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# Ensuring a Level Playing Field Women in Private Equity

An Action Plan for investment funds to recruit and retain the best and the brightest

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# Gender Diversity, Competitiveness and Private Equity

## Background

On 9 October 2014, the World Economic Forum hosted a private workshop with 30 senior leaders in private equity funds, pension plans and academia. The aim of the workshop was to explore the root causes of the lack in gender diversity in private equity, and to explore what can practically and realistically be done to address this imbalance. Over the course of the workshop, a better understanding of the underlying causes and best practices emerged.

This Action Plan shares the learnings from the workshop, and is written for the leaders and human resource professionals of private equity funds. We offer this not as a rigid prescription, but rather as a reference guide as each fund assesses the most effective path forward given their own unique culture and organization.

## The case for change

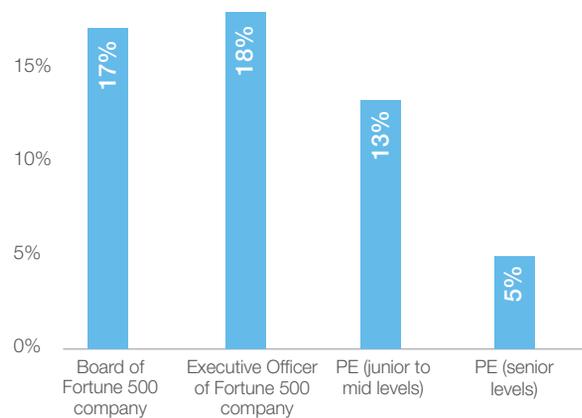
Recent research has observed a link between gender diversity in top management and superior financial performance. In 2013 McKinsey & Company, the Credit Suisse Research Institute and Catalyst each published studies demonstrating a striking correlation between higher returns on sales, equity and invested capital, and gender diversity at the board of directors and executive management level.<sup>1</sup> As one example, companies with at least one female board member outperformed comparable businesses with all-male boards by 26 percent worldwide over a period of six years.<sup>2</sup>

These studies focused on publicly listed companies. It is hard to imagine why they would not be relevant for private equity firms and their portfolio companies, supporting the case for greater gender diversity. Yet there are *currently fewer women at the entry levels of private equity than there are represented in the most powerful leadership positions of Fortune 500 companies*.<sup>3</sup> Further, private equity funds have fewer women in senior roles than almost any other profession, and as of 2012 over 60% of US private equity funds had no senior female professionals at all.<sup>4</sup>

This issue extends beyond individual funds. In a recent survey of 114 Limited Partners (LPs) three out of five respondents believed greater gender diversity would benefit private equity firms.<sup>5,6</sup> Many investors in private equity, such as pension plans and other institutional investors, also note how this lack of diversity can be problematic for their stakeholders and board members, particularly when a large portion of their beneficiaries are women (e.g. teacher or public service pension funds).

## Exhibit 2

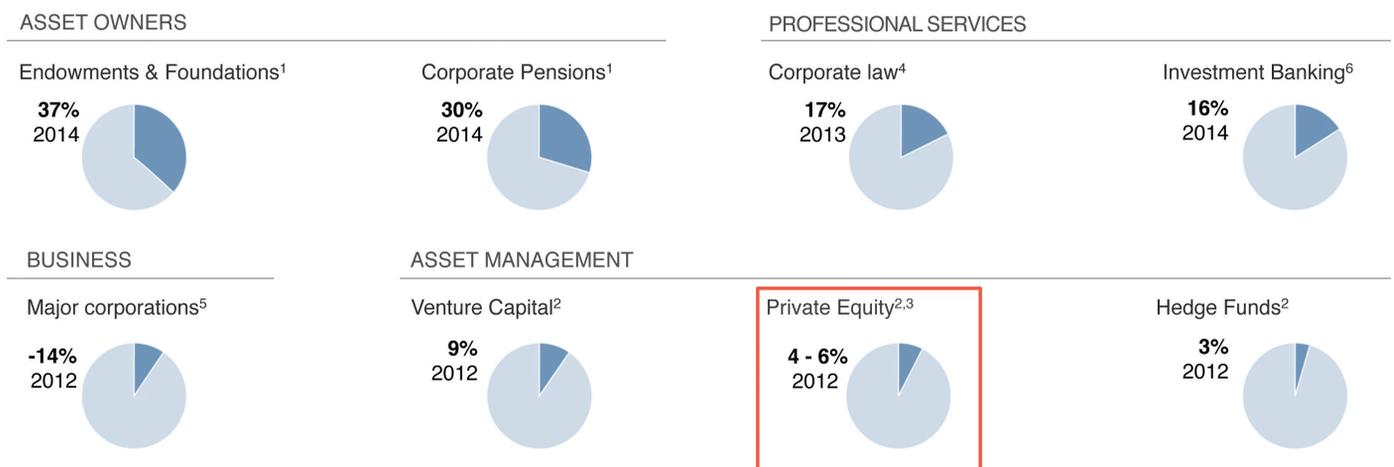
Proportion of women represented in:



