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Navigating DEI When Hiring Executive Leaders in Private Equity

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In a historically homogenous sector, diversity rises as a leading differentiator among high performing private equity firms and their portfolio companies.

From rising interest rates to increasing C-suite turnover, private equity firms and their portfolio companies have recently faced [a spectrum of challenges](#) that have limited their potential to achieve growth.

Leaders within these firms are embarking on a variety of strategic imperatives to jumpstart their value creation. For some, that looks like tapping into industry-specific digital transformation, overhauling their tax strategy, or building strategic ESG initiatives.

However, many private equity firms are beginning to sense a growing focus on the [quality of a portfolio company's leadership](#). Historically, PE firms have prioritized value creation and left leadership development to those who end up acquiring the company when the PE firm eventually sells it. However, recent studies have shown that effective leadership is the most important lever for creating value, significantly more than operational effectiveness or financial engineering.

As it turns out, those companies who have turned their attention to strategic ESG initiatives—particularly within the realm of DEI—likely have an advantage in ensuring a more effective leadership team. There is data that suggests a [strong positive correlation](#) between greater diversity of management teams and the company's financial performance. The takeaway is that the role of DEI in [executive recruitment in private equity](#) is top of mind both for PE firms and institutional investors.

The State of DEI in Private Equity

In today's PE landscape, there are [three separate motivations](#) for investing in DEI. As mentioned above, one is the compelling data that reveals the financial strength of companies with more diverse leadership teams. In fact, about one-third of women-owned and minority-owned PE firms are [top quartile performers](#). As we've discussed in [previous articles](#), these financial benefits likely stem from improved decision-making abilities, enhanced innovation and creativity, higher employee engagement, and a better reflection of a diverse customer base.

Another motivating factor is that many [investors](#) are beginning to ask for DEI-specific metrics when conducting due diligence processes—being able to “check the box” is a necessity for

firms that are trying to keep pace with investment trends.

Finally, there are firms who simply believe that investing in a [diverse leadership team](#) is the right and moral thing to do—and the financial benefits are a bonus.

Regardless of the motivation, companies are improving their levels of diversity at a pace that simply appears too slow. [One analysis](#) shows that gender parity in promotions won't be reached for another six decades in the PE sector. The numbers are hard to argue against—while [87% of public companies](#) have at least one woman on their boards, only 54% of PE-held companies can say the same. While private companies do outperform public companies in the number of women who hold C-suite positions—at 22% compared to 17%—only [8% of CEOs](#) at portfolio companies are female.

Strategies for Promoting DEI in PE Executive Recruitment

A [recent survey](#) revealed that 95% of portfolio company CEOs say DEI is a focus area in the next 24 months—and yet 40% do not have a formal strategy for their DEI efforts. The majority of these CEOs report that it has been a significant challenge to recruit and retain diverse talent. There's a big gap here. Only with a formal plan, specified goals, and clear metrics can DEI efforts in PE move from being reactionary to strategically proactive.

A holistic approach will require top-down training and education. All stakeholders must have a comprehensive understanding of DEI principles—as well as a clear picture of the company's current diversity baseline. This will help mitigate unconscious bias in the recruitment process.

Bias isn't the only challenge facing DEI initiatives in PE. It's all too common that [diversity efforts are delegated](#) to executives on top of their existing responsibilities. Those in charge of executive recruitment often lack the experience, skills, budget, and resources necessary to craft and execute a DEI-centric recruitment strategy. On the other hand, companies that succeed in promoting DEI in their hiring process have the leaders and resources available to establish an aligned vision, a comprehensive baseline, and a tailored plan. From there, they can more effectively implement and measure their efforts.

It's also critical to understand how existing diversity can impact the executive recruitment process. According to [one study](#), 37% of portfolio company CEOs report a historical lack of diverse talent—private equity is traditionally a largely homogenous industry, and it can be difficult to break this barrier. It becomes a circular problem: the lack of existing representation is tightly correlated with lower levels of diverse hiring.

This is one reason why partnering with an executive search firm like [Slayton Search Partners](#) can be beneficial—it allows a PE firm and its portfolio companies to expand its network into more diverse talent pools, regardless of the company's existing diversity.

Case Studies of Successful PE DEI Initiatives

Private Equity Firm: [GTCR](#)

Melissa Mounce Mithal, Manager Director of Leadership Talent and Diversity at GTCR, began [focusing on diversity](#) a year into her tenure during the height of the pandemic. With everyone suddenly working remotely, it was easier to access and recruit from a wider and more diverse network of executive candidates for their portfolio companies.

GTCR has also implemented a DEI learning series to encourage best practices, nurture open communication, share ideas and successes, and generally promote diversity within their portfolio companies. This, combined with a DEI upskilling program, has led to tangible results: 84% of their portfolio companies have at least one diverse board member, and 42% have at least two.

Private Equity Firm: [TPG](#)

In 2015, ahead of its time, TPG instituted its 14-member DEI Council, with support from three advisory groups. DEI is one of TPG's core values—it is part of their foundation, sparking original insights that have enabled them to invest in and build successful companies. Executive recruiting and hiring are one of their core focus points within their DEI initiatives.

As a result, they can boast that more than 80% of their portfolio companies have gender and racially diverse boards, with more than 400 diverse directors since 2017. They also partner with a number of organizations that seek to diversify boards. Beyond the boardroom, TPG implemented an initiative that focuses on diverse investments and is also committed to public engagement on current diversity-related issues.

Prioritizing DEI in PE Recruitment Strategies

Both companies highlighted in these case studies understand that the quality of their leadership and board talent is critical in building successful, high-growth portfolio companies. In today's private equity landscape, true quality and success are rarely found in homogenous

teams. Diversity is crucial.

Prioritizing DEI in the recruitment process will enable private equity firms and their portfolio companies to foster innovation, build a competitive advantage, and ensure sustained growth.