UNDER THE LENS: HOW PRIVATE EQUITY FIRMS CAN ADAPT TO IMPROVE THEIR RETENTION OF MILLENNIALS

In this second article of the Millennial series (click here for part one), we explore how Private Equity firms can respond to the four 'warning signs' outlined by Millennials as challenges to retention:

- Shifting career preferences
- An absence of flexible working
- A lack of transparency from the top
- The rising appeal of other industries

Despite unprecedented challenges, 2020 was a record year with deal values at levels not seen since 2007 and more than 8000 deals announced, the highest since records began in 1980. This success demonstrates how PE has been able to adapt its traditional model and re-shape its approach successfully.

In light of this success, can the industry utilize the success and the experiences of the pandemic to support Millennial motivations and retain Millennial talent? How can firms leverage COVID-19's remote working to introduce greater flexibility while staying connected and responsive to the employee experience? Can a building out of the HR function provide necessary space, development support, and direction for younger talent to navigate their careers?

We held three one-to-one interviews and a roundtable discussion with 23 Managing Partners in addition to 21 Millennial focus group participants. Four key solutions to drive Millennial retention were discussed:

PROVISION AND MODELING OF FLEXIBLE WORKING

Policies are a hygiene factor and offer broad guidelines, but flexibility can only work if a nuanced approach is taken, considering the conditions that work for different individuals. Overlaying this, leaders who model flexible working send a powerful message of its value and place within the culture. While different firms will approach flexibility in different ways, four common themes emerged in our discussions:

Focusing on outputs, not inputs

A shift in mindset away from how many hours invested towards efficiency and outcomes.

"People have said it's good to know there's broad parameters and policies for flexible working, but really it's about individual choice and trust. If you do not trust your people, you've probably got the wrong people. There is a clear 'end game' in terms of results, so the 'how' becomes less important." (Managing Partner)

A leader needs to trust that flexibility will not compromise results and give the team license to decide their optimum working conditions. For this to be embedded at every level of the firm, leaders should encourage individuals to assess their circumstances and communicate preferences.

Adapting hours to peaks and troughs

Advocating fewer hours with time off in quieter periods to alleviate the pressure and intensity of closing a deal. This could entail providing 'recharge days' or license to leave earlier on the quieter days.

One focus group participant referred to this:

"It needs to be flexible for when you have down time too. We work crazy hours when things are busy, why can't we leave at 4pm when you finished a deal a week before?"

Sabbaticals and extended leave

Millennials place considerable value on enriching their life experiences and traveling extensively, but many mentioned that firms currently do not offer sabbaticals on a formal basis. The opportunity to travel and step back briefly from careers has strong potential as a retention tool.

As one HR leader put it, *"People are asking for sabbaticals. Career sustainability is becoming a challenge for the industry."*

Maintaining remote working post-COVID-19

While it remains to be seen how remote working continues once 'normality' resumes, the pros and cons are being carefully assessed by firms.

Some Partners observed key advantages: improved productivity, better balance, and even record deal flow during COVID-19. Other Partners question the value, citing risks to connectivity and culture, Zoom fatigue, lack of dynamic idea generation, and limitations on the development of younger talent.

A plethora of considerations exists when shaping the continuation of remote working post COVID-19: personal circumstances, mental and physical health, team co-ordination when half are present vs. half are remote.

Will it create unfair advantages for those who come in or create pressure to return for those who aren't comfortable? While firms are grappling with these tough questions and the answers are unknown, one thing is for certain – remote working and flexible working is here to stay in some form.

Firms are advised to take a four-pronged approach to remote working over the long-term:

- Engagement and communication with employees to understand personal preferences.
- A clear formal policy for number of days per week expected in the office vs. remote working, but with the flex for each employee to decide how they apply it.
- Encourage leaders to continue working remotely in some capacity, legitimizing its value, and removing the pressure to return to the office 5 days a week.
- Explore creative ways to combine remote working with the appetite for different experiences. As an example, one Managing Partner we interviewed talked of exploring the option of remote working from different locations (assuming time zones align with their local market).

LEADERS LEARNING AND ADAPTING TO GENERATIONAL DIFFERENCES

Many of the Millennials interviewed suggested their leaders are out of touch with the realities, challenges, and motivations of this generation and need to learn how to adapt the employee proposition. This can be achieved via three means:

Analyzing the employee experience

Leaders and HR need to gather input at different levels to understand the culture and employee proposition. Accessing honest feedback requires engagement surveys or cultural diagnostics that protect anonymity, overcoming the potential reluctance juniors may have raising issues. Focus group participants spoke of the guilt they felt at speaking up:

"They [leaders] know how horrendously competitive it is and know you're about to be generously compensated – so what's the problem? It feels very first world problem to say: my super high paying job doesn't give me enough flexibility."

"It's difficult to raise issues without feeling too high maintenance."

Building management capability

Awareness is the first step, but leaders need the skill-set to support and enable individuals whose motivations differ.

As one focus group participant put it, *"I've had one partner come to me and recognize that we're not good at managing people, but they are by far the exception. It's a different skill-set to manage someone who wants more than just cash."*

Enabling leaders to effectively develop their teams and manage diverse needs requires defining clear leadership expectations and running skills-based sessions on the 'nuts and bolts' such as setting expectations, coaching others, giving constructive feedback, and leading inclusively.

To ingrain accountability, leadership impact needs to be assessed and rewarded in performance reviews. Inputs into these processes need to be rounded and evidence-based e.g. 360 verbal feedback collected by an external party.