Source: Catalyst.org; Lietz, N.G., Harvard Business School

## Exhibit 1

The Percentage of Females in Senior Roles Across Professions



Source: 1. *Alternative Investor; Chief Investment Officer, "The Missing Women of Asset Management", June 20 2014*; 2. Nori Gerardo Lietz, Harvard Business School; 3. Real estate (4%) and private equity (6%); 4. Senior defined as women equity partners and general counsel of Fortune 500 corporations; 5. Listed European companies with more than 10,000 employees and/or revenue greater than 1 billion Euros. Source: Women Matter 2012, McKinsey. 9% equates to seats on the executive committee; 14% is senior management and vice president; 6. US Equal Opportunity Employment Commission; source from Catalyst Knowledge Center, [www.catalyst.org/knowledge/women-financial-services](http://www.catalyst.org/knowledge/women-financial-services)

## What is driving this gender gap?

The gender gap in private equity starts with the number of women who are recruited for entry level positions, and then widens during career advancement. The key reasons underpinning the gender gap at each stage of the process are summarized below.

### APPLICATIONS

The sector may have developed **image issues** which deter women from applying in the first place. The **limited number of women at senior and even mid-levels** can send a message to potential female applicants that they won't have a 'fair shot' and their efforts are better directed elsewhere.

### RECRUITMENT

**Bias in recruiting.** Studies suggest subconscious biases against women in technical roles could come into play when hiring.<sup>7</sup>

**Traditional recruiting pools** for private equity come almost exclusively from investment banks, which also have low female representation.

### RETENTION/PROMOTION

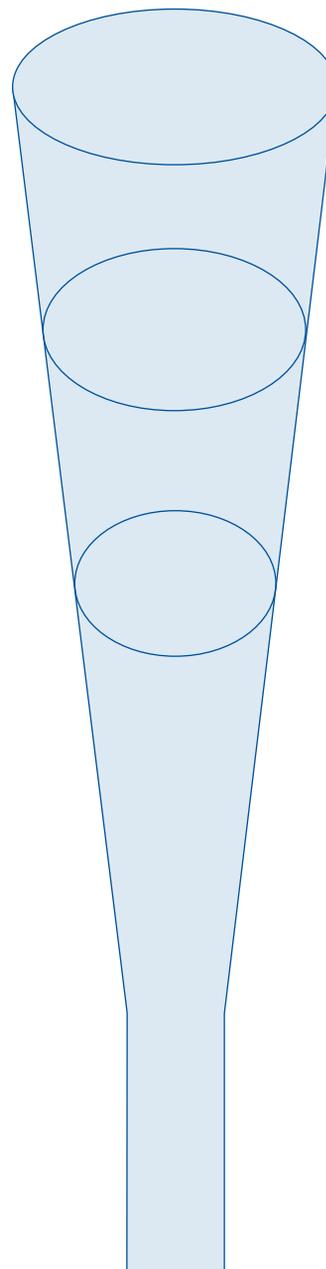
Women are less likely to attract the **senior sponsorship** needed to accelerate their careers. This can be due to halo effect – a tendency to advocate for and mentor those similar to oneself.

Women may be less likely to receive honest, concrete feedback both in real time and in reviews. It has been observed that senior men can be uncomfortable delivering constructive criticism to younger women. Yet this feedback is critical for promotion/advancement and career path development.

Studies have shown that women can face a '**popularity**' penalty for being **tough, negotiating for themselves and deliberately networking** – all important traits to advance in private equity.<sup>8</sup>

Women are more likely to **take on more child and home responsibilities**, causing the 'double work shift'.

