

# Women in Private Equity: The Limited Partner Perspective

Briefing Note

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## 1. Background

Women represent a small minority of senior executives in private equity. In 2015, only one in seven senior professionals in the industry were women,<sup>1</sup> lagging other industries when it comes to gender balance. Inspired by successful efforts to attract more female professionals in tech, medicine, law and manufacturing, some in the private equity industry believe it's time for private equity to make the business case for improving gender diversity.

There is noteworthy progress - many leaders in the industry are considering how to introduce best practices, industry initiatives and workable next steps for limited partners (LPs) and general partners (GPs) to advance gender diversity.

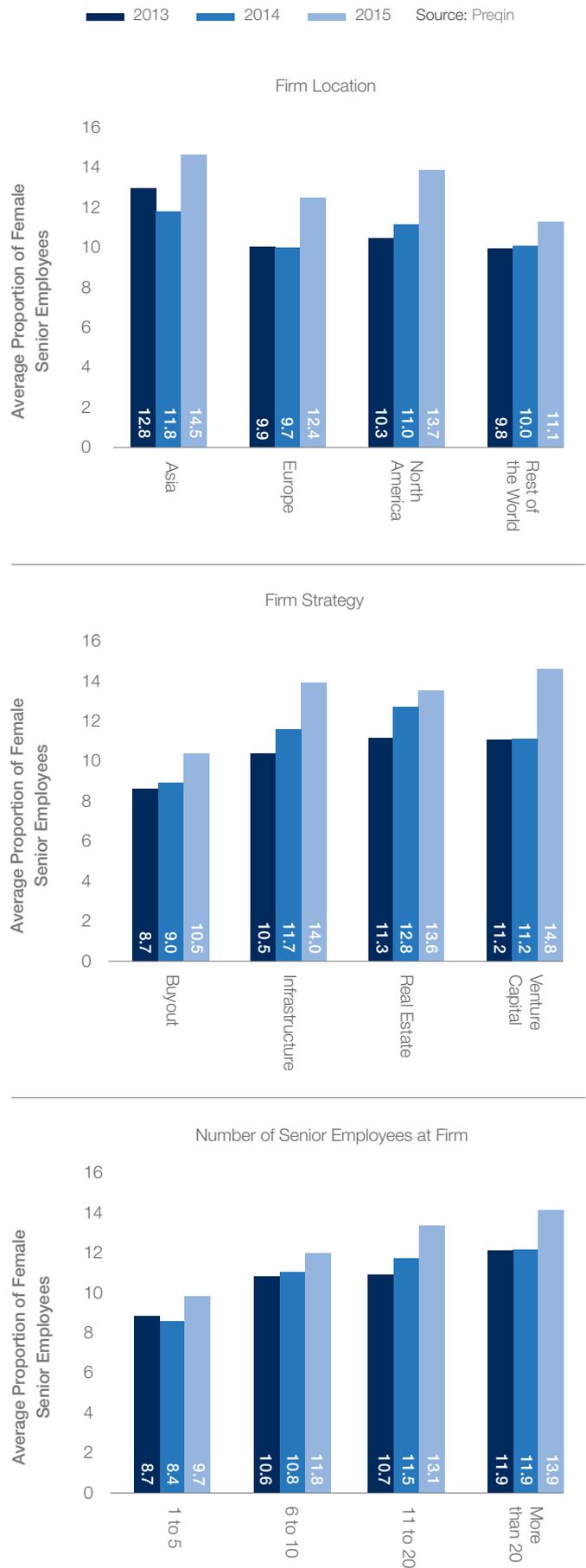
LPs have a particularly strong responsibility to drive change. Whether pension funds, sovereign wealth funds or endowments, LPs are stewards of funds belonging to a diverse set of beneficiaries – a level of diversity that is not reflected in the private equity firms selected to invest those LP assets. Some 59% of LPs believe that private equity firms would benefit in a general sense from having more gender-diverse teams.<sup>2</sup>

To galvanize action towards parity, the World Economic Forum and its members recently convened a self-selected and committed working group within the private equity industry. The group consisted of GPs, LPs and other industry experts, who attended a workshop in October 2014 and gathered for a larger follow-up forum, *Women in Private Equity – the Limited Partner Perspective*, in November 2015. The goal was to generate discussion among both LPs and GPs regarding not just the issue itself, but advancements that could be both practical and beneficial for private equity firms and their clients.

