

## Webinar: Diversity and inclusion matters

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*Diversity and inclusion is increasingly rising up the business agenda. In a recent Real Deals webinar in association with IQEQ, industry experts discussed best practice, D&I as a value creation lever and how best to avoid reputational costs.*

ON THE PANEL: Beth Houghton Partner, Palatine; Ruth Tompkins Head of HR, Private Capital, EQT; Shami Nissan Head, Responsible Investment, Actis; Serge Krancnblum Co-founder, IQ-EQ

Diversity and inclusion is increasingly rising up the business agenda. Where this was not a consideration for private equity firms, their portfolios and employees just ten years ago, it is now becoming a key consideration for all. D&I has become a key business case and those who are able to truly implement this into their agenda are achieving the most success for their business, portfolios, employees and returns.

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In a recent *Real Deals* webinar in association with IQEQ, a panel of industry experts discussed best practices, D&I as a value creation lever and how best to avoid reputational costs. Here's some highlights from the discussion:

### **Best practice and asking why**

To implement a genuine diversity and inclusion policy within a firm, the thought process behind the policy must be explored. Actis' Shami Nissan said: "Best practice starts with a belief statement. You need to say to your organisation and the world, why you think that this [D&I] is important...At Actis, we believe that inclusive and diverse cultures create higher performing teams, higher quality decisions. It's important to ground it in a simple statement and simple language. That becomes your departure point."

IQEQ's Serge Krancnblum added: "The first thing is to make sure that everybody understands why it [D&I] is important. It's not important because there is external or regulatory pressure; it is important because if you want to deliver your strategy, you need to have diversity."

The panel agreed that once a policy is set, it must be championed from the top. Nissan said: "If it is not a topic that is clearly on the agenda at the board level or equivalent and if the senior leadership aren't talking about it visibly, vocally, continually, it will lack authenticity."

The IQ-EQ co-founder agreed that the ideology and beliefs of an organisation on D&I should be repeated and encouraged from the top, through all levels of the business.

The panel also agreed that role models and/or mentors can be extremely useful. Palatine's Beth Houghton said: "At Palatine, we have business coaches and my particular business coach really helped me with my transition to partner; it was really important for my professional development.

"Affinity groups are really important," Nissan agreed. "We have an open door initiative where every female partner and director has said: 'No questions asked, you don't need a meeting booked in, we're here any time to support our female colleagues'".

A third area to ensure that D&I policy is adhered to is in recruitment. Houghton noted that firms should work to have diverse interview panels, reduce unconscious biases and to widen the applicant pool if a diverse range of candidates is not on offer in a chosen sector.

The Palatine partner is an example of someone who came into private equity from a career largely out of the general talent pool. Joining from a prior career in IT, Houghton began as an intern at the firm and with the guidance of like-minded colleagues, worked her way to the top.

EQT's Ruth Tompkins also highlighted the rising importance of D&I. "I've been interviewing candidates since 2007 and back then, I was probably never asked whether we have a D&I policy or how we consider sustainability, but now it's the first two questions that every candidate asks."

### **Value creation**

While D&I is important internally for private equity firms, it can also be used as a value creation lever for portfolio companies. It has been shown time and again that diverse teams and companies perform better and not just gender diversity but ethnic diversity and cultural diversity as well, and so a real opportunity exists for PE managers.

Houghton said: "Where we have a strong stance on diversity and ESG, management teams that we speak to are really engaged on that topic now. It's often been a differentiator when trying to pitch and win deals to talk about ESG and D&I and management teams can see that we can help them on that."

Shami shared a similar perspective held by Actis. "If we really believe that this [D&I] is value additive, then why not incorporate it into our investment decisions and value creation phase," she said.

Firms are able to positively influence their portfolio to embrace D&I. Houghton referred to a diversity day run by Palatine for its portfolio chief executives and HR directors where best practice and expertise was shared.

Actis has run unconscious bias training with its portfolio companies and hosted webinars to share knowledge on the subject. The firm has also implemented a mentoring programme for diverse mentees from its portfolio. Shami explained: "It's administered by Actis for individuals within our portfolio companies who are considered as diverse, in the context of the country where the company is operating. They are matched with senior employees from Actis. This can help those individuals with their professional development. If you can harness that talent, it's a win win for those individuals, their businesses and then for us also."

Tompkins added: "What's exciting is not just what impact we can have on the industry, but through the network of portfolio companies, how powerful that can be. We're relatively small employers as individual firms, but we're huge employers when it comes to our portfolios!" Indeed, the reach of each private equity firm is huge and so firm's have a huge responsibility to filter their policies through to their portfolios.

### **Reputational risk**

More broadly, the panel agreed that not having a firm-wide D&I policy can be a significant business and reputational risk.

Krancnblum said: "We are a people company, we provide services, so you can imagine the cost if we are not considered as a diverse and fair employer. This is extremely important as with the cost of our reputation."

Diversity is becoming increasingly important for LPs also, Krancnblum noted. "There has been a change in generation in the last 20 years and investors today want to check every investment and asset manager's compliance, not only on ESG but on D&I also. The cost of not having a good reputation in terms of D&I is huge."

Tompkins added: "In terms of recruitment, there is so much evidence now that diverse recruitment policies is just good business and it could certainly damage your organisation's reputation by telling people that you don't think it is."

Similarly, investing in a business that is lacking in D&I can also be costly for PE firms. "You don't want to sleepwalk into a situation where you have a board or a management team with a history of transgressions in this area. That would point to the fact that you haven't deemed it important enough to consider in the first place," Nissan said.

Houghton added: "You must consider whether the management team is progressive and of a strong business culture. You put your reputation as a firm on the line when you back these management teams."

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