THE BIG QUESTIONS FOR DIVERSITY & INCLUSION IN INVESTMENT

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Dr. Gitanjali M. Swamy
Managing Partner, IoTask
Witi@UC, UC Berkeley
EQUALS Leadership Coalition, United Nations
gms@iot-ask.com
gmswamy@berkeley.edu
THREE BIG QUESTIONS FOR DIVERSITY & INCLUSION IN INVESTMENT

1. Do we really understand the true cost (or true value)?
   - Statistics of performance and non performance

2. Are we really doing enough?
   - On setting boundaries in policy
   - On creating economic incentives
   - On changing social norms

3. Do we need a different mindset to really show results?
   - Bad framing makes for bad results
Question 1: Gender Diversity & Inclusion

DO WE REALLY UNDERSTAND THE TRUE COST (OR TRUE VALUE)?
QUESTION 1: THERE IS NO SHORTAGE OF WOMEN AVAILABLE TO INVEST IN AND THEY DELIVER COMPELLING BUSINESS PERFORMANCE

NEW BUSINESS CREATION

Women form more than half of new businesses and are nearly 2/3rds of entrepreneurial owners.

QUESTION 1: GENDER DIVERSITY IS GOOD FOR BUSINESS: MORE DIVERSE TEAMS ARE MORE ENGAGED, AMBITIOUS AND RESILIENT

- **+53%**
  - Return on equity
  - 53% increase in return on equity in Fortune 500 companies with at least 3 female directors
  - Catalyst

- **+19%**
  - More innovation
  - Companies with above-average diversity on their leadership teams are 19% more innovative
  - BCG

- **+6%**
  - Net profit margin
  - 6% added to Net Profit Margin if a company has >30% of its leadership roles filled by women
  - Peterson Institute

QUESTION 1: #METOO HIGHLIGHTS THE PROBLEM IN CURRENT SOCIAL NORMS DESPITE EVIDENCE THAT SHOWS THE TRUE COST OF PREDATORY BEHAVIOR IS VERY HIGH

Despite the results, 89% of LP’s do not diligence predatory behavior prior to investment

Predatory Behavior Index (PBI): A composite of sexual harassment, discrimination, violence, inappropriate relationships, assault & intimidation

TVPI, DVPI, IRR are measure of financial return on investments

Performance vs. Predatory Behavior Index (PBI)

<table>
<thead>
<tr>
<th>TVPI vs. PBI</th>
<th>DVPI vs. PBI</th>
<th>IRR vs. PBI (annualized)</th>
<th>TVPI vs. Sexual Harassment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correlation</td>
<td>-0.31</td>
<td>-0.26</td>
<td>-0.029</td>
</tr>
<tr>
<td>Performance Decline due to PB</td>
<td>-47%</td>
<td>-34%</td>
<td>-22%</td>
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QUESTION 1: EVEN COUNTRIES DO BETTER WHEN FEMALE PARTICIPATION INCREASES

Source: Axelrod & Leitner, *Correlation of Democracy Indicators and Markets Returns*, 2016
Question 2: Gender Diversity & Inclusion

ARE WE REALLY DOING ENOUGH?
QUESTION 2: BIG DISPROPORTIONALITY IN GENDER DIVERSITY & PARTICIPATION IN PRIVATE CAPITAL ECOSYSTEM

CEOS WITH VC FUNDING

- More than 97% of venture-funded businesses have male CEOs
- Only 3% of CEOs have female founders

FOUNDERS WITH VC FUNDING

- Just 2% of women founders are venture-funded
- 98% of venture-funded businesses have male founders

WOMEN IN VC

- 97% men, 3% women
- In 1999: 10% of venture capital went to women
- In 2016: 6% of venture capital went to women

SEED FUNDING

- 90% of portfolio investments have 0% women in leadership
- Only 6% of VC investment professionals are women, a decline from 10% in 1999
- Women with seed investment have stagnated around 4% of total applications for a decade; despite a dramatic 6x increase in women seed stage investors

LEADERSHIP COMPOSITION

- Women+ Men 10%

77% of VC/Entrepreneurial investment is in Technology

The Private Capital Industry is a $4.5 Trillion, Avg fund size $1 Bil

QUESTION 2: NO SOLUTIONS ARE PROPOSED FOR UNDERLYING SOCIAL NORMS THAT CAUSE NON-INCLUSION

Research shows that on a scale 1-7, where 1 is very unlikely
- Women rank just over 4
- Men rank at over 5
- Women are also more judged by their appearance


Comparing How Male and Female Entrepreneurs Are Described by Venture Capitalists

These gendered personas are illustrated with quotes from Swedish government VCs who were observed discussing a total of 125 applications for funding between 2009 and 2010.

The average MALE entrepreneur is described with attributes such as:
- “Young and promising”
- “Arrogant, but very impressive competence”
- “Aggressive, but a really good entrepreneur”
- “Experienced and knowledgeable”
- “Very competent innovator and already has money to play with”
- “Cautious, sensible, and level-headed”
- “Extremely capable and very driven”
- “Educated engineer at a prestigious university and has run businesses before”

The average FEMALE entrepreneur is described with attributes such as:
- “Young, but inexperienced”
- “Lacks network contacts and in need of help to develop her business concept”
- “Enthusiastic, but weak”
- “Experienced, but worried”
- “Good-looking and careless with money”
- “Too cautious and does not dare”
- “Lacks ability for venturing and growth”
- “Visionary, but with no knowledge of the market”

* p = .024
QUESTION 2: EVEN THE REGULATORY FRAMEWORK HAS LIMITED PROTECTIONS TODAY

• Today sexual harassment regulation in the US (50 states) and most of the 193 global UN member nations do NOT cover venture capitalists and other private investors.

