-owned businesses.

I think when you look at how it started out through social enterprise, Kickstarter and all those crowdfunding opportunities, that women, one of our things is we are more collaborative, you know. We have the relationships. Perhaps we have not focused it in a traditional business.

Crowdfunding gives the opportunity in a small and greater scenario to provide access of funds that maybe they would not have in their local community, so I think it is huge. I think it is going to kick off a lot of business at the smaller levels, which is a good thing. Do not get me wrong. I love it. It is going to open up opportunities to people who would not have it otherwise.

I think we also have to realize that we need to focus some attention on the larger numbers because that is where the real money is. As far as I am concerned, it is great for starting off small and——

Mr. KNIGHT. Right.

Ms. YAMANAKA.—we are doing a great job. To have the parity of the impact in the financial return and reward on the economy, we really need to look at the spectrum of investment, which is what we are addressing here.

Mr. KNIGHT. Thank you very much. Ms. Chu?

Ms. CHU. Yes. Ms. Wannier, you said that there was a gap in funding for seed and A-round financing since professional VC firms have grown in size and do not have the capacity to handle many small investments. Do you think the private market will eventually fill that gap, or do we need the government to provide an incentive to invest in such firms?

Ms. WANNIER. Well, I do not have all of the data necessary to completely determine that. But what I believe and what I observe in the marketplace is that it might be possible to raise $500,000 or a million. Most VCs or many, many VCs of the large funds are investing $3 to $5 million less often than they are investing $10 million, $15 million in a Series A round.

To support an investment of $10 to $15 million without giving away all of your equity and you have no room then for the follow-on rounds, you have to be supporting valuations and sizes of markets, which are very significant, which means that the businesses that will consistently grow to the $20 to $50 million as opposed to the $100 to $500 million level are getting ignored and passed over. And there is a definite gap supporting that middle range of business.

I believe that, as we said, women are, for various reasons, more drawn to that area than to the much larger ones statistically, and so that gap needs supporting. I am not quite sure what the best solution is. I have a feeling my colleagues to the left will have a better idea.

Ms. LABRAN. A lot of these things tend to be quite cyclical. There are time periods where a lot of the firms want to invest earlier, and then they all shift later, and it just depends on what the market dynamics are at the time. There was a time period where funds were investing early, and then the valuations, because of changes in the economy, were not jumping up in the next rounds. So everybody said, why would I want to invest in an earlier stage. I might as well wait, have less risk, and invest later.

Actually right now I think you do have this very bifurcated pattern that Louise is referring to, although I would make a slight distinction. What has happened is that seed investing, which used to be, maybe, a couple of hundred thousand people, are doing seed and super seed, and they just changed the names around.

So you have these super seed rounds that are, you know, a million or $2 million that are being done under a different structure than what used to be called a Series A. This is problematic because there are a number of funds that do seed investment. Again, those tend very much to be entrepreneurs who have had successful exits. They have taken their own private money, personal money, and that of maybe some colleagues, and formed these small funds. So they can only afford to do very small investments.

Then you have the big institutionals that are doing the $10 million kinds of rounds or even larger, the $50 million, $60 million into the snapshots of the world. But a lot of these angels, many of whom, by the way, are leveraging the crowdfunding platforms that Congressman Knight was referring to, they are men. There are just very few women on those platforms. And I will say——

Ms. HARMAN. Smarter.

[Laughter.]

Ms. LABRAN. Well, that is the thing. I mean, we can joke about that, but in the last few weeks or months, I am constantly invited to these events that are targeted at getting women to invest more in these very early stages. I have a little bit of mixed feelings about them because I do think that it is important to have more involved in this ecosystem. Many of these women do have the means, but I think we also have to make sure that we do not have people who really cannot afford to take that kind of risk making these investments.

So crowdfunding does help because it allows more people to make small investments because many of these people should not be making, you know, $50,000, $100,000 bets that the angel networks have typically required, but they can do $5 or $10. That is hard for a company to handle, but if there was a crowdfunding platform that allows that to be aggregated, that actually is helpful.

So of course the jury will be out, but I do see at least it is raising the interest in people investing, and that may just help more women and other first-time entrepreneurs get that little bit of seed capital that they need other than their credit cards and other things that are self-limiting.

Ms. CHU. Well, talking about angel investors, Ms. Yamanaka, we have seen an increase. Historically females were 15 percent of the angel investors in the United States, but for 2014 it did increase to 20 percent. So that is a significant increase. In your opinion, what is driving that increase?

