

WEBINAR

# Briefing



## Bridging the Gender Gap

From the Privcap webinar  
"Bridging the Gender Gap in PE and VC"



Candida G. Brush  
Babson College



Joan McCabe  
Brynwood Partners



Kara Goldin  
Hint Inc.

SPONSORED BY



# Bridging the Gender Gap

## The Panelists



**Candida G Brush**  
Chair, Entrepreneurship Division,  
Babson College

→ **BIO**

Professor Brush holds the Franklin W. Olin Chair in Entrepreneurship, and serves as Division Chair for Entrepreneurship, at Babson College. She is also the faculty research director of the Arthur M. Blank Center for Entrepreneurship. She holds a D.B.A from Boston University, an M.B.A. from Boston College, and a B.A. from the University of Colorado. Brush is a visiting adjunct at Norway's Nordlands University Graduate School of Business.



**Joan McCabe**  
Managing Partner,  
Brynwood Partners

→ **BIO**

McCabe joined the Brynwood III Advisory Committee in 1997 and joined the firm full-time as a managing partner when Brynwood IV was formed. She previously managed her own mergers and acquisitions advisory firm and spent 15 years as an investment banker at Kidder, Peabody & Co., Drexel Burnham Lambert Group Inc., and Paine Webber Group Inc. McCabe received a B.A. from Yale University and an M.B.A. from Harvard Business School.



**Kara Goldin**  
CEO & Founder,  
Hint Inc.

→ **BIO**

Goldin's company, Hint Inc., produces all-natural fruit essence water. Goldin was formerly the vice president of shopping & e-commerce partnerships at AOL. She was chosen as one of Fortune's 2011 Most Powerful Women Entrepreneurs and was named in 2012 as one of Ernst and Young's Entrepreneurial Winning Women.



**Kerrie MacPherson**  
Principal and Entrepreneurial  
Winning Women Executive  
Sponsor, EY

→ **MODERATOR**

MacPherson is a senior partner in EY's Financial Services Office in New York. She serves as global coordinating partner on key accounts and is executive sponsor of Entrepreneurial Winning Women.

→ CONTINUES ON NEXT PAGE

### **Kerrie MacPherson, EY:**

**We're going to have a great discussion today. We'll have three panelists, including Candy Brush, a professor at Babson College who runs their entrepreneurship program. She's also the lead researcher and author related to the Diana Project, and we'll start off in a minute with Candy giving us a very brief summary of that research. And another panelist is Joan McCabe, a managing partner at Brynwood Partners, who has spent her career investing in businesses. Candy, let's start with you. Most people won't yet have had a chance to read the Diana research, so why don't you tell us about the findings.**

### **Candy Brush, Babson College:**

Just quickly a shout-out to my three co-authors: Patricia Greene, co-founder of the Diana Project; Amy Davis, visiting scholar, Babson College; and Lakshmi Balachandra, assistant professor of entrepreneurship. And also a debt of gratitude to EY for sponsoring this report, along with the Center for Women's Entrepreneurial Leadership at Babson College in the Arthur M. Blank Center.

In 1996, I and my colleagues—Nancy Carter, Patty Green, Myra Hart, Betsy Gatewood—founded the Diana Project to investigate women's access to venture capital funding. In 1999, we found that less than 5 percent of all U.S. ventures receiving venture capital had a woman on the management team. This year we updated that report, and we analyzed a database of 6,793 unique companies in the United States that received venture capital funding between 2011 and 2013.

The percentage of venture capital investments in companies with at least one woman on the executive team rose from 5 percent in 1999 to 15 percent in 2013, which is good news. But on the other hand, only 2.7 percent of those companies had a woman CEO. So this means that 85 percent of

companies receiving venture capital had no women on the team, and 97 percent had male CEOs. When we look at dollars invested, there's a similar pattern: 21 percent, or \$10B of the \$50B dollars invested during the period, went to companies with a woman on the team. And about \$1B of the \$1.5B went to the 3 percent of companies that had a woman CEO.

When we look at the profile of the companies, which is the second area, we see that companies [with] a woman on the team were concentrated in certain sectors: software, biotech, and business products. There are sectors where there are very few companies with a woman on the team receiving any venture capital funding, which are semiconductors, computers, peripherals. When we look at the companies that have a woman on the team receiving venture capital, they're larger, and they tend to be older in terms of sales and performance.

When we look at performance, we found that companies with a woman CEO tended to do as well or better than companies led by male CEOs. There were no other real differences in performance. Granted, this was a short time frame, and so we looked at exits, and we looked at how they performed after receiving their last funding.

