

Moving toward
gender

balance

in private equity
and venture capital

EXECUTIVE SUMMARY

Women are significantly underrepresented among the investment decision-makers at private equity and venture capital firms, as well as in the leadership of companies that receive this investment capital. Women hold only 10 percent of all senior positions in private equity and venture capital firms globally, and women-led enterprises collected less than 3 percent of global venture capital in 2017 (Preqin 2017; Zarya, 2018).

These firms provide a unique and sizable source of capital for entrepreneurs in emerging markets. Although this asset class represents a small portion of total global assets under management, it provides entrepreneurs access to funding when public equity markets and debt may be less viable sources of capital. Private equity and venture capital represent approximately US\$3 trillion of more than US\$75 trillion global assets under management.¹ Nearly US\$800 billion is dedicated to funds investing in emerging markets (Preqin 2018a, 2018b).²

Our research examines gender balance—defined as leadership teams with at least 30 percent of men and women—in private equity and venture capital funds and the companies they invest in within emerging markets. Our focus includes East Asia (including Southeast Asia), Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa, South Asia, and Sub-Saharan Africa. We explore the relationship between gender balance and fund performance, and the roles that general partners, the vehicles investing private equity and venture capital funds, and limited partners, the source of capital, can play in alleviating gender gaps in investment funds and their portfolio companies.

We find that the gender gaps in the representation of women as allocators and recipients of capital put access to financing at risk for female entrepreneurs and may reduce investment returns for funds. Given that private equity and venture capital are still nascent in many emerging markets, changes made now can have a significant impact in the long run to move the industry toward gender balance. This would impact General Partners and Limited Partners, as well as entrepreneurs receiving capital to grow their businesses. This report answers three questions:

- How gender balanced are leadership teams of General Partners, which allocate capital, and of portfolio companies, which receive investments?
- Are there benefits of moving leadership teams toward gender balance within General Partners and portfolio companies?
- What can General Partners do to move toward gender balance in their leadership teams and those of the portfolio companies they invest in?

To answer these questions, IFC, RockCreek, and Oliver Wyman used gender data across thousands of General Partners and portfolio companies operating in emerging markets. We gathered performance and gender diversity data for more than 700 funds and 500 portfolio companies. We analyzed this database along with survey responses from more than 500 General Partners and Limited Partners and interviews with more than 50 industry practitioners and academic experts.

MOVING TOWARD GENDER BALANCE IN PRIVATE EQUITY AND VENTURE CAPITAL

INSTITUTIONAL INVESTORS



Committing capital to funds

PRIVATE EQUITY
VETURE CAPITAL FUNDS



Investing capital in companies

PORTFOLIO COMPANIES



Consider **gender diversity important** when investing

BUT



Ask about **gender diversity** in due diligence



Senior investment teams are **gender balanced**

15% AND

Gender balanced teams have **better returns**



Female partners invested in almost **2X MORE** female entrepreneurs than male partners

20%

Of leadership teams are **gender balanced**

AND

Gender balanced teams have **higher valuation** increases

64% vs. 55%

Gender balanced teams have between 30% to 70% female in leadership roles

TOP TEN FINDINGS

LIMITED PARTNERS

1. **Limited Partners generally view gender diversity as important, but this importance is not seen by General Partners.** About 65 percent of limited partners interviewed and surveyed view gender diversity of a firm's investment team as important when committing capital to funds. However, General Partners report that less than 30 percent of their Limited Partners view gender diversity as an important consideration when making investment decisions.
2. **Limited Partners investing in emerging market General Partners are not asking about gender diversity or incentivizing General Partners to move toward gender balance.** According to General Partners, only about 25 percent of their Limited Partners ask about gender diversity of their investment teams when conducting due diligence. Furthermore, General Partners report that only about 20 percent of their Limited Partners encourage them to improve gender diversity outcomes as a condition of committing capital. The lack of action by Limited Partners could explain the disconnect between the importance Limited Partners place on gender diversity and what is perceived by General Partners. In any case, it is clear that more can be done by Limited Partners to drive long-term change in the industry.