This briefing note is an effort to capture and continue this momentum by outlining suggested best practices toward gender diversity in private equity. As with past discussions, these practices are presented not as prescriptive mandates, but as suggested starting points – footholds for leaders who see gender diversity as a compelling benefit to both business success and organizational culture.

## 2. Root Issues

Private equity is traditionally a male-dominated profession. While the industry is not unique in being gendered – and indeed many professions such as teaching and nursing have historically been female-dominated – gender diversity has been a pernicious issue in private equity. While recently seeing slight improvements, in 2015 the industry still only employed an average of approximately 15% female senior professionals (up from an average of 11.2% in 2014). Furthermore, female representation varies by geography, strategy and size of firm. Asian firms generally have a better record, as do venture capital firms and firms with more than 20 senior employees.



As shown in the Forum’s report “Ensuring a Level Playing Field: Women in Private Equity”, there are three dimensions to the gender gap in private equity. First, the industry’s image deters women from applying to vacancies. This results in a smaller pool of women for firms to select when hiring. Second, studies show subconscious biases against women in technical roles, which can be found across all industries. Third, women are not advancing in firms. Among institutional asset management firms, female representation tumbles from about 16-24% for analyst/trading roles to around 8% for senior management roles – and private equity sees a similar drop-off rate. Meanwhile, asset managers do achieve parity in support staff roles, which adds to stereotyping and male bias (also described as the “pink ghetto” by Nori Gerardo Lietz).<sup>3</sup> Partly, this is because women are less likely to attract the senior sponsorship needed to accelerate their careers. This can be due to a halo effect, which is the tendency to advocate for and mentor those similar to oneself.

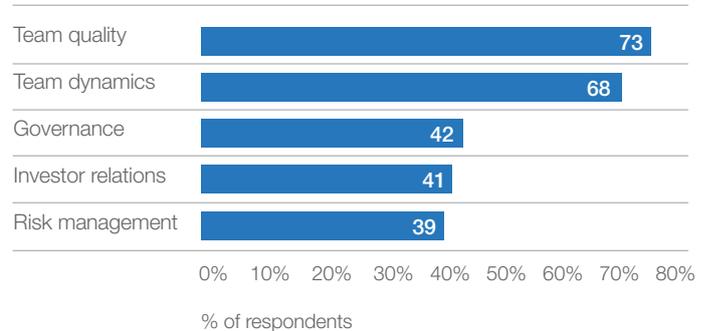
Taken together, these factors result in a rigidly male-biased industry. The effects are self-reinforcing and many myths persist about women in the industry to this day. Only recently have we begun to see some recognition of gender bias in private equity and, over time, we could see a gradual movement toward correcting the gender myths. Any such movement in the industry will likely accelerate once private equity firms and their clients see gender as a diversification and talent issue rather than a social mandate or a human resources requirement.

### 3. The Business Case

Gender balance is often framed as an issue of fairness. But it does not take an appeal to conscience to make the case for more women; the business case for more women in PE is strong. This is not about a silver bullet – 88% of LPs do not think that women offer a magic formula to directly improve returns. Nevertheless, three in five LPs believe that private equity firms benefit in a general sense from having a gender-diverse team and of those, 73% believe team quality and 68% believe team dynamics are the aspects identified as most likely to benefit.<sup>4</sup> About 40% of these LPs believe that GP governance, investor relations and risk management would also be positively impacted.<sup>5</sup>

More gender-balanced teams in PE would yield three major gains: diversification, an expanded talent pool and access to “female capital”.

