Private Equity Holds the Key to Creating Quality Jobs for Millions

AT A GLANCE

As owners of U.S. companies that employ nearly 12 million people, private equity firms could have a significant impact on the push to create quality jobs if they emphasize investing in talent as a core element of their efforts to drive growth in those companies. We make the business case for why investments in talent at PE portfolio companies could catalyze improvements in job quality throughout the U.S. economy while at the same time delivering strong returns for investors.

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Further Reading & Resources

This report is accompanied by a companion piece titled “Five Ways to Help Private Equity Firms Create Quality Jobs,” which calls on policymakers, academics, nonprofit leaders, researchers, philanthropic funders, and others to work with private equity firms and help create the conditions that will enable them to succeed in efforts to promote the creation of quality jobs at the companies they invest in.

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 are in a position to play an important role in the emerging effort to expand the number of quality jobs. Because the companies they own employ nearly 12 million people in the United States, private equity firms could have a significant impact on the push to create quality jobs if they pursue growth strategies that prioritize investing in talent. And their efforts could have ripple effects that benefit both workers and businesses throughout the U.S. economy.

Jobs for the Future (JFF) research has identified three levers PE firms can use to propel their portfolio companies to create more quality jobs.

First, at every stage of the investment life cycle—from sourcing to due diligence to ownership to exit—private equity firms should emphasize the importance of employment policies and practices that improve job quality to ensure that jobs meet workers’ needs and create sustainable long-term value for the companies and the firm.

Second, they should urge the companies in their portfolios to build inclusive career pathways to ensure that quality jobs are accessible to employees of all backgrounds through practices such as place-based talent acquisition, skills-based talent practices, and work-based learning.

Finally, they should implement employee ownership models that promote long-term value creation and investment in employees as the fundamental drivers of growth and innovation.

Private equity firms that do those three things can have a meaningful impact on efforts throughout the learn and work ecosystem to create and support quality jobs. It will take a lot of effort, but if private equity firms embrace investing in talent as a way to increase the value of companies they own, millions of workers in the United States would benefit—and so too would the firms themselves and the businesses that employ those workers.
Private Equity Holds the Key to Creating Quality Jobs for Millions

As leaders across the learn and work ecosystem engage in an increasingly robust national conversation about the need to engage in a cross-sector effort to increase the number of quality jobs in the U.S. economy, a new and potentially impactful ally has emerged: private equity firms.

Because the companies they own employ nearly 12 million people, private equity firms could have a significant impact on the push to create quality jobs if they pursue growth strategies that prioritize investing in talent. And their efforts could have ripple effects that benefit both workers and other businesses throughout the U.S. economy.

The Business Case

The past several years have ushered in a new macroeconomic reality. The lingering pandemic and the stark economic realities of inflation, rising interest rates, and the possibility of a recession persist, creating uncertainty for investors, employers, and workers alike.

For private equity (PE) investors, this dynamic landscape is fraught with challenges but replete with opportunities.

The industry has experienced unprecedented growth, which has intensified competition and caused company valuations to soar. 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), along with almost $3.7 trillion in “dry powder”—or uninvested capital. This growth and the increase in competition have put PE firms under increased pressure to perform well, differentiate themselves from competitors, and deliver value to their institutional investors.

Moreover, firms must adapt to regulatory changes and a heightened focus on environmental, social, and governance (ESG) factors, while the global geopolitical environment, exit strategy uncertainties, and
ongoing advances in technology that continually transform the economy keep investors on their toes.

Unlike years before, when cost-cutting, efficiency improvements, and financial engineering may have been sufficient to generate strong returns, private equity today faces the dual challenge of delivering sustainable, long-term value while weathering the waves of a rapidly changing economy and a complex labor market.

Facing stiff competition, private equity firms today are under intense pressure to identify companies that represent sound investments and ensure that those investments pay off. That sounds like a daunting challenge, but this moment may in fact present private equity with an opportunity whose promise lies in its simplicity, paying homage to an age-old truism: you reap what you sow. In this case, what private equity must sow is talent, which is often the prime differentiator between a business that grows and a business that stagnates.