Ms. YAMANAKA. Finally that trickle up is working. We are more successful in accumulating wealth and are able to invest back in the educational piece, the give-back piece that makes good economic sense, ultimately all of those reasons. It is a good investment. Somebody is willing to say, hey, I am going to take my money. I am going to put it here. I think I am going to get a better return than if I stuck it in the bank. No offense to the banks right now.

That said, women are great at leveraging, so they are looking at, one, an economic return, but they are also looking at if their money will make a difference. This is purely speculative on my part that all things being equal, if I have an investment, both investments are the same, going to have the same return, same risk. But if I feel that I can make a difference with this investment by helping out a new entrepreneur or investing a business that is going to have more of a social impact or whatever those things, I am going to probably put my money into the second piece, all things being equal.

I think that is really important. I cannot stress that enough because many times people go, oh, you know, they are going to just waste their money or put their money into something that really does not make as much economic sense, but, you know, they are going to change the world or it is a good moral thing to do. We are going to do that on top of the fact that all things being equal, it is a good economic investment.

Women are not foolish. We make wise economic decisions. If you look at our commercial or our personal and consumer buying patterns, we do make a lot of those common everyday decisions, and I think that holds all the way through.

Ms. WANNIER. Can I add——

Ms. CHU. Absolutely.

Ms. WANNIER. It just also occurs to me that one of the things I have encountered in my career is that many women do not take the time to fully understand and appreciate and understand financial projections and financial statements. Now, women who go into banking or into accounting of course do. But I believe that we could also strengthen our education systems to add that earlier in the cycle of our education so that both men and women get exposed to these concepts from a practical sense earlier in life.

Ms. YAMANAKA. But men do not either, right? I mean, I have to put it in there.

[Laughter.]

Ms. WANNIER. No, I mean——

Ms. YAMANAKA. I have clients that are men that are equally ignorant on projections. I do not want to look, hang a label.

Ms. LABRAN. If I may just reinforce what Laura talked about, I mentioned I co-founded a startup competition for women entrepreneurs. Going into our 4th year last year, we received over 100 applicants. What has been interesting is the number of women who have come to participate in the event just to see the pitch competition. We are also getting men. But some of those women have become interested in investing back to these small amounts.

But she is absolutely right. These women, it is not like, oh, is that the coolest thing I have ever seen. No, it is something they want to feel good about, and they have to be able to relate to it. One of the businesses that was one of our winners, and a number of us invested in, was founded by a woman, let us say, a more mature woman, as opposed to some of the much younger millennial kinds of founders. A more mature woman.

She started a company that has been largely targeted at the LGBT community, and it is a fabulous business. She has done a great job raising a million dollars from women who just really love her story. By the way, in 1 year she did over a million dollars' worth of sales in her first year of business. She would have done more had she had more capital to buy inventory.

But, to your question about the profile changing as a result of boomers retiring, I think it is, again, all those things and to the extent that women are exposed. They do think very differently than male angels, I deal with both groups, and it is a very different discussion.

Ms. HARMAN. But I think that still relates back to your question about various demographics. It is not just women investing differently, which I completely agree with, and some of the importance of understanding that. It is actually millennials or next gen, or whatever the various demographic categories that are basically people younger than me.

[Laughter.]

Far younger than me. As an employer, as an investor, understanding the difference of some of these younger entrepreneurs or people I might hire is very important because they do not think the same way that we think in general.

As we are trying to hire, this is the pipeline thing we talked about is as you are trying to increase the pipeline, understanding as I am hiring people, trying to bring women and minorities into private equity, but in general younger people, understanding that they care about lifestyle. They care about flexible work arrangements, men and women, perhaps women more. They care about what they are doing having some meaning. So we have to recognize that we have to offer all those things in a way that is compatible with, you know, their goals and aspirations, and that creates the pipeline and the retention in what we are doing.

The other point I want to make is many companies do not qualify. We keep talking about venture capital and getting more venture capital to these startup businesses or smaller businesses. Many of them are classic economy boring businesses. They do not scale to be a billion dollars. Most of them are not dot.com successes, you know. There is a company that makes, is a distributor of medical devices, or a company that makes an aerospace component.

Those are the kind of businesses we finance and many others, for example, in the SBIC program. They are the kind of business that bootstrap by bringing in personal capital, by going to banks just for asset-based financing. They get to the point where they are cash flow positive. Then they can start to come to people who lend them money or invest equity based on a proven business that now helps them scale to the next stage. But they are not going to scale and be that exciting crowdfunding type of business.

Most of the businesses out there, small businesses, are those boring—I love boring—businesses——

[Laughter.]

Ms. HARMAN.—you know, that we fund and are really necessary to continue to fund.

Ms. WANNIER. I have a question. When I looked at SBIC funding for myself—I have a lifestyle business, which is a fashion design business, it is not a venture interesting business—funding was only available if you put your house on the line. That is not true anymore?