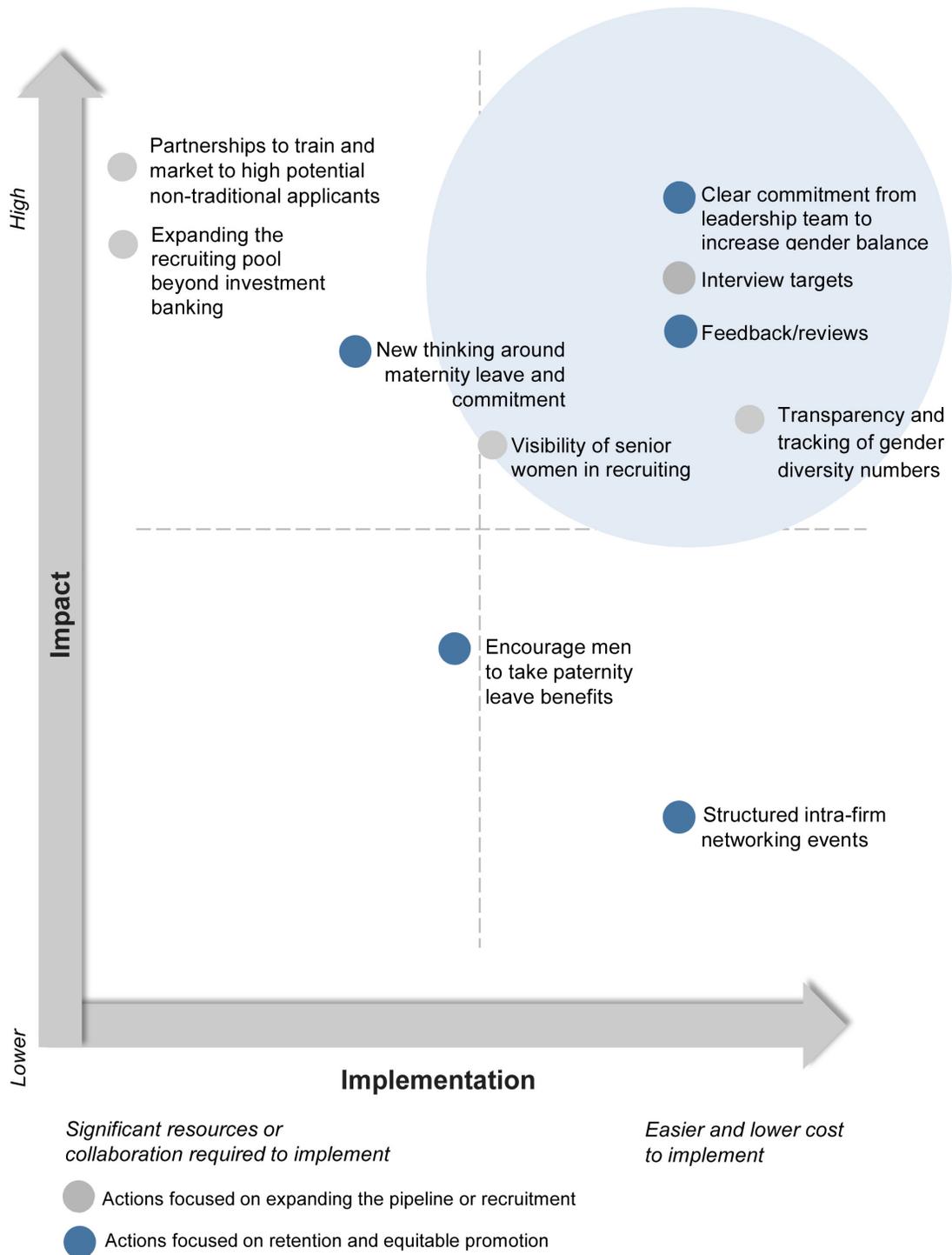
Women are more likely than men to take breaks from work if they have children. This can lead to an assumption of diminished professional commitment and no longer being 'fully in the game', casting women outside the informal networks needed for career opportunities.