Ultimately, PE firms have money to invest, and they want to maximize the returns on those investments. As private equity investors seek to

The Business Case for Private Equity Investment in Quality Jobs for Workers

Investments in quality jobs for employees at portfolio companies can improve financial returns and create value for workers, business, and investors.

Institutional Investors/Limited Partners (LP)

Private Equity Firms/General Partners (GP)

Portfolio Companies

Workers in Portfolio Companies

Capital deployed to General Partners (GP) for investing

Capital invested in multiple companies for an ownership stake

Capital drives strategic and operational initiatives to improve growth and profitability

Capital flows, in part, to workers

Higher return on value of capital deployed and impact of funds

Increased valuation of portfolio companies and greater stakeholder benefits

Better employee recruitment, performance, engagement, and retention, higher growth, and improved profitability

Improved job quality and satisfaction

Source: Jobs for the Future analysis
differentiate themselves, they should be thinking about the talent they employ as a result of their ownership control in their portfolio companies.

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.

Investments in talent will improve job quality, generate strong financial returns, and drive value for workers, portfolio companies, private equity firms, and institutional investors. And that’s a win-win-win-win solution.

**Cost-Focused Model for Value Creation** *(Less focused on investments in talent)*

<table>
<thead>
<tr>
<th>Workers in Portfolio Companies</th>
<th>Portfolio Companies</th>
<th>Private Equity Firms (GP)</th>
<th>Institutional Investors (LP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Workers may be viewed as a cost center and lead firms to reduce investments in talent</td>
<td>• More short-term cash generation</td>
<td>• Driving ROI is becoming more difficult because the market is growing increasingly competitive</td>
<td>• Financial returns with this strategy are increasingly under pressure</td>
</tr>
<tr>
<td>• Employee recruitment, performance, engagement, and retention suffer</td>
<td>• Less overall revenue growth and weaker business resilience</td>
<td>• Returns on investments are more variable</td>
<td>• Pushback from stakeholders about the way returns are generated</td>
</tr>
<tr>
<td></td>
<td>• Financial engineering is the main driver of returns</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Talent-Focused Model for Value Creation** *(More focused on investments in talent)*

<table>
<thead>
<tr>
<th>Workers in Portfolio Companies</th>
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<th>Institutional Investors (LP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Workers are recognized as a core asset of the business</td>
<td>• Short-term investments in talent required</td>
<td>• Growth—tied to talent—is increasingly becoming the dominant strategy for returns</td>
<td>• Higher returns in overarching portfolio</td>
</tr>
<tr>
<td>• Firms invest more time and money in talent</td>
<td>• Improved revenue growth and business resilience</td>
<td>• Less downside risk to returns</td>
<td>• Buy-in from stakeholders about the way returns are generated</td>
</tr>
<tr>
<td>• Improved recruitment, performance, engagement, and retention</td>
<td>• Improvements in growth and valuation are the main drivers of returns</td>
<td>• PE firm employees are more motivated and engaged with portfolio companies</td>
<td>• More capital to deploy to funds that emphasize talent investments as a value creation strategy</td>
</tr>
</tbody>
</table>

Source: Jobs for the Future analysis
The Need

In 2023, JFF embraced an ambitious goal as our North Star: In 10 years, 75 million people facing systemic barriers to advancement will work in quality jobs.

This is an aggressive goal, and achieving it will require a collective effort on the part of leaders and organizations throughout the learn and work ecosystem. But it’s an important goal to pursue because more than half of the people in the U.S. labor force—92 million workers—are stuck without quality jobs, which JFF defines as roles that pay a living wage, offer benefits and supportive services that promote employee well-being, and provide workers with a sense of agency, a healthy and stable environment, and opportunities to build skills and advance in their careers.

People without quality jobs often have inflexible schedules and work long hours at low pay without sick days or paid time off and have limited access to health care. And they’re likely stuck where they are because their work offers limited opportunities for economic advancement. The negative impacts on the well-being of workers in low-quality jobs are substantial, and conditions that weaken people’s sense of well-being produce negative consequences—including low levels of worker engagement and high turnover rates—for the businesses that employ those people.

JFF is committed to supporting the effort to improve conditions for all workers as we pursue our North Star goal. And we urge private equity firms to join us by making the most of their opportunity to catalyze the creation of quality jobs throughout the economy by improving job quality for the 12 million people who are employed by the companies in their investment portfolios.

