

Private Equity & Principal Investors Practice

The state of diversity in US private equity

Taking a closer look at the data reveals private equity's progress, remaining challenges, and the road ahead on diversity.

by Alexandra Nee and David Quigley



It's been almost two years since the killing of George Floyd provided the spark for a racial reckoning in the United States, which inspired many public and private institutions globally to renew their focus on diversity, equity, and inclusion (DE&I). Within the last year, numerous private equity (PE) firms have accelerated efforts to ensure tangible strides in the diversity of their workforce. In this article, we step back to examine recent North American statistics, assess the industry's progress to date, and contemplate PE's DE&I priorities for the next year.

Based on recent data, North American PE has made strides on the diversity of talent within their firms:

- US PE firms have increased their percentage of ethnically diverse talent and women employees, surpassing corporate America at their junior levels.
- Promotion rates for women are increasing at all levels at and above principal/director, with women today comprising roughly the same percentage of the total workforce in midlevel positions (roughly 30 to 35 percent) in PE as in corporate America.
- 2020 saw a significant bump in the percentage of women promoted into the C-suite of PE firms, surpassing the rate of men (6 percent of eligible women were promoted compared with 1 percent of eligible men).

However, there is more work to be done on DE&I for PE:

- PE is behind corporate America in ethnic diversity in the C-suite, and the ethnic diversity PE maintains earlier in the talent pipeline primarily comprises Asian employees, with low representation from Black and Hispanic and Latinx populations.
- Gender parity for promotions is lacking at all steps in the pipeline up to the managing director (MD) role, and the number of women in the uppermost roles, particularly in the C-suite, continues to be minute. For PE to continue its DE&I progress, it's crucial for the industry to focus on gender parity for promotions to vice president (VP), principal/director, MD, and C-suite roles.
- Furthermore, firmwide diversity statistics tend to mask the disparity on deal teams, as greater gender and ethnic diversity typically exist in noninvesting and support functions of PE firms.

The data that follow (see sidebar, "Our methodology") identify key aspects of the PE talent pipeline where recent progress has been made and where the industry falls behind corporate America. We conclude with insights from an industry icon, Sandra Horbach, head of US buyout and growth for Carlyle, as well as steps PE leaders could take in the next year to accelerate DE&I efforts.

Our methodology

Data included in this article come from the 2021 Women in the Workplace report, which is based on research from 423 companies across the United States and Canada, building on similar research conducted annually by McKinsey and LeanIn.Org since 2015, as well as research

from McKinsey in 2012. In addition, more than 65,000 employees from 88 companies were surveyed on their workplace experiences. PE data come from analysis of roughly 30,000 employees in North American PE firms, encompassing 18 large and medium-size US-based PE

firms, and are part of a larger data set that also looked at 34 banking and consumer finance companies, as well as 49 asset management firms and institutional investors.

Ethnic diversity: Some progress, with important caveats

The US PE firms we analyzed have been more ethnically diverse at entry-level through principal/director roles than corporate America for the past few years. PE also roughly matches the corporate world in the percentage of people of color (POC) who are MDs or MD equivalents.

Some meaningful caveats temper these statistics. Although PE matches all US companies in POC holding MD or equivalent roles, parity is not overly impressive: in both sectors, only about 16 percent of men and roughly a fifth of women in such roles are POC. Moreover, PE is still far behind US

corporations in ethnic diversity at the C-suite level: only approximately 11 percent of C-suite executives are ethnically diverse (compared with closer to 20 percent of corporate America's executives) (Exhibit 1).

