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Diversifying portfolio company boards

Board perspectives

With concentrated ownership and less public scrutiny, diversifying the composition of private-equity portfolio company boards is a significant challenge, yet opportunities to change are just as abundant for these firms as they are public company boards.

"In order to appropriately serve today's retail and business consumers, you need the support of a diverse board," said one entrepreneur at the WomenCorporateDirectors Global Institute in May. Her panel, which included directors, a private-equity investor, and a lawyer, discussed the challenges in shifting the composition of private-equity and investment company boards for greater diversity.

Yet, according to results from the 2015–2016 NACD Private Company Governance Survey, on average, only 1 woman and 0.7 minority directors serve on private company boards, compared to 1.6 women and 0.9 minority directors at public companies.

"De-risking a portfolio company by upgrading the talent level has to start with the board," said one director. "We're looking for women directors who can lead with purpose and accountability," said another panelist.

The panelists agreed that limited partners and investment firm leadership—those who can most compel change within hedge funds, real estate, private equity, and venture capital firms—are taking active steps to adjust for the underrepresentation of women and minorities, particularly within their industries and generally for portfolio company boards.

According to KPMG's Women in Alternative Investments Report, the lack of positions for women to build a track record is the top challenge for women. But there are now increased efforts to grow the pipeline of women in alternative investing by focusing on key entry and reentry points.

The recently launched nonprofit, Girls Who Invest, founded by Seema Hingorani, former chief investment officer of the New York City Retirement Systems, offers rising female college sophomores and juniors an intensive four-week summer program that provides financial training followed by a six-week paid internship at an investment management firm.

In venture capital, some firms are following the National Football League's Rooney Rule, whereby they commit to interviewing women and underrepresented minorities for all senior and intern-level openings. "It's not a hiring quota," said Kate Mitchell, cofounder of Scale Venture Partners. "We're merely modifying our recruiting process to ensure that we are also looking at female and minority candidates."

Other initiatives focus on common drop-off points, such as after business school, and advancement through mid-career and senior-level networking.

In the current environment, many stakeholders believe that investors in private equity have the greatest power to effect change. "When those who allocate capital start to ask questions about diversity, changes will start within firms," said Kelly Williams, CEO and chair of the Private Equity Women Investor Network.

In this area, we are seeing signs of progress. Not only are pension funds increasingly considering the diversity of their underlying investments, but they are also asking questions about the diversity consideration for funds of funds. In addition, there is an increased focus on funds owned or managed by women. For example, the New York City Retirement Systems and

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the Netherlands' APG have added questions regarding gender balance to their due diligence questionnaires.

"Enhancing our diversity efforts—across genders, ethnicities, nationalities, sexual orientations, and other life experiences—not only supports our people but also makes us more competitive and, ultimately, better investors," said Henry Kravis and George Roberts, the co-chairs and co-CEOs of global investment firm KKR.

Portions of this article were adapted from KPMG's Fifth Annual Women in Alternative Investments Report, which can be found at www.kpmg.com.

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The KPMG Board Leadership Center champions outstanding governance to help drive long-term corporate value and enhance investor confidence. Through an array of programs and perspectives—including KPMG's Audit Committee Institute, the WomenCorporateDirectors Foundation, and more—the Center engages with directors and business leaders to help articulate their challenges and promote continuous improvement of public- and private-company governance. Drawing on insights from KPMG professionals and governance experts worldwide, the Center delivers practical thought leadership—on risk and strategy, talent and technology, globalization and compliance, financial reporting and audit quality, and more—all through a board lens. Learn more at kpmg.com/blc.

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