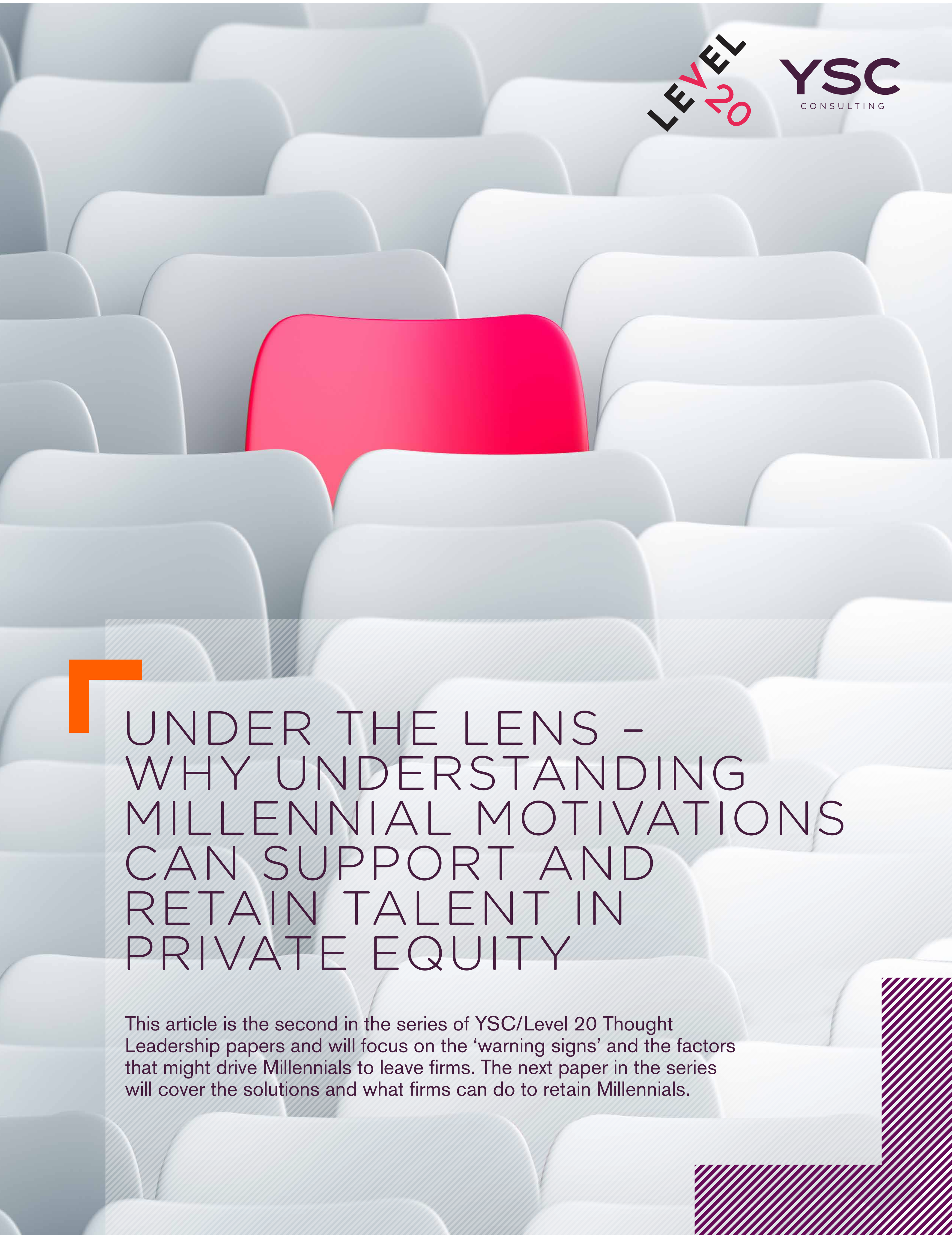

UNDER THE LENS – WHY UNDERSTANDING MILLENNIAL MOTIVATIONS CAN SUPPORT AND RETAIN TALENT IN PRIVATE EQUITY

This article is the second in the series of YSC/Level 20 Thought Leadership papers and will focus on the 'warning signs' and the factors that might drive Millennials to leave firms. The next paper in the series will cover the solutions and what firms can do to retain Millennials.

