

## “Understanding and Leading Private Equity’s Millennial Generation” by Elise Chowdhry, July 28, 2015

As you may have heard by now, Millennials surpassed Generation X to become the largest share of the American workforce earlier this year. Pew Research analysis indicates they now constitute more than a third of American workers, so it is no surprise that Millennials are filling an increasing number of seats at private equity and other investment firms. For the most part firms in the industry are still being led by Baby Boomers and Gen Xers who often scratch their heads trying to understand this younger generation and are frustrated by them – *they seem so different from us*. But are they really?

Sweeping generalizations have been made about Millennials ever since they landed in the workplace and much of it has not been particularly complimentary: entitled, demanding, praise seeking and overconfident. We all know generalizations can be dangerous and individuals are just that - individual. Nonetheless, generational themes can be instructive – the more we know about this generation, the better we can motivate and retain them. Increased employee engagement will drive greater firm productivity. Employee retention is a must for successful leadership transition.

The attitudes and behaviors commonly found in each generation are widely believed to be strongly influenced by the economic/geopolitical events, trends and parenting dynamics of their youth. To begin understanding your Millennial workforce, it is useful to first put them in perspective:

GENERATIONS - AT A GLANCE			
	Baby Boomers	Gen X	Gen Y - a.k.a. Millennials
<b>Born</b>	1946 to 1964	1965 to 1980	1981 to 1997
<b>Age in 2015</b>	51-69	35 - 50	18 - 34
<b>Environment/Events - Formative Years</b>	Vietnam War Two Parent Households Civil Rights Movement Economic Prosperity Woodstock	Energy Crisis / Recession Surge in Divorce Rate / Latch Key Kids Market Crash of '87 / "Black Monday" Corporate Downsizing Emerging Technology	Sept 11th and Terrorism Helicopter Parents / "You are Special" Reality TV The Great Recession Pervasive Technology
<b>Core Values and Traits</b>	Anything is Possible Team Oriented Work, Work, Work The "Me" Generation Question Authority Personal Growth	Pragmatic Independent Work/Life Balance Resilient Skepticism Adaptable	Self-Confident Goal Oriented and Ambitious Work to Live Civic Duty Global View Skilled Multi-Taskers
<b>Work Attitudes and Behaviors:</b>			
<b>Work/Career Goals</b>	To Build a Stellar Career	To Build a Portable Career	To Build Parallel Careers
<b>Rewards Beyond \$</b>	Title	Telecommuting, 401K	Meaningful Work
<b>Feedback</b>	Once a Year is Good Enough	Excuse Me, How Am I Doing?	Keep It Coming
<b>Job Changes</b>	Put My Career Behind	Advance My Career	Better Opportunity? See Ya!

Sources: Sedrak and Cahill, 2011; Crandall and Zimmers, 2009; Pew Research Center 2015

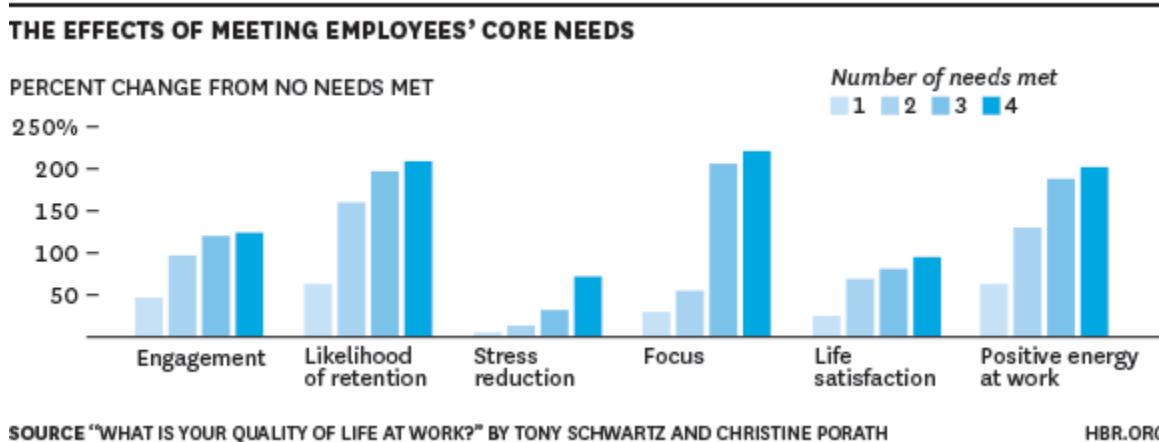
The Millennial generation has continued to confound corporate leaders worldwide. In response, researchers have undertaken numerous studies that have attempted to demystify this generational cohort. Recent survey findings help to drill down on not only what this generation generally thinks, but what drives and motivates them:

