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Jobs for the Future

# Five Ways to Help Private Equity Firms Create Quality Jobs


AT A GLANCE

Private equity firms have an opportunity to play a leading role in the movement to expand the number of quality jobs in the U.S. economy—but they can't do it alone. We offer five concrete ways that policymakers, academics, nonprofit leaders, researchers, philanthropic funders, and others can help create the conditions that will enable private equity firms to succeed in efforts to promote the creation of quality jobs at the companies they invest in.



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# Further Reading & Resources

This report is accompanied by a companion piece titled "Private Equity Holds the Key to Creating Quality Jobs for Millions," which identifies three levers that private equity firms could use to catalyze improvements in job quality at the companies they invest in and throughout the U.S. economy.

JFF's Impact Employer Model offers corporate leaders a framework for efforts to build worker-centered talent management policies and practices that help open pathways to equitable economic advancement for workers of all backgrounds. [Learn more](#).

# About JFF

Jobs for the Future (JFF) drives transformation of the U.S. education and workforce systems to achieve equitable economic advancement for all. jff.org

# About JFF's Language Choices

JFF is committed to using language that promotes equity and human dignity, rooted in the strengths of the people and communities we serve. We develop our content with the awareness that language can perpetuate privilege but also can educate, empower, and drive positive change to create a more equitable society. We routinely reevaluate our efforts as usage evolves. info.jff.org/language-matters

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# Executive Summary

Private equity firms have an opportunity to play a leading role in the movement to expand the number of quality jobs in the U.S. economy—but they can't do it alone. Leaders throughout the broader learn and work ecosystem must do their part by pushing for changes in public policy, industry-wide talent management practices, and individual employer talent management practices.

Here are five ways policymakers, academics, nonprofit leaders, researchers, philanthropic funders, and others can help create the conditions that will enable private equity firms to succeed in efforts to promote the creation of quality jobs at the companies they invest in:

- **Strengthen the business case** for investing in talent and improving job quality by telling the story of how investments in talent not only improve a business's operations and bottom line but also expand economic advancement opportunities for workers and their families.
- **Foster opportunities for private equity firms** and their portfolio companies to share lessons learned and best practices by building peer communities and developing and scaling the use of open-source tools, frameworks, and resources that all employers within and across industries can access.
- **Develop playbooks and tools** that private equity firms can use as they promote the adoption of equitable and inclusive talent practices among the companies they invest in, and that the portfolio companies themselves can use to embed these practices in their operations.
- **Amplify the potential impact** private equity firms can have by ensuring that other leaders throughout the workforce ecosystem agree on strategies for improving job quality—and on the types of incentives that will encourage employers to adopt those strategies.
- **Share the lessons learned** within private equity to spur action in every sector of the economy.

Private equity firms have an opportunity to catalyze improvements in job quality throughout the economy by supporting the creation of quality jobs for the nearly 12 million people who are employed by the companies in their investment portfolios. They will have better chances of success if leaders across the U.S. workforce system agree on the strategies and practices that are most effective in improving job quality and engage in collaborative systemwide efforts to promote and advance those strategies and practices.

# Five Ways to Help Private Equity Firms Create Quality Jobs

At Jobs for the Future (JFF), we recently embraced an ambitious goal as our North Star: In 10 years, 75 million people facing systemic barriers to advancement will work in quality jobs.

When she announced this North Star at the 2023 Horizons summit, JFF President and CEO Maria Flynn acknowledged that this is an aggressive goal that's going to take "bold thinking and big swings" to achieve. "None of us can get there alone," she said. "We need to work together."

Of all the businesses, nonprofit community organizations, philanthropies, and policymakers and advocates that must join the effort to expand access to quality jobs, private equity (PE) firms are in a unique position to have an outsize impact on the success of the systemwide push that is required.