Finally, when we look at the venture capital firms, we found that the number of partners in venture capital firms declined from 1999 until today. And if we look at the entire population, U.S. and international, the decline went from 10 percent in '99—those were venture capital firms with women partners—to 6 percent. So that is not as great news. If we look at just U.S. firms, we see that 8.5 percent of the partners in U.S. firms are woman. Why is this important? We found that venture capital firms with women partners were more likely to invest in companies that had women on their teams. We also found that venture capital firms investing in companies with women on the teams were more active.

**MacPherson:** **Joan, I recognize that you're actually private equity as opposed to venture capital, but I'm interested first in your reaction to two things that Candy talked about. One, all of the research shows that women-led businesses that get early-stage funding perform at least as well as their male-led counterparts. I'm interested to know if that is consistent with your experience. I find it surprising—given that investors are there, by definition, to make a profit—that there isn't more movement towards looking for such women-owned companies. How does that line up with your experience?**

### **Joan McCabe, Brynwood Partners:**

The statistics are the same for private equity as venture capital. One of the issues that we have in private equity and venture capital is, although we have a lot of money under management and we're a fairly mature industry, there really are no incentives to do anything other than try to make money. No benefits to a partner to

→ CONTINUES ON NEXT PAGE

back a woman-owned business. But part of the problem is probably due to women in private equity. We don't have networking mechanisms to meet these women entrepreneurs, and in many ways private equity and venture capital is like everything; it's an old boys' network, and usually you don't just go out and ask for money. There usually is some knowledge of the business. There's a buzz in your industry as to a good company that might come up for sale.

Perhaps the problem is that women haven't been good at marketing their business to the private equity community and the venture community in advance of looking for money. We in the industry are probably as guilty, or more guilty, of that than entrepreneurs, because we don't have a lot of mechanisms to allow women to look for money. There's a venture capital firm called Golden Seeds, which has started to do that. If you're an entrepreneur, you can join WeBank, but we need a few more systems to make it easier for woman entrepreneurs to understand how to access our market.

**MacPherson:** Joan, is it fair to say that the majority of investments that you look at seriously have come with some sort of referral from somebody in your network?

**McCabe:** That's right. We're in an industry where almost all deals come through an intermediary, an investment banker; rarely do you not have a sort of quasi-auction. But it's just like being in Las Vegas. If there are five firms interested in a business, you have a probability of 20 percent to buy that business. The only reason you'll spend a lot of time to buy that business is if you have prior knowledge or an angle that allows you to get that business.

We had in our industry—I do consumer—a hockey mouthpiece

**“One of the issues that we have in private equity and venture capital is, although we have a lot of money under management and we're a fairly mature industry, there really are no incentives to do anything other than try to make money. No benefits to a partner to back a woman-owned business.”**

—Joan McCabe, Brynwood Partners

business. Well, that deal was so highly sought after, not because the financials were great but just because everybody, every man who had played hockey, could empathize with that.

And so there is a benefit to knowing somebody. Another example I'll give is a company called Think Thin, which is a woman-owned protein bar company. And the woman who made it did a really good job of getting to know private equity firms and investment bankers. When she came to look for money, she really didn't have to do an auction. Everybody already knew her, and it was a bidding war to invest with her. Those are rare, though, for women—not so rare for men.

**MacPherson:** Candy, Joan's described one set of circumstances that sound like a barrier. Women just aren't sufficiently in the networks of the people who are doing the financing. Are there other things that your research would suggest we need to be mindful of and figure out a way to address?

**Brush:** Clearly the network issue is something that's very important. We know from other research that women tend to have more women in their networks, or mixed networks, and men tend to have more men in their networks. What Joan's describing is the case. The venture capital industry is very geographically concentrated in a few areas, so for any business located outside of those, you are going to have some challenges, because you need to travel to get to those networks. One other point on the networks is, we know that companies that have women on the venture capital team are more likely to reach out to women entrepreneurs.

But on the other side, there are some perceptions out there that women entrepreneurs are not as serious about their businesses. They don't

→ CONTINUES ON NEXT PAGE

want to grow. They don't want to give up control. Contrary to those perceptions, the interviews with women entrepreneurs showed that they did want to grow, they were willing to give up control, and they were serious—but they had to work harder to overcome those perceptions in the presentation process.

We didn't test this in our data, and we can't tell, but those perceptions and stereotypes seem to be out there. And [it's] another barrier that women entrepreneurs need to overcome.

