

Why ESG in Private Equity Can and Should Help Close the Gender Gap

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Fifty years ago women were granted civil rights by President Lyndon Baines Johnson. His opponents thought that including women would crater the Civil Rights Bill to give African Americans long-fought for and awaited rights. It did not.

Yet, despite powerful and articulate leaders in the women's movement and in business, women still have made far too little progress. We did not get the ERA (despite embedding women's rights in the Japanese Constitution after WWII). We have been voting for less time than men. We do not get paid equally. We are not offered promotions or partnership nearly enough.

Where has this culture gotten us? Fall-out from the financial crisis has unleashed a torrent of compliance and litigation and costly settlements on the financial services industry due, in large part, to breaches of ethics. And the Federal Reserve Bank of New York has been vocal over the last six months in calling for a change in the culture of the industry. Study after study shows that women are considered more compassionate and ethical. Might women be a possible "fix" to some of this?

The private equity industry may offer the best opportunity to realize change and immediate results in culture. Over the last 20 years or so, there has been a movement within the investing field called "Responsible Investing." It entails looking at factors beyond pure "alpha" or return in deciding where and how money gets invested and why. Private equity is responsible for over \$4 trillion in money allocated toward growth and non-governmental business opportunities globally, according to estimates received from the Institutional Limited Partners Association.

Private equity has this relative freedom to act and take risk because the industry is not meeting the demands of quarterly returns or governmental budget cycles. Private equity raises funds for five to 10 years. Private equity can also take control of highly influential positions in businesses.



Leza Tellam, managing director at Flower District Companies and author of this article.

I hosted a panel discussion on this topic as a member of the Executive Leaders Committee of the [Financial Women's Association](#) in New York. Elizabeth Seeger, a Principal at KKR, hosted us and shared that her firm manages \$50 billion globally just in its private equity portfolio. She

said, “The scale of our private equity portfolio coupled with the importance of ESG creates a significant opportunity for KKR to enhance and protect value.”

Marge Magner, a private equity investor through Brysam Global Partners who has made the transition from running a large corporate business to board leadership at companies including Gannett, Accenture and Ally, also spoke at the panel. She reminded us to “take action in every way, every day- from buying decisions to investment and hiring and promotion decisions. Women should be advocates for other women.” She also said, “I think private equity is a critical key for more wide-spread change. Private equity can decide to behave differently in this arena and just make it happen.”

Moreover, private equity’s institutional investors would love to see traction. The NYC Comptroller, who manages upwards of \$100 billion for police and teachers, etc., has talked publicly of “zombie boards” and that progress getting women on boards has been “glacial.” A recent study indicated that pricing is 58 percent more accurate on diverse teams and that the tension created leads to better results and bottom line returns. Recent reports from Prequin put women’s employment in private equity at less than 10 percent of all employees and these are often more junior roles. Private equity also comes out last in terms of women’s leadership in its portfolio companies.

The private equity (and, similarly, venture capital) industry could get started by adopting and requiring their portfolio companies to adopt the Women’s Empowerment Principles (WEP) being facilitated by the UN. These guarantee seven basic rights for women in business. And principle number one is to establish high-level leadership for gender equality.

Leza Tellam is an international corporate lawyer by training who specialized in mergers and acquisitions and a former global Fortune 35 business executive in the financial industry. She is now a Managing Director at Flower District Companies and a volunteer for the Executive Leaders Committee of the Financial Women’s Association (FWA), among other activities.