In some industries—newspapers and nursing homes, for example—private equity firms have had a negative reputation as short-term-focused investors only concerned about selling businesses for a profit, not creating quality jobs.

It’s time to flip the script and demonstrate how private equity can create quality jobs and have a positive impact on workers and businesses alike.
The Opportunity for Impact

More than other types of investors, private equity firms have a great deal of influence over the companies in their portfolios due to the terms of the deals that give them equity stakes in and ownership control of those companies. From that position, they can use the following levers to drive changes in the companies’ operations:

- Capital allocation and accountability, which enables them to, for example, promote the adoption of policies and practices that improve job quality across the full investment life cycle.
- Management control of portfolio companies, which they can use to, among other things, introduce talent management practices that are designed to elevate the social and economic well-being of employees.
- Business model innovation, which they can carry out by, for example, supporting industry shifts toward shared ownership models that can distribute wealth and power among all workers, improving employee engagement and financial returns.

Furthermore, PE firms can be critical catalysts 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 10 people or less. 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.

In short, PE firms have an opportunity to promote lasting and far-reaching improvements in job quality. And to fully embrace that opportunity, they must move beyond old ways of thinking and adopt new business models and new approaches to managing companies and people.

The private equity industry is well positioned to have a significant and positive impact on the effort to create new quality jobs—one that could have ripple effects throughout the economy. In 2020, companies owned by private equity firms employed close to 12 million people in the United States (an increase of almost 3 million from 2018) and generated 6.5% of the country’s GDP—$1.4 trillion.

It’s time to reposition private equity as an institution that can serve as a multiplier of impact in the emerging effort to improve job quality for millions of workers in this country.
Three Levers for Driving Job Quality

JFF’s research has identified three key levers that private equity firms can use to propel their portfolio companies to create quality jobs and thereby become better engines of equitable economic advancement for workers.

Here’s a look at each of them.
Private equity firms often look at job creation as a core metric of company potential and performance, but assessing job quality is just as important.

As they invest in and take ownership of companies, PE firms have an opportunity to make sure that the jobs at those portfolio companies are quality jobs. To do that, they can use JFF’s Quality Jobs Framework as a guide.

A resource that we believe will play a key role in rallying organizations throughout the learn and work ecosystem to join us in achieving our North Star goal, the framework provides a comprehensive definition of a quality job that highlights what all workers deserve in addition to good pay and benefits: the flexibility, autonomy, stability, and advancement opportunities that are essential for people to thrive. It also offers a detailed rundown of policies and practices PE firms and other employers should be implementing across the following four core elements of quality jobs: compensation, advancement, agency and culture, and structure.

Those four elements are fundamental—table stakes, if you will—for making sure that PE firms are creating not just any jobs but quality jobs that will enhance an employer’s ability to recruit, develop, and retain top talent—ultimately leading to improvements in business performance.

Elements of a Quality Job

Compensation: All forms of pay, benefits, and leave that enable all workers to support themselves and their dependents at the local cost of living.

Advancement: The policies and practices that provide all workers with equitable opportunities to grow their skills, knowledge, and careers within their organization or industry.

Agency and Culture: The extent to which all workers are encouraged and supported to use their expertise to drive change within their organization and have a sense of belonging and value in the workplace.

Structure: The foundational elements that support a safe, healthy, and stable environment for all workers.

Source: Jobs for the Future analysis
Private equity firms have an opportunity to embed quality jobs practices across all stages of investment—from sourcing to due diligence to ownership to exit—to ensure that the jobs the company is creating are ones that center workers’ needs and pave the way for the creation of sustainable long-term value for the companies and the investment firm.

For example, using metrics that assess job quality—in terms of, say, employee turnover rates, compensation and benefits, and professional development and advancement opportunities—during the sourcing and diligence phases would help a private equity firm understand a company’s potential for growth, as well as its current and projected competitive positioning and the stakeholder engagement that can be so critical to business success. Making measurements of these elements part of a portfolio company’s growth goals can be a strategic move because opportunities to work in quality jobs can improve employee engagement, and highly engaged teams are 23% more profitable than less engaged teams.

