PE firms are focused on purpose-driven investing, but can they focus on purpose-driven hiring?

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Executive summary

Private equity (PE) firms have long been able to selectively pick and choose among top candidates to fill open positions. Lately, however, they find themselves in a position they aren't accustomed to: having to fight to attract the best candidates.

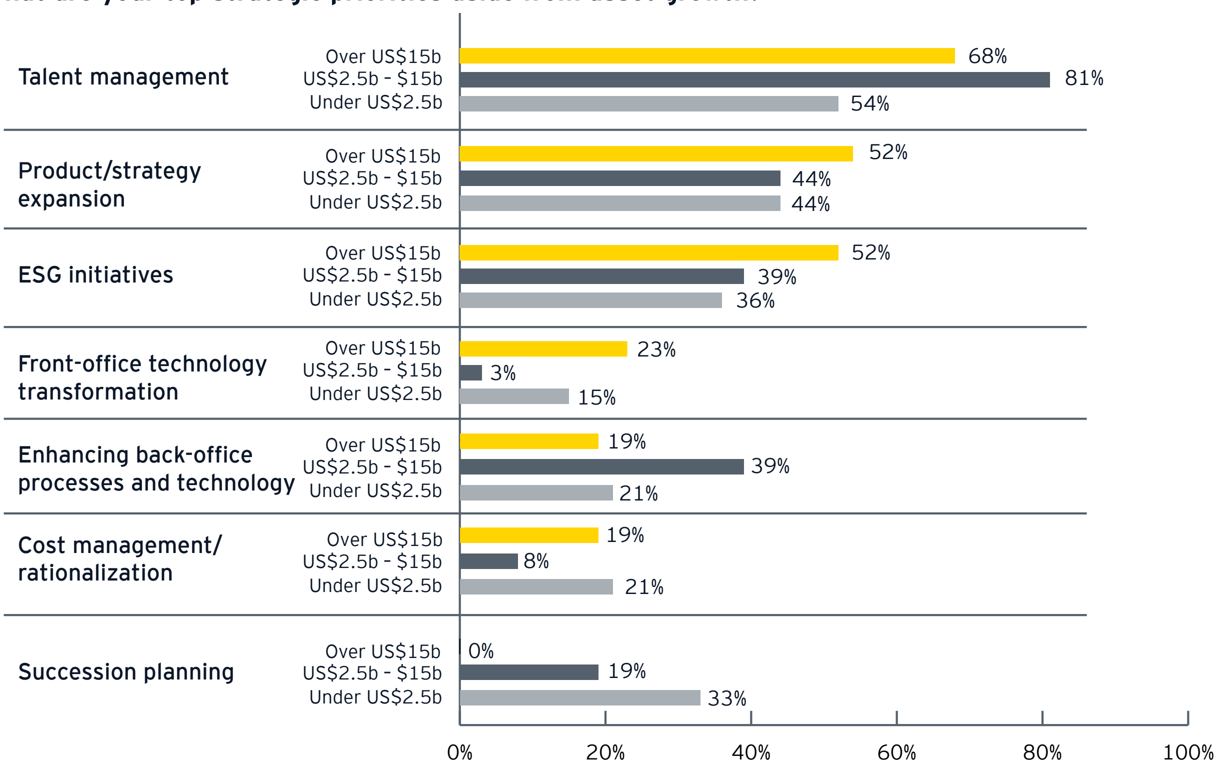
The growth of the buyout space, as well as growth in the alternatives space more broadly, along with PE's penetration into new investment areas, are primary culprits. PE is much larger than it once was and the expansion in assets under management (AUM) alone calls for more dealmakers and back-office professionals.

But firms aren't just using bigger pools of capital to do bigger deals — they're building up expertise in investment areas ranging from real estate to credit to environmental, social and governance (ESG) funds, many of which require professionals with different skill sets. At the same time, ongoing imperative toward digital transformation requires firms to find professionals with specialized skill sets in technology, and a new focus on the importance of diversity, equity and inclusion (DEI) is inspiring them to look for candidates outside traditional recruitment channels.

Against this dynamic backdrop, PE has widened previously narrow definitions of talent, no longer seeking just professionals with a finance background but also looking for those with backgrounds in everything from supply chain optimization and pricing to artificial intelligence and human capital. That has it facing off with not just traditional competitors for talent, such as investment banks and consultancies, but also with startups, major industrial concerns and large technology companies.

In this environment, it's no wonder that PE firms list talent management as their number one priority (aside from asset growth), according to the EY 2022 Global Private Equity Survey.

What are your top strategic priorities aside from asset growth?



Source: EY 2022 Global Private Equity Survey

With this landscape in mind, EY researchers and Columbia Business School's Private Equity Program have partnered to analyze data from Columbia's student base that can offer PE firms a wealth of insights into the mindset of a professional cohort that might reasonably be expected to be interested in a private equity career. Columbia Business School surveyed current students and recent graduates over a period of years for their opinions on topics ranging from the characteristics they would most like to see in their workplaces to how long they expect to remain in their current jobs. There are also responses from graduates who have been working in the private equity industry for a longer time. The EY teams and the Columbia Business School team analyzed the data across a variety of cohorts — Gen X/millennial, male/female, underrepresented minorities (URM)/non-URM and finance/non-finance.

To supplement the data, EY researchers and Columbia Business School also collaborated to conduct interviews with human resources executives and other leaders working in the PE industry to understand how firms are responding to the changing labor markets and industry.

Key findings:

- While monetary factors are important when choosing a career, for a majority of professionals nonmonetary factors are equally or even more important, a finding that holds true across generations, genders and ethnicities.
- Firms are laser-focused on developing their ESG competencies. While limited partnership (LP) demands are one driving dynamic, another factor is the desire to attract millennial candidates. The survey supports this strategy but finds that it isn't just millennials who are interested in purpose-driven careers.
- Firms are responding to the changing landscape with a plethora of new measures to make themselves both more competitive and more attractive to talent. Their responses include:
  - Rethinking whom they hire, from where they hire and what tactics they use when making hiring decisions
  - Tying recruiting and retention more firmly to purpose
  - Reworking their cultures to be more open and inclusive

Portfolio company approaches to talent

In this report, we are focused primarily on dynamics and talent initiatives at the fund level. But we also want to acknowledge that PE firms increasingly recognize talent issues as a key driver of returns at the portfolio company level as well. While portfolio company management teams have always been a focus, firms are now focused more than ever on the entire talent structure and how that supports (or inhibits) the operating model. Many of the levers PE firms are applying at the firm level also apply at the portfolio company level: upskilling; reducing turnover; more effective recruiting; onboarding; compensation; and bonus structures.