## An Opportunity for Sustained Impact

In the United States, the number of private equity funds has more than doubled to more than 19,000 in the past five years. And globally, private equity firms have $12.8 trillion in assets under management (a figure that has also more than doubled in the past five years) and almost $3.7 trillion in uninvested capital. In 2020, companies owned by private equity firms employed close to 12 million people in the United States (an uptick of almost 3 million from 2018) and generated 6.5% of the country's GDP—$1.4 trillion.

Moreover, private equity firms are a critical driver of small and midsize business activity: In 2020, 86% of the companies they invested in employed 500 or fewer workers and about one-third employed no more than 10 people. That means PE firms can have a big impact on job quality for a large segment of the workforce: Small and midsize businesses employ 80% of U.S. workers, including 60% of those in low-wage jobs.

Because they have a great deal of influence over the talent practices that their portfolio companies adopt, PE firms have the capacity to catalyze the creation of new quality jobs that are equitably accessible to people of all educational backgrounds and life experiences. And given the potential scale of their efforts, PE firms could help other employers see the importance of quality jobs, which JFF defines as roles that pay a living wage, include benefits and supportive services that promote employee well-being, and offer workers a sense of agency, a healthy and stable environment, and opportunities to build skills and advance in their careers.

> *Improving job quality is more than just the right thing to do for workers, but a key value creation driver that helps our portfolio companies achieve their goals and generate returns for our limited partners.*
>
> **Tim Bubnack, Managing Partner,**
> HCAP Partners

And PE firms have a business incentive to create quality jobs: They have money to invest, and they want to maximize the returns on those investments. Improving the quality of jobs at the companies they own through equitable and inclusive talent management practices could raise the value of those companies by improving employee recruitment, performance, engagement, and retention—ultimately driving growth, scale, and innovation, and higher returns on those investments upon exit.

As Tim Bubnack, managing partner at private equity firm HCAP Partners says, "Improving job quality is more than just the right thing to do for workers, but a key value creation driver that helps our portfolio companies achieve their goals and generate returns for our limited partners."

But private equity firms can't do it alone. Leaders throughout the learn and work ecosystem must all embrace the same goal and work together to help create the conditions that enable advances in job quality by pushing for changes in public policy, industry-wide talent management practices, and individual employer talent management practices.

# How the Field Can Support Private Equity Firms

**Here are five ways policymakers, academics, nonprofit leaders, researchers, philanthropic funders, and others can help create the conditions that will enable private equity firms to succeed in efforts to promote the creation of quality jobs at the companies they invest in:**

## 1. Strengthen the Business Case

Despite the fact that investments in talent deliver clear business benefits, it can still be challenging to build the stakeholder buy-in necessary for a private equity firm to embrace the idea of pushing for advances in job quality.

Often, business cases rely solely on short-term quantitative data that may not capture the full long-term potential of an investment. But building the business case should go beyond the numbers. It's crucial for advocates of quality jobs initiatives to be able to not only show the financial returns on investment and benefits to the bottom line, but also tell stories that illustrate the impact that equitable and inclusive employee-focused policies and practices can have on employee well-being and economic advancement opportunities for workers and their families.

Additionally, increased collaboration with academic institutions or use of academic methodologies could yield the information that quality jobs advocates need to prove that investments in talent aren't solely a cost driver, but in fact yield long-term returns that make such investments a smart strategy for value creation.

## 2. Foster Opportunities to Share Lessons Learned

Opportunities for peers to learn from one another both across the ecosystem of PE firms and within an individual PE firm's portfolio of companies is critical to the success of efforts to improve job quality.

PE firms have a number of ways to signal their commitment to equitable and inclusive talent management practices and other approaches to improving job quality through their investment and portfolio management strategies.

However, in order to scale this work across industries and throughout the economy and not just launch one-off projects on a company-by-company basis, it's essential for PE firms and employers to share information among themselves and with stakeholders throughout the ecosystem to build a community of support.