Emphasizing job quality throughout the investment life cycle can help reduce employee turnover and attract top talent, which can be a significant competitive advantage and a cost-saver, given that the cost of replacing an employee can add up to as much as 50-60% the departing employee’s salary, with overall losses attributed to the employee’s departure reaching as much as 90-200% of the salary.

The active role that private equity investors play in managing the operations of their portfolio companies lends itself to this kind of ongoing monitoring. Ultimately, PE firms can use the data
they collect at companies to design tailored growth and operational plans that emphasize long-term investments in talent as a critical part of a company’s growth and value creation strategies and include recommendations for the data collection and aggregation methods that will be needed to measure progress over time.

To drive systemic impact and catalyze broader efforts to improve job quality, PE firms should also incorporate job quality measurements into the recommendations they make when preparing for a responsible exit to ensure that the investments they made in portfolio companies’ talent management practices transcend ownership entities and that the benefits workers have experienced are maintained.

PE firms will have more success implementing policies and practices that promote job quality across the investment life cycle if they understand the assessment tools that exist, know how those tools can be customized to their specific investment processes, and deploy them across teams.

There are a number of assessment tools to choose from, and firms can begin the process of finding what they need by looking at two examples developed by other PE firms: the Gainful Jobs Approach from HCAP Partners and Two Sigma Impact’s Good Job Score Assessment Tool. But there are many others to consider as well, and it’s critical for a firm to find and adapt the one that will best serve its investment and portfolio management practices.

The bottom line is clear: PE firms should regularly look at the talent practices of their potential acquisitions as a way to drive job quality and, ultimately, greater financial returns and performance.
Case Study: HCAP Partners
A Framework for Measuring and Promoting Job Quality

HCAP Partners invests private debt and equity in lower middle market companies to generate market-rate returns and social impact.

The La Jolla, California-based firm sees a focus on job quality as an essential element of its efforts to both create economic advancement opportunities for workers in low-to-mid-wage jobs, people of color, and women of all backgrounds and work with companies to support value creation and drive economic returns.

To advance its job quality focus, HCAP created an operational impact framework that it calls the Gainful Jobs Approach, which combines a robust job quality measurement and assessment system with active engagement to implement job quality improvements with companies. As a condition of closing an investment, HCAP agrees with management on a set of job quality goals that will be achieved over the investment period.

As a non-control investor, HCAP uses job quality goals as an engagement tool while working collaboratively with companies—providing resources, technical support, and guidance—to help improve job quality.

HCAP used the Gainful Jobs Approach to support AMFM Healthcare, a portfolio company providing acute primary psychiatry and dual-diagnosis care. During the height of the COVID-19 pandemic, AMFM faced staffing and other workplace challenges among its caregivers in residential treatment centers. HCAP identified four job quality initiatives to boost employee morale and wellness, recruit staff, and support the company’s overall growth. These included:

1) new opportunities for advancement for caregiving staff into supervisory positions; 2) pay equity efforts, including increases in starting pay, formalized performance reviews with guidelines for pay increases, and hero pay for frontline caregivers; 3) investments in employee wellness like paid self-care days and training for crisis intervention; and 4) company-wide diversity, equity, and inclusion initiatives and cultural competency trainings.

In 2022, HCAP exited its investment in AMFM Healthcare and through the Gainful Jobs Approach and its other value creation efforts achieved investment returns that exceeded expectations while realizing significant job quality improvements for caregiving staff.

“Through the Gainful Jobs Approach, we’ve seen time and again that investments in people and enhanced workplace practices lead to a more engaged workforce, better company operations and execution, and resilient and successful companies.”

Tom Woelfel, Senior Director of Impact
HCAP Partners
Case Study: Two Sigma Impact
Adding Worker Voice to Assessments of Job Quality

Two Sigma Impact’s innovative approach to measuring job quality serves as a leading example for PE firms to consider how to integrate the “voice of the worker” into employee data collection and inform business decisions.

The New York City-based firm recently launched a standardized open-source resource called the Good Job Score Assessment Tool that investors, management teams, and workers can use to quantitively measure job quality. Designed to better define and quantify four key aspects of a good job, the tool is particularly notable in its emphasis on incorporating the voice of the worker and serving as a source of novel data that PE firms can use alongside more traditional quantitative financial and operational metrics for measuring job quality within companies.