As such, our discussion of these issues in this report may be of use in portfolio company talent discussions as well. Given that PE firms employ nearly 12 million people in the US alone, these efforts can have significant implications for the overall economy.[1]

The landscape: a time of flux

Private equity firms face an unprecedented hiring market for several reasons:

- Competition for talent has dramatically increased.
- Industry-wide, firms are seeking out new candidate pools as hiring needs change and they focus on imperatives to increase diversity. They are placing a higher priority on candidates beyond finance MBAs, seeking talent with a variety of backgrounds, skills and abilities.
- The motivations and demographics of recruits and existing employees are changing, with the pandemic reinforcing trends already underway.

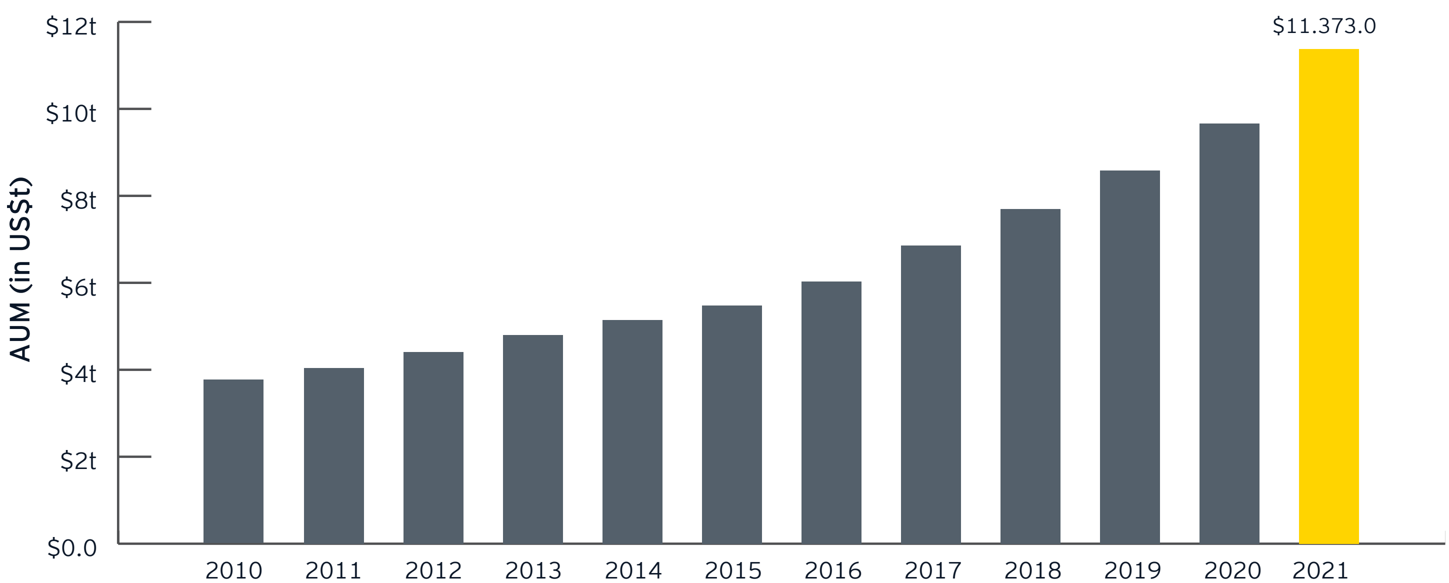
Building on success

Increased competition in PE is largely the result of the industry's own success. As private equity has matured and grown in size as an asset class, there have come to be far more PE firms than there were a decade ago. According to PitchBook, there are currently more than 11,000 PE investors across the globe, a figure that jumps to more than 40,000 when firms in adjacent private capital asset classes are included.

Assets under management has jumped, too. A decade ago, private capital was a $3.8 trillion industry. Today, that figure is $11.4 trillion.

That growth hasn't just meant larger deals. New strategies, new geographies and the implementation of new levers for value creation have added layers of complexity to firm operations, requiring more specialization. This has driven firms both to add to their overall headcount and to look for talent with more diverse skills.

The growth of private capital AUM



Source: PitchBook

Take Blackstone as an example of these trends. A decade ago, the firm had assets under management of about $210 billion and employed about 1,780 people. By the end of 2021, it had increased AUM by more than four times to about $880 billion and more than doubled its headcount to about 3,780 employees (with more than 600 hires in 2021 alone).[2] Over that period, it has added new lines of business in strategies such as secondaries, life sciences, growth investing and infrastructure.

Flipping the script

The dramatic expansion in both size and number of firms has flipped the script. Historically, there was fierce competition among would-be recruits to land a PE role. Today, however, job seekers have a stronger hand, with intensified competition for talent among PE firms and with investment banks. In the last several years, this has come to hold especially true for underrepresented minorities and women interested in the industry, as Wall Street firms of all types attempt to diversify their employee ranks, from junior levels to top management. As one PE executive, discussing recruiting mid-career minority candidates put it, "We are all fishing out of the same pool."

A new competitive landscape for talent

PE's growth and changing needs have also put it into competition with new industries for top-tier talent. While banking, law and consulting have always been in the mix, PE firms are increasingly seeking talent in industries further afield as they focus on operational improvements at their portfolio companies. They're seasoned industry executives who can serve as operating partners and talent with data science and artificial intelligence backgrounds from large tech companies as digital transformation accelerates. Blackstone again offers a good example — on a Q321 earnings call[3], the firm said it would increase the size of its data science team by 50%, to 30 from 20. Data about major companies that hire at Columbia Business School show tech names such as Google and Amazon were among the biggest recruiters in 2021, whereas they weren't a presence at all in 2008. The startup scene is also a strong source of competition, with Columbia Business School's 2021 employment report noting that 35 students across its degree programs are pursuing a startup company on a full- or part-time basis.