Ms. HARMAN. No.

Ms. WANNIER. That is an SBIC. These do not involve that, so it is possible to have a venture type risk.

Ms. LABRAN. Totally different.

Ms. WANNIER. Okay. That is interesting. Thank you.

Ms. CHU. Good to know.

Ms. YAMANAKA. Actually what you saw here was an opportunity for improvement, so it does not get any better than this table. I think the SBA has done an excellent job of improving the complexity of regulations and communicating their services and how they do it. But, as with anything complex, and as with a government organization, and with the budget limitations, there are things that could be done better, or we could do to improve the outreach and understanding out there.

We are in an age of commercials, 15 seconds, get it through. And so, a lot of times people, and I am not just saying women—just men, millennials, everybody—do not take the time to go through the layers of the internet to try to figure out certain things. We do have a lot of great services and products out there that could help. We just need to get the consumer connected to the source in a better way.

Ms. CHU. I have one final question for the whole panel, and that is if there was one thing you would like my colleagues back in Washington, D.C. to understand about women entrepreneurs and investors, and also one thing for us to do, what would that be?

Ms. YAMANAKA. Just one?

[Laughter.]

Ms. CHU. Well, if you have two, that is fine.

[Laughter.]

Ms. LABRAN. I would start by saying that, again, that what makes the US economy different from most others, although other countries are trying to emulate us, is that we are based on entrepreneurship, and growth, and opportunity. If we are missing out on half the party, we are not going to realize the success that we could. So it is really important that people start to appreciate the opportunity that the missing half provides.

I personally believe that all these educational and encouragement type things are great. They are important. But, when I read like the Diana Project report, the recommendations are to make venture capitalists understand that it is a good thing to invest in women. You can tell people things until they are blue in the face, and we know that people do not always do what should logically be in their best interests, right? But, again, they do tend to follow the money.

I believe that if there were economic incentives in place to encourage more investment going into underserved markets that the money would follow quite quickly.

Ms. HARMAN. I absolutely agree, as usual, with what Renee said. You said two things: one, the message to go back. To me, the message to go back, which I think resonates with many, but maybe not all, is diversity creates better outcomes. If you believe that, the rest of it can kind of follow from there.

What is the one thing that you can do? Something maybe a little more specific would be to look at allocating public pension funds, government employees pension funds, to set aside more money for qualified, not subsidized, qualified emerging managers. So put it in the hands of good investors who have proven themselves, but who are going to be those smaller, diverse, emerging managers who are going to get that money out to qualified entrepreneurs.

Ms. LABRAN. That would be an example of a kind of economic incentive.

Ms. HARMAN. That is right. I was going down one level specific as far as economic incentive, but the returns would be there. This is not an economic incentive that says, well, we are going to take the government pension funds, employees should accept less return. I would argue they will get more return as we have proved.

Ms. YAMANAKA. I agree with everything that is being said on the left side of the table. I am sure that comes as no surprise. I think on the precepts that there is opportunity. We can frame this positively or negatively, and I prefer to look at it positively, like all my fellow witnesses here. There is a terrific opportunity.

50 percent of the population is not performing at the level that it could. Not even one for one. Even a 50 percent increase would change how the U.S. economy, our position in the world, and the lifestyle and how people live here. That is grounded in Laura's plan.

How do you do that? I totally agree you cannot make people do things. You can encourage them financially, and, again, we are looking at the economics of it. If it makes good economic sense, all things being equal, people will do it. One of the tactical ways that we could do it, as I had mentioned earlier, is introducing tax credits potentially, I would put on a phased-out basis.

Anybody's intention, I think anything should always be up there for a period of time and then reevaluation where you have to re-up, and also the carried interest loophole for venture capital firms. Those are two tactical approaches that could create the incentives on a short-run basis. I think anything that we do has to have a sunset provision so that it has the opportunity to make sure that the context has changed or not changed. If it has not changed, let us say, then we have to go back and look and see what we are doing and what we could do differently, at least in the short run.

VOICE. We do not understand what she means by the carried interest loophole.

VOICE. Well, we know what it is. I am not clear how that is taking away——

Ms. YAMANAKA. No, no, no, not taking it away.

VOICE. Right?

Ms. YAMANAKA. Well, we could talk about that later.

VOICE. Okay.

Ms. WANNIER. I agree with everything that has been said so far. My comments relate to reaching out to the women and the diversity who will be the entrepreneurs or will be the venture capitalists. I believe that we need much more publicity, so I would like to see the government spend a little bit of the SBIC funding or the acronym funding to put together a database that is nationally accessible of all projects that have been funded, all companies that have been funded, so that we as women can understand and learn from others' examples.