Born between 1981 and 1996, Millennials (Generation Y) comprise a growing majority of the workforce and play a critical role in leading the PE industry into the future.

As the PE workforce becomes more diverse and cross-generational expertise is optimised, an understanding of the values and motivations of Millennials and, specifically, the challenges that might restrict their long-term retention in PE, offers the industry the opportunity to respond and continue attracting and recruiting talent.

Our research indicates an alignment of views across male and female Millennial professionals working in PE. Those PE firms that drive narrow career propositions focused primarily on financial reward risk finding themselves out of touch with Millennial motivations and less able to retain them. Limited transparency from the top, lack of flexible working and the rising appeal of other industries also pose further threats to retention.

However, these are currently warning signs rather than immediate threats. All of the participants within our focus groups highlighted PE as an attractive and exciting career choice and expressed the opinion that greater understanding of Millennial motivations represented an opportunity for firms to elevate engagement levels and drive better firm performance.

RESEARCH – MILLENNIAL FOCUS GROUPS:

To sum up an entire generation will inevitably result in the risk of sweeping generalisations and misconceptions. The term 'Millennials' is a buzz word often attached to a negative narrative which defines this generation as having short attention spans, lower resilience, greater propensity to change jobs and rabid consumerism. These claims are at best over-simplified and at worst inaccurate.

That said, Millennials have grown up in an age of accelerated technological advancement , global connectivity and unparalleled choice and are also the first generation to be financially worse off than their parents. They have lived through global crises in 9/11, the GFC and now Covid-19, and are facing an unstable and uncertain future. This backdrop will undoubtedly impact how Millennials perceive a career in PE and their expectations of PE firms.

In order to get an accurate understanding and to get beneath the skin of the issue, YSC ran two focus groups in partnership with Level 20 consisting of 21 Millennials working in Private Equity (run from January – March 2020). Given Level 20's mission to improve gender diversity in the industry, we aimed to explore the challenges Millennial women might be facing at this stage of their careers, and to compare that to the experience of Millennial men. After conducting focus groups that included female and male participants, from GPs and LPs, across different fund sizes, we found that the themes were common across genders. Therefore, our focus in this paper is on the generational group as a whole.

The sessions focused on what is attractive about Private Equity, why individuals might leave the industry and what firms can do to retain Millennials. In addition to the insight we extracted from focus groups, we interviewed four HR leaders of PE firms and a specialist industry Head-hunter who were able to provide additional perspectives on the challenges facing the industry.

WHY DOES THIS MATTER TO PE FIRMS?

Given the attractiveness of PE as an industry to work in and the pervasively negative stereotypes of Millennials, one could provocatively ask – why should firms focus on hiring and retaining this group?

Digital skills offer a competitive edge

The investment landscape is changing, with more Millennials set to become investors, rapid growth in Impact Investment Funds and a huge rise in technology investments. Millennials bring skills and expertise in technology that provide two key advantages:

- A proficient understanding of tech companies through the eyes of a consumer, benefiting diligence and the ability to connect with entrepreneurs.
- The capability to accelerate improvements in a firm's technology infrastructure and the digitisation of core practices.

Millennials place greater emphasis on digital agility with effective technology to support efficiency. This expectation is likely to intensify with increasing reliance on virtual working post Covid-19. Now more than ever, firms need the expertise of Millennials and younger generations who can seamlessly adapt to source and execute deals in a digital world.

