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How PE and VC Are Closing the Gender Gap in Emerging Markets

If including women in senior private equity and venture capital leadership teams improves returns, why is the gender gap still so pervasive?

Private equity (PE) and venture capital (VC) together have an increasingly important role in the economic development of emerging markets providing alternative funding opportunities for entrepreneurship development, start-ups and private sector growth.

While the asset class is expanding, women remain significantly under-represented on senior investment and management teams and the untapped potential of female-owned businesses is largely ignored. Firms that actively reach out to women can double their talent pool and diversify their skillsets. Unfortunately, the majority of PE/VC firms don't. By ignoring half the workforce, they deny themselves alpha-generating diversification.

A new study into the extent and impact of gender disparity in the PE/VC industry across emerging markets has found that:

- 7 percent of PE/VC capital is invested in female-led businesses
- 11 percent of senior investment professionals are women
- 15 percent of firms' senior investment teams are gender-balanced – with between 30 percent to 70 percent female in leadership roles
- 20 percent of portfolio companies' senior leadership teams

While the figures seem unfair from a social perspective, there is also a strong business case for addressing this gender disparity. The study indicated that funds managed by gender-balanced investment teams report significantly higher returns – 10 percent to 20 percent – than male-dominated funds.

The impact was even more profound in PE/VC investment portfolios where firms with gender-balanced leadership teams had approximately a 25 percent greater increase in valuation than unbalanced teams. The median gender-balanced portfolio company experienced a 64 percent increase in company valuation between multiple rounds of funding or liquidity events – 10 percentage points greater than gender-imbalanced companies.

Given the benefit of including an equal number of women in leadership teams is so stark, why is the industry failing to address the issue of gender parity?

Breaking the chronic culture fit

Moving Toward Gender Balance in Private and Venture Capital gathered performance and gender

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diversity data from more than 700 funds and 500 portfolio companies across Asia, Europe and Central Asia, sub-Saharan Africa, Latin America and the Caribbean, and Middle East and North Africa. In addition to this data, survey responses from 500 general partners (private equity firms) and limited partners (investors) and interviews with more than 50 industry practitioners were examined in the report. The study was conducted by the IFC in collaboration with global investment manager Rock Creek and management consultancy Oliver Wyman.

The analysis indicated that the biggest impediments to closing the gender gap in PE/VC in emerging economies are the unconscious biases and deeply rooted (and closed) networks which exist within the sector. According to the industry practitioners surveyed, junior and senior hires are most commonly sourced through referrals from within these professional networks. The identified candidates are then predominantly evaluated in terms of a "cultural fit" which is considered as being 50 percent more important than work experience.

The study also found a correlation between the gender imbalance in PE/VC firms and that of their portfolio companies (with female deal partners investing in almost twice as many female-led businesses as male partners). This suggests that networks also play a crucial role in the sourcing of investment opportunities and in the appointment of senior leaders for funds' portfolio companies.

To close the industry's gender gap, PE/VC firms and investors will need to rethink their reliance on these networks. Increasing women's representation in investment roles can help firms proactively tap into new female-based networks and address biases when making future talent management and investment decisions.

Recommendations based on the study include:

1. Ask about gender diversity in the due diligence process

While 65 percent of institutional investors who took part in the study indicated that gender diversity was an important factor when committing capital to funds, PE/VC firms surveyed said just 30 percent of their investors considered this to be important. Only 25 percent of investors would enquire as to the investment team's gender diversity when conducting due diligence and just 20 percent encouraged them to improve gender diversity outcomes as a condition of committing capital.

To address this disconnect, institutional investors need to raise awareness and start the conversation about gender diversity during the due diligence process. Investors can begin to drive change by emphasising their expectations and specifically asking PE/VC firms about an investment's gender balance.

2. Set goals

Although 67 percent of PE/VC firms surveyed said achieving gender balance in their investment partner teams was important, less than 10 percent had strategies or targets for improving the promotion rate of female employees.

By setting goals and asking for, and tracking, gender-disaggregated data such as the number of women interviewed for jobs or the number of female-led companies that move up the investment decision process, PE/VC firms and investors can send a strong signal to their teams that gender diversity is a priority. Gathering data and measuring progress against goals demonstrates commitment to reducing the gender gap.

This focus has to come from the top, and senior leadership can be made responsible for progress against these goals.

3. Expand networks

To increase the number of women in their talent pipeline, PE firms should be looking outside their existing networks, reaching out to women's networks and actively seeking female applicants for jobs and promotions.

4. Create supportive environments

PE/VC firms can encourage female talent to join, or stay with, the company by creating an environment that does not force a choice between family or career. The study suggests that a quarter of PE/VC firms in emerging markets do not offer maternity leave and more than half do not offer paternity leave. Based on survey responses, junior female employees in PE/VC firms are three times more likely than male employees to believe that taking the leave would inhibit their career – often forcing a choice between family or career.

Actively supporting parental leave and putting forward flexible work initiatives allowing employees to balance work and family will encourage women to take more senior positions in the industry.

5. Drive change in portfolio companies

Although most of the PE firms surveyed indicated a belief that gender balance in portfolio companies' management teams would improve returns, their actions did not demonstrate active buy-in. Investment companies need to affirm a commitment to diversity at the time of investment, actively

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pursue gender-diverse talent for portfolio companies and maintain this stance post-investment by providing guidance and feedback on best practices in achieving better gender diversity outcomes. This creates a trickle-down effect, which opens up employment opportunities for women.

Private equity is well positioned to drive change

Given that PE is still nascent in many emerging markets, changes made now can have a significant impact to improve women's representation in the long run. By increasing gender balance in their talent and investment pipelines, PE/VC firms can guide their portfolio companies towards more gender-balanced practices, and instil in them the recognition that closing gender gaps can be done while maintaining – or even increasing – returns. PE/VC firms would do well to remember they are in a people business. If they are not trying to attract and retain the best candidates, then they're putting themselves at a great disadvantage.

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