These new competitors for talent offer compelling opportunities and may be even more attractive to some candidates because:

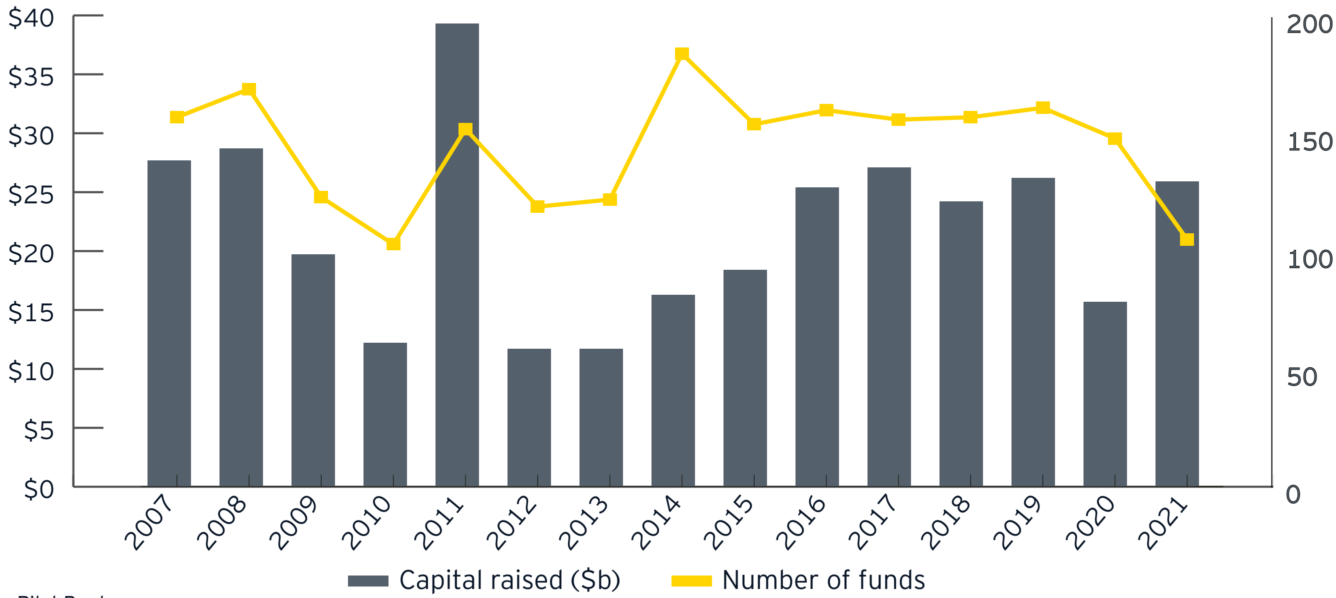
- Some of them do not require the intense apprenticeship that PE does, offering faster paths to advancement. (However, some candidates may find PE's apprenticeship model an appealing trait.)
- Many industries have the benefit of widespread name recognition, which PE still lacks. Some candidates, especially among underrepresented demographics, may not know what PE is. Others may have a distorted idea of what it does. This means that private equity firms must market not only themselves but the industry as a whole.
- Private equity is trying to overcome a legacy of not being diverse. URM candidates looking at the industry may find it hard to picture themselves working in it. To the industry's credit, it has recently made huge strides in increasing its diversity, as discussed further in the report.

PE does have a strong edge when it comes to offering competitive compensation. However, there are challenges even here. Past outperformance isn't a guarantee of future returns. People currently considering a career in PE might question whether the strong returns the asset class is known for, and the resulting wealth creation, will continue now that PE is so much bigger and more institutionalized. Potential employees also wonder whether they will share in a firm's profits in the same way that prior generations have.

Spin-offs from large PE firms — including entire teams departing to set up their own funds — support the theory that some investment professionals see more opportunity outside established firms than inside them.

This goes a long way to explain PE firms' recent aggressive compensation tactics, including buying out a candidate's accrued carried interest at their current job and offering guaranteed cash payments over multiple years, as the *The Wall Street Journal* reports.[4]

PE fundraising for first time funds over time



Source: PitchBook

Shifts in the workforce, too

As PE works to keep up with its growth, the workforce is changing too, both in its composition and in its desires.

Demographic shifts

The workforce and the working-age population are more diverse than ever by age, gender and ethnicity — but private equity has not kept up.

- By gender, working women are more of a presence in the workforce now. The percentage of female workers grew steadily to about 47% by 2000 and has remained there in recent years, according to the Bureau of Labor Statistics (BLS). But women continue to have only 20% representation in PE/venture capital (VC) firms, according to the Level 20 Diversity and Inclusion Survey 2021.[5]
- By ethnicity, the proportion of workers who are non-White grew to 22% in 2019 from 12% from 1979. And the proportion who are Hispanic or Latino grew to 18% from 5%. In PE/VC, White employees still account for 80% of the total workforce, per Level 20.

- By age, the workforce is getting older even as it is expanding to include more generations. The fraction of the workforce 55 years or older grew to 31% from 18%. Today, there are at least four generations working — baby boomers, Gen X, millennials, and Gen Z. And millennials became the largest working generation in 2016, according to Pew Research.

With a new focus on DEI in the wake of the George Floyd protests in 2020, the PE industry now finds itself playing catch-up with others that have a longer history of prioritizing diversity and inclusion. In the last couple of years, the industry has moved aggressively to increase its diversity, as EY member firm analysts discussed in December 2021. Many firms have introduced new initiatives to improve in this regard. Firms have established new recruitment programs at historically Black colleges and universities (HBCUs), new interviewing guidelines that include requiring diverse candidates for all roles and new diversity targets for incoming recruiting classes. For instance, Carlyle Group said in 2021 that 63% of its new hires in the US were women or ethnic minorities, and 58% of new hires in Europe and 52% in Asia were women.[6] Blackstone Group said in 2021 that about 45% of its 2020 global analyst class was female, up from less than 20% six years earlier.[7]

Priority shifts

The priorities of current employees and potential recruits are also shifting. The pandemic has inspired many people to rethink their relationship with work.

According to a 2021 LinkedIn survey, the most important priorities for job candidates, in order, are work-life balance, compensation and colleagues and culture. The fastest-growing priorities are flexible work arrangements, an inclusive workplace, and work-life balance.[8]

The Columbia Business School survey data, which covers the preferences of a more targeted group, supports these findings. The data also shows that the workforce is far from monolithic in its preferences, with different constituencies having diverging priorities. Understanding this dynamic is critical to the private equity industry as it seeks to diversify and continue building on its growth. Subsequent chapters will explore the data more thoroughly, as well as PE firms' responses to these changing priorities.