GENERAL PARTNERS

3. **Eleven percent of senior investment professionals in emerging markets private equity and venture capital are women.** Emerging market female representation is largely comparable to that of developed markets (10 percent), but this statistic is largely buoyed by China. Excluding China, in which 15 percent of senior investment professionals are women, female representation in emerging markets falls to 8 percent. To put these numbers into context, women in leadership in private equity and venture capital lags female senior representation in businesses from other sectors by about 17 percentage points.
4. **Only 15 percent of senior investment teams are gender balanced and nearly 70 percent are all male.** As such, most investment and capital allocation decisions are being made by teams that are male dominated and likely not reaping the potential benefits afforded to gender balanced teams. Our research finds these benefits likely include enhanced investment decision making and deal sourcing.
5. **The performance of gender balanced investment teams is correlated with higher returns.** Gender balanced funds realized excess net internal rate of return of 1.7 percentage points greater than male- or female-dominated funds when controlling for vintage, geography, and strategy.³ This difference in performance is about 20 percent of the median net internal rate of return in emerging markets. This positive correlation between gender balance and performance holds across investment strategies and geographies, as well as when controlling for fund size.
6. **The lack of gender balance is likely reinforced by insufficient diversity goal setting and exclusive recruiting practices.** Sixty-seven percent of General Partners surveyed said achieving gender balance in their investment partner teams is important to their firm. Yet less than 10 percent of General Partners have strategies or targets for improving the promotion rate for female employees. The most common means of sourcing junior and senior hires is through referrals and professional networks. Identified candidates are then predominantly evaluated in terms of "culture fit," which is viewed as 50 percent more important than the next

most important factor, work experience. Individually, each practice puts male-dominated firms at risk of perpetuating the male status quo in leadership within the industry. When combined, the problem is exacerbated and potentially less visible to male leaders. This could explain, in part, why women are about 67 percent more likely to attribute low female senior representation to internal firm factors than men.

PORTFOLIO COMPANIES

7. **Seven percent of private equity and venture capital is invested in female-led businesses.** The median female-led business has received only 65 percent of the funding received by the median male-led business. This gap is largely explained by the fact that more female-led businesses receive more funding in early stages (e.g., accelerator or incubator) where the investment sizes are smaller than later stages (e.g., later stage VC, growth equity, and buyout) where the investment sizes are larger. This skew in part may be because female-led businesses are slightly less likely to receive second round funding than male-led businesses (13 percent compared with 17 percent, respectively). It also may be explained by greater frequency with which female leaders receiving initial rounds of funding appear to be replaced by male leaders in subsequent rounds
8. **About 20 percent of portfolio companies have gender balanced senior leadership teams, while nearly 70 percent are all male.** Emerging market private equity and venture capital funds tend to invest in few gender balanced leadership teams, despite the belief, as evidenced through surveyed respondents, that gender balanced teams have improved decision making, enhanced governance, and a better ability to tap into larger markets by serving a more diverse customer base.
9. **Gender balanced leadership teams are correlated with approximately 25 percent greater increases in valuation than unbalanced teams.** The median gender balanced portfolio company experienced a 64 percent increase in company valuation between two rounds of funding or liquidity events. This was about 10 percentage points greater than that of gender-imbalanced portfolio companies. When controlling for vintage, geographic market, and holding period of investments, the median gender balanced portfolio company outperformed peers by more than 5.5 percentage points in valuation increase per year.
10. **Imbalance in portfolio companies appears related to imbalance in General Partner investment teams.** Our data show that female deal partners invested in almost twice as many female-led businesses than male deal partners. Our survey suggests that networks play a crucial role in both sourcing investment opportunities and identifying senior management for portfolio companies, so expanding General Partner talent pools across genders could help General Partners invest in and move portfolio companies toward gender balance.

RECOMMENDATIONS

This report finds that the private equity and venture capital industry in emerging markets can close gender gaps between men and women while maintaining or increasing returns. However, several barriers prevent women from fully capturing the opportunity to participate as leaders that allocate and receive investment capital. Some barriers—such as those related to closed networks, unconscious biases, or lack of gender diversity commitments—require concerted efforts from multiple stakeholders to be overcome. Nevertheless, these challenges must be factored in by leading General Partners in their talent management activities and by both General Partners and Limited Partners in their investment decision making to close gender gaps in the industry. This report identifies several actions General Partners and Limited Partners can take to move the private equity industry toward gender balance.