#### LP views on the areas within a GP that would benefit from gender diversity



#### Diversification

Gender balance is a diversification strategy. Men and women possess enough biological and cognitive differences to account for a diversification effect in investment behavior. Research has found that women exhibit less overconfidence, take a differentiated approach to risk and are more consistent in their execution of strategy.<sup>6</sup>

Investment consultant and author Meredith Jones argues that, “[...] if we diversify portfolios by geography, liquidity, number of investments, asset classes and other factors, why don’t we also consider diversification from a behavioral and gender point of view? At an individual portfolio level, an investor with both male and female fund managers can potentially mitigate the risk associated with having only one dominant behavioral pattern.”<sup>7</sup>

#### Expanding the Talent Pool

Private equity firms compete for talent, not only against each other and adjacent sectors in financial services, but also against other industries such as tech, medicine and engineering. Many women choose not to pursue careers in PE, and consequently the industry is not benefitting from a potentially large talent pool. This will exacerbate in the future if recent trends continue and fewer women and men join the finance industry.

#### Access to “Female Capital”

Women control increasing amounts of wealth – whether in private households, as entrepreneurs or in senior positions at LPs. Economist Sylvia Ann Hewlett, founding president of the Center for Work-Life Policy, calls this shift in capital ownership “the largest emerging market in the world.” Outside of private equity circles, the broader investment industry is taking note of gender balance issues. In the arena of private wealth management, advisors are realizing a need to improve services for women.

Each of these three dimensions shows how private equity firms could benefit from a greater female presence. However, LPs are not passive observers – and the business case argument applies as much to LPs as it does to GPs. As columnist Dan Primack aptly notes in Fortune Magazine, “What’s particularly galling about this

*is that LPs talk constantly about how they invest in 'people and teams' – as opposed to specific investment strategies. If that's the case, then wouldn't you want to support something that you believe would improve 'team quality' and 'team dynamics?'"<sup>8</sup>*

## 4. The Cultural Lever

In recent discussions at Forum workshops, both LPs and GPs have been quick to cite the importance of organizational culture as either a catalyst for or an impediment to changing gender equilibrium in private equity. While the business case is a vital starting point for change, the leadership culture of an organization often will determine whether any change involving gender balance will actually gain ground.

Over the course of these discussions, LPs and GPs have built consensus on several key issues that tend to act as either contributors or detractors for gender diversity initiatives:

### Cultural Catalysts

- Larger private equity firms have greater capacity and industry clout to take the lead on gender diversity efforts. This can inspire a bow wave for other firms, both large and small.
- Leadership's direct involvement and genuine support of gender diversity initiatives greatly improve the odds of any real progress.
- LPs that are willing to press for information on how GPs are addressing gender diversity are more likely to have an impact on industry changes.
- GPs have the potential to establish a "gold standard" for gender diversity policy and practices.
- Cultures that make a point of legitimizing work-life balance rather than shunning it will better attract fresh talent, especially among Millennials.
- Gender diversity on boards and within leadership ranks encourages women at entry and middle levels.
- Cultures that can assimilate new people from other industries (outside of asset management) may be more likely to make strides in gender diversity.

### Cultural Barriers

- Cultures that ignore hiring bias (I will hire people who look and act like me) will struggle to diversify – not just along gender lines.
- Organizations that recruit talent from a limited sphere of contacts will be less likely to diversify across gender.
- Organizations that recruit talent entirely from asset management circles will be less likely to diversify across gender.
- LPs that are unwilling to ask questions about gender diversity as part of their due diligence process may contribute to the status quo whether they realize it or not.
- Smaller GPs often lack the resources or bandwidth to take on gender diversity initiatives.
- Leaders who remain aloof to the issue or settle for delegating gender diversity to human resources groups or other management teams will undermine those efforts.

