WomensVCFund II

Investing in Diversity

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Women Entrepreneurs: An Impact Investment or Not?

When we started the *Women's Venture Capital Fund* more than five years ago, we did so under the belief that women entrepreneurs were a solid investment. What they lacked was capital.

At that time, the *Women's Venture Capital Fund* shunned any label of mission or social impact investing because we believed there was a straight-up opportunity to earn equal, if not greater, financial returns for investors through companies founded or led by women.

Today we know definitively, what we understood intuitively several years ago, that diversity and inclusion build stronger and higher performing companies. Study after study provides irrefutable evidence that businesses led by both women and men outperform businesses led only by men.

On almost every important financial and operating metric, diverse senior leadership teams outperform teams that lack diversity. Gender diverse leadership generates better financial performance (McKinsey 2018; Credit Suisse 2016), greater productivity and innovation (BCG 2018) and higher startup success (Harvard Business Review 2017). Female entrepreneurs are more capital efficient and deliver higher revenue – more than twice as much per dollar invested – than their male counterparts (BCG 2018; Fortune 2018).

So why is this the case? One big reason is what social scientists proved years ago. Homogenous groups – whether they be by gender, ethnicity or politics – readily succumb to group think when the desire for group consensus overrides any presentation of alternative ideas, constructive criticism or minority opinion. Yet those are the very behaviors shown to enhance innovation and business results.

And there's something else. Psychologists have observed and documented certain work styles and personalities more common to women that are particularly well suited to building modern, healthy companies. These include a decided preference for collaboration and inclusion, the ability to multi-task effectively, and a desire to seek a *win/win* solution rather than a *winner take all* outcome.

And beyond the financial upside of gender diversity to investors, investment in women is also a powerful catalyst for macroeconomic growth and social change. In less developed countries, it's been widely accepted that investment in the education of women is a powerful growth engine and societal change agent. In more developed countries, the equivalent impediment is capital access for women.

Yet, despite all the research on the performance of women-led companies and recent spotlight on issues inhibiting the professional advancement of women, the percentage of institutional venture capital directed to companies that include senior female leadership has remained in single digits and stubbornly stagnant.

"This is not a pipeline problem..."

In contrast, the percentage of angel capital has shown improvement with an estimated 20-25% now going to women-run ventures. Perhaps not surprisingly, more and more individual women are investors of startup businesses – in no small measure related to the conscious outreach and embrace of angel networks and seed funds.

So why the difference in capital flows between angel and institutional venture capital? First, Silicon Valley's preoccupation with backing only individuals who have previously been part of successful entrepreneurial businesses. Second, "unconscious bias"– to which we're all susceptible. And third, isolated yet well-documented cases of egregious behavior.

To be clear, this is not a pipeline problem, and it has not been for some time. Since inception, *Women's Venture Capital Fund* alone has seen over 1,500 early stage companies led by women. When we started the *Women's Venture Capital Fund*, we predicted the number of venture worthy female founders in the United States would reach an inflection point. Without a doubt, that inflection point has arrived.

Conversely, when you look at the number of women in senior leadership roles in corporate America, progress has been paltry if not stalled. Notwithstanding the great attention and massive deployment of resources allocated to the effort, less than five percent of executive roles in the Fortune 500 are held by women. Corporate cultures and large organizations are often challenged by if not resistant to change.

The accelerated entrepreneurial path as opposed to the slow corporate ladder climb may offer ambitious women far more opportunities over the next decade if, and only if, we can address the gender investment gap.

An increasing number of women with formidable business experience are stepping away from large technology companies mid-career to launch their own startups. Further, a younger cohort, the most ambitious women coming out of universities today, often want to do just what the guys are doing: start and build successful scalable companies. While many women entrepreneurs focus on B2C and educational technology, women are also founding fintech, artificial intelligence, medical devices and diagnostics, data science and blockchain companies.

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In terms of exciting developments in women's access to capital, we applaud Goldman Sachs' recent announcement of *Launch with GS* program which will commit significant late-stage capital to female-founded or led companies. And we're encouraged by recent examples of highly successful women-led companies accessing substantial growth-stage private equity to expand their businesses.

The bottleneck, however, remains in Series A and B stage capital investment in companies where female founders or gender diverse management teams have demonstrated early success: they've raised significant angel capital, developed their core technology, and achieved revenue traction. They're deploying capital efficiently and are poised to scale significantly.

Opening up venture capital access at Series A and B stage companies affords investors a risk intelligent approach to venture and the opportunity for significant financial gain. Moreover, if significant pools of capital are finally pried open, we'll unleash a currently underutilized talent pool to address real world problems in new and more creative ways.

The impact will be far, wide and deep as women use their voices and leverage their talent, their insights, their experiences and, yes, their purchasing power to positively affect the future. When women succeed economically and participate professionally to their fullest abilities, we all benefit – children, families and communities – in untold ways. Diversity has a multiplier effect.

Investors who understand this are on the forefront of what will be a tsunami of opportunity. We are at a potential tipping point. If only we create a new capital paradigm and shift funding of women entrepreneurs from the exception to the norm.

So are women entrepreneurs and diverse leadership teams an impact investment? Without a doubt, the answer is yes. In fact, we think it's the biggest impact investment of our time.