



A New Definition of Diversity in Private Equity

According to the EY 2017 Private Equity Survey, running a private equity business is becoming more difficult, and firms have made only small gains in operating efficiency. The survey reveals that CFOs believe the way ahead demands they make their teams more professional by retaining and developing key talent, and leverage technology to create better investment opportunities. Leadership development is, and will continue to be on the forefront as PE firms strive to attract, hire and retain the best and brightest.

CFOs are finding it increasingly difficult to engage and retain talent. Although private equity can still attract bright, motivated graduates, they are no longer committing to a 25-year career within the industry. Ninety percent of CFOs in the EY survey expect new hires to stay for less than five years which makes developing talent difficult and the logic behind it questionable.

Beyond just hiring the great talent, is the need to fully engage truly diverse workforces. Attracting and motivating diverse workers will be key to building the private equity firm of the future; and the old, worn out definition of diversity no longer applies. In the early 1990s, when we spoke of diversity, it was all about gender, race and affirmative action. Today, it's about total diversity: gender, race, ethnicity, generation, hard-wiring, the whole works.

Millennials, for example, (also known as Generation Y) are the demographic cohort following Generation X and represent the largest generation in history. There are no precise dates for when this cohort starts or ends; demographers and researchers typically use the early 1980s as starting birth years and the mid-1990s to early 2000s as ending birth years.

Jason Dorsey, who has built a wildly successful consulting practice focused on helping us understand, motivate, manage, sell to, communicate with, and otherwise deal with multiple generations says that those who get the generational nuances will win, and those who don't won't. Dorsey's research facility, called the Center for Generational Kinetics has determined that we will be dealing with seven different generations in years to come. Generations, which he says are no longer determined by birth years, but by context and behaviors.

Several important trends have been identified by Dorsey and his team. The first one is diversity. We baby-boomers may yawn at this but we do so at our own peril. The emerging generation, is the most diverse generation in history. What this means is that the only thing the i generation (the emerging generation) notices about diversity is the lack thereof. This generation will not remember a time in which we have not had an African-American president, gay marriage, or facetime. They will not remember a time in which their school didn't look like the rainbow coalition. For decades now, diversity has been a good business idea and a sound strategy. Going forward, it's a necessity.

The second trend Jason's research has surfaced is technology, but in a much different way than most of us think. Millennials, contrary to popular belief, are not necessarily tech

savvy, they are tech dependent! U. S. Gen Y numbers approximate 80 million people, the largest in history. These are in fact the folks who are going to be in charge, if they're not already. Dorsey's research suggests that Gen Y is splitting in to two groups. About half are doing what they've been told they ought to do, albeit a few years later and within the context of the millennials as you and I think of them. The other half, typically at around age 30, are self-selecting out of the stereotypical millennial group and can no longer identify with them. The group that has self-selected out is becoming increasingly driven to work hard, build businesses, become self-sufficient and influence others. Now here comes the good part, or the scary part, depending on your perspective. The younger generation is changing the way the older generations operate, and there is no way to avoid it. Dorsey says that not getting this is going to put many companies out of business. He says that smart companies will change the dialogue altogether. Smart companies, will no longer talk about the differences between generations, gender or ethnicity, but will begin to harness the power of the totality of diversity.

Fairview Capital Partners, which is the largest minority- and woman-owned private equity investment management firm in the country, strongly supports the industry's diversification efforts.

Fairview was the first investment manager to serve as a conduit between institutional investors and minority- and woman-owned funds and we know first-hand that having a team of men and women from diverse backgrounds leads to greater creativity, enhanced teamwork and higher morale.

Increasing ethnic and gender diversity in private equity and venture capital, as well as in the entrepreneurial workforce in which managers invest, has been one of the hottest topics in our industry. Thus far, diversity efforts in private equity and venture capital have lagged industry at large, but a strong push is being made to increase the diversity of investment leadership teams and the workforce.