## 5. Action Plan – Pragmatic Guide to Best Practices

As a result of the Forum's honest discussions among LPs and GPs, a basic model for best practices has begun to emerge. This model, admittedly a work in progress, consists of a framework to help organize gender diversity efforts.

The model is based on a need to mold the initiatives to each LP or GP on a custom basis – no one-size-fits-all effort will work. Each organization can select ideas from the list provided, then fit the most appropriate initiatives into the model to see where gaps or future opportunities might exist. The ideas and suggestions listed here are items that surfaced during discussions involving both LPs and GPs, along with other consultants and gender diversity experts.

Here's how it can work:

1. Review the framework to see what could apply to your organization.
2. Review the list of best practices to generate ideas for what might work for either LPs or GPs.
3. Brainstorm a list of next steps that works for your organization.
4. Remake the framework with a short list of initiatives for your organization. Try to include at least one initiative as a qualitative step and one as a quantitative step.

## Gender Diversity – Guidelines and Initiative Planner

	LPs	GP
BUSINESS CASE Quantitative Practices	<b>Basic</b> <ul style="list-style-type: none"> <li>– Build due diligence into assessment process</li> <li>– Assess existing managers’ practices</li> <li>– Set gender diversity goals</li> </ul>	<b>Basic</b> <ul style="list-style-type: none"> <li>– Respond to LP gender questions with the same urgency as other questions</li> <li>– Connect with peer firms to share best practices and progress</li> <li>– Set gender diversity goals</li> </ul>
	<b>Intermediate</b> <ul style="list-style-type: none"> <li>– Ask GPs about hiring and promotion practices</li> <li>– Ask GPs about consistent metrics for measuring gender diversity</li> </ul>	<b>Intermediate</b> <ul style="list-style-type: none"> <li>– Establish objective hiring criteria</li> <li>– Include gender balance in leaders’ goals/pitches</li> <li>– Align benefits to work-life values</li> </ul>
	<b>Advanced</b> <ul style="list-style-type: none"> <li>– Track gender metrics on a total portfolio basis</li> <li>– Measure progress over 3-5 years</li> <li>– Develop industry metrics and advocacy campaign(s)</li> </ul>	<b>Advanced</b> <ul style="list-style-type: none"> <li>– Measure results over 3-5 years</li> <li>– Share progress with peer organizations</li> <li>– Develop industry metrics and advocacy campaign</li> </ul>
CULTURE CASE Qualitative Practices	<b>Basic</b> <ul style="list-style-type: none"> <li>– Ask GPs about hiring sources and processes</li> <li>– Assess gender diversity across GPs and portfolio companies</li> </ul>	<b>Basic</b> <ul style="list-style-type: none"> <li>– Outreach to MBAs/schools</li> <li>– Cite gender as strategic issue and articulate gender policies</li> <li>– Examine hiring biases and seek employees from multiple sources/industries</li> </ul>
	<b>Intermediate</b> <ul style="list-style-type: none"> <li>– Recognize GPs that achieve gender balance</li> <li>– Request GPs address gender deficiencies</li> <li>– Evaluate “emerging” manager programs for gender diversity</li> </ul>	<b>Intermediate</b> <ul style="list-style-type: none"> <li>– Establish sponsorships for women in the organization</li> <li>– Identify “gold standard” firms within the industry</li> <li>– Conduct workshops to address hiring biases</li> <li>– Take visible industry leadership role</li> </ul>
	<b>Advanced</b> <ul style="list-style-type: none"> <li>– Create a gender balance certification program</li> <li>– Sponsor an industry survey that includes gender issues</li> </ul>	<b>Advanced</b> <ul style="list-style-type: none"> <li>– Analyze exit interviews over time, when women leave</li> <li>– Create a professional development track for women</li> <li>– Introduce gender balance certification or industry recognition</li> </ul>

### Suggested definitions to support the guidelines framework:

<b>Basic</b>	Any initiative that can be completed in 1-3 months.
<b>Intermediate</b>	Any initiative that can be completed in 6-12 months.
<b>Advanced</b>	More complex efforts that require multiple groups and more than a year.