LIMITED PARTNERS

Ask about gender diversity in the due diligence process. Asking General Partners questions about their current diversity levels and plans to improve outcomes is a key step in influencing General Partners, but General Partners are not being asked these questions in due diligence by most of their Limited Partners. This gap is important, because General Partners and Limited Partners said the most significant change in the industry on gender diversity will come only when Limited Partners collectively bring this issue to the forefront. Limited Partners can adopt standardized due diligence questions, such as the questions proposed in the diversity and inclusion section of the Institutional Limited Partners Association Due Diligence guide, which includes questions covering initiatives and policies (e.g., harassment, discrimination, and family leave) in both General Partners' and their funds' portfolio companies.⁴

Establish investment goals or targets related to the diversity of investments. Most Limited Partners believe gender diversity of General Partner investment teams is important when committing capital, but less than half have established goals related to gender diversity. Interviews with both General and Limited Partners suggest that goals send a strong signal to General Partners that the organization is committed to issues of diversity, while also providing a backdrop to measure and assess progress toward gender balance. Examples of goals include increasing the number of General Partners that provide sex-disaggregated data on women in their funds and portfolio companies, improving the proportion of capital allocated to gender balanced investment teams, and investing only in General Partners with gender diverse teams.

GENERAL PARTNERS:

Establish a tone at the top for improving gender diversity. Two-thirds of General Partners view achieving gender balance in investment partners as a priority, but less than half have strategies for achieving it.⁶ This lack of action is reflected in the perceptions of junior female employees of General

Partners, resulting in a mismatch between how senior leaders have prioritized gender diversity and how this is perceived by junior employees.

This mismatch has consequences, because retention of junior female employees is essential for future progress in closing the gender gap within the leadership of General Partners. Junior female respondents are 50 percent less likely than junior men to believe men and women have an equal opportunity to become partner and about 40 percent less likely to believe their firms' senior leaders are making gender diversity a priority. To change this, General Partners can do the following

- Set and communicate ambitious gender diversity goals to demonstrate commitment.
- Collect the necessary data to assess progress toward gender diversity against short-term targets.
- Make senior leadership accountable for progress towards gender diversity goals and targets.

Support an internal environment that does not force a choice between family and career.

Nearly 25 percent of surveyed General Partners do not offer maternity leave, and more than half do not offer paternity leave. For junior employees, women are more than three times likelier to believe that taking parental leave would greatly inhibit their careers. To change this, General Partners can take steps such as :

- Offering maternity leave benefits.
- Providing and supporting equal maternity and paternity leave benefits.
- Enabling work–family management upon return from parental leave.
- Supporting flexible work initiatives for employees to balance work and family commitments

Engage portfolio companies at the time of and after investment to drive change on gender diversity. Although most General Partners believe gender balance in portfolio companies' management would improve returns, their actions don't demonstrate buy-in. Less than 40 percent of surveyed emerging market General Partners track sex-disaggregated employment data, and about 33 percent actively pursue diverse candidates when sourcing talent for portfolio companies. General Partners can do the following:

- Affirm the General Partner's commitment to diversity at the time of investment.
- Actively pursue gender-diverse talent for portfolio companies.
- Provide guidance and feedback on best practices in achieving better gender diversity outcomes.

EXECUTIVE SUMMARY NOTES

- 1 See the IPE website, "Total Global AUM Table 2018." <https://www.ipe.com/top-400/total-global-aum-table-2018/10007066.article>.
- 2 These statistics (Preqin 2018b) include venture capital, growth equity and buyout, but do not include real estate or infrastructure investments.
- 3 Male or female dominated teams are ones in which there is not at least 30 percent representation of both men and women. This includes male dominated teams (i.e., less than 30 percent women) and female dominated (i.e., less than 30 percent men).
- 4 Institutional Limited Partners Association Due Diligence Questionnaire (DDQ) can be found on its website, <https://ilpa.org/ue-diligence-questionnaire/>.
- 5 Limited Partner survey statistics are sourced from survey responses of 28 respondents from LPs. From IFC Gender Diversity in Private Equity and Venture Capital Survey, 2018.
- 6 General Partner survey statistics are sourced from survey responses of 476 respondents from General Partners, of which 250 are based in emerging markets. From IFC Gender Diversity in Private Equity and Venture Capital Survey, 2018.