Talent management is increasingly viewed as central to growth in PE firms

Recent research detailing interviews with the COOs and CFOs of 100 global PE firms (fund sizes ranging from under £2.5b to over £15.0b) found talent management to be their second highest strategic priority after asset growth. Over 75% of the interviewees claimed they have some level of difficulty retaining younger generations. Firms are recognising the value of a rigorous approach to identifying and developing talent, anchored in data and supported by mature practices.

ATTRACTION IS NOT THE ISSUE...PE REMAINS A HIGHLY APPEALING CAREER CHOICE

The 'pull' of the PE industry remains strong. As one individual expressed:

"Attraction isn't a problem, people are desperate to get out of banking. It's still a really sought-after job."

There was consistent agreement across our focus groups why Private Equity is attractive and why the job is fulfilling.

Both groups cited similar reasons for joining the industry:

- Its entrepreneurial nature and access to management teams
- Intellectual challenge
- Breadth of sector exposure
- Industry prestige
- The satisfaction of accelerating growth in companies

These factors were easily identifiable during the recruitment process and reflective of their experience upon joining, suggesting PE firms market themselves in a representative and enticing way.

Many of the individuals we engaged said their experience of working in PE had largely matched their expectations entering the industry. In particular, the elevated ownership and chance to have an impact on growing businesses was a key differentiator.

The consistency in viewpoints of the PE industry's appeal suggests firms have less to worry about when it comes to attraction. But this is no cause for complacency. While the talent pipeline is not in jeopardy, there was unanimous agreement in the focus groups that retention is the greater risk. As one individual put it:

"Retain is a big word. The focus has been on attraction but pioneers in that area realise that retention is the important part. You go where you're welcomed, and you stay where you're valued."

WHAT COULD DRIVE MILLENNIALS TO LEAVE PE? THE 'WARNING SIGNS'

While there may not be an immediate 'burning platform' given the flow of new talent into Private Equity, there are warning signs that Millennials could be harder to retain in the future. A range of issues emerged during the focus groups, but there were 4 distinct themes that emerged as reasons why Millennials may leave the industry.

1. A failure to adapt to different career preferences and motivations: it's not all about financial reward

Firms that index too heavily on financial incentive as a retention tool risk struggling to keep Millennials motivated and satisfied in the long-term.

Culture, values, flexibility and ESG were highlighted as critical factors which influence selecting and staying with a firm long-term. Whilst financial reward remains a key incentive for Millennials, as it does with every generation, its power as a retention tool is diminishing.

Millennials are considering a broad set of decision-making criteria in their career decisions. As one PE HR lead phrased it:

"In PE people don't ask what their comp package is. It's certainly not top of mind and not a key factor in decision-making. There's definitely more focus on cultural fit, meaning in role; do I like my team, will my career be supported in the right way?"

The perception that rewards are dropping and no longer offset the sacrifices was raised. Several members of the focus group implied an imbalance between sacrifice and reward is emerging.

"It's very visible at the junior level – you have to be very naive to think that you will be making in 5 years what the Partner was making at the same age."

In summary, the Millennials we engaged felt financial reward alone no longer justifies the personal sacrifices of working in PE and needs to be combined with a focus on equally important factors such as culture and an authentic commitment to ESG.

2. Absence of a flexible work model

A recurring issue raised across the focus groups was the need for firms to offer greater flexibility to employees. Participants accepted that work-life balance is difficult to strike given the pace and intensity of deal-making, but that peaks and troughs exist between deals and offer scope for flexibility. Proposed flexibility took different forms: sabbaticals, working from home and shared parental leave. Two key barriers to flexibility were identified:

Presenteeism endorsed by reward

The belief that showing your face in the office and working 'visibly' long hours resulted in higher recognition and credibility.

"You need to be more visible otherwise the investment director is going to take all your hard-earned credit."

Flexibility as a key component of culture

A key nuance is that even when flexible working is introduced, policies fall short unless they are respected and modelled from the top. As one individual put it:

"Things are technically allowed – like working from home – but it's still really frowned upon in reality."