**McCabe:** That's very true in venture capital. In private equity, the numbers speak for themselves, and as we like to say, it's all about the Benjamins. The other issue that Candy was speaking about, this idea of giving up control, is more what people talk about in private equity.

**Brush:** I just wanted to jump in for a second, because Joan is right. We actually collected data on private equity. We didn't analyze it for this report, but we found that those companies with women on the team did better in terms of private equity.

**MacPherson:** Kara, I'm glad that you were able to dial in. You are a female entrepreneur, and you've raised money. How have you dealt with the fact that you maybe didn't have networks as some of your male counterparts might have had?

**Kara Goldin, Hint Inc.:** We self-financed the company initially and took our first round of financing through a family office, the [investment office of the family behind] Stella Beer, almost six years ago. That was an introduction through somebody who knew them. But first and foremost, people were starting to drink our product and loved it. We were

**“There are some perceptions out there that women entrepreneurs are not as serious about their businesses. They don't want to grow. They don't want to give up control. Contrary to those perceptions, the interviews with women entrepreneurs showed that they did want to grow, they were willing to give up control, and they were serious—but they had to work harder to overcome those perceptions.”**

—Candida Brush, Babson College

getting inbound calls because people related to what we were offering—Hint is the leading unsweetened flavored water in the marketplace—and that was coming at a time, six years ago, when people were starting to become more and more aware of ingredients in food and beverages. It was more about the product than it was that it was founded by a female.

**MacPherson:** Joan, as you said, it is about the Benjamins. So it's fair to say that no investors—or virtually no investors, with the exception of Golden Seeds—are out there looking specifically for woman-owned businesses. They're looking for good businesses, and if it's a woman founder and CEO, that's a good thing, but it's not something that people are generally looking for. Is that right?

**McCabe:** Yes. However, Brynwood does consumer deals. So the fact is, as Kara said, there are a lot of women in retail and consumer products. So vis-à-vis our compatriots in private equity, we're probably over-indexed on women-owned businesses. So we do focus, inadvertently, on women.

The issue with private equity and women entrepreneurs is, you have a Catch-22. You need to have a track record to raise a fund, and in private equity, if you're a partner and you have [a track record] and you want to raise a fund, you have a non-compete [agreement], so it's difficult to leave and raise a fund. That's at the heart of the issue that Candy mentioned earlier, that there are very few women in venture capital and private equity firms. You almost have to get involved right

→ CONTINUES ON NEXT PAGE

**“Our business model is different. For now, I’m the best person to be running the company. I’m not dead set on running this company forever, but it makes sense to have the founder, who really understands the strategy and understands how to grow this business, be involved.”**

–Kara Goldin, Hint Inc.

out of college in private equity, work for five years, not be senior enough so that you’re leaving lots of money on the table, and then start a fund. That’s hard to do.

I know lots of woman are limited partners. They’d love to back capable women who want to raise private equity, but it’s tough to do.

**MacPherson:** Joan, you made a comment earlier that often women are reluctant to give up control of their businesses, and that that might be an impediment to getting financing, because private equity does often look for, if not control, a significant stake. And EY has a program called EY Entrepreneurial Winning Women, and Kara is one of those. I would agree with you that at least the women who we’ve worked with are generally interested in taking in financing to grow the company but are interested in controlling the company. Kara, that’s what you’ve done. You’ve worked it out so you have external financing, but you control the company.

**Goldin:** Correct. We not only started a category in beverage, but also a product. What’s interesting about what we’re doing is, a typical private equity group might say, “Okay, let’s go and get a bunch of senior people from Coke or Pepsi in to run this company.” A large percentage of our business right now is coming from online. That’s not what the guys at Coke and Pepsi do. They don’t do direct to consumer. They don’t do direct into offices well. They do conventional grocery well.

Our business model is different. For now, I’m the best person to be running the company. I’m not dead set on running this company forever, but it makes sense to have the founder, who really understands the strategy and understands how to grow this business, be involved.

**MacPherson:** Candy, I’m going to come back to you for a second. We’ve heard some interesting discussion from the perspective of investors and from an entrepreneur. Your research was pretty clear that financing organizations that have women partners in them are more likely to invest in

companies where the leadership team has at least one woman. So what are the implications for that, given that you said the number of women in the venture capital industry in senior roles has declined?

**Brush:** This was a bit perplexing, because if we look at the numbers of women getting M.B.A.s and moving through undergraduate programs in business, we see that there’s a lot more educated women who have finance backgrounds out there. So it was puzzling that the number of women in venture capital had declined.