Two Sigma Impact developed and launched this tool in support of its overall investment thesis: that “good jobs” make better companies, particularly in businesses where workers are critical to the delivery of a service or product.

The firm intends to analyze Good Job Score Assessment results within its portfolio companies across key employee characteristics (such as department, length of tenure, gender, and race and ethnicity) and work with management teams to design and implement solutions to address opportunities for improvements. Two Sigma Impact also open-sourced the tool to help companies use it to measure and improve job quality within their own organizations.

“Private equity is in a unique position to drive value creation and social impact through investing in job quality. We’ve done extensive research which has found that by helping companies create a better workplace through the creation of good jobs, you can positively impact business outcomes, while also bringing fulfillment to employees. We open-sourced our Good Job Score Assessment Tool to drive experimentation and the sharing of lessons learned in the PE community.”

Ann Ruble, Operating Partner
Two Sigma Impact
Designing quality jobs at portfolio companies is a good start, but private equity firms also need to ensure that those jobs are accessible to people of all backgrounds. To do that, they can adopt approaches to recruiting and talent development that are proven to help create more inclusive and agile pathways into and between quality jobs, such as place-based hiring strategies, skills-based talent management practices, and work-based learning and other on-the-job training models.

Place-based hiring strategies, which focus on recruiting people from specific regional labor markets, can help to diversify talent pipelines by expanding opportunities for local residents who are members of populations that are underrepresented in quality jobs. Skills-based talent practices can help companies match employee capabilities to business needs more accurately and efficiently while building a more diverse, inclusive, and productive workforce—through practices like removing degree requirements from job descriptions and building internal career advancement pathways that include skills taxonomies listing the types of skills and expertise employees will need to move into higher-level jobs. And apprenticeship and other work-based learning models can also expand and diversify the pipeline of workers who are qualified for quality jobs by offering current employees who want to pursue more advanced positions opportunities to learn new skills on the job.

Initiatives that advance diversity, equity, and inclusion (DEI) within portfolio companies are critical to creating the inclusive and welcoming working atmosphere that is a key element of a quality job. And creating an environment where people of all backgrounds feel welcome can be a major driver of growth. Studies have shown that companies with diverse management teams are more innovative and have 19% higher revenue than companies whose management teams are less diverse,
and that companies that are more diverse and inclusive realize a cash flow that is 2.3 times higher than cash flow rates at companies that are less inclusive. Furthermore, companies that are racially and ethnically diverse than others are 33% more likely to perform better than their counterparts. And according to Gartner research, they’re also 120% more likely to hit financial targets.

To ensure that DEI efforts at the point of hire are effective, PE firms will need to deepen connections within and proximity to talent pools made up of people from populations that are underrepresented in quality jobs. There are many ways to do that. They could, for example, forge partnerships with nonprofit community-based talent development organizations to help companies reach hiring goals, reach out to executive search firms that have a DEI focus, and connect with community organizations that serve populations whose members may face barriers to employment and economic advancement opportunities, including refugees or immigrants.

However, it’s not enough to diversify talent pipelines and company workforces; employers must also make an effort to transform their workplace cultures to create inclusive environments where people of all backgrounds feel a sense of belonging. Holistic programs that provide supportive services to all workers throughout the entire employment life cycle, from recruiting to offboarding, can help achieve that goal.

It’s also important to diversify pipelines and career advancement pathways into executive leadership roles and seats on boards of directors, which have the most influence over portfolio companies’ operations, policies, and practices. PE firms should regularly evaluate the composition of their portfolio companies’ boards and management teams, and they should support the adoption of new strategies and operational processes to improve the diversity at the executive and board levels when necessary.

Building inclusive pathways to quality jobs at every level of a portfolio company is an important step that will help ensure that a PE firm’s investments in talent at that company will yield long-term benefits—for the company, employees, and the investment firm.