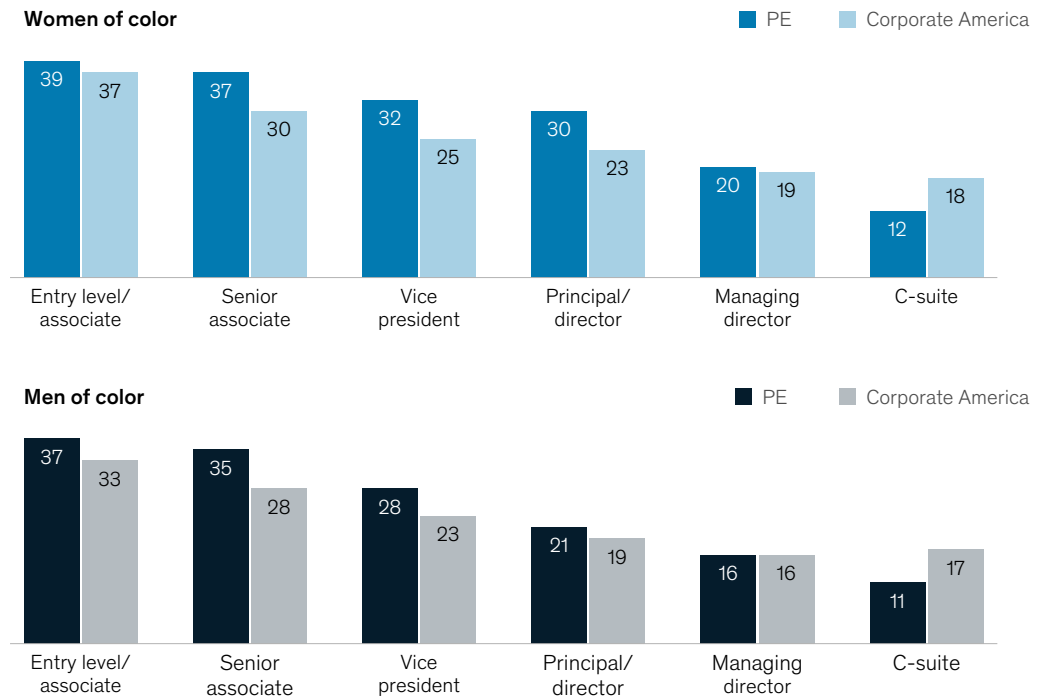
PE has led corporate America for some time on the ethnic diversity of entry-level ranks—and recently pulled ahead on gender diversity in junior roles

While PE has often been viewed as behind on ethnic and gender diversity, in fact, our Women in the Workplace reports reveal that PE firms have been more ethnically diverse at junior levels than

Exhibit 1

In ethnic diversity, US private equity leads corporate America at junior levels, but falls behind in the C-suite.

Ethnic diversity in US PE¹ vs corporate America, 2020, by role,²% of ethnically diverse employees vs total workforce of the same gender



¹Private equity.

²Levels listed are based on McKinsey's 2021 Women in the Workplace private equity industry data and correlate to corporate America pipeline roles in the following ways: entry level/associates are entry level; senior associates are managers; vice presidents (VPs) are senior managers/directors; principals/directors are VPs; and managing directors are senior VPs.

Source: Women in the Workplace study, LeanIn.Org and McKinsey, 2021

corporate America for the past few years. That is primarily due to the disproportionate hiring of Asians, who constitute more than 60 percent of POC in PE today and are close to double (at 24 percent) the workforce in junior roles than in the corporate sphere (where Asians represent about 13 to 14 percent of the workforce).

Despite the headwinds of the COVID-19 pandemic, PE saw growth in the percentage of White women entering the industry. More women entered the arena at both the entry/associate and senior-associate levels in PE compared with the corporate sphere (Exhibit 2). This recent increase in PE's gender diversity is notable not only because the percentage of women in junior-level roles in PE now exceeds women in junior-level roles in corporate America but also because this female majority provides hope for gender parity over time in PE's more senior ranks.

PE still is behind corporate America on gender diversity at the top

The PE firms we examined are still behind corporate America on diversity at the senior levels, with only 20 percent women MDs in PE compared with 27 percent women senior vice presidents or C-suite leaders who report directly to the CEO in corporate America. That discrepancy is even larger as you look across the C-suite (15 percent in PE compared with 24 percent in corporate America) (Exhibit 3).

PE firms that aspire to improve gender diversity at the top may want to examine external hiring, retention, and promotion processes through to the MD level.