And we found that in the venture capital industry, male VCs, tend to hire more male VCs. Those individuals might be right to run venture capital firms, but on the other hand, there’s research that shows that very homogenous executive teams may make fast decisions, which are efficient but may not be the best or most effective decisions.

Those firms that are more diverse tend to be older and larger. It’s possible that these firms reach a certain formalization or size point; they have more HR policies, and they have diverse recruiting. The question is: How do we get more women into the industry? It would be beneficial to venture capital firms if they had more diversity in their partner group from a decision-making standpoint, also because they would have access into those networks of women entrepreneurs, which would lead them to good deals.

**McCabe:** I’ve sat on a panel, Candy, with a woman LP who invests in our community, and she said exactly that. They look for teams that are diverse, not homogenous, to invest money [with]. It makes sense to have a diverse

→ CONTINUES ON NEXT PAGE

VC or private equity group; however, your point is dead-on, because private equity and venture capital is the ultimate in the pyramid. The team is very small—under 10—controlling lots of dollars. So you really do look for a team that you can mix with. It's easy to stay within your comfort zone. The benefits of having a diverse team are abundant. I look at our LPs. There are a lot of women, so there's a lot of opportunity, people like Kara who you could have a bond with.

**MacPherson:** Kara, we've heard that the networks just are not as well developed for women, and that is creating some disconnect between a vibrant community of female entrepreneurs and getting funding from all of these venture capitalists and private equity people who have money that's ready to be put to use. If there was something that the investor community could do that would be useful for you as an entrepreneur—maybe not you so much now, but go back four or five years, when that was not the case—is there something that would be particularly helpful for women entrepreneurs?

**Goldin:** There's a stage even before you would talk to venture, and definitely before private equity, and that's this angel round. I know you mentioned Golden Seed, but two others that I know quite well that are women-founded—and women who came from the venture world who have started funds that really do prefer to invest in women. One is here in San Francisco, called Broadway Angels, and it's founded by a group of women, but one of the women is Sonya Perkins, who is still a partner at Menlo Ventures. They are interested in investing in women in the angel round. Twenty-five to a couple hundred thousand dollars is their typical round.

And the other one was founded by Eileen Lee, and it's called Cowboy Ventures. They also look for women-founded companies, primarily in tech.

The one last underutilized area is Angel List. Those are people who are working in the Valley who want to invest anywhere. You can set your range, but it's typically \$100,000 rounds of capital. That is where things are getting funded. The interesting thing about all of those angel networks is that if you take money from any of them, their network is so enormously powerful that if you can actually engage them, they can make intros into some of the venture and private equity firms out there.

**MacPherson:** One question that's come into focus is, could it be that women-owned businesses are not looking to expand? Candy, I'd be interested in your take on that, given that it's your research.

**Brush:** I can say yes, they are. What Kara mentioned is the angel pipeline. I'm actually part of an angel group here, Boston Harbor Angels. We've looked at the applicant pool here and in the New England area, and 15 percent to 17 percent of the companies that come through have a woman CEO. More of those have women on the teams.

What's going on in that earlier-stage pipeline is different. Not all companies that receive angel money are going to be eligible for venture money. But there is a qualified pool of businesses that have a woman on the team, or woman CEO, that want to grow. There are [also] lots of grant-funded companies that may not come through the angel pool—because they're science and technology, biotech, medical tech—that also would

be qualified, as far as being venture-capital-fundable at some point.

**MacPherson:** [We have a question here, saying,] "I've been looking at this industry for a while and have seen a number of things out there where people talk about the fact that there's less investment in woman-owned companies. Are things actually being done to change that?"

**McCabe:** There are some firms that have a lot of women partners. One that comes to mind is TSG; they're in San Francisco. More women than men as partners, and they're in the consumer business. So they're doing a great job, but they're just capable people.

Another thing that one can do in our industry is network towards women. In our industry, you need to have a point of difference that's sustainable. You need to have a network of people, and if you're a woman in private equity, you might just make your network be other CEO-type women. One of my colleagues is always going skiing with his men's network. Well, get a network of women that will do that! That is the network that we need to develop in private equity, and we are slowly but surely doing it. There's something called Wave, which is an organization of women in private equity and venture.

Where we have the disjoint is that women entrepreneurs are so busy running their business that they don't have time to try to network and find the minority of women that are partners in either VC or private equity. So we in the private equity world probably need to take some actions to give entrepreneurs the opportunity to meet us. ■