

# Women venture capitalists say to hell with the status quo

Powerful women are making their own rules of VC conduct.

by **Rochelle Garner** / May 7, 2015 6:00 AM PDT

This story is part of **Solving for XX**, a CNET special report exploring what people and companies are doing to make the tech industry more diverse, more equitable and more welcoming to women.

For many people in Silicon Valley, the trial pitting Ellen Pao against Kleiner Perkins Caufield & Byers was the legal equivalent of a telenovela. And no wonder.

The plaintiff: Pao, 45, a former junior partner with Kleiner Perkins – arguably one of the most powerful venture firms in the industry – claimed male partners made sexual advances to female co-workers, excluded women from potentially lucrative dinners and trips, and created an atmosphere that belittles women.

Now interim CEO of social news site Reddit, Pao sued her ex-employer for \$16 million, alleging she was fired after she complained about pervasive sexism. She **lost** the case.

But her lawsuit was never about just



Battery Ventures General Partner Chelsea Stoner: “The forced-mentor relationship doesn’t work. You have to seek folks with whom you have some commonality ... even if they’re not from one of your portfolio companies.” Photo: Jared Leeds

the money. More than anything, it was about the real legal tender inside Silicon Valley – the combination of power, influence and a knack for spotting the next big thing. VCs who command that currency are the industry’s masters of the universe: The top investing partners at every firm who rake in the biggest bucks – and almost 93 percent of them are men, according to Pitchbook Data, which analyzes the private investment industry.

Kleiner Perkins, for example, says more than 20 percent of its 34 partners are women – far more than the industry average. Only two of those women are senior-level investing partners, however.

“It’s obvious there’s a silicon ceiling in the venture business,” says Paul Saffo, a longtime Silicon Valley forecaster of technology and culture. “Women aren’t getting to the top because they aren’t getting in the

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front door to begin with. And for the percentage who do break through, there's such a shortage of role models and female colleagues they can confide in that the process of advancing is just so much harder."

This dearth of powerful women has a ripple effect because it also affects female entrepreneurs. The **Diana Project** reported last year that startups with a woman CEO received only 3 percent of the \$50.8 billion invested from 2011 to 2013.

After years of seeing little, if any, improvement in the number of women made senior investing partners at Silicon Valley's top VC firms, a few women have decided to rewrite the rules of the money game. Some are leaving larger VC firms to start their own investment firms. Others are becoming angel investors, the affluent individuals who are among the first to back a startup. And a few are trying out unusual ways to collaborate and mentor entrepreneurs.

### **To hell with the status quo**

The business of venture capital has changed since the heady dot-com days of the late '90s. Back then, VCs invested (relatively) small sums to help young startups get off the ground. These days, though, most VCs look at investments below \$1 million as chump change. This, in turn, has changed the dynamics of investing – with many VCs building huge funds and backing more-mature, lower risk startups.

That's opened a gap for people willing to make risky bets on early-stage companies.

Aileen Lee, for example, **founded Cowboy Ventures** in 2012, after 13 years with Kleiner Perkins. Cowboy invests seed rounds of \$500,000 to \$3 million in very young startups, **she told The Wall Street Journal** in December. Lee is also a strategic adviser to Kleiner and continues to

work with some of the companies she managed while there.

Last year, Jennifer Fonstad, then a managing director at Draper Fisher Jurvetson (DFJ), and Theresia Gouw, a managing partner with Accel, quit their old firms to launch **Aspect Ventures**. Like Cowboy, Aspect also works with young startups, but adds Series A funding to its mix. (The first round of funding from professional investors, who now own part of the company. Series A investments tend to be in the low millions of dollars.)

"Both Theresia and I got to the point in our careers where we decided to focus on the early stage startup again so we can be more collaborative and company-building," says Fonstad. "We help them as they grow – getting the management team hired, and helping them get early customers and follow-on financing for the next stage of growth. It's why we both became VCs."

Aspect is now raising \$150 million for its inaugural fund. While that makes Aspect one of the larger women-led venture firms focused on young startups, it's not unique.

"I'm noticing an industry shift in general," says Fonstad. "There's been a significant inflow of newly wealthy women who are investing for themselves, becoming angels or forming microfunds with less than \$4 million. It's just more gratifying to work for themselves."