We can understand the results that others have achieved on different implementations, put together a network of everything that works in this business, make it accessible so that someone who does not have a network can easily tap in and get access to that network.

Ms. CHU. Thank you so much. I would like to submit for the record a wonderful op-ed that was done by Jeri Harman, our panelist here. It was published in the L.A. Daily News this week highlighting the importance of funding women and minority firms. It certainly underscored the importance of this hearing today.

Mr. KNIGHT. Without objection.

[The information follows:]

Mr. KNIGHT. Okay. I would like to thank everyone as this hearing comes to a close. I would like to thank our stellar panel. I think that you have seen in the last hour and 40 minutes or so some of the minds of America coming together and working to make it better. And so, I thank you for coming here.

Access to a robust capital market is critical for the health and wellbeing of our small business community, which in turn is critical for our Nation's economy. Venture capital and does play an important role that traditional debt financing simply does not fill. Making it easier for small firms, particularly those that have had greater difficulty in accessing venture capital, and we have seen that with many woman-owned businesses, ought to be a priority. I look forward to working with the ranking member and all of my colleagues back in Washington on this important issue.

And before I yield to Ms. Chu for her last word, I wanted to again thank you for allowing me to come to your beautiful city, your beautiful city hall. This is one of the great landmarks in California. I firmly believe that, and always coming here, it makes people's jaw drop. And it is beautiful not just to be in southern California, but to see such architecture as here.

So I found today's discussion enlightening and look forward to sharing our discussion with our colleagues. And, Ms. Chu, for your closing? Thank you.

Ms. CHU. Well, I would just like to thank all the panelists for coming today. If there is anybody that doubts women's intelligence and entrepreneurial knowledge, they would really have to come here and listen to you. You had so many insights, and you gave me much room for thought, and a thought about what we could do back in Washington, D.C. to improve the situation of women entrepreneurs.

So I thank you so much for sharing your experience with us as well as your whole incredible body of knowledge.

Mr. KNIGHT. Thank you, and I ask unanimous consent that members have 5 legislative days to submit statements and supporting materials for the record.

And without objection, we are adjourned.

[Whereupon, at 11:44 a.m., the Subcommittee was adjourned.]

APPENDIX

SBIA
SMALL BUSINESS
INVESTOR ALLIANCE

Field Hearing on "Bridging the Gap – Increasing Access to Venture Capital for Small Businesses"
U.S. House Small Business Committee
Subcommittee on Economic Growth, Tax & Capital Access
April 5, 2016

Testimony by Jeri Harman, Managing Partner and CEO, Avante Mezzanine Partners
On behalf of the Small Business Investor Alliance
www.SBIA.org

Good morning Congressman Knight, Ranking Member Chu, and Members of the House Small Business Subcommittee on Economic Growth, Tax & Capital Access.

Thank you for holding this hearing today to examine ways to increase access to capital for small businesses. My name is Jeri Harman, and I am the Managing Partner & CEO of Avante Mezzanine Partners, an investment firm and Small Business Investment Company (SBIC) based in Los Angeles. I am also the Chair-Elect of the Board of Governors of the Small Business Investor Alliance (SBIA).

I am here on behalf of SBIA, the premier organization of lower middle market private equity funds, debt funds, and investors. SBIA members provide vital capital to growing small and medium sized businesses nationwide, resulting in job creation and economic growth. SBIA is also the primary voice of the SBIC industry. While many SBIA members traditionally do not provide venture capital, i.e. equity capital for start-ups or early stage companies, our members are significant sources of capital for small and growing companies and fill a critical gap that exists in the lower middle market.

About Avante Mezzanine Partners

Avante Mezzanine Partners provides debt and equity for high quality, lower middle market businesses that generate at least $3 million in cash flow. Avante invests between $5 million and $25 million of capital in the form of unitranche or one-stop debt as well as traditional subordinated debt and minority equity Avante works with private equity and independent sponsors in buyout transactions, as well as with entrepreneurs and owners to finance recapitalizations, refinancings, acquisitions and growth.

Avante is somewhat unique in our industry, given the diverse leadership and ownership of our fund. Three out of our five investment partners are women, making it one of the only majority women-led and owned private equity funds in the nation. And four out of five are women and minorities o9r both.

Prior to founding Avante, I started-up and led Los Angeles offices for two multi-billion publically traded private equity and mezzanine investment funds—American Capital and more recently Allied Capital, where I was also a member of Allied's Investment Committee. Earlier career highlights include various senior level positions with Prudential Capital.

