

Firms Seek to Diversify Portfolio-Company Boards

Corporate boards are becoming more diverse and include more women than before, but firms say work remains to be done

By JENNIFER ROSSA

Recently, EQT Group's Bettina Siempelkamp was asked to recommend candidates from diverse backgrounds for a board seat of a portfolio company.

"They asked me for someone with HR experience and in-depth finance experience, and we

could immediately suggest two names of women that we've worked with in the past," said Siempelkamp, managing director of Global EQT Network and Portfolio Talent. "That was a problem solved in five minutes."

As private-equity firms such as EQT embrace diversity as it helps their portfolio companies outperform, more of them are developing networks of women and diverse candidates for board and management roles.

Many firms have set concrete targets for board compositions among portfolio companies. Carlyle Group in 2020 set a goal of having diverse executives occupy 30% of all board seats in controlled, corporate, private-equity portfolio companies globally by the end of 2023. It achieved that goal early, with 32% of its board seats now meeting that criteria within two years of ownership. The firm is now aiming for 40% by the end of 2027.

At EQT, 37% of independent portfolio-company board members that the firm has appointed are female, up from 21% in 2020. Its long-term goal is greater than 40%. And at Advent International, all of its portfolio companies have women on their boards and 90% have underrepresented minorities too.



"The industry has made a very concerted effort on diversity on boards," said Advent Director Hilda Lui, who co-heads the firm's portfolio human capital efforts along with Karina Sobieski. "This is a top-of-mind priority and effort across the broad investor network in PE and VC. That's been really energizing."

Still, there is plenty of room for improvement. A study from the ESG Data Convergence Initiative found that as of 2022, 45% of private companies had no women on their boards compared with 12% of public companies.

Data on the percentage of women in C-level roles at

portfolio companies is harder to find. Industry participants say those numbers are probably lower than the board figures. When a private-equity firm buys a company, it typically takes on the existing management team but puts a new board in place, giving it a more immediate way to influence board composition.

One big reason the private-equity industry lags its public peers when it comes to placing diverse board members is the overall ecosystem’s historical lack of diversity.

“Most people still are finding their board members through their personal networks, and women and underrepresented groups are missing from those networks,” said Jocelyn Mangan, founder and chief executive of Him For Her, a social impact venture aimed at accelerating diversity on corporate boards. “The vast majority of the people we talk to, they’re asking, who do we know versus what do we need. That’s the foundational behavior that’s causing the lack of diversity.”

It doesn’t help that directorships often aren’t advertised but are instead filled by word of mouth, Mangan said.

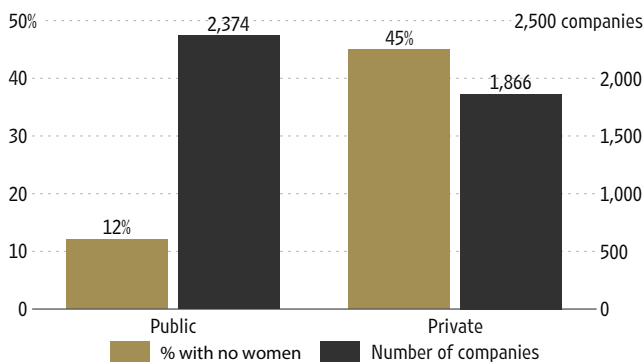
“Board openings are held in whisper networks. You can’t just log in to Nike and apply to the board,” she said. She added that firms sometimes lack a sense of urgency in filling a board seat with a diverse candidate, perhaps because they are tied up with other matters they view as more time-sensitive.

Cassie Burr, executive director of the nonprofit Women on Boards, said firms also sometimes have unreasonable expectations—for instance, a desire that board members have prior board experience.

“Part of the challenge why we don’t see more board diversity is an insistence on former board experience. The fact that we’re having a lot of success introducing first-time board members into their roles is an important part of the solution,” Burr said. Women on Boards just placed its 50th female board member, with more than half (56%) of those placed so far being first-time for-profit directors.

Board representation

A higher percentage of private firms don’t have women on their board compared with public companies



Source: ESG Data Convergence Initiative/Boston Consulting Group

She said the dynamics on every board are completely different, even within one firm’s roster of portfolio companies. So the idea of being “board-ready” is a common misconception that Women on Boards is working hard to dispel.

“Simply having ‘board experience’ doesn’t automatically mean someone will be a great board member,” Burr said. “Similarly, only having experience interfacing with a board as a member of the executive team might be just as relevant for a board seat, depending on the company.”

Private-equity professionals, consultants and diversity advocates said there are several key things firms can focus on to increase the proportion of women and underrepresented minorities in portfolio-company board roles, including cultivating sponsorship from the top, buy-in from deal teams and an emphasis on building out diverse networks.

To expand its own network, Carlyle regularly asks people within its network—including the CEOs of its portfolio companies—whom they know. Advent holds multiple

annual events for C-level and board-level executives alongside its own senior women, and works closely with advisers who bring their own diverse networks to the table. Similarly, EQT says that women already in its network, knowing that it is looking for strong female talent, work with it to suggest other women.

“It’s sourcing great talent with people that know what we’re after,” Siempelkamp said.

Firms are working to increase diversity in other ways as well. Kara Helander, partner and chief diversity, equity and inclusion officer at Carlyle, said the firm is intentional about making sure that a diverse slate of candidates is considered any time a portfolio company has an open board seat. Similarly, Advent’s Sobieski said that any time Advent partners with an executive search firm, it makes clear it wants to see diversity within the candidate range.

Carlyle’s Helander said tracking progress is also critical.

“We keep measuring it. We know we’re keeping our eye on it and that intent drives momentum,” she said.

Perhaps most important, though, is making sure that diversity is integrated in processes and functions until it becomes core to a firm’s corporate culture.

Matt Brubaker, chairman and chief executive of human capital advisory firm FMG Leading, said failing to do that is at the heart of the problem for some firms.

“If this is just about optics you’re going to really struggle to be successful,” Brubaker said. “More than half of what you’re seeing out there is still tokenism and trying to do the right thing without an integrated strategy. The folks who are successful are being really thoughtful about it.”

At Carlyle, Helander said the firm aims to incorporate diversity into everything it does.

“A core has been not making it separate, but weaving it into how we operate. This is not an extra or off to the side. It’s embedded in what we do,” Helander said. ■