Even at a time when there’s uncertainty and polarized public discourse about the efforts employers can or should make to advance racial equity through their employment practices, we believe that private equity firms should use their power and influence to help their portfolio companies commit to diversity, equity, and inclusion as core priorities. And because these initiatives can be powerful value creators for portfolio companies, investment firms should consider incorporating DEI work directly into their portfolio management and deal-making operations, instead of leaving it to their corporate social responsibility or philanthropic teams.
Case Study: Blackstone
Engaging Untapped Talent

In 2020, Blackstone launched an initiative that it calls Blackstone Career Pathways to provide its portfolio companies with tools and resources to broaden their talent networks by improving their ability to recruit, retain, and advance employees who are members of populations that have been underrepresented in quality jobs. This includes individuals without a four-year college degree, young people who are disconnected from work and learning, people of color, people with disabilities, veterans and military spouses, and caregivers.

By enabling them to access long-untapped sources of talent, Blackstone Career Pathways helps the companies build more representative workforces and inclusive cultures, creating lasting value for investors. Blackstone piloted the program with six portfolio companies in 2020 and has since expanded to include nearly 50 portfolio companies, with plans for further growth.

Alight Solutions, one of the pilot companies, sought to develop talent sourcing partnerships with nonprofit organizations and implement workplace inclusion and diversity initiatives to support that talent. Since being in the program, Alight has established partnerships with several talent providers, implemented training programs for hiring teams to help them take a more inclusive approach to evaluating talent, and incorporated DEI into their performance conversations—all of which have helped the company build an inclusive workplace.

“Over the course of my career, it has become increasingly evident that changing historic recruiting and hiring pipelines built up over decades is critical to creating more representative workforces and bridging the opportunity divide. The solution begins with accessing broader and more representative pools of high-quality talent, helping to create career and economic mobility, which strengthens our companies and drives value for our investors. Partnerships with organizations such as Jobs for the Future are essential to creating these scalable solutions for long-term retention and advancement.”

Joe Baratta, Global Head of Private Equity and Executive Sponsor of Blackstone Career Pathways
Blackstone

As a result, Alight has made significant progress on hiring people from untapped communities, especially people of color and people with disabilities. Many of the roles are in customer service, which directly aligns with the company’s business strategy of providing personalized care to a growing and diverse customer base.
Case Study: Bain Capital
A Commitment to ‘Best People Practices’

At Bain Capital, a commitment to fair employment, engagement, and well-being drives the firm’s Private Investments businesses to better themselves—so, in turn, they can better support their people, portfolio companies, and broader communities.

A big part of Bain Capital’s Private Equity investment practice is valuing and promoting what it calls “best people practices.” By collaborating with relevant stakeholders and providing the right resources, the firm strives to equip portfolio companies with the resources to put positive and healthy initiatives into action. In 2020, Bain Capital furthered this effort by launching a networking program for portfolio company HR leaders called the Chief Human Resource Officer Forum. Bain Capital shares advice with the members at the forum’s bi-monthly meeting.

As a result of these and other initiatives, today over two-thirds of Bain Capital portfolio companies measure employee engagement—both company-wide and by specific geographies and demographic groups—to inform their talent strategies and decision-making. Quantifying this metric is a huge step and moving forward, Bain Capital will continue to encourage its companies to engage with employees on everything from safety to career trajectory and beyond.

Bain Capital leadership knows that cultivating a high-performance and inclusive culture is a critical foundation for building great companies. Establishing an organization fact base to better understand employee engagement enables insightful and purposeful action. Companies that develop an action plan to close gaps and regularly measure progress are best equipped to move the needle on engagement—which has a direct impact on the bottom line.

Source: Bain Capital’s 2023 ESG Report, “Catalyzing Sustainability and Resilience.”

“Our people—both our internal Bain Capital team members and those working across our portfolio companies—are our greatest strength as an organization. We strengthen our portfolio companies by providing opportunities for individual growth, development, and advancement and by supporting critical DEI initiatives that lead to increased employee engagement and retention. These effects meaningfully contribute to building high-performing organizations and can help our businesses grow faster and improve performance.”

David Humphrey, Co-Head, North American Private Equity
Bain Capital
Advance employee ownership models

The approach that private equity firms have traditionally taken has focused on providing financial incentives to management teams, but different strategy for value creation have been gaining traction over the past several years: establishing employee-owned or shared-ownership models, which are designed to recognize and amplify the critical role a company’s workers play in the value creation process. This shift signals that PE firms are looking at more long-term value creation strategies and see employees as fundamental drivers of growth and innovation at a company. It could be a game-changer for many.