Expectations: What is today's talent looking for?

Columbia Business School Private Equity Program researchers took a deep dive into what the school's MBA graduates and students are looking to achieve from their careers. One key finding: Nonmonetary factors rank far higher for this cohort than money does.

Part of this may be because high compensation is considered a given — according to calculations by the *Financial Times*, top private equity firms set aside more than twice as much to pay each employee in 2021 as leading investment banks (another highly compensated group) did. As such, it represents a significant front in today's war for talent.

The growing importance of nonmonetary factors

However, across generations, genders and ethnicities, the things that people say motivate them the most are nonmonetary. When researchers asked what students and graduates "would like having immensely" in a job, high salary/good benefits ranked far down the list, in a tie for fifth and behind other factors such as opportunities for personal growth, and stimulating and challenging work.

While this may be counterintuitive, the data is very clear and applies to both finance and non-finance professionals.

This aligns with what we hear from PE firms themselves. The executives we spoke with for this report said that things such as a good relationship with colleagues, challenging work, and opportunities for learning and development are extremely important to their employees. "If you don't have the right culture, no rapport with colleagues, no challenging work, it becomes, 'I don't want to get up in the morning. I don't want to go in the office.' The challenging work and collaboration is always number one. Comp is secondary," says Helene Thomas, Global Head of Human Resources at CVC Capital Partners.

There are also notable differences between millennials and Gen X in why they chose their job. A higher percentage of millennials said they chose their jobs based on "industry attractiveness," while a higher percentage of Gen X said they chose their jobs based on "best option available at the time" or "family business."

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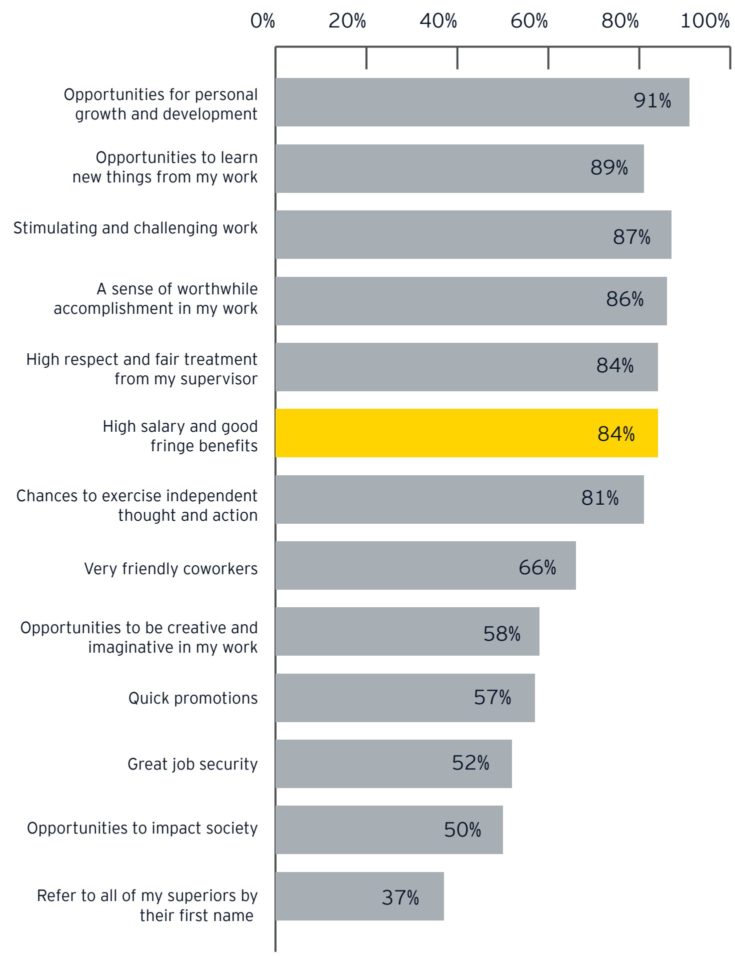
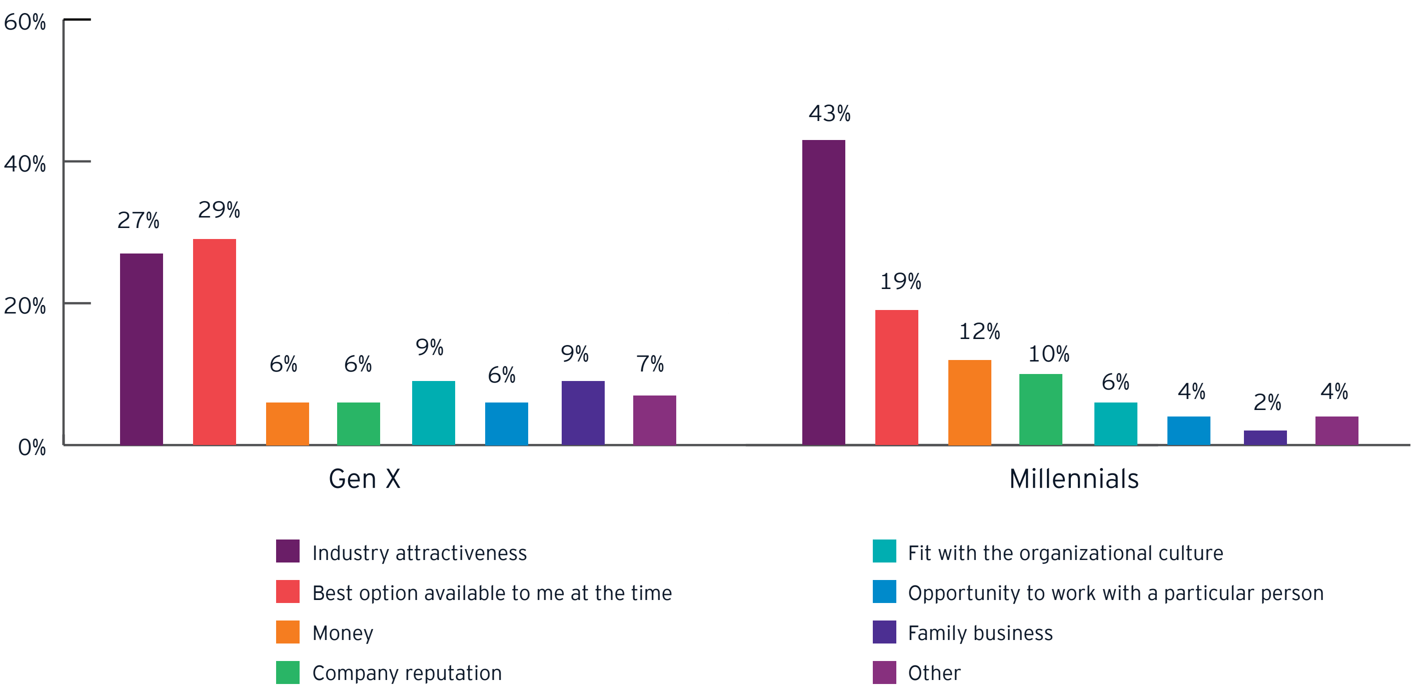
> Global Head of Human Resources at CVC Capital Partners