• Landmark 2017 California proposal to modify Unruh Civil Rights Act, to clarify that it covers sexual harassment in relationships between entrepreneurs and potential investors.

• Current law specifies employers, doctor-patient and attorney-client relationships, but does not cover entrepreneurs and potential investors.
Question 3: Gender Diversity & Inclusion

DO WE NEED A DIFFERENT MINDSET TO REALLY SHOW RESULTS?
QUESTION 3: THE SELF-REPEATING DEATH SPIRAL FOR GENDER INVESTMENT

1. “There are no women to invest in”
   - Women start 50% of businesses in the US, 30% globally
2. “Women don’t provide good returns”
   - 2x capital efficiency, 19% greater innovation, 53% greater ROI
3. “We need women to invest in women”
   - Women follow the same social norms in investing behavior and Women investors are at just 6% in private capital (VC)
4. “We will give women only 2% of the resources men get”
   - Resource starvation is a proven path to failure
5. “Women don’t have the investment deal sheet”
   - Yes, if women don’t get the opportunity then women don’t have the opportunity…
6. “There are no women to invest in”
   - ……Repeat

Cause & Effect: Access to Capital itself is a big determinant of Successful execution
QUESTION 3: ALL STAKEHOLDERS HAVE A PART TO PLAY TO CLOSE THE DIVERSITY & GENDER GAP

“When a man marries his maid, the GDP falls”
– Paul Samuelson’s comment on Kuznet’s GDP work, 1932

• We as a society define value and reward it.
• That’s how social norms get set.
• But we are only as good as this calculus that we create.
• To build a better future, we must continually re-examine and evolve it.
Conclusion: Gender Diversity & Inclusion

LET'S WORK ON SOLUTIONS TOGETHER
SOLUTIONS: DIFFERENT TYPES OF INTERVENTIONS HAVE DIFFERENT IMPACTS

1. Set the boundaries
   1.1. Type I: Protective covenants and governance clauses
       - Regulatory & policy actions that are critical in providing much needed boundary conditions
       - Dis-incentivizing
         - Boundary condition
         - Correct bad ways
       - Doesn’t create pro-active impetus to transform culture

2. Encourage good behavior
   2.1. Type II: Programmatic incentivizing actions
       - Concerted actions to counterbalance existing bias (special programs, structures, incentives)
       - Creates special incentives in a small group to behave in good ways
       - Doesn’t create broad-based incentives for everyone

3. Enable values
   3.1. Type III: Social & cultural transformation
       - Actions taken to change the existing social norms and culture
       - Creates long-term transformations of cultures
       - Get ignored in a tactical, short term work

Both carrots and sticks are necessary in managing public good but the long term is about changing values & norms
SOLUTIONS: TYPE I-PROTECTIVE COVENANTS AND GOVERNANCE CLAUSES

1. Investment diligence criteria
2. Impact requirements
3. Side-bar letters
4. Investment representations
5. Remedies
6. Punitive claw-backs
7. Anti-retaliation regulation
8. Transparency requirements

Tactical v. Principled Question:
What should investors do if an investee firm refuses to take money from investors asking for value-based covenants?
SOLUTIONS: TYPE II-PROGRAMMATIC INCENTIVIZING ACTIONS

1. Selection criteria
2. Special incentives
3. Set aside pools of capital
4. Impact bonus
5. Recognition & prizes
6. Nomination committees
7. Diversity in decision-making roles
8. Add contingent liabilities for risk
9. Applicant requirements

Tactical v. Principled Question:
Is a $10 Mil (1/10 average fund size) set-aside for women-only really going to rectify the private capital industry, where the average fund is $1000 Mil and women-founders only participate in an estimated 2% of $4.5 Trillion in assets (VC segment $300 Bil)?
SOLUTIONS: TYPE III - SOCIAL & CULTURAL TRANSFORMATION

1. Bias & bystander training.
2. Set tone at the top
4. Company dialogs
5. Encourage governments to support diverse entrepreneurship.
6. Better prepare women on how to seek funding and how to negotiate.
7. Education, education, education.
8. Build ecosystems to support diverse entrepreneurs.
9. Implement government policies that will have an enabling effect on women-owned businesses.
10. Address social & cultural “norms”

Tactical v. Principled Question:
How can we address sexual harassment legislation that covers "private investors" like VC’s when the largest lobbying contributions come from the firms?
SOLUTIONS: PUTTING IT ALL TOGETHER

• A good first step in change is creating a guidance or roadmap for gender lens investment.
  
  A. **Baseline Must-Haves:** What every investor must do?
  B. **Good Practice:** What is must investors do beyond (A)?
  C. **Industry Best Practice:** What the top investors in gender lens are doing?

• Each must be related to what they have achieved in gender investment results through the practice.

PLEASE SEND YOUR INTERVENTION EXPERIENCES TO EQUALS TO BUILD A COMMUNITY OF PRACTICE (SEND TO GMSWAMY@BERKELEY.EDU)