

One woman, ten men...

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Transforming the Private Equity Business Model

There is hardly another sector where the proportion of women is as low as in the private equity industry. The transformation of business models could, however, soon lead to change.

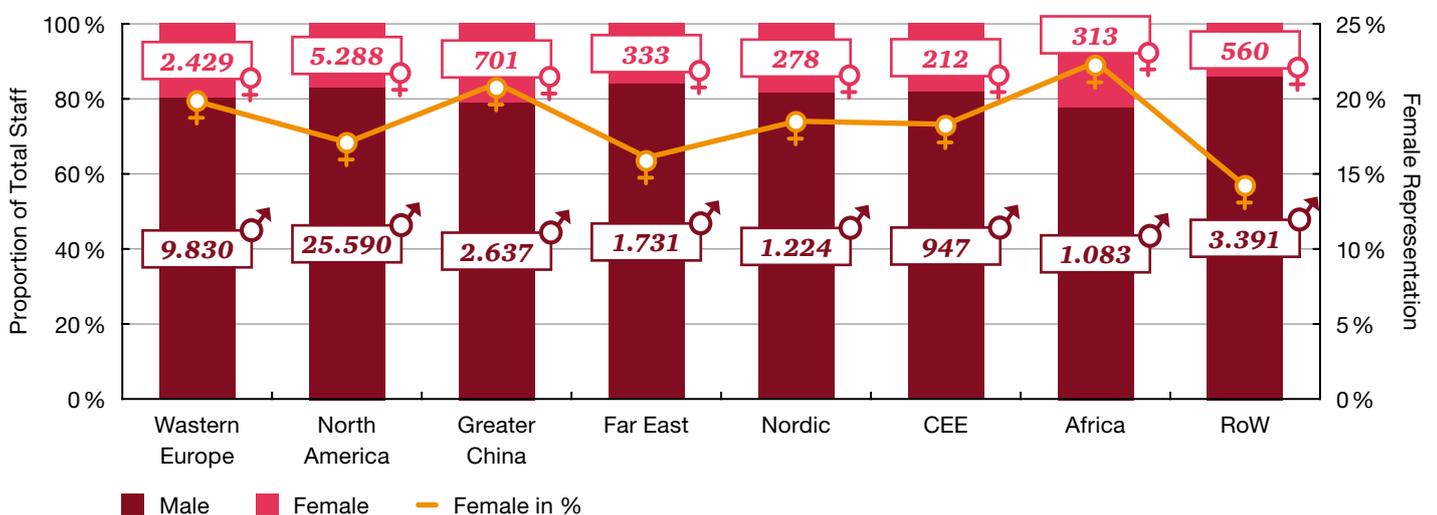
When the Californian private equity firm Luminate Capital Partners recently announced the closing of its debut fund with more than \$265 million of capital commitments, that in itself was already notable news. After all, it's not every newly formed private equity firm that can achieve such an amount from a standing start. The news was, however, truly remarkable for another reason: The founder of Luminate is Hollie Haynes, former Silver Lake Partners Managing Director. A woman at the head of a private equity firm? Yes, this is still unusual.

In actual fact there is hardly another sector where the proportion of women is lower than in private equity. According to Preqin data, only 10,114 of the 56,547 people employed globally in the sector as of September 2017 are women, which equates to 17.9%. The situation in Western

Europe was a little better (19.8%) than in North America (17.1%), and in the DACH region the proportion was even as high as 21.1% (more due to Switzerland's 23.9% than Germany's 18.8%...), but the bottom line is this: Even compared with other alternative investment classes, the proportion of women in the private equity industry is particularly low.

In the venture capital industry, the proportion was, at least, 20.5%. In the real estate sector, it was 20.6%. And, relatively speaking, with a proportion of 18.6%, there were even more women working in hedge funds than in private equity. The picture becomes even more sobering when you focus in on senior appointments. Only 2,346 women in the private equity industry held senior positions; this equates to only 9.4% when measured against the 24,926 senior positions overall. Here again, the private equity industry lagged behind the rest of the alternative asset industry, with women in venture capital firms at least occupying 11.5% of the top positions; in the real estate sector it was 9.9% and for hedge funds it was 11.2%.

Private Equity – Female vs. Male by Region



Source: Preqin.

What lies behind all of this?