Would like immensely in a job



Source: Columbia Business School Private Equity Program Generational Differences in the Workforce Study

Reason for choosing current job



Source: Columbia Business School Private Equity Program Generational Differences in the Workforce Study

It's reasonable to theorize that these differences are attributable to the environment that recent younger graduates are entering — one in which talent has become a sellers' market in a way that it wasn't 20 or 30 years ago. Millennials and younger generations have more information about the breadth of options at their fingertips. Continued advances in tech have made it easier for them to compare industries, find current or former employees of the company they are considering working for and even network before landing a job. Educational institutions' career offices have become more professionalized.

The ESG equation

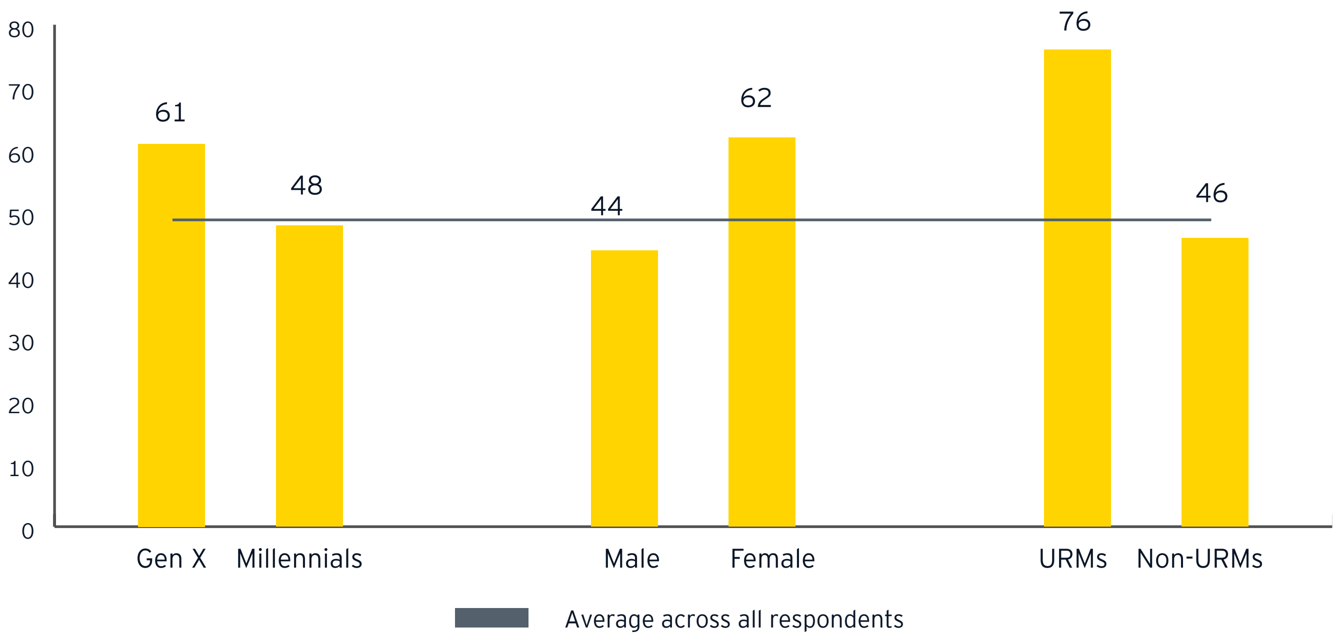
Firms are paying more attention to ESG practices in part because they want to cater to millennials' perceived desire to favorably impact the world through their work. Says one head of human resources at a large private equity manager, "I think people, especially younger people, are looking to be part of something that feels good to them. That's partially ESG, but also community."

The Columbia Business School data supports the firms' focus on ESG but shows that it isn't just a millennial desire — it is widespread in the workforce.

In fact, a higher percentage of Gen X respondents than millennials — 61% vs. 48% — said they would immensely like to have an opportunity to impact society. This shows that multiple generations are impacted by the same trends, and that Gen X in particular may be at a point in their careers where they feel more secure and can pay more attention to having a positive impact.

Women are more motivated by a desire for purpose than males, at 62% vs. 44%. And URMs are more motivated than non-URMs, at 76% vs. 46%. These statistics show that a focus on ESG can help firms attract more diverse professionals.

Would like "immensely" a chance to impact society



Source: Columbia Business School Private Equity Program Generational Differences in the Workforce Study

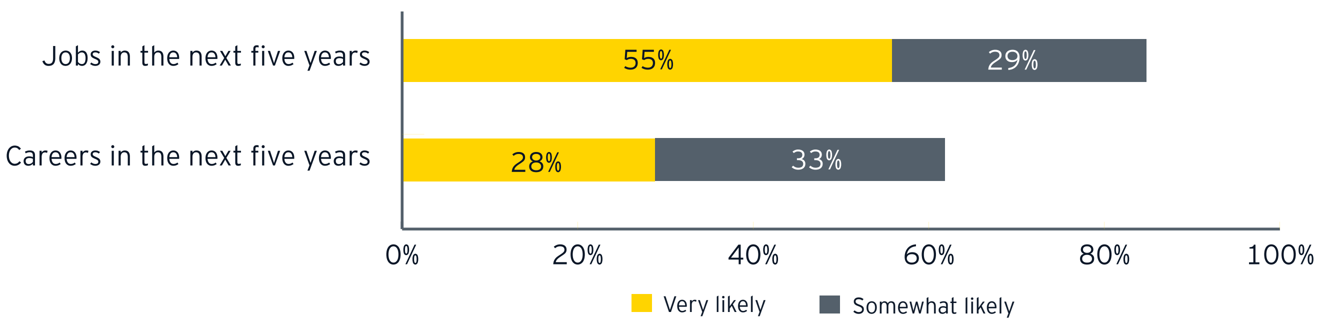
Retention: challenges ahead?