As the next Chair of the Board of Governors of the Small Business Investor Alliance, I will be leading an annual gathering of limited partners and general partners, including SBICs, at the National Summit for Middle Market Funds later this year. SBIA provides a platform for senior executives in the industry to agree on best practices—these best practices are good for small businesses and good for investors. In addition to my role as Chair-Elect at SBIA, I serve as a Steering Committee Member of the Private Equity Women Investor Network (PEWIN) and as the Co-Chair of the Association for Corporate Growth (ACG)—Los Angeles Business Conference.

I feel honored to have been recognized as one of the top women in the private equity industry. In 2013, the National Association of Women Business Owners (NAWBO) Los Angeles inducted me into the Hall of Fame. In 2015, I was named one of the Most Influential Private Equity Investors in Los Angeles by the Los Angeles Business Journal. In January of this year I was on the cover of Mergers & Acquisitions magazine and named one of the Most Influential Women in Mid-Market M&A.

According to March 2016 data compiled by Preqin, senior female women accounted for 10.5 percent of all employees in private equity firms across North America. These statistics indicate that we have a significant amount of work to do to improve diversity in the executive ranks at private equity funds. With incre4asing attention to this issue, more senior women as role models, continuing changes in firms' cultures and openness to flexible work arrangements, I am hopeful we can increase our pipeline and retention of talented women in private equity.

As Chair-Elect of SBIA, it is a goal of mine to increase diversity at regional events, provide new opportunities for women to network with one another, and include new content aimed at women in private equity. For example, as part of SBIA's regional and national events, SBIA has organized the Women Investors Networking Luncheon, an exclusive networking event for senior-level women fund managers, limited partners and investment bankers. Our first Women Investors Networking Luncheon was in May 2014, and we have hosted the luncheon at every subsequent regional and national event. These opportunities provide a platform for women to discuss how to make private equity more diverse and how to find and invest in companies that are led by women and minority entrepreneurs.

As private equity becomes more diverse this should result in better returns to shareholders as well as support job growth. Two recent reports support that gender diversity has a positive impact on performance at corporations. A study by McKinsey & Company [1] found that companies in the top quartile for gender diversity are 15 percent more likely to outperform their respective national industry medians. The study also found that companies in the bottom quartile for gender and ethnic diversity are less likely to achieve above average financial returns. A study by MSCI indicates that companies with strong female leadership generated a return on equity of 10.1% per year versus 7.4% for those without strong female leadership.[2]

SBICs Provide a Critical Source of Capital for Small Businesses

The SBIC program was created by the Small Business Investment Act of 1958 to "improve and stimulate the national economy...by establishing a program to stimulate and supplement the flow of private equity capital and long-term loan funds which

[1] http://www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters

[2] Women on Boards: Global Trends in Gender Diversity, MSCI. https://www.msci.com/www/blog-posts/women-on-boards-global-trends/0263383649

small-business concerns need for the sound financing of their business operations and for their growth, expansion, and modernization, and which are not available in adequate supply." [3]

Avante Mezzanine was licensed for our second SBIC in 2015. This fund was $250 million in assets under management and we started investing in companies with this fund in late 2015. Our first SBIC consisted of $218 million in assets under management and we are proud to have invested in 20 companies across the country.

SBICs allow small businesses to access patient capital—capital that cannot be called back at a moment's notice. This capital is available for helping businesses survive and thrive in the face of the unexpected bumps in the road. The importance of SBIC capital was abundantly clear in the financial crisis and the recession that followed. While most financial institutions were cutting off capital to small businesses and recalling loans, SBICs were throttling up and filling the capital void. Demand for capital from SBICs has grown dramatically since the financial crisis and continues to grow. This growth is not driven by government directive, but by the market needs of small businesses and the opportunities being recognized by private investors.

It is important to note that the SBIC program has facilitated record amounts of private capital into SBICs and, in turn, into the small business economy. For example, according to the SBIC Program Overview [4] provided by the SBA, from 2012 to 2015 SBICs have deployed $18.4 billion to 4,457 companies nationwide. The SBA data also indicates that during the time period between 2012 and 2015, SBIC financings created or retained 385,274 jobs. As of December 31, 2015, there was a total of $25.9 billion in assets under management, a record amount for the SBIC Program. Currently, there are 300 SBICs across the country, in all corners of the country, from Portland, Maine, to Portland, Oregon, and Miami, Florida to Los Angeles, California.[5]

SBIA Supports Enhancements to the SBIC Program

The SBIA appreciates the constant stream of communication between Small Business Administration leadership and staff and the Board Members and staff of the SBIA. This open dialogue has helped the SBA and SBIC industry work together to find common ground on many improvements to the SBIC Program.