Employee ownership can take many forms, from broad-based employee ownership and employee stock ownership programs (ESOP) to worker

Forms of Broad-Based Employee Ownership

<table>
<thead>
<tr>
<th>Employee Stock Ownership Plans (ESOP)</th>
<th>Worker Cooperatives</th>
<th>Employee Ownership Trusts (EOT)</th>
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<tbody>
<tr>
<td>ESOPs are qualified retirement plans used to transfer all or part of the company’s shares to a trust that’s administered on behalf of the employees. Employees earn their shares as a retirement benefit. ESOPs come with very significant tax benefits, which, coupled with regulation, mean they can be a fit for companies with more than 40 or 50 employees, because ESOPs involve higher setup and ongoing costs than other models.</td>
<td>Worker cooperatives are 100% employee-owned and are governed by the people who work there. Employees pay a small equity buy-in and the board of directors is made up of a majority of employee-owners who are elected by the full membership. Profit-sharing is built into the model and is based on hours worked. Worker cooperatives have lower setup costs than other models.</td>
<td>EOTs, sometimes called perpetual employee trusts, preserve the business over the long term for the benefit of the employees. Employees don’t pay for their ownership benefits, and they receive a share of the company’s annual profits. EOTs have lower setup costs than other models.</td>
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cooperatives and employee-owned trusts. All are rooted in the goal of broadening decision-making and control within organizations. In particular, employee ownership programs represent an important step toward amplifying employee voice and agency, which can be critical to driving equity in the workplace and improving working conditions, especially when employee input plays a key role in informing strategy and decision-making.

A shift to employee ownership holds the promise of driving substantial improvements in both job quality and financial performance. Studies have shown that companies with significant levels of employee ownership often outperform others, offering employees better job security and reporting sales that are up to 2.3 times higher than those of their counterparts. These programs enhance employee engagement and motivation, which lead to improved productivity.

Companies with employee ownership arrangements can also have more success attracting and retaining talent. In the National Center for Employee Ownership (NCEO) 2018 General Social Survey, 72% of the respondents said they would prefer to work for an employee-owned companies rather than one owned by investors or by the state. Another NCEO study found that employee-owned companies had 33% higher median wage income, 92% higher household wealth, and 53% longer median job tenure. And an NCEO ESOP Topics Survey found that ESOP companies have turnover rates that are close to three times lower than those of their counterparts. In addition to cost savings and improvements in financial performance, employee ownership structures may offer tax breaks, because contributions to ESOPs are often tax-deductible.

Another benefit of employee ownership arrangements is that they can foster a positive corporate culture where individual workers are genuinely invested in the company’s success. In addition, employee owners tend to think and act like entrepreneurs—a mindset that can lead to improved innovation and efficiency. And finally, employee ownership programs can provide business owners who are thinking of retiring or leaving the company with a stable succession plan that ensures business continuity.

All of these benefits combined add up to a strong business case for employee ownership programs. While widespread implementation of employee-owned and shared-ownership models at portfolio companies would represent a shift in the approach private equity firms usually take when they’re trying to improve the operations of the companies they invest in, these models promise to promote long-term business success, innovation, and financial growth. And most important, perhaps, they represent a good option for PE firms that want to create quality jobs in a way that leads to value creation, growth, and strong returns on their investments: by investing in the very workers that create value for their companies.
Case Study: KKR
Employee Ownership Pays Off

KKR, a global investment company whose operations include a private equity business, is a leading advocate of employee stock ownership programs. In 2011, KKR began working with manufacturing companies it purchased to establish broad-based ownership programs for all employees. Last year, KKR committed to expanding this shared ownership model to every company it buys through its $19 billion Americas Fund XIII.

As part of the process, in addition to giving all employees a stake in the company they work for as a free incremental benefit, KKR helps its companies increase worker voice in operations and decision-making. It also offers them educational opportunities, with courses covering topics like financial literacy and tax advice.