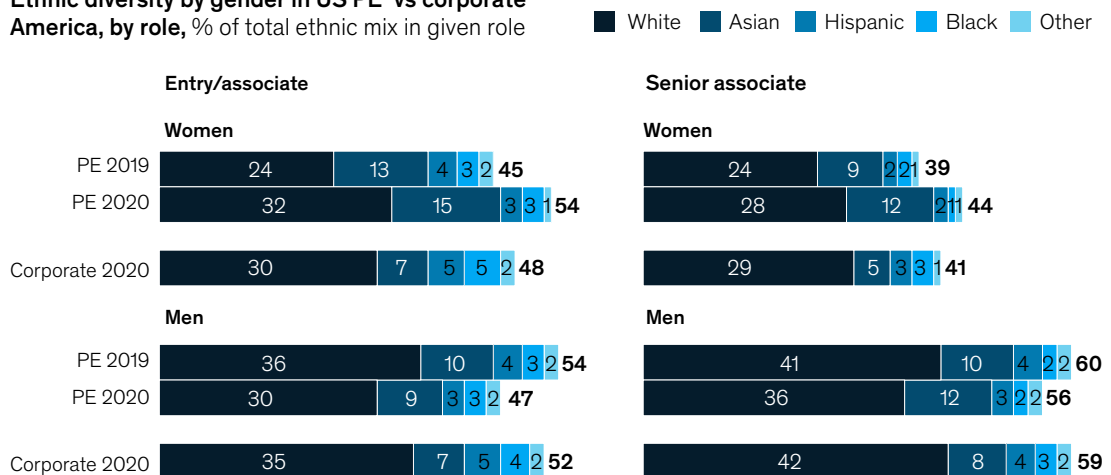
Many women investors believe their gender is an obstacle to promotion in their PE careers

A poll of women investors at the October 2021 McKinsey's Women in Private Equity Global Forum¹

Exhibit 2

In 2020, US private equity surpassed corporate America in gender and ethnic diversity at junior-level roles.

Ethnic diversity by gender in US PE¹ vs corporate America, by role, % of total ethnic mix in given role



Note: Figures may not sum to totals, because of rounding.

¹Private equity.

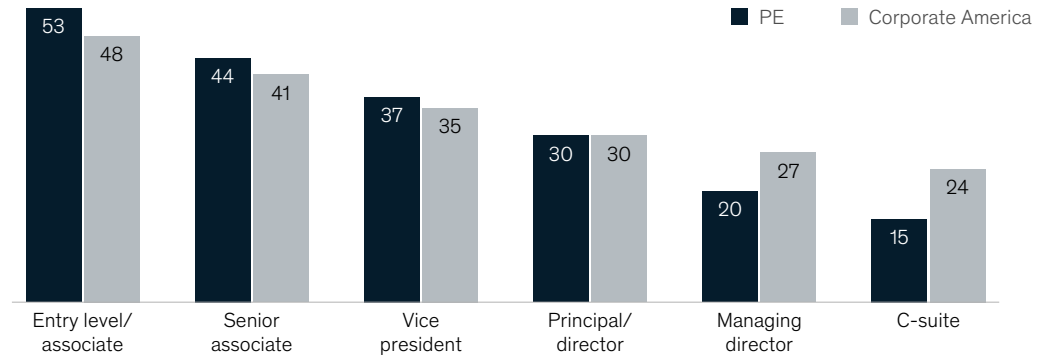
Source: Women in the Workplace study, LeanIn.Org and McKinsey, 2020 and 2021

¹ One hundred and forty-three women across North American and European private equity and principal investing firms joined the October 26, 2021, McKinsey Women in Private Equity Forum, representing 46 firms. Sixty-five women answered the North American female investor poll, representing all levels of the deal team and comprising 24 PE firms and pensions in North America.

Exhibit 3

US private equity is behind corporate America on gender diversity of senior leadership.

Gender diversity in US PE¹ vs corporate America, 2020, by role,²
% of women vs total workforce



¹Private equity.

²Levels listed are based on McKinsey's 2021 Women in the Workplace private equity industry data and correlate to corporate America pipeline roles in the following ways: entry level/associates are entry level; senior associates are managers; vice presidents (VPs) are senior managers/directors; principals/directors are VPs; and managing directors are senior VPs.

Source: Women in the Workplace study, LeanIn.Org and McKinsey, 2021

found that 54 percent reported believing “my career trajectory is limited or evaluation for promotion is somewhat slowed due to my gender.” The poll also revealed that 38 percent of respondents reported believing “my promotion is not affected by my gender,” and 8 percent felt their gender was an advantage.

Indeed, these statistics on sentiment reflect the reality for women across PE firms as a whole (in

investing and noninvesting roles) at junior levels in PE today. Over the past two years, men in PE were promoted at higher rates than women in almost all roles, with only the percentage of women promoted into the C-suite surpassing the rate of men. While the total number of overall promotions in PE declined in 2020 (compared with pre-COVID-19 levels in 2019), the delta in gender promotion

‘To improve gender representation throughout the pipeline, PE must focus on debiasing promotion processes and providing equitable coaching and sponsorship of women.’

parity grew for junior ranks (that is, VP and senior-associate promotions).