We also appreciate the work of the Committee over the past several years to improve SBIC operations and increase leverage available to SBICs. While the SBIC program has grown steadily, there are additional actions that SBA and the Committee can take to strengthen the program, and expand the pool of SBIC investors. These actions will increase the number of SBIC funds, increase the attractiveness of the program to existing SBIC investors, and in-

[3] Public Law 85-699, as amended

[4] SBIC Program Overview, https://c.ymcdn.com/sites/sbia.site-ym.com/resource/resmgr/Docs/SBICProgramOverview_-_Q12016.pdf

[5] https://www.sba.gov/sbic/financing-your-small-business/directory-sbic-licensees

crease the amount of capital that can be deployed to American small businesses.

The SBIC Act Should Be Adjusted to Encourage More Bank Investment in SBICs

The SBIC program is in a unique position to attract investment from banking institutions. Since prior to the repeal of the Glass-Steagall Act in 1999, SBICs have been encouraged as a strong investment for banks, allowing them to expand their lending activities beyond what the bank itself could engage in. Bank investments in SBICs are actively encouraged by bank regulators through the Community Reinvestment Act (CRA). Bank investments in SBICs receive CRA credit due to the public welfare benefit that they provide, including lending to small businesses, particularly minority, women and veteran-owned businesses, but also to economically disadvantaged and rural areas that generally see little capital investment. Since the passage of Dodd-Frank, and the institution of the Volcker Rule framework, SBICs have once again become very attractive vehicles for banks. Small businesses seeking capital from SBICs have greatly benefitted from this interest, as more SBIC funds will form and more capital can be deployed out of the program as new banks decide to invest in SBICs.

Unfortunately, many banks and savings institutions that have an interest in increasing the amount of their investments in SBICs, are unable to invest more than 5% of the capital and surplus of the institution due to a provision in the Small Business Investment Act of 1958 (SBIC Act).[6] However, depending on the type of charter of the banking institution, some banks are permitted to invest up to 15% of their capital and surplus in SBICs[7], with bank regulator approval. A number of SBIA's bank members are currently at the cap and wish to invest more than 5% of their capital and surplus in SBICs, and are not permitted to do so. An adjustment to the SBIC Act, which has been discussed with members of the Committee, could remove this barrier, and ensure SBICs can continue to grow the amount of investment from banking institutions. I encourage the Committe4e to study this issue closely and adopt legislation that would raise the percentage that banks are permitted to invest under the SBIC Act, to match that permitted by their respective banking regulators.

Technological Updates and Modernization of SBA Processes Will Increase the Attractiveness of the SBIC Program

For many years, the SBA has provided important and helpful data to the industry, Congress and the public about the SBIC program through their "SBIC Program Overview." The SBIC Program Overview, up until October 2015, was provided monthly. The infor-

[6] Capital Requirements, Small Business Investment Act of 1958, Section 302(b).

[7] Banks holding a National Bank Charter, and regulated by the Office of the Comptroller of the Currency ("OCC") can make aggregate "public welfare investments" that do not exceed 15 percent of the bank's capital and surplus. SBICs qualify as public welfare investments. If making such an investment over 5 percent, OCC written approval must be received. *See* 12 CFR 24.4.

mation provided in this report[8] includes, among other things: (1) information on the number of SBICs; (2) SBIC capital at risk; (3) the number of applicants going through the licensing process; (4) how long license applications are taking to clear the SBA's process; (5) information about how many companies received financing; (6) the number of jobs that were created and retained with that financing; (7) and the number of businesses located in LMI or women, minority and veteran owned that received financing from SBICs. The timeliness and frequency6 of this information is critical to ensure the SBIC program is running smoothly, particularly the licensing process. Investors or limited partners (LPs) in the program also rely on this data to get a sense of how long the licensing process is taking for funds in formation they are investing in. In addition, the data was a meaningful economic indicator on the small business sector, as well as an indicator of SBA's performance and activities. The SBIC Program Overview has only been released once since October 2015 (the end of FY 2015), while being released monthly beforehand.

In addition to the "SBIC Program Overview", SBA previously provided information about the names of companies that were financed by SBICs, at the state level, as well as the total amount of capital SBICs had invested in all fifty states. This data was extremely helpful to make sure the program was making an impact across the entire country, and to share with members of the Congress and the public about the companies in their region that were actively benefitting from the program. The SBA has not released this data to the public since 2013, while doing so for many years beforehand. We encourage the Committee to ensure the SBA resumes providing all of this necessary information on a monthly and timely basis that is not only critical for oversight of the program, but also critical for Congress, the public, and the industry to review.