Examples of effective ways to promote communication include organizing peer learning forums and disseminating case studies illustrating successful—and unsuccessful—initiatives. Moreover, it will be critical to establish shared definitions of quality jobs and create guidelines for successful quality jobs initiatives—both of which are available in JFF's [Quality Jobs Framework].

Tools like those can create a common understanding across a range of stakeholders while making it possible to develop tailored solutions that meet the unique needs of specific

### Facilitating Peer Learning

Clayton Dubilier & Rice (CD&R) has a long-established practice of facilitating peer learning across its portfolio companies and focusing on investments in leadership needed to create change from the top.

The New York City-based PE firm leverages its Human Resources Council, a forum for HR leaders across CD&R portfolio companies, to share best practices on employee engagement and diversity, equity, and inclusion (DEI) initiatives, create space for collaboration, and provide resources to foster more equitable, inclusive and quality workplaces.

CD&R has invested in third-party diversity consultants who support management teams as they look to evolve and align around their DEI strategies and talent management practices. The firm also prioritizes having broad demographic representation on the boards of directors of its portfolio companies.

"We believe the private equity industry can help advance quality employment opportunities for talent from systemically underserved populations that have been overlooked in the labor market by creating educational and professional development opportunities and embracing recruitment and hiring practices that expand and diversify the workforce. By strengthening the workforce development ecosystem at the local community, portfolio company, and employer levels, we have the ability to find and equip tomorrow's talent today."

**Randy Moore**
President, CD&R Foundation

companies. In general, open-source tools, frameworks, and other resources—including ones built by PE firms themselves—can also accelerate adoption of best practices and help companies in the early stages of their journeys make an impact more quickly.

## 3. Develop Playbooks and Tools That PE Firms and Portfolio Companies Can Use

PE firms should encourage their portfolio companies to improve job quality by modeling the management practices they want to promote. But that isn't enough. They should also offer leaders of their portfolio companies templates, tools, and other resources that make it easier for them to create quality jobs.

As stewards of capital and employers themselves, private equity firms should set the standard for their portfolio companies and "walk the walk" by modeling good behavior and adopting policies and practices that improve job quality for members of their own workforces. They must review their own talent management policies and practices and take steps to, among other things, ensure that they're paying their employees a living wage, remove bias from hiring and recruiting processes, eliminate barriers to promotions and other advancement opportunities, and create a welcoming environment that helps employees of all backgrounds feel a sense of belonging.

By setting the example, PE firms can normalize these policies and practices for their portfolio companies and signal their commitment to this work to other PE firms and leaders throughout the workforce ecosystem, ideally helping to build the collective action required for scaled impact.

But PE firms should also go further and provide their portfolio companies—often capacity- and resource-strapped small and midsize businesses—with resources that make it easier to adopt these practices on their own. Embracing the "teach a person to fish" model, they must provide these companies with tools and frameworks to ease the implementation process and offer them coaching and guidance to ensure that they can use the resources effectively.


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## 4. Enable the Ecosystem to Amplify the Impact of PE Firms

Private equity firms are just one part of a broader ecosystem of stakeholders who must work collaboratively to expand access to quality jobs. If leaders throughout this ecosystem do their part, they will amplify the potential impact that PE firms can have.

Importantly, private equity is just one player in the broader investment capital market, and institutional investors have a critical role to play in encouraging private equity firms to promote job quality. For example, limited partners (LP) should consider placing capital with PE firms that are meaningfully focusing on workers and job quality and they should avoid investing in firms that may treat workers more as a cost center. Furthermore, to create more transparency and awareness in the field, LPs should demand better reporting from PE firms on key job quality metrics at portfolio companies, including employee turnover rates, compensation and benefits, and professional development and advancement opportunities.

