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Empaths at the Gate: KKR and a Stanford Psychologist Measure People Skills

A private equity firm's experiment in employee ownership spurred it to look deeper into why some bosses are better leaders.

by Heather Landy
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In 2011, KKR & Co. bought an industrial company in Minnesota and did something unusual for a private equity firm—it invited factory workers to share ownership. A key plant with a major morale problem was losing employees and had a sky-high accident rate. Giving workers an equity stake, the thinking went, would increase loyalty, engagement and performance.

The results were promising enough that KKR began issuing equity stakes to workers at other companies it owned, at first mainly in the manufacturing sector, where annual turnover rates are routinely above 40%. KKR, which manages $600 billion in assets firmwide, is most famous for leveraged buyouts, such as in the bare-knuckle battle for control of RJR Nabisco chronicled in Bryan Burrough and John Helyar's 1989 bestseller, Barbarians at the Gate. But it has an interest in the management of a vast private equity portfolio of 250 companies with a combined total of more than 850,000 employees. Today its employee ownership model is in place at more than 65 of those companies, including publishing giant Simon & Schuster LLC, and the firm's private equity business in the Americas is now pledging to bring the setup to every deal in which it buys a controlling stake.

Pete Stavros, KKR's co-head of global private equity and the driving force behind its employee ownership campaign, says the approach is producing higher-than-average investor returns, based on the small number of exits to date. But he noticed the strategy wasn't uniformly successful at driving down quit rates and raising scores in employee engagement surveys, two key statistics KKR tracks alongside traditional company financials.

Improving those numbers had been a big part of his premise for developing what he calls "ownership cultures." He wanted to understand why the model worked better in some cases than others. Early reads of the data ruled out factors such as industry, geography, company size and whether the workers were unionized.

Pete Stavros. *Photo: KKR*

Stavros did notice over the years that there were certain types of leaders at KKR companies who produced better results in the columns tracking culture data. Often they were women, immigrants, or people who grew up poor or held deep religious beliefs. He suspected there was something in their background that helped them connect with their employees. Was empathy, he wondered, their common trait? Stavros wasn't sure how to prove that or what it portended for leaders who didn't fit those profiles. But after a chance encounter with a Stanford University psychologist, he got some answers. The findings are already changing how KKR trains senior leaders inside the firm and across its portfolio.

"Empathy" was a buzzword in American C-suites nearly a decade ago, but the trend seemed to bypass private equity. Even away from deals that gave the industry its reputation for corporate plundering and worse, the focus on numbers rarely seemed to leave room for strategies centered on people skills.

Stavros says he can't remember ever hearing about the business case for empathy in his classes at Harvard Business School or in his 20 years at KKR. But after observing which chief executive officers had strong management skills, Stavros started publicly musing about empathetic leadership. An article about his thinking caught the attention of Jamil Zaki, head of the Stanford Social Neuroscience Lab and author of *The War for Kindness: Building Empathy in a Fractured World*. He reached out to Stavros and asked what kind of data KKR had on leader empathy. "I said we had nothing on empathy, because I would have never imagined you could measure empathy," Stavros says. But KKR had plenty of data on employee experience.

The two teamed up and recruited dozens of CEOs of KKR companies to take a standard empathy survey that Zaki's

research team had created. Normally the scores correlate nicely with the subject's propensity to do volunteer work. For CEOs who took the survey, the correlations with quit rates or employee engagement were one-and-a-half to more than two times stronger than that benchmark, indicating that business leaders who indexed high on empathy were making decisions that resonated meaningfully with workers.

So Stavros' hunch was right, but he learned he was wrong to presume that certain types of people would have a lock on empathetic leadership. The science on empathy shows it is less a fixed trait than a skill that can be learned.

KKR is now piloting three different training programs designed to increase empathy. Leaders are working with Zaki on building skills such as active listening. They're also being sent on excursions facilitated by the Financial Health Network to explore how people in their communities get by. And they're being put into Japanese-style kaizen meetings, in which people up and down the hierarchy find ways to improve the business. "Our job is to find good companies that we can make a lot better," Stavros says. "Because how could we say we're optimizing a business if 40% of the workers are quitting every year?"

Critics of private equity don't find fault with that reasoning. "It's better than not caring about a lack of empathy amongst your CEOs," says Justin Flores of the Private Equity Stakeholder Project, a watchdog group that's criticized private equity's effects on workers and society. But empathetic leadership isn't a substitute for living wages, generous severance or policies against union-busting tactics, he argues. Flores notes that companies with employee ownership represent only one slice of KKR's investments.