However, statistics on the promotion of women into PE's senior ranks do suggest some positive signs of change: at each level above VP, the delta between eligible men and women being promoted narrowed in 2020, with significant jumps in promotion percentages for women (Exhibit 4).

still very few women in top leadership positions in PE. Hypothetically, if we were to consider a US PE firm with 100 VPs and 75 principal/directors—in 2020, three women and six men would have been promoted to principal/director, and one woman and five men would have been promoted to MD. Whereas in 2019, using the hypothetical firm, only two women and 11 men would have been promoted to principal/director, and zero women and seven men to MD (Exhibit 5).

While total numbers remain small, US PE has made significant strides toward promotion parity on gender for the most senior positions in 2020

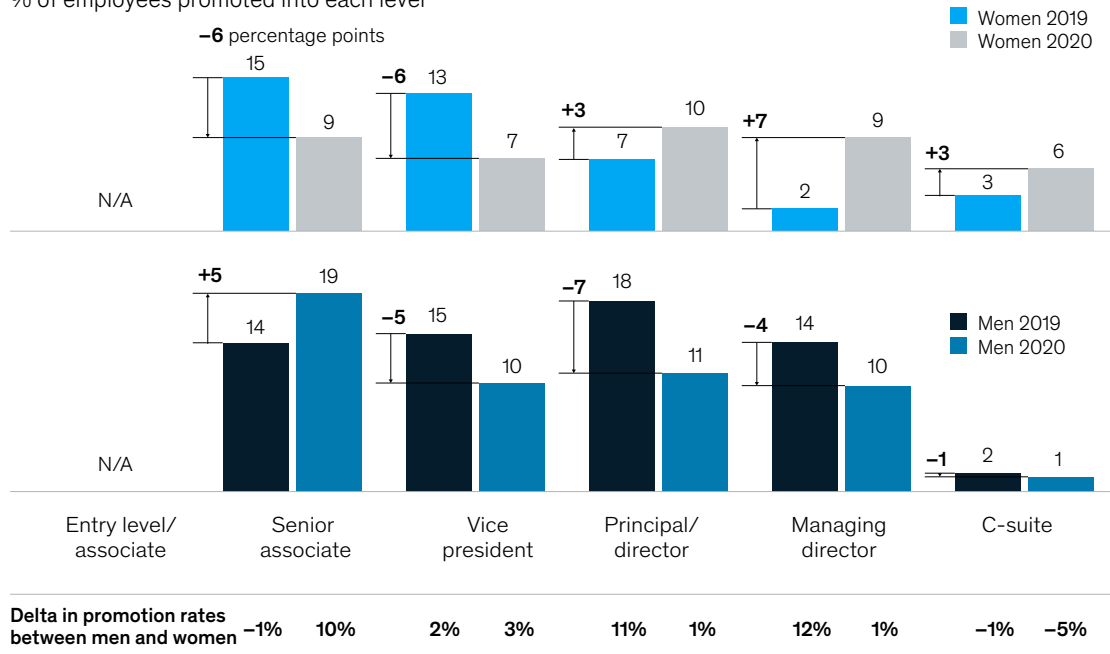
While the gap in promotion rates by gender shrunk for the top half of the PE funnel, given the innate disparity in the base numbers to date, there are

Therefore, despite strides in hiring at entry-level roles, to improve gender representation throughout the pipeline, PE must focus on debiasing promotion processes and providing equitable coaching and sponsorship of women to achieve promotion parity between the genders and to ultimately improve the representation of women at mid and senior levels in US PE firms.

Exhibit 4

In US private equity, men were promoted at higher rates than women in almost all roles, but promotion-rate deltas narrowed at the top levels.

US PE¹ promotions in 2019 vs 2020, by role, % of employees promoted into each level²



¹Private equity.

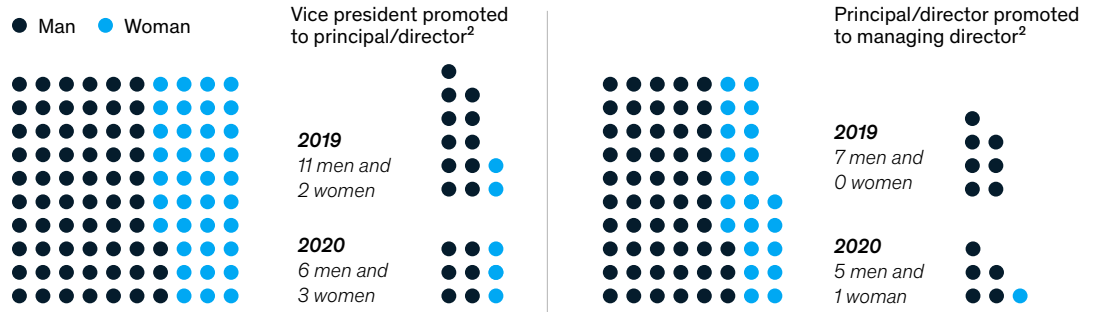
²Promotion rate is number of people promoted into role by the end of the year divided by number of people in previous role at beginning of year. Entry/associate role not included, because employees are typically hired rather than promoted into it.