Top-down modeling of new practices

Sustainable culture change is driven from the top. The smaller size and Partner-ownership structures in PE mean leaders have an exponential impact on culture and behaviors. Leaders need to consider how they will personally adapt to support a change that benefits younger generations. This goes beyond 'championing' a policy. Any change to ways of working need to be endorsed and exercised by leaders. Whether it's turning off emails on holiday or working flexibly around 'peaks and troughs', changes are unlikely to catch on unless leaders model them;

"If the senior people do it then junior people do it. They model it and copy it." (Focus group participant)

DEVELOPING THE HR FUNCTION

HR in Private Equity firms is maturing as demand for these capabilities rises, particularly given the myriad of people challenges in the current climate. That said, under-resourced or under-developed HR teams remain a feature of the industry, particularly in smaller firms. An absence of HR removes valuable space to raise concerns, solicit advice and receive development, which can drive attrition.

"We don't have anyone in HR. The message it gives out is we don't care about that part… A guy in my team left because he just didn't know who to speak to." (Focus group participant)

At its simplest level, HR provides a confidential outlet for individuals under pressure who may otherwise keep issues to themselves;

"Employees do not feel like they can speak up – they leave before they feel comfortable enough to say something. There is a cultural lack of openness to raise issues. Lack of HR adds to this problem." (Focus group participant)

To address this challenge, firms need to start by hiring seasoned HR Directors who can hold Partners accountable and challenge bad behavior. A credible figurehead will help to secure the investment and resource allocation needed to grow HR. To have the necessary impact, HRDs need a seat at the table and a chance to influence key firm-wide issues. As HR gains traction and teams build out, younger generations will have the space, development support, and vehicle of influence to address their needs.

MEASURING AND DRIVING ACCOUNTABILITY FOR ESG COMMITMENTS

About half of Millennials globally have shunned organizations and even potential employers that conflict with their beliefs. Millennials gravitate to firms that stand for more than making money.

As one specialist Headhunter explained:

"Millennials look for values, what you stand for and what you care about. How you treat people… what you do in CSR… Firms are going to be asked difficult questions. If you don't, you've got to address why not."

While our participants acknowledged the progress PE firms have made on ESG, the overriding belief is an ESG agenda will have greater impact if firms are held accountable for commitments:

"Intent to change is one thing but when you have someone holding them to account it will actually drive change." (Focus group participant)

Recommendations to drive this accountability include adding ESG clauses to investing criteria, having internal KPIs focused on ESG impact, and proactively reporting on ESG policies to LPs.

LPs are consistently mentioned as 'the burning platform' when it comes to holding PE firms accountable for ESG, but efforts to change need to arise from within. As businesses play an increasingly outspoken and active role in tackling injustices, Millennials in PE will expect firms not just to pay 'lip service' to a cause, but to invest authentic and sustained effort to move the needle on ESG issues. Firms concerned about losing Millennials will need to define what they stand for, the values underpinning their investment decisions, and how they contribute meaningfully to ESG.

SUMMARY

Private Equity has a unique opportunity to emerge from the pandemic with a revised working model, embracing changing preferences amongst Millennials and younger generations. Firms that fail to adapt risk losing talent to competitors or other industries. While many leaders are assessing how other firms are responding to current challenges, the key to change is listening to the voices within and balancing overarching policy with nuanced application, satisfying different needs.

The journey to a new model will be iterative and experimental, but the time to act is now. Firms can leverage COVID-19's remote working to introduce greater flexibility. Leaders need to stay connected and responsive to the employee experience and build the management capability to deal with different motivations. Building out HR functions will provide necessary space, development support, and direction for younger talent to navigate their careers.

Finally, Millennials have grown up in a world of intense global awareness with heightened sensitivity to climate change, societal injustice, and ethical duty. It is no longer enough for firms to signal support for ESG; they expect sincere commitment from the top and sustained action to addressing ESG issues.

Driving better retention of Millennials now and in the future relies on flexible working, employee engagement, leadership development, dedicated HR capability, and authentic ESG focus.

LEARN MORE

If you would like further support, please contact the Private Equity Team on: PE@ysc.com.

YSC.COM

About the author: David Longmore, Managing Consultant, Private Equity (UK, Europe, & Middle East)

David Longmore is a Leadership consultant and Executive coach with YSC Consulting. He partners with Private Equity firms and their portfolio companies to assess, build, and develop management teams that drive value creation. Alongside this, he works internally with PE firms on Diversity and Inclusion, Partner succession, deal team dynamics and coaching of senior leaders. He is currently writing a research report with Level 20 on improving the retention of women in senior investment roles to be released later this year.

We are a global, professionally independent leadership consultancy with a dedicated private equity practice.

Better leadership and execution is key to transforming asset value, particularly in a competitive deal-making environment. Creating value in private equity is about enabling the right people, teams and partnerships to drive change in service of accelerating performance.

YSC Consulting's private equity practice works with clients at the organizational, team and individual levels to accelerate time to performance through the intentional design of the leadership strategy. We help by:

- Identifying critical roles
- Getting the right talent in those roles
- Accelerating team and organizational performance

Using a combination of rigor and relationship capital, YSC ensures PE clients have the right leadership strategy in place through every stage of the investment period – from diligence to exit, and across the portfolio.

WWW.YSC.COM

Level 20 is a not-for-profit organization founded in 2015 with the purpose of improving gender diversity in the private equity industry. It aims to inspire women to join and succeed in the industry and helps firms to attract and retain female talent, such that women will hold 20% of senior positions. Its work is focused on five key initiatives: mentoring and development; networking and events; outreach; research and advocacy. It has an executive team based in London supported by many volunteers including committees outside the UK across 11 European countries. Level 20 has financial support from 83 GP firms including venture capital, growth capital, buyout and global alternative asset managers, other firms connected with the industry and generous pro bono support from a number of service providers.

WWW.LEVEL20.ORG