- In its 2015 global survey of over 7,800 Millennials, Deloitte found Millennials appear to have a somewhat different definition of leadership than previous generations. For those surveyed, top traits of “true leaders” included: strategic thinking, being inspirational, strong interpersonal skills, vision, decisiveness, passion and enthusiasm. Having an “autocratic” approach was the least popular individual characteristic of leaders (6 percent).
- A 2014 global study of more than 16,000 Millennials conducted by INSEAD’s Emerging Markets Institute, Universum and the HEAD Foundation found that more than 40% of North American respondents said the most important trait in a manager was one who “empowers their employees”.
- A 2014 SuccessFactors/Oxford Economics survey of 1,400 Millennials found roughly 65% want feedback at least monthly – non-Millennials were comfortable with much less. The study also found that while Millennials consider their manager as their primary source of development, more than half felt that they are not provided enough feedback.
- A 2012 Adecco survey identified “opportunities for growth and development” as a top professional priority for 68% of recent graduates. When asked to prioritize their life, the INSEAD et al. survey found “to grow and learn new things” was 2<sup>nd</sup> only to “to spend more time with my family” for North American Millennials.
- In their Third Annual Study on the State of Gen Y, Gen X and Baby Boomer workers, Payscale.com and Millennial Branding found most Millennials aren’t much into long term employment with one employer – only 13% think workers should stay with an employer at least five years before looking for a new job, compared to 41% of Boomers.
- The INSEAD et al study confirmed that this generation wants work/life balance and clarified what that means for North American Millennials. Having “enough leisure time for my private life” and “flexible working hours (e.g. – not limited to office hours)” were the top two most cited priorities – with both factors notably more desired in North America than any other world region.
- Pew Research asked “Generally speaking, would you say that most people can be trusted or that you can’t be too careful in dealing with people” and found just 19% of Millennials say most people can be trusted, compared with 31% of Gen Xers and 40% of Boomers.
- A 2013 Cone Communications Social Impact Study found that when companies support social and environmental issues, Millennials respond with increased trust (91 percent) and loyalty (89 percent) and support for such issues strongly influenced where they worked (78 percent). The Deloitte survey found “a sense of purpose” was part of the reason that 6 in 10 surveyed Millennials chose to work for their current employer. PWC has found that U.S. employees who have participated in more than one corporate social responsibility activity had an average tenure of 7.4 years versus 6.3 years for those who didn’t participate.

## So are the Millennials really that different from us? Yes and No.

**Yes:** They are different but isn't each generation? Interestingly, there is little talk today of how overwhelmed and frustrated the Silents (born between 1925 and 1945) must have been when the massive Boomer generation – known for rejecting or redefining traditional values and society – arrived at the workplace in droves.

**No:** While they may be quite vocal, it turns out we're all human: a 2014 HBR global study by Tony Schwartz and Christine Porath of over 19,000 employees across all industries and all age ranges found that when even one of four basic human needs (renewal – physical; value – emotional; focus – mental; purpose – spiritual) were met by employers, employee engagement and likelihood of retention increased dramatically:



### What does this all mean for PE industry leaders?

Unlike many in the Millennial generation who are struggling to make ends meet with low paying and/or dead-end jobs and burdened with student loans, those coming up the ranks in private equity firms are getting phenomenal work experience, a significant career opportunity and are paid extremely well. While the generation is often charged as being lazy, PE industry Millennials just don't fit that stereotype as many of them were top of their class, from Ivy Schools and are driven to be successful. But that may be where the differences end.

