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Seven steps to accelerate professional advisor diversity

Many firms have put significant effort into increasing the diversity of their boards and employees. Selecting diverse teams of professional advisors can be another important lever in bringing diverse perspectives to bear on key issues. The transparency and approach firms take when selecting diverse teams of professional advisors can accelerate this progress.

KPMG and FCLTGlobal recently conducted a joint survey of private equity (PE) stakeholders to determine how diversity, equity and inclusion (DEI) is being incorporated in the PE ecosystem. Survey findings indicated that an opportunity exists to make substantial progress on the DEI front, particularly when it comes to professional advisors.

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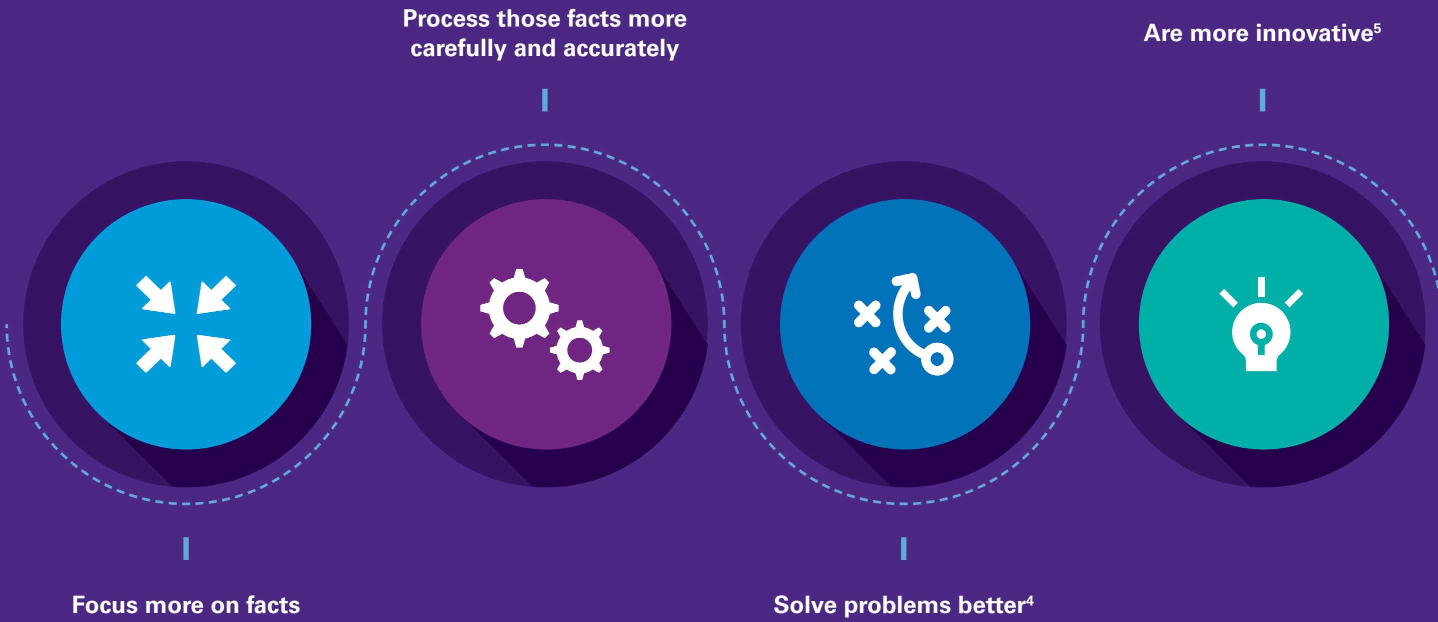
Diversity makes a difference

It should come as no surprise that having a diverse workforce and diversity on the board of directors correlates with company success. It's hard to ignore the mounting evidence that diverse teams are better able to manage risk, are more innovative and productive, and create value through smart decision-making than homogeneous groups.[1] In fact, one study found that between 2010 and 2017, companies with the most gender- and ethnically diverse boards added 3.3 percent to return on invested capital as compared to their least diverse peers.[2]

A diverse workforce—and board of directors—can bring different experiences to the table, offer differing points of view, and deliver creative and innovative strategies and solutions. Diverse teams tend to produce better outcomes[3] because they:



[1] Source: Wall Street Journal, The Business Case for More Diversity, 10/26/19.