## Top 10 Best Practices

The discussions during the Forum's workshops resulted in initiatives and suggestions for PE firms to promote gender diversity.

- 1. Set goals for gender diversity  
Start somewhere**
- 2. Leverage scale to take the lead on  
improving gender diversity in private equity**
- 3. Get clear commitment from firm  
and industry leadership**
- 4. Create a "sponsorship" path for women  
associates that includes both responsibility  
and visibility within the organization**
- 5. Include gender diversity components in  
training and professional development**
- 6. Include gender diversity criteria or guidelines  
in recruiting and hiring practices**
- 7. Extend hiring and search efforts outside of  
limited industry and academic circles**
- 8. Develop metrics, policies and values related to  
gender diversity when conducting due diligence**
- 9. Evaluate progress by gathering feedback  
and metrics**
- 10. Speak out and share best practices  
or success with industry peers**

## 6. Conclusion

In essence, the effort to improve gender diversity in private equity should be driven by three concrete truths:

- Diversification benefits both investment portfolios and investment organizations.
- Access to broader pools of talent is advantageous for any growth organization over time.
- Women represent an increasing share of capital ownership and business leadership globally, so the stakeholder universe for PE firms is changing.

Importantly for the business case, gender is only one of the steps towards achieving diversity. To reap the full benefits, any organization that is serious about enhancing gender diversity will also have to embrace other kinds of diversity in its corporate culture and team environments - in work styles, approaches, mindset, among others.

Those LPs and GPs that recognize the opportunity presented by these facts will be in a stronger position to drive improvements in this industry's gender landscape. In turn, they will be more likely to create organizations that are well-equipped to keep pace with competing industries when it comes to securing winning talent, strong reputation and healthy revenues for the long term.

## Endnotes

- <sup>1</sup> <https://www.preqin.com/docs/press/Women-in-PE-Mar-15.pdf>
- <sup>2</sup> [http://www.collercapital.com/uploaded/documents/Publications/2014/Collier\\_Capital\\_Global\\_Barometer\\_-\\_Winter\\_2014.pdf](http://www.collercapital.com/uploaded/documents/Publications/2014/Collier_Capital_Global_Barometer_-_Winter_2014.pdf)
- <sup>3</sup> [http://www.calstrs.com/sites/main/files/file-attachments/clois\\_tered\\_in\\_the\\_pink\\_ghetto.pdf](http://www.calstrs.com/sites/main/files/file-attachments/clois_tered_in_the_pink_ghetto.pdf)
- <sup>4</sup> [http://www.collercapital.com/uploaded/documents/Publications/2014/Collier\\_Capital\\_Global\\_Barometer\\_-\\_Winter\\_2014.pdf](http://www.collercapital.com/uploaded/documents/Publications/2014/Collier_Capital_Global_Barometer_-_Winter_2014.pdf)
- <sup>5</sup> [http://www.collercapital.com/uploaded/documents/Publications/2014/Collier\\_Capital\\_Global\\_Barometer\\_-\\_Winter\\_2014.pdf](http://www.collercapital.com/uploaded/documents/Publications/2014/Collier_Capital_Global_Barometer_-_Winter_2014.pdf)
- <sup>6</sup> Meredith Jones, *Women of The Street: Why Female Money Managers Generate Higher Returns (and How You Can Too)*
- <sup>7</sup> Meredith Jones, *"Wall Street Has a Problem with Women; Here's Why You Should Worry"*, WEF Agenda blog post, October 2015
- <sup>8</sup> Dan Primack, *"The Private Equity Gender Gap,"* Fortune, December 23, 2014

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