Given their numbers, these Millennials are now instrumental to your firm's success. Soon enough you'll be looking to pass the reins to this generation, but first you need to retain them. This is no small feat when dealing with those apparently more prone to leaving than staying. According to think tank Center for American Progress, the median cost of turnover for most jobs is roughly 21% of an employee's annual salary. Turnover costs for firms in the PE industry are undoubtedly significantly more than that – not just in recruiting fees which can run up to 1/3 of first year cash compensation, but the opportunity cost of time spent on the recruitment process, training new employees on policies/procedures and integrating them with other employees and firm culture. Even more costly, turnover throws your succession planning off track. Each of your Millennials was hired because he/she was bright, talented and viewed to be an important addition to the team. You've invested time, energy and resources on their development. It is definitely not in your best interest to have them start hunting for a position at another firm or striking out on their own.

The starting point in leading your Millennials is keeping the human basics in mind and then addressing the feedback this generation is giving us. Organizations within the Fortune 100, the San Francisco 49ers and others have recognized they must understand and respond to what drives the Millennial generation in order to effectively compete and excel in their field. Following these leadership principles should go a long way in motivating and retaining not just your Millennials, but all of your employees:

- **GIVE THEM A VISION, A PLAN AND A ROLE IN IT:** For a generation that admires strategic thinking and yearns for Purpose, leaders should establish a clear firm vision (“North Star”) and make employees feel as though they are an integral part of realizing that vision. It’s important to give them the Why, not just the What of their performance goals and responsibilities.

A well-articulated vision and mission statement have the power to influence everyday decisions and actions of leadership and employees alike and are fundamental in getting everyone in your firm rowing in the same direction toward your North Star. As you embark on your annual strategic planning process, solicit thoughts from your younger employees to not just possibly yield some great ideas but to help foster buy-in and dedication to the final plan’s execution. The creation of annual employee performance goals that tie into your strategic plan communicates to Millennials how they directly contribute to the firm’s vision and success.

- **WALK THE TALK:** A firm’s values should reflect the core values of the firm’s leadership and become the heart and soul of the organization. Firm values should not just be words on a poster in the kitchen or copy room but demonstrated daily by firm leadership – it’s not just what deals get done but how leadership leads, manages and interacts externally. The message to Millennial employees: “Do as I do, not just as I say”. In doing so you will be in step with their definition of a “true leader” and will gain the trust of a generation that isn’t predisposed to trusting.
- **PROVIDE CONSISTENT AND BALANCED FEEDBACK:** Millennials grew up with intense parental coaching and real-time feedback so it is not surprising they expect to receive the same in the workplace. Surveys indicate overwhelming interest in hearing how they are doing and a desire to get feedback much more often than the rest of us need and/or want it. Leaders should not wait for the annual review process at year-end to provide them performance feedback. “Consistent” does not mean constant – the goal is to find a practical middle ground that responds to their needs and works for you.

This generation responds less well to negative feedback and constructive criticism than we did so the manner in which you deliver your feedback is important. This reality has been embraced by Fortune 100 companies such as Facebook, VMware, Wayfair and PriceWaterhouseCoopers who have adapted their performance review approach to more “soft serve” feedback in response to changing employee demographics. Reviews at these firms are now more focused on employee strengths and collaborative discussions on how those strengths can help in the areas for development. What might feel like “sugar coating” may be a hard pill to choke down for those of us that grew up in a much more tough love corporate environment but will likely yield more positive results.