[2] Source: FCLTGlobal, Predicting Long-term Success for Corporations and Investors Worldwide, 2019

[3] Source: Forbes, Diversity Confirmed to Boost Innovation and Financial Results, 1/15/2020

[4] Source: PNAS, Groups of diverse problem solvers can outperform groups of high-ability problem solvers. 2004

[5] Max Nathan and Neil Lee, (2013) Cultural Diversity, Innovation, and Entrepreneurship: Firm-level Evidence from London, Economic Geography, 89:4, 367-394, DOI: 10.1111/ecge.12016

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New approach, big payoffs

But what many PE (and other) firms may not realize is that they and their portfolio companies can reap similar benefits by ensuring that their professional advisors—for example auditors, accountants, attorneys and strategy consultants—feature diversity in their personnel, too. Professional advisors with diversity tend to build stronger relationships with their clients, have more insightful discussions, and ultimately produce better decision-making. This important but often overlooked element can translate into a stronger bottom line for your firm and may even contribute to a more favorable opinion of your brand.

Selecting diverse advisors can be particularly impactful as PE firms and their portfolio companies tend to operate on lean budgets and often have higher consultant-to-employee ratios than other entities that may hire predominantly full-time employees. With such a large external workforce, ensuring that the advisors your firm or your portfolio companies retain prioritize diversity in their own houses can pay big dividends, both domestically and globally.

PE firms and their portfolio companies tend to operate on lean budgets and often have higher consultant-to-employee ratios than other entities. So ensuring professional advisor diversity can be particularly impactful.

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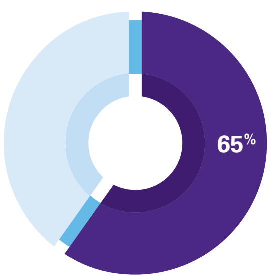
PE firms taking notice

The benefits of diversity seem to be filtering down to PE firms and their portfolio companies in terms of personnel, boards of directors and also when it comes to choosing their professional advisors and other service providers.

According to a joint survey by KPMG and FCLTGlobal, more than 65 percent of PE executives and their professional associates agree that diverse external advisors offer guidance that generates better long-term return on investment (ROI).[6]

It's critical to keep in mind that the benefits of diverse professional advisors do not just accrue to the PE firms themselves. They cascade down to the firms' portfolio companies, regardless of where they're located globally.

Currently, however, few general and limited partners of PE firms act on these findings. According to the KPMG/FCLTGlobal survey, less than 20 percent of PE firms reported asking for diversity information when they engage external advisors or in requests for proposals (RFPs).



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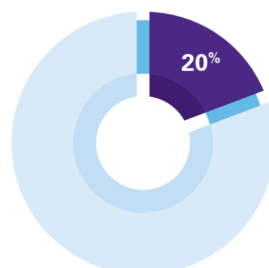
Survey by KPMG and FCLTGlobal, 2021.



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What's more, advisor diversity can improve decision-making, arguably because it facilitates a better, more constructive interaction with a client's personnel. A Harvard Business Review study found that when at least one team member shares a client's ethnicity, the team is more than twice as likely to understand the client's needs than teams where no member shares that trait.[7]

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But this is beginning to change. A growing number of PE firms are factoring in the diversity of a professional advisor team before deciding whether to retain them. For example, 46 percent of PE respondents in a survey sponsored by the legal analytics platform, Apperio, noted that the diversity of their external counsel team was an important factor in selecting an outside law firm to partner with.[8] And more than half of the participants in the joint KPMG/FCLTGlobal survey said they would likely include DEI information in procurement decisions if it were made available.

Another reason for this change may be that PE firms are looking at the regulatory trends, reading newspaper headlines regarding ESG (environmental, social and governance) and DEI issues, and becoming more sensitive to public opinion. All three factors are signaling that diversity—in the workplace, on boards and even in the hiring of professional advisors and other third-party providers—is a desirable outcome.

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[6] Survey results based on 59 responses from a cross-section of U.S. and global PE companies, asset managers and external advisors.

[7] Source: Harvard Business Review, "How Diversity Can Drive Innovation," Harvard Business Review, December 2013.

[8] Source: S&P Global Marketing Intelligence, Diversity plays crucial role in PE firms' choices for outside counsel, 2/23/21

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"Leaders in our industry are recognizing that diversity, equity, and inclusion in the workforce are essential if they want to successfully compete for talent and gain greater insights."

—**Allyson Tucker**,
CEO, Washington State
Investment Board

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Seven keys to ensuring advisor diversity

Here are several steps PE firms can take to increase the likelihood that the professional advisors they and their portfolio companies engage or partner with are appropriately diverse:

Ask for it

Sometimes the best strategy is the simplest. In the due diligence section of your RFPs, ask the professional advisors with whom you're considering doing business to provide DEI information on their personnel and hiring practices. Ideally, this information should be broken down on an organizational level as well as by the specific engagement team that you'll be working with.