While most angels are individuals investing their own money, a few are also banding together to share research and advice. In March six women – all current or former Twitter executives – created #Angels to back technology startups. The six will make individual investments instead of forming a fund, they wrote in a **blog post on Medium**.

That's also the idea behind **Broadway**



More women "are investing for themselves, becoming angels or forming microfunds with less than \$4 million. It's just more gratifying to work for themselves," says Jennifer Fonstad, co-founder of Aspect Ventures." *Photo: Aspect Ventures*

**Angels**, an invitation-only group of 26 women who either "had an incredible investment track record or had been a C-level executive at a great company, like LinkedIn or Twitter," says Menlo Ventures Managing Director Sonja Hoel Perkins who co-founded Broadway Angels with Fonstad in 2010.

"We thought: wouldn't it be fun to start an investment group with all women," says Perkins. "But I also wanted to bring attention to the fact that there are women in technology and venture capital. I believe the way to get more women in tech and venture capital is to have more women in tech and venture capital. One of my main goals, in addition to making great returns –which we've done – was to inspire women."

### **Macho madness**

Ask Silicon Valley insiders to define the VC culture and most will describe a clubby world filled with 16-hour workdays, men-only ski outings and fishing trips to Alaska, and late-night dinners. All that hob-knobbing creates an "in" crowd of (mostly) men who work deals, get other firms to join investment rounds and sit together on boards.



Sonja Hoel Perkins, Menlo Ventures managing director and Broadway Angels co-founder: "This can't be women driving the change. Men need to make it a priority." Photo: Menlo Ventures

"I don't think there's conscious discrimination at venture firms, but on average, there is an aggressiveness and antagonism that's archetypically masculine," says Gus Tai, a general partner with Trinity Ventures, which has backed Blue Nile, Starbucks and Jamba Juice, among others. "When I think about how I relate to the world, I wouldn't work at most venture firms."

This overtly masculine culture meshes with the kill-or-be-eaten nature of the job itself. Venture capital is a numbers game – rewarding those who find companies that eventually go public or get bought, and discarding those who don't, according to Tai. "If you can consistently make a lot of money, you are accepted. And if you don't, you're pushed out," he says.

"It's a tough business to perform in," agrees Wende Hutton, a general partner with Canaan Partners. "When times go bad, it's often the female partner who's the first out the door."

That's not to say women are inherently bad at finding the next technology wonder. It's that too few female VCs get the benefit of their senior colleagues' insight and mentoring. That could be the result of unconscious bias or, just as likely, the birds-of-a-feather equivalent for humans. Whatever the cause, it's a problem because the venture capital profession is akin to an apprenticeship.

"There's a lot of pattern recognition as we develop investment judgment," says Hutton. "It's seeing the signals of a great team or a great opportunity, sensing when a team is too ambitious and will stumble and knowing when that entrepreneur doesn't have the right background. A mentor is willing to have a dialog about what looks like a great opportunity and what doesn't."

"If you're not getting mentored, it's a lone-wolf kill," she adds. "It's harder to get deals done. You're not getting encouraged on the right deals or discouraged on the wrong ones. You

have to kill what you eat."

Few people in such a machismo culture would even think of hosting a dinner for rival firms' partners and the women founders and CEOs they're backing. Yet that's just what senior-level women from DFJ, Canaan Partners and Battery Ventures did in January. The goal was to form bonds between the younger entrepreneurs and the more experienced leaders. Even more surprising: it didn't matter if that bonding occurred across venture firm boundaries.

"No one said 'I'm a portfolio company of XX firm'; no one knew who invested in whom," says Battery Ventures General Partner Chelsea Stoner, who helped organize the event. "From my experience, the forced-mentor relationship doesn't work. You have to seek folks with whom you have some commonality. And if you hit it off – great – even if they're not from one of your portfolio companies."

Battery plans to host a similar event in the next few months, possibly with other firms.

Stoner's efforts – combined with the increasing number of women forming their own venture firms or becoming angels – are just a few of the steps powerful women are taking to make investing more inviting.

But it's not enough, says Menlo Ventures' Perkins.

"Venture capital is getting really bad press, but it can't be women driving the change," says Perkins. She wants to see every firm sign a pledge to hire a woman partner, and every investment include a female C-level executive or board member.

"This can't be women driving the change," Perkins adds. "Men need to make it a priority."