The number of people quitting their jobs recently hit a record high in the US, although this trend is more pronounced in low-wage sectors. In finance industries, quits are high, but not historically so — the industry saw more turnover prior to the Great Recession.

PE firms have a strong interest in retaining employees, given the time and money expended on training. Retention of underrepresented groups is also more in the spotlight as firms set diversity goals. For example, as discussed in the recent EY DEI report, a model from the Institute for Private Capital shows that a firm that sets a target of having 40% female staff overall and begins hiring 60% female employees per year to "catch up" will never reach its 40% target if it retains female staff at only two-thirds of the rate of its male staff.

The Institute for Private Capital's Diversity Integration Model calculates how long it will take to achieve diversity targets by using a few simple data inputs, including the starting and target percentages of women and URM, the new recruiting mix for women and URM, and the retention rates for White males, women and URM. The evolution of diversity depends critically on the relative retention rates. Low retention rates can provide a significant drag on the ability of the firm to meet its goals. **Click here** to try out the tool.

How likely are you to switch ...



Source: Columbia Business School Private Equity Program Generational Differences in the Workforce Study

The Columbia Business School Private Equity Program data shows starkly that firms have their work cut out for them. Not only are a majority of professionals across all the categories we looked at "very" or "somewhat" likely to switch jobs in the next five years, in almost all categories, a majority of professionals say they are likely to switch careers. This is evident in both millennials, the largest workforce demographic, and Gen X. This isn't so unexpected for millennials, who are earlier in their careers. It's also worth bearing in mind that this data comes mostly from business attendees and recent graduates, many of whom may be attending graduate school expressly because they are looking to change careers. However, it is a bit surprising that three-quarters of Gen X say they are likely to switch jobs, showing that a high number of mid-career employees, in whom more money and time has been invested, are considering changing employers, too.

Eight ways PE firms are responding to a changing market for talent

With the pandemic causing many workers to rethink their priorities and mobility generally increasing when labor markets are as tight as they have been recently, employee satisfaction has risen to the top of firms' priority lists.

1. Engaging on purpose

Respondents to the survey overwhelmingly highlight a desire for meaning in their work. The executives we spoke with for this report confirm that they see this dynamic play out on the ground every day. Further they say that it is no longer confined to senior executives who have made a lot of money and are looking to give back, but encompasses junior levels as well. Thomas, of CVC, relates an anecdote of a new hire who, within 24 hours of joining the firm, contacted the head of philanthropy asking how they could contribute.

PE firms have been moving toward "purpose-driven investing" for some time now, as the industry widens its focus beyond financial performance and takes a broader view that considers a broader array of societal factors. A big part of this drive is generating employee buy-in.

> "The main reason students tell me they want to join the PE industry is the opportunity to own, build, operate and grow companies, not just the deal-making and financial engineering.
>
> **Greta Larson**
> Administrative Director, Private Equity Program at Columbia Business School

2. Linking day-to-day work to purpose

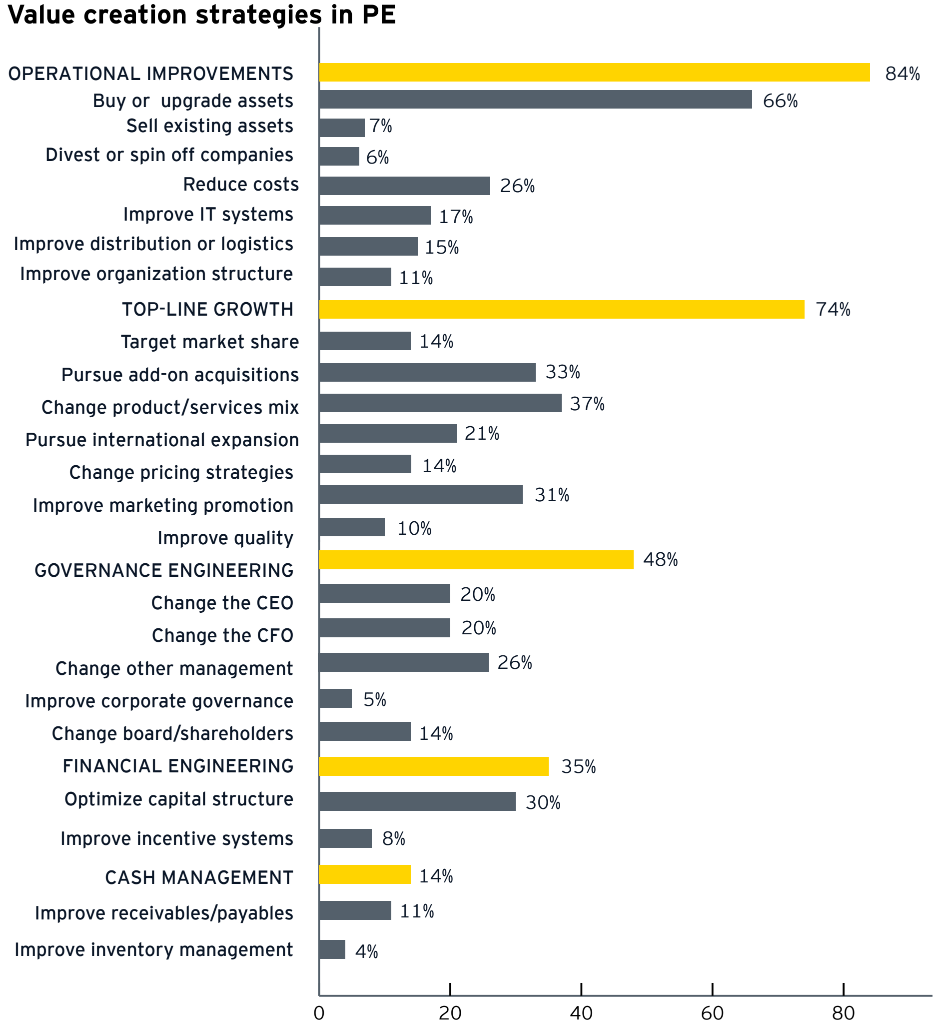
According to *Harvard Business Review*, one of the best ways to link employees to purpose is to show how their work impacts people's lives. *HBR* suggests that companies arrange for people impacted by their work to share personal stories with employees in an authentic way and not as a one-off.[9]

This is an area where PE firms, sometimes cast as job-cutting villains, have a clear opportunity to better articulate what they do and how they do it — the positive impacts that they create in the course of building and growing the companies they acquire and control.