Policymakers have an important role to play as well. For example, lawmakers and other government officials could push for the adoption of legislative and regulatory directives that make it easier for PE firms to encourage their portfolio companies to adopt job quality goals. Among other things, they could advocate for measures that promote collection and disclosure of data about wages, benefits, and other aspects of job quality that is disaggregated by race, ethnicity, gender, and other demographic characteristics. PE firms could then use that data to assess portfolio companies' progress toward job quality goals.

Policymakers and regulators could also enact measures that enable PE firms to offer incentives to companies that adopt job quality practices and impose penalties on those that don't. Incentives could include leniency on investment terms, rate breaks, or performance rewards. And penalties could include strict requirements in side letters or private placement memorandums with mandates about job quality for portfolio companies to adhere to.

Furthermore, lawmakers should make sufficient resources available to ensure that privately held companies have the capacity to comply with robust measurement tracking and reporting mandates.

State, local, and regional governments also have roles to play. For example, agencies could include job quality metrics as a requirement in requests for proposals for government contracts as a way to spur the data collection and measurement required to scale efforts to expand access to quality jobs.

For their part, intermediary organizations can help organize and orchestrate the ecosystem of players and build connections across silos to ensure that everyone's in agreement on goals, strategies, and tactics. And finally, philanthropic organizations should continue to fund job quality programs as a way to help create greater market incentives for achieving these goals.

## 5. Share Lessons Learned Within Private Equity to Spur Wider Action

Private equity firms are renowned for their ability to act swiftly and efficiently to make critical decisions and implement changes that streamline operations, shift strategies, and drive improved results in portfolio companies in a short amount of time. This agility is often a result of the fact that they have clear ownership of and control over the companies they invest in. What further enables their ability to act decisively is a combination of financial expertise, a keen eye for operational improvements, and a focus on maximizing returns.

PE firms could help scale efforts across the ecosystem to expand access to quality jobs by sharing their expertise with other businesses looking to improve job quality and provide their workers with new opportunities for economic advancement. Those that succeed in their efforts to improve operations at portfolio companies by paying workers a living wage, investing in benefits and services that promote worker well-being, and creating inclusive and welcoming work environments will set a compelling example for the broader business community. They will not only demonstrate that implementing such practices is feasible and yields tangible benefits—including increases in employee satisfaction to and improvements in financial performance. As motivators and as pioneers, private equity firms can inspire other businesses—from publicly held corporations to family-owned enterprises—to follow suit, creating a ripple effect that ultimately advances the cause of job quality and has positive impacts on workers in all industries.

# Let's Work Together

In some sectors of the economy—notably newspapers and nursing homes, in recent years—PE firms have a reputation as short-term-focused investors only concerned about selling businesses for a profit, not creating quality jobs.

However, while we shouldn't overstate the industry's ability to advance job quality at portfolio companies and beyond without support, the antiquated rhetoric of private equity as a job killer can't be the dominant thread of discourse. Stakeholders need to study the broader investment capital market to better understand the systemic structures that create incentives for investments and business management practices that further inequities in the labor market, with an emphasis on the way decisions by institutional investors far removed from workers play into the strategies of private equity firms.

This moment in time is ripe for impact. PE firms are at a point where they can rethink their approaches and recognize that investing in talent is an effective way to drive business performance and growth—and expand access to quality jobs throughout the economy.

But leaders across the learn and work ecosystem must also recognize that PE firms can't drive such a monumental shift on their own. This work requires unwavering support and collective action on the part of every stakeholder. Policymakers, regulators, government agencies, workforce development leaders, and employers everywhere must recognize that they have roles to play in this paradigm shift.

Some of these stakeholders may have a negative view of PE firms; it's time to reframe that perspective and acknowledge that they could be tremendously effective catalysts for the creation of worker-centric enterprises that promote the well-being and drive economic advancement for individual employees, their families, and entire communities. There's not a moment to waste; this journey must begin now. Together, we can build a brighter, more prosperous, and more equitable future for 12 million workers.

JFF

Building a Future
That Works
**For Everyone**