## Prioritizing initiatives

In Exhibit 3 below, solutions and necessary conditions to tackle the gender gap are mapped out against 'likely impact' and 'difficulty or cost to implement'. These points are expanded upon in the *Action Plan* below.

Exhibit 3



# Action Plan – best practices to attract and retain top talent

The following checklist expands upon the key initiatives in Exhibit 3, those which are found to have the highest impact.

## Clear commitment from leadership to increase gender balance

**Leadership trumps everything.** A fund may enact all the actions detailed below, but if there is not a clear commitment by senior leadership, the necessary cultural and behavioral changes will not be enacted and the action plan will not succeed.

Actively discuss and promote the business case for increased gender balance, and how it is aligned with the values of fairness, respect and meritocracy. Develop and communicate a narrative that highlights the importance of attracting the best talent. Acknowledge that firms are leaving talent on the table if they do not engage female professionals. Highlight stories of success.

### Action:

- Train senior leaders and provide them with coherent messaging before they ‘sponsor’ diverse talent; educate them on the ‘current state’ of the firm, including specific numbers; generalities don’t work.
- Avoid presenting certain initiatives as gender specific. For example, more structured networking opportunities and recruitment procedures are best practices independent of the benefits to diversity.
- Stay clear of ‘well-meaning’ stereotypes when explaining the benefits of gender parity, such as suggesting that women are better communicators or more collaborative than men.

## Leadership by Example

- 1. Be a sponsor.** Encourage women to pursue the right opportunities that will further their careers. Get to know the talented women on your team, and ask those women for feedback on what you can do to advance their career goals. Push for specifics.
- 2. Encourage all voices to be heard in meetings.** Actively solicit feedback from those who don’t typically contribute.
- 3. Challenge what you may perceive to be unconscious gender biases.**

## Many top business schools are increasingly focused on improving gender diversity in the recruitment process.

As just one example, in January 2015, Harvard Business School (HBS), Stanford Graduate School of Business (Stanford), and The Wharton School (Wharton) compiled **CV books of current high potential business school female students** who have expressed a strong interest in private equity careers. The aim is to increase the visibility of these students and to support private equity firms who want to ensure high potential female candidates are not being overlooked at the interview selection stage.

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## Interview Targets, Transparency & Tracking

Studies show that when equally qualified male and female candidates apply for a job, managers are still more likely to hire a man.<sup>9</sup> Most people have biases which impact objective recruitment decisions, and have a tendency to hire and interact with people who are like themselves. This results in the proverbial ‘self-replicating organization’.<sup>10</sup>

Interview targets can be an effective tool to increase the visibility of female candidates, while avoiding the tokenism or internal backlash potentially associated with hiring quotas.

Make it explicit to recruiting firms that it is a policy to have a diverse pool of initial candidates for positions at all levels. A meaningful portion (e.g. 30-50% at junior levels, 20-30% at senior levels) of first-round interview candidates should be women.

This approach should of course be reinforced by methodical interview processes, where hiring criteria and qualifications are decided upon pre-interviews, and candidates are marked as objectively as possible against consistent criteria.

Measurement and tracking of gender diversity are also powerful tools for change. In the recruitment process, track and report diversity by stage: CVs reviewed, interviews offered, offers given, end hires. In the promotion process, firms can track and report gender diversity by seniority level. This may help management identify underlying issues and promote action. Given statistical limitations, the value of tracking and measurement will be greater for larger funds.

## Feedback

It is crucial to give all employees detailed, specific feedback on how to advance to the next level on a regular basis. Gender-specific biases in the nature and frequency of such feedback need to be avoided. Managers should be trained to ensure they are able to provide real-time, concrete feedback to their staff.

Offer discussion forums and training opportunities for leaders and managers on subconscious biases and how to manage them effectively.

## New thinking around maternity leave

An employer's handling of maternity is a key retention factor for female staff. Handled well, fierce and long-term loyalty can be the outcome. Handled badly, valuable talent is lost.

Particularly in the early days, it is important to dispel the perception that maternity leave will be too hard or that burnout is inevitable. Both signal that private equity is not a desirable career path for women.

### **Make sure there is a conversation and a future ramp up plan.**

Women who take maternity leave or even temporarily have reduced hours can find themselves 'mommy tracked', where colleagues (even subconsciously) doubt their commitment or ambition, and don't view them as potential future leaders. They can start to miss out on the critical, but more informal, information flows. Well-meaning managers may guide less challenging projects their way, resulting in reduced responsibilities. These women start to feel demotivated, sidelined and may not see a path to 'catch up' with peers, increasing the chances they will leave.