Their investments these days are no longer about debt multiples but instead about helping portfolio companies to grow. Recent research by Markus Biesinger, Çağatay Bircan and Alexander Ljungqvist shows that growth-oriented initiatives such as buying or upgrading assets, changing product mixes or service offerings, or improving sales and marketing efforts all figure higher than initiatives focused on costcutting or financial engineering.

Most of Columbia Business School's MBA students say they find the opportunity to build companies the most attractive reason to work in PE. Greta Larson of Columbia's Private Equity Program, who works with MBA students looking to enter the industry, says "the main reason students tell me they want to join the PE industry, is the opportunity to own, build, operate and grow companies, not just the dealmaking and financial engineering."

Value creation strategies in PE



Authors: Markus Biesinger, Cagatay Bircan, Alexander Ljunggvist (June2020)

It helps if the wealth that company-building generates is spread more equally among portfolio company workers, thus increasing the number of voices prepared to promote private equity. While portfolio company management has long had a stake in the success of PE-led growth initiatives, firms are now working to spread that sense of ownership throughout companies. A recent initiative launched by private equity firms, banks, pension funds and others called Ownership Works aims to promote broad-based stock ownership among portfolio companies, from top executives to lower-level workers. PE firms that buy ownership stakes in companies have pledged to institute employee ownership at a minimum of three portfolio companies by the end of 2023.[10] KKR, for example, made news in May 2022 with its sale of CHI Overhead Doors, wherein all employees were slated to receive a cash payout, with hourly employees and truck drivers getting an average payout of $175,000. Pete Stavros, KKR's Co-head of Americas Private Equity, told Axios that it was "the most rewarding moment of my career."[11]

Many PE firm investors are public pensions that count teachers, police officers, firefighters and other public servants among their members; PE firms' successful dealmaking often helps fund their retirements. The challenge lies in making that link more concrete. Firms are increasingly focusing on highlighting their bigger mission, helping the people behind their investors.

Firms have also expanded volunteer opportunities and other ways to give back and made volunteerism more of a core part of their mission, offering paid time off for volunteer efforts, for example. The beginning of the COVID-19 pandemic saw multiple firms establish employee assistance funds to help portfolio companies and their communities weather the crisis. Some high-ranking executives gave up their own salaries to support these efforts. But emphasizing volunteerism shouldn't be viewed as a substitute for tying employees' day-to-day efforts to purpose.[12]

3. Expanding candidate pools

As PE firms reimagine their workforces to meet tomorrow's needs, they're looking for talent in new places and changing up recruiting from their traditional sources of talent. As discussed throughout this report, PE is looking for new skill sets and more diverse candidates, whether that be ethnic or gender diversity or diversity of educational/career background. The following are commonly mentioned approaches firms are using:

- Going "back to the future": Twenty years ago, PE firms had relatively simple organizational structures — back-office functions managed the operations of the general partner (GP) and investment teams worked to source and manage deals. Today's PE firms are defined by multiple asset classes operating in multiple geographies, all deriving value through operational levers. As a result, in what one firm we talked to called a "back to the future" approach, many firms are recruiting from consultants in addition to investment banks in order to have access to a wider breadth of skill sets and talent — people with expertise in areas such as HR, IT, data science and supply chain.
- Starting earlier in the process to target undergraduate students or expanding undergraduate hiring.
- Establishing or expanding relationships with HBCUs. For instance, Apollo Global Management, Oaktree Capital and Ares Management in December 2021 announced a 10-year, $90 million partnership with three HBCUs to train and provide career opportunities for Black students.[13]
- Focusing on diverse candidates. Some firms have set diversity targets for new associate classes, as discussed earlier. Some, like Warburg Pincus and Carlyle, have put in place requirements that a diversity candidate must be part of the slate for any open positions at the firm.

- Placing a bigger emphasis on soft skills to identify future leadership potential. Many firms believe that hard skills can be taught and are doing just that. "While soft skills have always been important, today these skills are more important than ever," says Donna M. Hitscherich, senior lecturer and Director of the Private Equity Program at Columbia Business School. "It is well recognized that a so-called social or people issue can easily derail a transaction, and with lofty valuation multiples the pressure is intense to achieve the synergies necessary to recapture the premiums being paid. But spreadsheets don't create synergies — people do. Deals are stressful for the employees of both the target and acquirer, and people skills are critical in getting all employees on the same page. It is much easier to teach the math behind the valuation techniques than it is to create or maintain a cohesive team and lead it in the right direction to assure success of the transaction."
    - One large manager who recruits mostly at the undergraduate level worries that focusing on hard skills at that level raises DEI issues, as some students don't have access to top schools or investment bank internships.
    - At the junior level, CVC looks for talented people who can not only do the job they're hired for but also grow. "The things you think of as fluffy are key as they become senior, like building rapport with an owner, bankers, external advisors," Thomas says. "Soft skills matter when hiring at more senior levels, too, as cultural fit is important."
    - Using new tactics during the interview process. Rather than relying on vague assessments, some firms are using personality and IQ tests. Vista Equity Partners, for example, is legendary for the timed exams it gives potential hires.

Changing hiring practices doesn't just mean recruiting from new channels, though. It means a fundamental rethink of the entire hiring and onboarding experience. "We have to commit that we will onboard people with much more care and structure than if they'd come from a standard private equity background," Thomas says. "It's such a massive driver in terms of how we think about people coming through the organization. It's how we attract, it's how we develop, it's how we retain, it's how we measure."

