

WHERE ARE ALL THE WOMEN, MINORITIES?

By David Toll **PE HUB**

Why don't more women and African-Americans work in the buyout business?

Based on my knowledge of industry demographics I'd estimate that at least 500 buyout firms operate in the United States, employing well over 5,000 investment professionals. I don't know any sure way of getting to the percentage of women and African-Americans. But 10 years of attending industry events, interviewing sources, and reading trade publications tells me that the percentage is astonishingly small.

The premier issue of Portfolio magazine, published by Condé Nast this spring, carried an article investigating why so few women hold deal-making posts at the country's top buyout shops. At the 10 largest buyout firms, together employing some 1,000 investment professionals, the author could find only four "partner-level women" that "are in charge of putting deals together." I doubt the author would have had much more success finding African Americans in these posts.

Over the next several months Buyouts Magazine plans to take a closer look at why the diversity of people in the buyout market doesn't more closely match that of the population at large. I'll also try to learn what is being done about it, whether that's enough, and what more could be done. Senior Editor Ari Nathanson kicked off the effort by interviewing Willie Woods Jr., managing director of ICV Capital Partners, a New York-based mid-market buyout firm that counts several African Americans among its partners. An edited account of the interview follows below.

Buyouts: In conferences, more than 90 percent of the people we see are middle-aged white men. Is that what you see?

Woods: The private equity industry started out as a cottage industry, where a few people with relationships convinced the institutional market that there was an opportunity. And as the industry has grown, it has tended to focus on people who all look alike because of those relationships. You either have to have known somebody at a private equity firm to get a job there, or you had to have a relationship with an institutional investor to be able to raise money for yourself. So that's the origins of this industry, and all those people happen to be middle-aged white men.

As the industry has gotten more institutional, and people have gotten more focused on who's been allowed to play in the industry and what's kept people of color and women out of the industry, there's been a little bit more focus on behalf of some of the institutional investors to broaden the people that they work with.

That's happening for a variety of reasons. One is that the demographics of the world are changing, so ultimately you have to be thinking about how you are going to get to that

next level of talent, and the talent that may have existed twenty years ago, in terms of race and gender, may not be the same talent pool that existed.

It's still a problem, but we're making progress.

Buyouts: Is the rest of the financial world more diversified than private equity?

Woods: It is today.

I would say that private equity today is where investment banking was 10 years ago. In the early 1990s investment banking was much like private equity is today—pretty much dominated by white males. Investment banking took a real initiative to try to do something about that in the 1990s, and today it's a much more diversified group.

There's still a long way to go. But in the early 1990s, I could probably tell you every African American who was at every large investment bank. Today I can't, which is a good thing.

Buyouts: Why did investment banks take those initiatives, and was it really noticeable that they took the initiative, or was it just that more women and minorities started getting hired?

Woods: I think it's a combination of things. More minorities who started to get those jobs started to care. More minorities started to get the jobs. More minorities started to have success at the job, and then found themselves in a position of strength to challenge the organization around making a bigger effort to make sure that they include everybody.

Investment banking, supposedly because it's driven by meritocracy and getting the best of the best and recognizing that diversity ultimately helps business, it was certainly a good place to start, given their own values. But I think a lot of firms on Wall Street have initiatives internally. I think the senior people at a lot of these firms take the initiatives seriously. It's been a long push uphill to get people there, but they've made a lot of progress from the numbers I've seen.

Buyouts: What are some of your biggest concerns about minority and women representation in private equity? Is it something you think about regularly, or only when somebody brings it up?

Woods: My concerns, generally, are around perception. There are a lot of perceptions that are still lingering around in this country about minorities and their capabilities. And those perceptions are, one, that there was some sort of affirmative action project involved that got you into the business.

We always like to say that we're in the business because we've got a great team that's got all the pedigree—Harvard Business School, Stanford undergrad, Morehouse undergrad, investment banking backgrounds—and if you were to take our firm and match it up with

any firm we would have identical, or better, pedigrees. But there's always the perception out there that something was done special for you, which is far from the case.

The second thing on the perception front is that somehow you're not as capable. For whatever reason, there's this perception that people don't have the right experiences. You hear it all the time, people saying, 'Hey we looked, we looked, we looked, we just couldn't find anybody who was qualified.' But when you look at our fund, people here are well-qualified, our firm has a great strategy, and has been very successful.

So that's two concerns around perception: that people who are not really qualified to do the job are getting favorable treatment.

The third perception that concerns me is one of double standards. In the private equity business, every firm has got its own approach, whether there are black people, white people, men or women running the firm. And if they succeed, it's because they have a great strategy and a great team and have been good investors, period. And how they succeeded or failed has nothing to do with the rest of the population in private equity. That's just how the market works. If KKR blows up a deal, nobody assumes that TPG is going to blow up a deal, too. In the minority community, though, you tend to get grouped together. People assume that if one minority group is unsuccessful, then the whole group somehow can't be successful, which can't be further from the truth. Just like in the general market community, all the minority firms have different strategies, different approaches to the market. Some people are venture capitalists, some are buyout specialists. But somehow when one doesn't work out, when we're out fundraising, it tends to be generalized against the whole market.

Buyouts: Somebody's actually been that up front with you and told you that?

Woods: People hint around to it. 'Well what happened there? Well, how are you different from them?' And I don't think the general market has to deal with that.

Buyouts: I wrote the story about your last fundraiser, which was very successful. You guys were oversubscribed...

Woods: No question. We had a great fundraising experience this go-round. But there were no blow ups. I still believe that if a minority firm has some problems that gets widely publicized, you get lumped in with that group, and you find yourself having to explain why you're different.

Buyouts: With regard to your first fundraising attempt-was it difficult to do back in 1999?