To combat this, leaders of funds and women themselves must ensure proactive and constructive conversations at the point of embarking on or returning from maternity leave. A clear plan should be formulated for getting back into challenging transactions and projects.

Encourage men to also take paternity leave benefits, reinforcing that taking time for parenthood is both acceptable and expected for both genders. Train professionals who are working directly with or supervising parents-to-be on how to have conversations about maternity and paternity leave.

## Expand the hiring pool beyond investment banking

Expand the hiring pool beyond investment banking to non-traditional but still quantitative backgrounds such as consulting or high-tech. If candidates lack necessary technical skills, specific training programs can be recommended for prospective hires to complete on their own time prior to transitioning.



**The highly ambitious women who elected into private equity in the first place, are likely to be seeking more challenging assignments, and more opportunities for career growth post children.**



Participant quote from 9 October 2014 Forum meeting on *Gender Diversity & Private Equity*

## Visibility of senior women in recruiting

Ensure senior women are visible in the interview and recruitment processes, demonstrating to potential hires that this is an environment where talented women can thrive and there are roadmaps to their success. Combat the notion that private equity is not friendly to women who wish to have children by providing examples of successful female employees with creative and flexible work arrangements.

Importantly, men must be prepared to speak about the importance of diversity within the recruitment process without appearing scripted.

## Structured internal firm networking events between senior leadership and junior professionals

For junior professionals, visibility and the potential to form close relationships with senior management is critical for advancement. Men often have access to more informal networking opportunities and connections with the predominantly male leadership.

Formal sponsorship programs – where young high potentials are connected with sponsors who advocate for their protégés' career advancement – are highly effective tools in larger organizations. However, they may not suit the smaller staff size of many private equity funds. Structured networking opportunities for junior, and mid-level professionals to interact and connect with senior leadership might be more appropriate in this context. To succeed, these efforts must have involvement and clear commitment from the senior men within the firm.

## Partnerships to train and market to non-traditional candidates

Consider supporting or initiating collaborative, industry efforts to expand the pipeline of highly qualified women. Through partnerships with business schools or industry associations, private equity funds could market the sector and provide training to high-potential, non-traditional candidates, particularly at pivotal times such as the beginning of business school.

# Endnotes

- <sup>1</sup> Catalyst. The Bottom Line: Corporate Performance and Women's Representation on Boards (2004–2008) 2011. Credit Suisse Research Institute. 'The CS Gender 3000: Women in Senior Management'. September 2014. McKinsey & Company. Women Matter. Unlocking the full potential of women at work. April 30, 2012.
- <sup>2</sup> The Credit Suisse Institute, 2012
- <sup>3</sup> Catalyst. 2013 Catalyst Census: Fortune 500 Women Board Directors. Catalyst, 2013. Nori Gerardo Lietz. *Cloistered in the Pink Ghetto: Women in Private Equity, Real Estate and Venture Capital*. February 2012.
- <sup>4</sup> Alternative Investor, Chief Investment Officer, "The Missing Women of Asset Management", June 20, 2014.
- <sup>5</sup> Collier Capital. Global Private Equity Barometer, Winter 2014.
- <sup>6</sup> It is worth noting most LP respondents (88%) from this survey did not believe greater gender diversity would impact returns. However greater gender diversity was believed to positively strengthen team quality, governance, risk management and investor relations.
- <sup>7</sup> Wittenberg-Cox, Avivah. "In Search of a Less-Sexist Hiring Process". Harvard Business Review. March 17, 2014.
- <sup>8</sup> Davis, Kathleen. "The One Word Men Never See In Their Performance Reviews." Fast Company., 27 Aug. 2014. Web.
- <sup>9</sup> Ibarra, Ely and Kolb. *Women Rising: The Unseen Barriers*. Harvard Business Review. September 2013. Reubena, Sapienza, and Zingales. *How stereotypes impair women's careers in science*. Proceedings of National Academy of Sciences(PNAS). March 10, 2014
- <sup>10</sup> Wittenberg-Cox. HBR. March 17, 2014.



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