Also, require or at least strongly recommend that your portfolio companies do the same. As noted earlier, less than 20 percent of PE firms currently ask for this information.

Less than 20 percent of PE firms ask for DEI information when engaging external advisors. But almost 50 percent of executives said they would consider it in procurement decisions if the information was available.

– KPMG/FCLTGlobal survey, 2021

Use the diversity information when making a decision

Having the information is a good start. But you also need to factor this information in your decision-making process; otherwise, what's the point of asking for it?

Create and implement a DEI policy for your firm

Over two-thirds of PE professionals responded that when enacted, their firm's DEI strategy was effective or somewhat effective in achieving its goals.

Establish a diversity office

This can be done as part of your DEI policy, which needs to be a core component of your firm's overall ESG strategy. Having a dedicated department can help advance the discussion around diversity and keep it in the forefront of your organization.

Appoint a DEI "champion"

Working with the diversity office, this individual will drive diversity within the workforce as well as in the selection of professional advisors. DEI champions are most effective driving change that contributes to long-term value creation when they report into the executive suite or are themselves executives.

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Include diversity metrics in your organization's compensation plans

While not everything that counts can be counted, in the case of DEI the old adage holds true: what gets measured gets managed. That's one reason BlackRock has embedded accountability for DEI in its business and manager assessments.[9] However, nearly 45 percent of participants in the KPMG/FCLTGlobal 2021 survey noted that diversity metrics are still not included in their organization's compensation plan.

Be proactive

Expand the roster of approved suppliers and advisors to include minority and women-owned firms. This will increase the likelihood that you will retain—or at least consider retaining—diverse professional advisors.

While **75 percent** of PE firms have a member of senior management responsible for DEI, only **19 percent** include that responsibility as a factor in setting compensation.

– KPMG/FCLTGlobal survey, 2021

[9] Source: Pensions&Investments, BlackRock pledges to conduct racial-equity audit, April 6, 2021

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Final thoughts: Advisor diversity critical for PE firms

Diversity among professional advisors and other third-party providers is even more critical for PE firms and their portfolio companies than it is for other businesses. As noted earlier, many PE firms tend to operate on a lean budget and seek to minimize their fixed costs. Accordingly, they often retain outside professionals, consultants and other third-party service providers rather than add to staff.

Diversity in the workplace plays a key role in the success of a company's overall ESG strategy, and is being recognized as a factor that boosts a company's bottom line and contributes to building a more resilient organization that's better positioned to outperform over the long term. For PE firms and their portfolio companies, it's critical that they garner similar benefits of diversity from the professional advisors and third-party contractors they work with.

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About KPMG

At KPMG, we design and deliver DEI programs that are distinct and customized to fit the needs of each individual client. We leverage employee data such as demographics, hiring, compensation, promotion, and retention information to build DEI strategies and capabilities that will help advance your DEI agenda.

We start by getting to know you: We strive to understand your employees, where you are as a company in your DEI journey, and your aspirations for the future. We then measure progress against stated goals, decipher and implement employee programs that bring about change, and work to make them stick.

As you target new markets and seek to expand your product portfolio, we will evaluate your supplier base practices and help assess bias in the procurement of services to help you appeal to a broader, more diverse population.

We also work with you to incorporate authentic messaging and actively engage and collaborate with leadership, employees, suppliers, and community organizations that support your values. We will tailor our services to your needs to drive sustainable structural and measurable behavioral changes.

Our services include:

— Setting the strategy by engaging the leadership team and leveraging innovation approaches that are creative, data driven, and forward thinking

— Enhancing the way we work together to understand your culture and actively engage your employee resource groups to advance DEI

— Building your brand in the marketplace to targeted employee/candidate value proposition and community impact programs that support DEI.

KPMG does all of this while keeping an eye toward enhancing profitability and increasing shareholder value, including addressing growing investor interest in environmental, social, and governance (ESG) related efforts.

About FCLTGlobal

FCLTGlobal's mission is to focus capital on the long term to support a sustainable and prosperous economy. We are a non-profit organization whose members are leading companies and investors worldwide that develop actionable research and tools to drive long-term value creation for savers and communities.[10]

FCLTGlobal's research addresses the most pressing issues in capital markets. Our work on private equity governance has shown the importance of diversity for long-term performance. See more at https://www.fcltglobal.org/resource/private-equity-board-diversity/.

[10] KPMG is a member of FCLTGlobal.

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