This type of program helps align incentives across all stakeholders: Employees participate in value creation for the company, which leads to business growth, which satisfies investors and stimulates new economic activity in the communities where employees live and work.

To date, the firm has exited nine of these investments and the returns have been between three and 10 times greater than the amount of capital KKR invested. The shared ownership programs have resulted in billions of dollars in equity awarded to more than 60,000 non-management employees across more than 35 portfolio companies.

KKR is a founding member of Ownership Works, a nonprofit committed to advancing shared ownership models across corporate America as a way to promote workplace equity, drive value creation, and increase prosperity for workers.

“Ownership Works recognizes the urgent need to invest in a more economically secure and equitable future—one where all employees have the opportunity to build savings and wealth at work. By aligning the interests of employees and businesses through shared ownership, companies can soar to new levels of success, create empowering work cultures, and drive greater economic opportunity for all workers.”

Anna-Lisa Miller, Executive Director
Ownership Works

“Every business is only as good as its people, and enabling every employee to participate in the value they help create is the foundation for a very different type of culture. Employees who are empowered to think and act like owners drive better corporate performance and through shared ownership every employee has an opportunity to build meaningful wealth.”

Pete Stavros, Co-Head, Global Private Equity
KKR
Case Study: Apis & Heritage Capital Partners
Employee Ownership as a Powerful Vehicle for Driving Growth

Apis & Heritage Capital Partners (A&H) was created in 2021 to convert companies where people of color make up a substantial share of the workforce into 100% employee-owned businesses. A&H’s goal is to help close the racial wealth gap and enable people of color to build more generational wealth.

To do this, A&H created a transaction model that it calls the Employee-Led Buyout (ELBO). This approach converts profitable companies from private ownership to 100% employee ownership, paying the selling owners a fair price, locking in tax advantages for the enterprise, and ensuring that employees will be the future beneficiaries of the company’s success. In addition to delivering measurable impact, the Fund also aims to provide an attractive risk-adjusted return to investors.

In the short time it has been in business, A&H has realized a good deal of success. It closed its flagship Legacy Fund I in September 2022 at $58.1 million, having raised money from leading foundations and clients of impact investment advisors who are committed to driving equity and opportunity for members of communities that have long faced barriers to economic advancement.

A&H has used the ELBO model to transition two family-owned businesses into 100% employee-owned enterprises. Prior to their investment, the companies employed over 160 workers. More than 80% of those employees were people of color and about 85% had low- or moderate-wage jobs. Within a year, the total number of employees had increased 36%, demonstrating that the employee ownership model is a powerful vehicle for retaining and investing in talent and driving growth.

“Employee engagement isn’t just a good idea, it’s one that creates business value. Productivity gains, enhanced quality, and cost savings can come from anywhere in the organization. By creating quality jobs that enable worker voice, we get the benefit of aligning the frontline with the boardroom. This is especially critical in the current economic environment and labor market, where firms need to create a sustainable competitive advantage. For A&H, our belief in quality jobs is paired with employee ownership so that we can create jobs that are not only more meaningful but also have the opportunity to generate real wealth for families.”

Philip Reeves, Founding Partner
Apis & Heritage Capital Partners
The Time to Act Is Now

Private equity firms are well-positioned to play an important role in the emerging effort to create more opportunities for U.S. workers to pursue quality jobs.

Their potential for impact is significant. The companies they own employ nearly 12 million people and generate 6.5% of this country’s GDP. Any effort they make to improve pay, benefits, working conditions, and employee agency within their portfolio companies would surely have ripple effects that benefit more workers, more businesses, and more communities across the country.

Some investment firms are already making an impact.

They’re implementing policies and practices that improve the quality of jobs at their portfolio companies, and they’ve developed tools to assess job quality and chart their progress. They’re creating inclusive career pathways and providing resources and guidance to company leaders who are committed to advancing diversity, equity, and inclusion in their workplaces. Some are even eschewing private equity’s traditional approach of only offering financial incentives to company executives and are instead instituting employee ownership structures at their portfolio companies.

Jobs for the Future urges more private equity firms to follow the lead of these pioneers. Every step they take to improve the jobs of their 12 million employees will help open up new opportunities for economic advancement for the 92 million people who are stuck without quality jobs.

The time to act is now.