The drive to diversify is being fueled in large part by broad demographic changes. By 2050, the majority of the American population will be comprised of Hispanic-Americans (29%), African-Americans (13%) and Asian-Americans (9%).

Despite their growing numbers, those from ethnic minority groups continue to struggle for economic and professional advancement, especially at the highest levels of the economy. For instance, despite making up about one-third of the population, minorities make up only four percent of the CEOs of the current Fortune 500 companies.

A recent study found that of the 4,919 people serving on Fortune 500 boards, only 761 of them were ethnic minorities 15.5%, White 47%, Hispanic 29%, Black 13%, Asian 9%, Other 2%. Among business leaders, the gender gap persists as well. While women account for about 35% of MBA degrees, only 17% of C-level executives are women, according to a recent McKinsey study. Women of color make up only a tiny percentage of those at senior corporate levels. According to the Equal Employment Opportunity Commission, only 3% of executives and senior-level managers are African-, Hispanic- or Asian-American women.

Fairview was founded in 1994 by JoAnn H. Price and Laurence C. Morse, Ph.D. to specifically address the scarcity of risk capital available to ethnic minority entrepreneurs and businesses, where investment opportunities were present but were largely untapped. As the first investment manager to raise funds with the specific mandate to invest in minority- and woman-owned funds, Fairview has played a leadership role for over 20 years.

The Firm has evolved since its founding to develop innovative investment programs specializing broadly in emerging (developing and diverse) managers as well as in venture capital, where Fairview maintains one of the leading programs in the nation. In all of its investment programs, Fairview's primary goal is to generate outsized performance relative to the broader private equity and venture capital markets.

Rajeev Vasudeva, CEO of one of the largest leadership consulting firms in the world, opened his 2017 Board Diversity Study by saying: This last year has seen the world repeatedly proven wrong on predictions for leadership. One thing is clear: There is a need to redefine what great leadership looks like.

In today's business environment, a modern organization can only be as successful as its leader's ability to navigate near-constant change. In our work advising senior executives and boards around the world, we see leaders struggling to find the path to growth and unlocking their organization's potential through more effective leadership.

What is happening here? We are witnessing a dramatic shift occurring in what it will take to lead the boardrooms and organizations of the future. No one leader can be the catalyst for the entire organization's success anymore. Leadership today entails moving the focus from individual excellence to building a culture of high performance teams and collaborative success. This can only be achieved if we cultivate more diverse and inclusive leaders who can recognize and nurture the best in people. Yet despite social and economic progress in other areas of the business world, diversity at the leadership level, particularly in the boardroom, has not kept pace.

In our current Global Board Diversity Analysis, our most comprehensive to date, we see that, sadly, progress is slow. In some countries or regions, there is virtually no improvement. Change in the gender diversity of boards is not occurring at the rate commensurate with how the world is evolving in many other ways.

There are indeed positive gains in the overall picture that should be acknowledged: Our findings show that 84 percent of all large company boards globally (market capitalization of at least EUR 6bn) include at least one woman director, up from 76 percent in 2012. However, our experience and independent research suggest that, for gender diversity to start to have a meaningful impact on governance, a board must have three women directors.

Leaders who can drive sustainable growth today need to be masters at collaboration who can make everyone on their teams feel like they belong and can make a real contribution. They must also have the ability to influence diverse constituencies while

remaining adaptable and nimble in the face of change. Leaders who bring diverse experiences and perspectives are better positioned to work in these ways.

For diversity to be a source of competitive advantage for the organization, it needs to start at the top with the board. We continue to be an advocate for greater diversity and inclusion on boards, and throughout the leadership ranks.

Presented in this piece are four very different perspectives on diversity. You notice that only one spoke of gender diversity. none spoke of diversity of hardwiring and thought. The best teams, whether focused on board activity, investment strategy or operating tactics are carefully crafted to leverage the broadest possible diversity while being united with a common purpose and vision and holding homogenous values. A tough balancing act for certain. We hope that this piece has been interesting, thought provoking and perhaps even useful.

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