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>
> **Donna M. Hitscherich**
> Senior lecturer and Director of the Private Equity Program at Columbia Business School

4. Engaging on ESG

One of the best ways private equity firms can tie employee experience directly to purpose is through engagement with increased focus on ESG, sustainability and impact investing. The last two to three years have seen PE firms implement a wide range of measures to better understand and communicate the social impact of their investments.

They've hired more professionals focused on ESG. In many cases, they've brought in senior roles that report directly to the CEO. In others, they've elevated mid-level roles. Blackstone, for example, recruited 12 individuals focused on sustainability in 2021 and plans further expansion in renewable power and real estate. Firms have also improved the economics of hires who specialize in ESG, offering healthy salaries and bonuses and in some cases carried interest in the funds.

Deal teams are increasingly being asked to factor ESG elements into their due diligence, even for deals where it's not a primary driver of the investment thesis.

And firms are creating new pools of capital — impact funds and others — with a direct focus on managing a double bottom line. Apollo, Blackstone, Carlyle, KKR and TPG all have impact platforms now, whether in the form of dedicated funds or firmwide strategies. All of these provide potential employees with the ability to connect with value creation that is more than just monetary.

5. Rethinking work-life balance

PE firms, like the rest of Wall Street, have long had a hard-driving culture that emphasizes toughness, long hours, and in-person interactions and training. But the pandemic has caused a rethink and created tensions between the historical way of working and employees' desire for a healthier work life.

Some changes are relatively uncontroversial. CVC cites the impact of the pandemic on mental health and offers a program that emphasizes nutrition, sleep, exercise and mental health. It says it has found that the pandemic has increased people's willingness to talk about their mental state, particularly among juniors without families.

When it comes to long hours, PE firms say they have the edge over investment banks, as they can tell recruits that burning the midnight oil is required only when big deals are brewing. Some firms have introduced "finish from home" policies — eat dinner or work out, then log in for a few hours at home instead of staying in the office all night.

PE firms are wrestling with the idea of work-from-home/flex-day policies as they try to balance employees' desires with long-held cultural dictates about face-to-face meetings, teamwork and apprenticeship. "We're mindful that remoteness is helpful in reducing frictions like commuting, but we're trying to balance that with how do you mentor and have informal relationships, being part of a team," says one senior private equity professional.

A number of firms are experimenting with variations on this theme. One firm reported that it has implemented two flex days a week and tracks workload more accurately than it used to, counting how many boards people are on, for instance. Apollo tested two flex days a week in 2021 and allowed employees to work from anywhere for August 2022.[14]

Time will tell which firms gain a competitive edge — those that emphasize the teamwork, mentoring and career advancement opportunities that employees can gain in the office, or those that allow employees more control over their work schedules, thereby perhaps attracting better talent.

6. Rethinking engagement

To appeal to a broader range of talent, including diverse employees and younger employees, some PE firms are rethinking their culture, ranging from minor tweaks to new statements of firm principles.

Engagement surveys

Given that younger employees highly value being able to give feedback, some PE firms are collecting employee opinions via formal engagement surveys, aiming to take the pulse of employee sentiment. KKR highlights 90% participation in its annual engagement survey. CVC conducts "culture surveys" to ask people if they feel a sense of belonging and says it has a 94% participation rate. The practice appears to be gaining traction; according to Carlyle Group's website, it recently completed its first employee engagement survey and is now developing concrete actions shaped by that feedback.

Giving junior employees a voice

Many PE firms pride themselves on their open processes for doing deals, and many are seeking to be more deliberate about giving junior employees a voice. For example, Advent International mentions a consensus-driven approach to dealmaking in its ESG report, while Riverside Cos. talks on its website about its weekly "Meeting of the Minds," where prospects, deals and current portfolio companies are reviewed and discussed in an open forum where everyone has a voice. Warburg Pincus invites junior dealmakers to its investment committee meetings. Blackstone, meanwhile, has long made a special effort to ask the most junior person in the room for their opinion.[15]

Emphasizing the "I" in DEI

Putting in place the resources to retain the diverse employees that firms are working so hard to recruit is a critical area of focus as well. Today, most large PE firms have employee resource groups for URMs. Some firms, such as Warburg Pincus, have also implemented diversity councils. Mentoring is also in focus, and here firms are getting creative. Warburg says it looks outside the firm to senior executives who are part of its network to help guide new URM and female recruits.

One tactic for retaining diverse employees is making sure they are included as deal leaders or voting members of the investment committee. Doing so may also help narrow the gap when it comes to equal promotions and compensation for women and URMs. Institutionalizing and formalizing the way promotion decisions are made can also narrow this gap. One approach to this is mentioned by TPG in its public filings ahead of its IPO: "integrating HR into performance reviews, compensation and promotion discussions to ensure equity and considerations of diversity." [16]

7. Rethinking employee skill sets

Lifelong learning

Lifelong learning is another practice that has long been promoted at many corporations and is now becoming a more important component of PE firms' toolkits. Many of the largest PE firms now highlight on their websites opportunities for learning at their firms. KKR says in 2019 it launched "KKR Avenues," which offers employees new opportunities for long- and short-term positions across projects, teams and regions. TPG highlights Talks@TPG, which is "hosted by the firm's senior leadership and [has] a focus on critical diversity, equity and inclusion topics as well as topics such as mental health, work-life balance and building resiliency."

Upskilling managers

Managers who can provide (and accept) clear feedback and serve as mentors and role models are crucial to helping employees adapt and advance. But PE firms acknowledge that the best dealmakers do not always make the best mentors and managers. They want to change that with training aimed at strengthening managers' skills.

One firm we spoke with, for example, asked its managers to talk about the best manager they ever had and distilled that information to show what it looks like when a manager is communicating effectively. Another is building a program focused on manager training in partnership with a university. The content will focus on giving and receiving feedback, how to think about manager style, inclusion, managing differences in a team, and change management. It envisions a series of intensive programs lasting two to three days with ongoing training in between.

8. Tone at the top

To enact cultural change always requires the visible support of top executives. This can be as simple as top leaders making public statements about the value of ESG or as complex as changing a firm's investment statement. In one example, Oaktree in February 2022, added a new investment principle for only the second time in its history — that of responsibility.[17]

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