SBIA also believes that SBA should embark on an initiative to utilize "virtual data rooms" provided by a private sector provider, and paid for by the SBIC. Updates should be made to technology to help share files, reports, contracts, and other information that is communicated between Small Business Investment Companies and the SBA. Virtual data rooms would make it easier to find these documents because they would be searchable and housed in one digital location. Virtual data rooms would also streamline the collection of data by SBA staff, removing redundant processes at the SBA and saving time and resources. SBA should allow for the use of existing off-the-shelf virtual data rooms to provide a communication vehicle for SBICs and the SBA in a single, secure location for all regulatory documents, submissions, requests, and communications. This approach will reduce costs for the SBA, as well as provide for storage of information in an easily-accessible format for the life of the SBIC.

In addition to the restoration of data provision by the SBA and suggested use of virtual data rooms, SBIA has a number of suggestions that can improve the licensing process for SBICs, in which

[8] Attached as Appendix A.

the time from application until licensure has significantly crept up in the past few years, rising from 5.6 months in FY 2011 to 8.4 months at the end of FY 2015. In contrast, several years ago, the SBA set a goal to approve licenses in six months. SBA has taken some positive steps to improve the licensing structure, including folding together the teams that handle licensing and the management assessment questionnaire (MAQ) process, but more could be done to streamline the application process. This includes a number of recommendations of the House Appropriations Subcommittee on Financial Services & General Government, which requested the following in House Report 114-194, reported out of the full Committee on July 9, 2015:

> SBIC Program Licensing.—The Committee believes the SBA Investment Division should consider reorganizing the Small Business Investment Company (SBIC) licensing process and personnel to more efficiently use the resources allocated. In particular, SBA should: combine the licensing and Management Assessment Questionnaire (MAQ) staff; reduce the number of licensing committees and steps for all applicants; and create a meaningful fast track process for repeat licensees that takes no longer than six weeks, which will allow SBA to focus their resources on first funds and ensure that there is a written record of the decision made by the Investment Division for applicants and any court that might review such licensing decisions.[9]

Making the changes suggested by the Appropriations Committee would be extremely helpful in eliminating the slowdown in license application approvals at the SBA, particularly by the elimination of duplicative licensing committees and implementing a fast track process for second-time funds which have an established track record at the SBA. This meaningful fast track process for repeat licensees should not be longer than 45 days after an application is submitted to the SBA, which will allow SBA to focus their resources on first funds. There are a number of other suggestions which SBIA has communicated to SBA staff in the hopes of further streamlining processes, better utilizing staff resources and providing more transparency and consistency to the licensing process.

Conclusion

I am grateful to be part of the SBIC program and excited by the impact it has on capital access for small and middle market businesses. The SBIA looks forward to working with the Committee to continue to explore ways to increase access to the SBIC program for women and minority fund managers and expand the number of businesses that are receiving investments from SBICs. Thank you again for inviting me to testify, and I look forward to answering any questions that you have.

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[9] H. Rept. 114-194, *Financial Services & Genera Government Appropriations Bill, 2016,* (July 9, 2015).

TESTIMONY OF RENÉE LaBRAN

General Partner, Rustic Canyon / Fontis Partners

Senior Advisor, Idealab

U.S. House of Representatives Committee on Small Business
Subcommittee on Economic Growth, Tax and Capital Access

"Bridging the Gap—Increasing Access to Venture Capital for Small Businesses

April 5, 2016

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Good morning Chairman Knight and Ranking Member Chu. My name is Renée LaBran and I have worked in venture capital since 2000 when I was invited to help start a venture capital fund called Rustic Canyon Partners, funded by the controlling shareholders of the company where I was working at the time. In 2006, I helped Rustic Canyon spin out another fund called RC/Fontis Partners, which focused on underserved markets. That fund is now in its final stage, and we are harvesting those investments.

In addition to winding up the portfolio of RC/Fontis, I currently serve as an advisor to Idealab, a tech incubator that just celebrated its 20th anniversary. I also co-founded a start-up competition for female entrepreneurs now entering its fourth year. I am personally a small angel investor in several women-founded companies. All that said, I have a pretty good first hand look at the challenges faced by women entrepreneurs and women in venture capital.

When I started in venture, there were a handful of women. Industry social events typically involved golf and cigar smoking. I can only think of a few women who came to pitch companies to us. I am pleased to say that things have got a little better. I am amazed at the number of women focused events that have sprung up in the last few years. However, the statistics are still dismal.