The private equity industry has always been male-dominated, as demonstrated by the names that established and built it up in the 1980s and 90s: Kohlberg, Kravis and Roberts. All were men, just like Steven Schwarzmann, the Blackstone founder, or David Bonderman, James Coulter and William S. Price, the founders of the Texas Pacific Group. It is no contradiction to say that a comparatively young industry looks rather old-fashioned when it comes to the matter of gender. On the contrary: The fact that many private equity firms are still being run by the founder generation is likely to make it more difficult to establish modern corporate structures, and all the more so because private equity firms are, in terms of employee numbers, relatively small businesses. The senior management level, which is often conservative, therefore exerts a strong influence on the whole organization. Moreover, smaller firms generally find it harder, at least for senior positions, to help their female managers find better ways of combining career and family through part-time working.

The lack of female role models may be another reason for the significant underrepresentation of women. Even in the technology sector, which is also very male-dominated, there are role models such as the Facebook COO Sheryl Sandberg, HP CEO Meg Whitman or Marissa Meyer, the former Yahoo boss; in the private equity industry, however, examples such as Luminate founder Hollie Haynes or Dominique Senequier, the founder of Ardian, are the great exceptions. This could explain why talented young women, if in doubt, decide to enter other industries where they presume that there are better opportunities for career progression and a more open working culture.

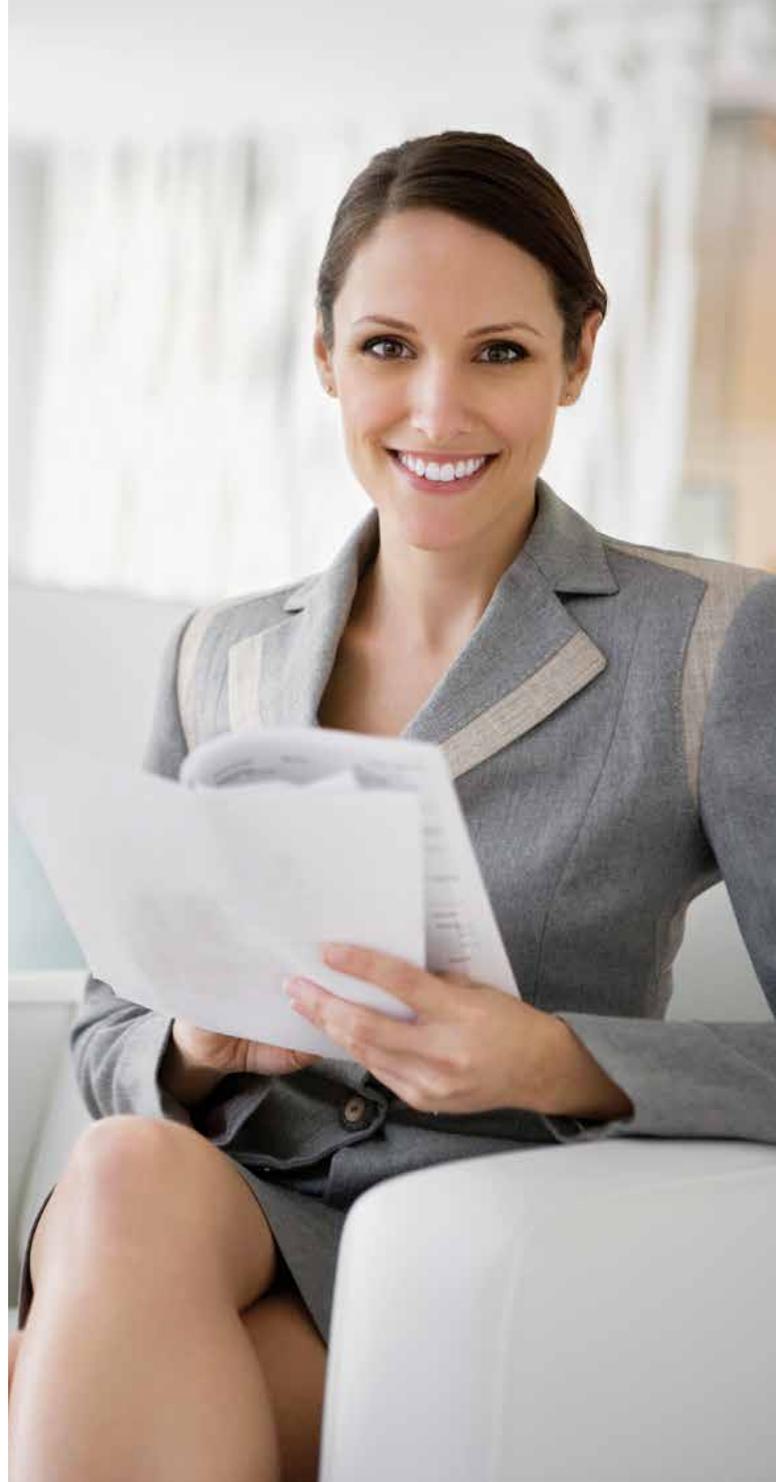
As long as two years ago, Joan Solotar, then Head of External Relations and Strategy at Blackstone, drew attention to the problem of the talent pool potentially being too small: “Out of the roughly 1,000 applicants applying to the associate position, only about 100 were women. How are you going to get to 30% if only 10% of applicants are women?”