Stavros acknowledges his interest in cultivating empathetic leadership isn't compatible with strategies that have given private equity firms their reputation. It "does guide you away from an investment where the investment thesis is centered on 'We're going to fire a bunch of people.'"

Even CEOs known for compassion might need to lay off people in a business downturn or when technology makes certain jobs obsolete, Stavros says. "Then I think the question is the 'how'—how much notice are people given? How much severance? Is there an effort around outplacement and trying to help people land on their feet? Are people treated with dignity and respect, or are they ushered out the door by security?"

While he awaits the results of the pilot training programs, Stavros said he's been quietly observing the empathetic leadership style of CEOs such as Kathy Bolhous at Chicago-based Charter Next Generation Inc., a specialty films manufacturer KKR bought with Leonard Green & Partners LP in 2021. The ninth of 10 kids from a poor family, Bolhous grew up wearing used or homemade clothing and put herself through college. In the 1980s, she joined the male-dominated manufacturing industry. "I learned to be a really good listener, because as the only woman in a group, I didn't have a voice," she says.

She credits all those experiences to her knack for seeing people, disarming them and displaying genuine care for them—skills she models on a podcast where she conducts one-on-one interviews with CNG employees. "I'm the one that's always going to try to put you at ease no matter who you are," she says.

Bolhous says early bosses told her she was "too empathetic." If true, it didn't prevent her from taking CNG's valuation from $58 million to $5 billion since she became CEO in 2010. CNG was sold four times in that period. KKR, she says, was the first owner to ask about the company's people metrics.

> "What people ask for when they feel safe is help making their work more efficient"

Empathy is an umbrella term for three ways of responding to other people's emotions, Zaki says. Emotional empathy is sharing what people feel—you see them stub a toe, and you feel pain in your own toe. Cognitive empathy is the art of understanding what others have experienced and appreciating their point of view. Empathic concern is a desire to improve other people's well-being, which might also be described as compassion. (Not all researchers agree that compassion is in the same family as the other forms of empathy.)

Stavros says he's weakest in cognitive empathy, "which I think in some respects might be the most important one" for leaders. "The one I'm highest in is the one that's like catching feelings. If I see someone getting emotional, I have a very hard time not getting emotional. I also scored high on the kind that's about deep concern," he adds. "But taking other people's perspective, I wish—I shouldn't wish—I can hopefully get better. These are all skills."

Consider the last time someone told you about a difficult experience. Did you immediately project yourself into the situation to see if you've ever experienced something similar? If so, you might have felt you could understand the person, and you might have even shared your own experience in an effort to relate. But Zaki would say you probably overestimated your insight into their emotions and might have skipped important questions that could have shed more light on what they're going through and how they're responding to it.

Humans are hardwired "to bring the conversation both mentally and verbally back toward ourselves, where we're most comfortable," Zaki says. "The uncomfortable thing, especially for leaders, is to sit with the humility of not knowing what's happening in another human being and then translating that humility into a conversation by asking more questions."

An outgrowth of leadership rooted in listening is an organization where people are comfortable stating their needs. In a workplace context, Zaki says, that might seem as if it's employees just asking for time off. "But actually what people ask for when they feel safe is help making their work more efficient." Zaki's fear of being misconstrued on that point speaks to the anxiety leaders often feel about taking an empathetic approach—that it might require a compromise in results.

Massimo Bizzi, CEO of KKR-backed Fortifi Food Processing Solutions Inc. in Texas and an early participant in Stavros' pilot programs for building empathy, recognizes the worry. But he says personableness, transparency and other hallmarks of leadership associated with empathy have only ever helped him in business, whether by encouraging strangers from disparate divisions of the company to come together or by simply creating a more pleasant atmosphere at work.

"When you lead with culture and you clarify the culture that you want, you don't have to accept any trade-off," he says. "And the culture we want is one where we work very hard, it's one where results are what matters, but it's also a world where results must be achieved the right way."

Zaki acknowledges there are limits to how far people can stretch their empathy skills, which are at least partially tied to genetics and life experience. But if KKR of all firms can show that empathy pays, Zaki says it sends a message that empathy is not "some outlier, touchy-feely sort of way" of managing a business. It might finally be seen, he says, as "central to the skill set of effective leaders."