I am sure many of you have read the Diana Project report that has tracked women in venture capital on both sides of the table since 1999. For the benefit of those who have not read it, here are a few key statistics from the report:

- In 2011 - 13, 15% of companies that received venture in capital had a woman on the executive team, up from 5% in 1999. That is great news, but still a small percentage overall.
- And speaking of a small percentage, only 2.7% of the companies that received VC had a woman CEO.
- Companies that had a woman on the exec team also tended to be later stage compared to the overall profile of companies receiving VC, leaving one to wonder how these companies found their seed capital.

These are just the problems of the entrepreneur side. On the venture side, the problem is even more severe. The number of women partners in VC fell from 10% to 6% between 1999 and 2013.

The number of women partners is particularly problematic since VC firms with a woman partner are 2x as likely to invest in a company with a woman on the exec team and 3x more likely to invest in a company with a woman CEO. The reasons for this should be obvious, but just in case, let me elaborate. Entrepreneurs find venture capital firms through their networks. Thus, VCs invest in entrepreneurs who tend to run in their own circles and are must more like themselves. The proverbial old-boy network prevails. When women do come to pitch, they find themselves facing a table of male partners, who are more comfortable meeting with other men who look like they do. There is plenty of other evidence in the press today about how woman are often judged in ways that men are not.

It is even more difficult for women entrepreneurs to find seed investment, since the vast majority of seed investors are men, and successful angels tend to invest in entrepreneurs they know.

Women who do break into the VC side also face challenges. Many firms who do have a woman partner have just one or maybe two, which is often an uncomfortable position. The shortfall of the VC side is the flip side of the entrepreneur coin. Men who have access to capital to start a fund often start them with close colleagues out of their own network. Successful entrepreneurs who have large exits often join VC funds, but there are fewer women at the top of venture backed companies to achieve such exits. Breaking in is difficult for women. Some women have chosen to start their own funds, but often struggle to raise capital since most new funds have to raise from individuals, and once again the network effect comes into play.

What I am describing here is a vicious circle rather than a virtuous cycle. The Diana Report urges VC firms to take corrective actions. However, despite the evidence that this might improve returns, I don't think we are likely to see these changes soon.

If we are truly an economy that relies on innovation and entrepreneurship as our growth engine, we need to find ways to include the half of the population that is missing out. (By the way, male entrepreneurs of color face many of the same barriers). Over the years, there have been various programs for emerging managers that provided access to capital for first time funds formed by women and minorities. However, these programs seem to be cyclical and have diminished rather than increased. Government is also in a position to provide incentives to potential limited partners to provide capital either directly or through funds that are more likely to deploy capital to those who currently lack access. Without incentives or nudges, it will take far too long for the problems to self-correct, if ever.

These are just some of the issues facing both women entrepreneurs seeking VC funding and women seeking a career in the industry. There is so much more that I could tell you, and am happy to answer any questions you may have. I appreciate the opportunity testify today.

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.

(Board/Advisory Services)

April 5, 2016

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 high 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 ore than a certain number of investments sot hat 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-0
- https://criterioninstitute.org/
- http://www.goldmansachs.com/our-thinking/pages/access-to-capital-for-women-entrepreneurs.html?cid=PS_01_19_07_00_00_00_01
- http://www.kauffman.org/~/media/kauffman_org/research%20reports%20and%20covers/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/ibgjwejou/
- http://casefoundation.org/blog/breaking-down-the-barriers-for-women-entrepreneurs/?nabe=6232213679505408:0&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

NATIONAL WOMEN'S BUSINESS COUNCIL

ADVISORS TO THE PRESIDENT, CONGRESS, AND THE SBA

TESTIMONY of

Laura Yamanaka

President, teamCFO, Inc.
and
Council Member, National Women's Business Council

House Small Business Committee
Subcommittee on Economic Growth, Tax and Capital Access

Tuesday, April 5, 2016

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.[1]

[1] 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.

As of 2012, there were nearly 10 million women-owned businesses [2] in the United States.[3]

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%).[4] 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 hypoth-

[2] 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.

[3] NWBC Analysis of U.S. Census Bureau 2012 Survey of Business Owners.

[4] 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.

esized 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 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.[5]

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.[6] 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.[7]

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.[8] 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

[5] 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.

[6] 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.

[7] 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/.

[8] 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.

continued to assert that "women investors are important because they signal to women *YOU* belong here."[9] Venture capital firms with female partners are reportedly two and one half times more likely to invest in companies with women on the management team (34% vs. 13%).[10] 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.[11]

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

[9] Zulkhe, Kristi. "The Real Unicorns Are Female Angel Investors." Techcrunch. 2015. http://techcrunch.com/2015/08/31/the-real-unicorns-are-female-angel-investors/.

[10] 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.

[11] "Who We Are." Golden Seeds. 2015. http://www.goldenseeds.com/who-we-are.

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 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 he 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.

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