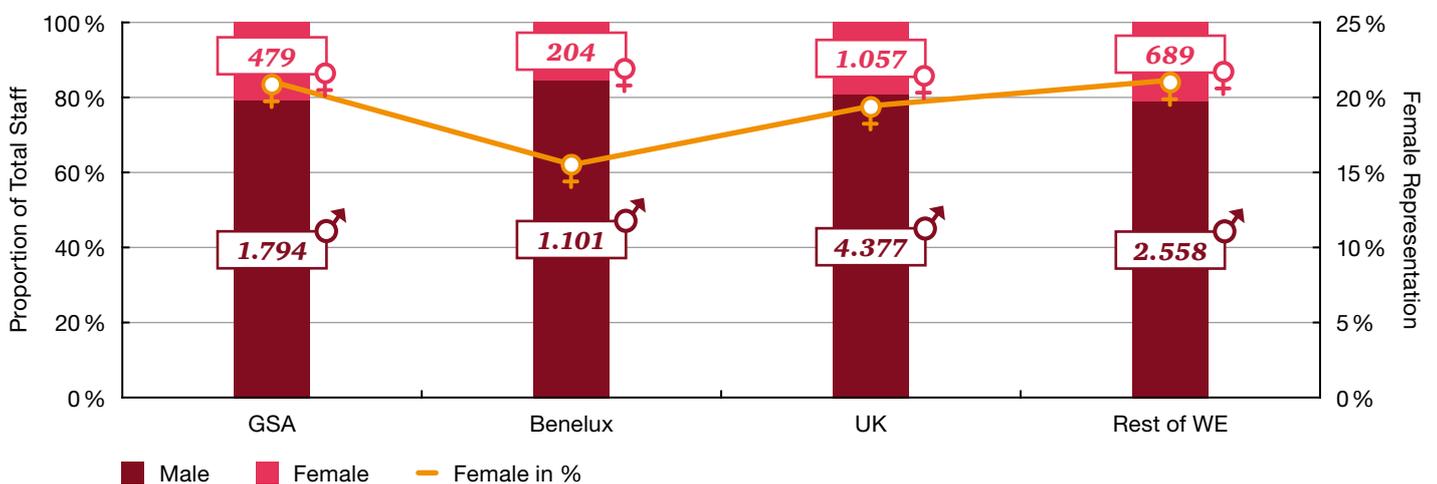
Not even industry representatives deny that the striking predominance of men is likely to become a problem sooner or later – and not just for the industry itself, but also beyond, as the influence from private equity on the remaining corporate world continues to increase. If, therefore, the private equity industry does not manage to attract the best female talent, then the corresponding portfolio companies and the economy as a whole will also at some point suffer as a result of this deficiency.

That said, it looks as if the private equity industry has not only recognized the problem but is also finally taking steps to address it. An increasing number of financial investors are starting internal initiatives to better support female talent. At the same time, networks are being formed such as “Level 20” which has set itself the task of supporting female private equity managers with mentoring programs. Another example is the London “Women in Private Equity Forum” which is already taking place for the fourth time in November. And as many as six women made it on to this year’s Financial News “Rising Stars of Private Equity” list – 24% of the total 25 people selected.

The fundamental transformation of the private equity business model could also be a potential catalyst for change: The times when the industry sought to increase the value of its portfolio companies first and foremost by financial engineering are definitely behind us. Nowadays, financial investors are instead developing their investments operationally, which is also resulting in radical changes in the internal structure of many private equity firms. In the past, the industry mainly recruited its staff from investment banks. Now, however, recruitment is focusing on companies in the real economy and on consulting firms, i. e., sectors in which the proportion of women is significantly higher than in the financial sector. There are therefore several indications that, at some point, examples like Dominique Senequier or Hollie Haynes will no longer be the exceptions.



Private Equity – Female vs. Male Western Europe



Source: Preqin.

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