Woods: Yeah, it was definitely tough. And one of the reasons why I think you get lumped together is because everybody assumes that just because you are a minority person, that you are focused on investing in minority causes. So people assume that if one person who has that strategy doesn't produce the kind of returns that were expected, then

they just make the assumption that everybody of color is investing in that kind of market or strategy, which couldn't be further from the truth. Just because you're a minority doesn't mean that you're investing in the minority market only. You could have a very general market strategy like we have.

Buyouts: Given that minority representation in private equity is so small, are there any positives to being one of the few that is currently playing in the market?

Woods: What some people may not have an appreciation for is that as a minority investor, you tend to have more in common with lower middle-market companies, because lower middle-market companies see themselves as the underdogs. The managers and management teams of those companies see themselves as people who had to overcome odds and had to work hard, and have been successful against all the odds. So when they meet someone like us, they naturally assume all of us grew up in environment where we had to overcome odds and were successful in spite of it-whether it's true or not. We find that being minorities has helped us relate better, at least in our strategy, when it comes to smaller, more entrepreneurial companies. So that's actually worked particularly well for us.

The second thing that people might not have an appreciation for is that, because we are minorities, and have minority backgrounds, we are a little more sensitive to the employees of the company, and the diversity levels at the company, and how we make the employees' lives better.

For example, we do everything else that the mainstream buyout firms do, which is to say we have a great strategy, we have a very good deal screen, we have a lot of great deal sources so we see a lot of deal flow, we have a lot of industry expertise in some areas, we can help with the capital structure and filling out the board and filling out functional areas of the management team-all the stuff that private equity people pride themselves in doing in terms of creating change. But one other thing that we do that's probably different just because of our background is we try to institute a number of employee-type programs that we think make the employees more loyal.

For example, if you've got a company with a Hispanic population that's about 90 percent of your workforce and hardly anybody speaks English, we have a number of HR policies, such as partnering with the local community college to help them improve their English or even begin to learn English, because that will lead to better communication. Another thing we've done is look at the payroll checks and see where they're being cashed at and seeing how many of our employees-again 90 percent Hispanic-are not with a legitimate bank. So we have partnered up, as a company, with a specific bank where we have our corporate accounts, to work with some of our employees to get real bank accounts without paying outrageous fees. They're just little things that you do for the employees, but ultimately if you do enough of these little things, the next thing you know, the employees start thinking you actually care about them, and start being more productive and working hard.

We are minorities. We are socially and consciously aware of some of the things that plague our community. And since we are the owners of the company, we can drive certain HR policies to address some of these things. Ultimately these things make the company better. But people who may not come from that background are just not going to be sensitized to that kind of stuff. It's not going to cross a lot of people's minds.

Buyouts: Do you think the buyout asset class is hindered at all because a large number of its practitioners come from similar backgrounds?

Woods: I think anybody, whether it be a majority mainstream firm or a minority firm, who does not recognize that the world, and particularly the United States, is changing everyday in terms of its demographic mix—whether that be customers, consumers, vendors, suppliers, leaders—is making a big mistake. Anybody who does not realize that you need to have a multicultural team is making a big mistake.

We're all looking for angles other than just having capital, because we've all got that, and there's so much capital out there that that ultimately is not enough. So you've got to have either some insight, a different way of thinking about things, or else you'll completely miss some of these consumer markets that are being driven by demographic change because you don't have people on the inside who can relate.

Buyouts: Concerning LPs, there are a number of them, such as the State of Connecticut, that have programs that specifically target minority and women-owned firms. Did things like that help ICV get off the ground at all?

Woods: In 1999, when we raised our first fund, you didn't have a lot of that like you have today. I think it's great that it's there today. It's like investment banking 10 or 15 years ago. Somehow people started looking up and noticed what was going on around them and started doing something about it. Connecticut, in my view, is one of those states—obviously driven by Denise Nappier, who is an African American woman, who is sensitive to the issue because she's one of us. CalPERS, to its credit, is sensitive to the issue. CalSTRS is sensitive to the issue. Why? Because when they look at California and see what's going on with the demographic trends, you can't escape it. You've got to do something about it.

So there are obviously certain LPs, in my view, like Connecticut, like CalPERS, like CalSTRS, New York City, too, who are leaders in this kind of thing. There are truly some LPs out there in my mind who get it and are doing something to make sure that capital is widely spread in a more diversified way, and not just heavily concentrated among the white males who have been in this business forever. We were not really a beneficiary of that in Fund I, but we were a big beneficiary of it in Fund II. Connecticut is our largest investor.

Buyouts: When you were initially looking for a career in private equity, was there ever a time when you were put off by the lack of minority and women representation in the industry?

Woods: I was not put off, but I was surprised. Very surprised.

The reason I was not put off is because I don't think it is an intentional, divisive thing that people are doing. I would have been put off if I thought people were purposely trying to keep minorities out of private equity. But I don't think that's what's going on.

But I was surprised. I was surprised because when you just think of where the lion's share of the funding for private equity funds comes from—that being the public pension fund market—when you think about that as the source of the capital for this industry, and whose money you're talking about, and the number of minorities who make up the actual base of people's money you are actually managing, that's what's shocking. When you think of the percentage of minorities who are teachers or state workers in California, New York City, Illinois, or anywhere, I bet it's a pretty big number, probably disproportionately large compared to the population numbers in those areas. And when you looked at private equity when I was thinking about getting into it, in the 1990s, and saw virtually no minorities, that was shocking. I wondered 'How can that be?'

I thought: 'If the pension fund beneficiaries knew that, and were well aware of that, and were an organized group, there would actually be an uproar. They would actually wonder how that could be.'