- **BE OPEN TO THEIR IDEAS:** On topics ranging from firm strategy and execution, marketing materials and employee benefits, your Millennials have ideas and opinions that they may be looking to share with you. Recall that they were taught to voice their opinions and forget any age bias: “they’re young and inexperienced – what do they know?” Employees of this caliber likely have innovative and creative ideas about how your firm could function better or compete more effectively – if they don’t offer, ask them! Maintaining a feedback loop is important when dealing with this generation. Chances are good that many suggestions you receive will not be practical or useful, but acknowledgement, appreciation and dialogue with them will let them know their opinions are valued.
- **THINK OUTSIDE THE BOX RE: COMPENSATION:** Your Millennials love to make money like the rest of us but for them it’s most likely not only about the cash compensation, benefits package and carry – though carry is still a powerful retention tool that can foster an ownership mentality. The definition of compensation should be expanded to include other factors that are also important to them:
  - Work/Life Balance: The PE industry’s workload demands well more than the average 47 hour U.S. full time work week determined by Gallup research. Millennials have always been and still are more “wired” than we are – they want and can work anywhere. Making sure we put in “face time”

was something that was important when we were their age. In this technological environment, it shouldn't be an issue as long as your expectations of them are clear and they get the job done.

- **Training and Development:** Surveys indicate 'training and development' is a hot button for Millennials and many aren't happy with the level they receive. They must understand that they are in charge of their own development but it is a shared responsibility. You may find opportunities to provide formal training programs but nothing beats on-the-job training and senior managers are the best equipped to provide it. Establish a development plan process outside of the performance review process with a collaborative approach and clear indication on how both sides will work to help the employee achieve his/her development goals. One of the simplest ways for you to develop this generation is to provide reasoning for deal-related decisions – either real-time or post-mortem. Other suggestions: use regularly scheduled meetings to share partner insight and knowledge; include your junior employees in on as many marketing meetings and conference calls as feasible; get them actively involved in your annual LP meeting; run brown bag educational lunches on hot topics or "lessons learned" on specific deals.

The Millennials I know are continually looking for new adventures and experiences – in corporate speak, new opportunities. They expect these opportunities as soon as they show up – gone are the days of our corporate youth when junior people grumbled softly but dutifully made copies and did other grunt work. Of course there will always be less sexy work that junior folks must do. With a short leash in non-fatal situations at first, empower them and give stretch assignments outside of the job description. If you don't provide such professional growth opportunities, you may start seeing what you think is the generation's supposed hallmark laziness – it is not laziness, it is lack of engagement– you've just lost their interest.

- **Making a Difference:** While not all your Millennials will need their work to have greater purpose or want to change the world, this concept of the greater good is important to many in this generation. U.S. businesses are responding: the words "mission", "higher purpose", "change the world" or "changing the world" were mentioned on earnings calls, in investor meetings and industry conferences 3,243 times in 2014, up from 2,318 five years ago per Factiva.

How does "making a difference" translate in the world of private equity? It should start with firm philanthropy both in terms of donations of your time, firm resources and support of employee volunteerism. Leaders should put the industry's daily work - acquiring and growing businesses - in broader perspective for employees, taking a cue from Juniper Networks CEO Rami Rahim who recently related the company's building of switches and routers to "enabling scientists to bring clean tech energies that make this planet a better place".

Pitchbook/RR Donnelly's 2015 PE ESG Survey found Environmental, Social and Governance (ESG) programs at 59% of PE firms surveyed and an increasing number of firms developing one. U.S. firms have lagged European peers in embarking on ESG initiatives and there is still a wide differential in views on the importance of ESG at portfolio companies: more than 95% of Europe-based GPs said ESG implementation was "important"/"very important"/"essential" – less than 60% in the U.S. thought so. U.S. GPs will need to look beyond LP influence and risk management to drive ESG efforts if they want to tap into Millennial values.

Two things are certain: your Millennials are rising in number and they are essential to your firm's success and future. Next we'll need to figure out Generation Z who will start showing up in firms as analysts and associates in 5-10 years. But not to worry, we've got time and certainly enough to focus on with the Millennials.

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