Source: Women in the Workplace study, LeanIn.Org and McKinsey, 2020 and 2021

Exhibit 5

The gender gap in promotion rates to senior leadership in private equity is closing, but the actual number of women in top positions remains small.

Illustrative application of US PE¹ promotion rates in 2019 vs 2020, by gender



¹Private equity.

²Promotion rate is number of people promoted into role at end of year divided by number of people in previous role at beginning of year.

The next wave in PE DE&I improvements will focus on defining the bar

Despite the progress in promotion rates at the senior level in the past year, the absolute number of new women senior executives is still drastically lower than men (today, only one in five MDs in investing and noninvesting roles is a woman). To continue to progress in retaining and promoting diverse talent, PE firms must focus on defining the bar for each role within the investing hierarchy. The next wave of DE&I progress for PE will occur by firms articulating expected outcomes or performance milestones and core capabilities for each role. By doing this, PE will also take a key step toward debiasing the feedback and promotion processes, thereby creating a more equitable and inclusive playing field, where diverse talent can excel with fewer headwinds.

At McKinsey's Women in Private Equity Forum in October 2021, Sandra Horbach, renowned leader in the PE space, and MD and cohead of US buyout

and growth at Carlyle, shared tips with women professionals in investing roles on succeeding in PE²:

Here's my advice. I would say, "Keep at it." If you feel like your career is going to be limited, go and find other firms. There are so many firms out there now. The most important thing is to be brave. Be your own advocate, and don't cower away from the challenging assignments. In fact, volunteer [for them].

(The full interview is available on McKinsey.com.) Ms. Horbach's advice rings true: despite the progress on DE&I over the past two years, realizing a new, more equitable culture that permeates PE will take time. Women (and other underrepresented groups) continue to need to take it upon themselves and "keep at it" as they push to advance in their careers in PE.

However, we are seeing leading PE firms push to redefine recruiting, hiring, and promotion processes for investing roles, further examining potential biases at play in their definition of a successful hire

² Ms. Horbach was the keynote speaker at the forum.

‘Defining the results that matter for each role is crucial to broadening the lens, without lowering the bar.’

or MD at their firms today. They are recognizing a need for transparency on the desired skills, capabilities, and, above all, the outcomes that a leader in their firm achieves. By pinpointing the skills and expected professional outcomes for each level, firms minimize the primacy of the style with which success is achieved and zero in on actual achievements. People of diverse gender and ethnic backgrounds may have different approaches to challenges that are no less effective than the styles more familiar to today’s PE MDs. Defining the results that matter for each role is crucial to broadening the lens, without lowering the bar, for candidates to receive equitable sponsorship, mentorship, debiased feedback, and ultimately fair promotion.

Within the last year, numerous firms have accelerated efforts to ensure tangible advancement in diversity metrics. While the industry has helped itself by introducing classes of entry-level employees with more ethnic and gender diversity than prior years, the gap in promotion parity at the first rung has simultaneously grown and exists in some form

thereafter through each level to MD. This gap limits the diverse mix of talent that can flow up to upper-management ranks. To change that, a culture shift needs to take place within firms’ hiring, retention, and promotion practices. Horbach’s comments recognize the need to make this shift: “You can have the best policies in the world, but you also need a culture that supports diverse employees,” she said.

The business case for diversity is clear across industries, but particularly in PE. Increasingly, institutional investors are demanding that GPs provide and improve upon diversity metrics for their firms and portfolios in order to raise new capital. But the need to improve upon the diversity of talent in PE goes beyond fundraising. As Horbach shared, “The most successful deal teams continually develop their network and relationships... I always say if you meet a management team for the first time at a management meeting, you have already lost the deal.” Diverse deal teams bring a broader set of relationships, perspectives, and experiences that can be crucial to relating to management teams and, ultimately, to closing deals. In an increasingly competitive industry, diversity is an edge that counts.

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