Attitudes and behaviour can only shift if it is legitimised by the firm's culture and embraced as an alternative, rather than a lesser, means of achieving the same result.

While its impact on the future of work is yet to fully take shape, the experience of lockdown working during COVID-19 may accelerate the adoption of increased flexibility in PE. Many firms are likely to view working from home more positively and review their policies as a result.

Parenthood

Flexibility in relation to parenthood was also raised in the focus groups. The 'traditional' division of parental responsibility has evolved and there are many dual career couples with both parents wishing to advance their careers and share parental responsibilities. Shared parenting roles are also perpetuated by rising childcare costs and the challenging economic climate. Participants suggested PE firms need to embrace shifting norms and attitudes towards parenthood.

"It's not an expectation that I will be at home more after I have children, but I would like to be at home. Desired roles are shifting."

Women in particular expressed strong feelings that having children could limit their progression in PE.

"If you're the only woman in a team of ten and you're going out for X number of months on maternity leave, you're just not there. You can have the best possible mat leave policy but there is no getting around missing a promotion cycle because you're not there."

Millennials exist in a world where financial pressures are higher and there is a growing need and desire for both parents to work. These generational influences are likely to explain why flexibility is so fundamentally important and a key retention lever for firms to consider.

3. Lack of top-down transparency

Millennials have grown up at the height of the digital revolution and as a data literate generation are accustomed to seeking as much information and clarity as they can, shaping how they expect firms to communicate.

Participants in our focus groups spoke of needing transparency from the top, particularly in relation to performance and reward. There was a sense that reward and promotion processes in PE firms are difficult to decipher and communicated without clarity.

"They were unbelievably opaque about earnings before I joined, less so after I started but it's still opaque. This is meant to be incentivising me – if I don't understand what it is, how can it be incentivising me?"

A specialist Head-hunter we interviewed echoed the need for top-down clarity, suggesting:

"Millennials have access to so much information and social media networks. These change their attitude towards available information and what conversations they want to be a part of. They value having a seat at the table and top-down communication as a result."

Firms need to communicate clearly from the top, providing insight into strategic decisions and clear links between performance, pay and promotion.

4. The increasing appeal of other industries

Private Equity's entrepreneurial nature, prestige and intellectual challenge has given it a unique appeal but the Millennials we interviewed suggested other industries are closing the gap.

Participants spoke of the tech industry's appeal as an example, providing a high degree of ownership, flexible working and fast returns.

"There are now better alternatives. The best people are not going to banks anymore when they can be developers at Google."

An HR leader we interviewed echoed this view:

"There's more choice in terms of what people go and do. We're not competing in a narrow pool, there are a series of sectors that are new and brilliant, providing an element of risk and opportunity for ownership."

To ensure Private Equity remains the go-to industry for top talent, firms will need to take a closer look at other attractive industries and, where possible, replicate enticing elements in their own value proposition.

SUMMARY

The good news is the above factors are currently seen as 'warning signs' rather than immediate risks and that both focus groups emphasised their hunger and fulfilment for working in Private Equity. They saw this as a win-win opportunity for firms to elevate engagement levels and drive better firm performance. As one participant put it:

"I'm lucky to work in this industry and I love what I do, it's just the stuff round the edges. It's their advantage to get the best out of us."

The topics raised thus need to be taken in context. This is about firms satisfying evolving needs and circumstances, rather than changing the core of what it means to work in Private Equity. There was acknowledgement in both focus groups that certain realities need to be accepted: long hours, pressure on work-life balance, and intellectually and emotionally demanding work. Nonetheless, firms must recognise and adapt to the changing preferences and expectations of Millennials to retain them long-term. The consistency of themes found across the women and men we interviewed adds power to the case for change. The question of 'how' firms can change will be explored in our next thought leadership paper.

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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 organisational, 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 organisational performance

Using a combination of rigour 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.

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Level 20 is a not-for-profit organisation 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 56 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.

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