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'LPs are asking more about operational value creation'

LPs are more focused than ever on operational capabilities – and that's a good thing, says Scott Dahnke, global co-chief executive officer at L Catterton

By Marine Cole | 3 December 2018

Scott Dahnke

For private equity firms, one of the most gratifying aspects of the PEI LP Perspectives Survey is just how supportive investors are of the way that GPs are investing their funds. Of the LPs surveyed, 69 percent say they think that GPs have allocated capital at an "appropriate rate" in the last 12 months, and when asked about "style drift", more than one-third of LPs say GPs are remaining disciplined and sticking to their investment thesis, and, of the rest, 55 percent saw just occasional style drift. Either way, LPs are more focused than ever on how GPs can add real and measurable "alpha" to their portfolios, and as a result, are increasingly focused on how GPs drive operational success, say Scott Dahnke, global co-chief executive officer at L Catterton, and Karen Gordon, managing partner of portfolio operations at L Catterton.

What do LPs want to know about operational value creation and how do you address the topic with investors?

Scott Dahnke: In today's environment, with record levels of dry powder and significant access to relatively inexpensive financial leverage, LPs are increasingly seeking to understand the drivers of performance that will be consistent over time, regardless of the prevailing economic conditions.

We're seeing LPs engaging more with GPs and portfolio companies, and asking for more data to understand the sources of the returns. Increasingly, LPs are looking for specific drivers of operational value creation in addition to how much of that return is being driven by earnings growth vs. multiple expansion and/or debt paydown. As an operationally focused GP, we love it when LPs are asking more about value creation from an operational perspective.

We tend not to use as much financial leverage as most others in the space, which means that our equity has to work harder. Better operating performance is therefore key to our ability to drive high risk-adjusted returns. Historically, roughly 80 percent of our value creation has been of an operational nature.


Karen Gordon

Karen Gordon: Our operating approach is highly replicable deal after deal, fund after fund, and we're very proud of what we have built. We do our research and assess the value with respect to the execution risk. Our operational team brings relevant expertise in specialised operating disciplines, such as digital marketing, procurement and Six Sigma. The fact that the economy has been strong means there is more pressure on operating returns and more focus by LPs on operating returns. That is all good from our perspective.

Could you describe your operational value creation process?

SD: We're category-first investors. We identify categories to target for investment based on identifiable consumer trends and then develop an investment thesis in those categories based on how we see competitive dynamics, consumer trends, and other forces playing out. We then partner with management and deploy our own resources to help the company execute that plan.

KG: This helps us to identify specific companies, and once we build a relationship with them we can jointly develop a value-creation thesis that's right for that business, in that sector, that reflects current and projected consumer behaviour.

SD: At L Catterton, our operating and deal teams work together seamlessly to identify categories, develop an investment thesis in these categories, and conduct diligence for targeted portfolio opportunities. It's two halves of the same brain.

How do you approach management teams?

SD: Our first interaction is rarely about a potential transaction. Most of the time, our first interaction is with a founder or C-level executive and starts with a conversation about the dynamics within the category that the business operates. We share data from our research and insight from our experience which helps entrepreneurs understand that we have value to contribute that can supplement what they already have in the organisation. Our detailed category work and research is a key differentiator.

Can you describe the methodology you use once you've made an investment?

KG: We believe we have a particularly powerful framework. We have a consistent approach to collaboration, to issue identification, to prioritisation, and a philosophy for how and where we deploy resources to drive higher levels of value creation.

The first step is to develop a value creation thesis very early in the diligence process. This ensures our team is aligned with management from the outset. Immediately upon deal closing, and sometimes earlier, we work together to get very specific about the initiatives that we want to drive, how those initiatives translate into value creation, what resources are required, and what milestones we should measure our progress against. We have a disciplined approach to creating KPIs that gives us visibility into the performance of the business overall.

This also allows us to project performance so we can respond to what is happening, predict what will happen, and plan for it proactively. At times, we will also dedicate our own internal team resources to drive certain initiatives and support their delivery.

SD: We're investing in growth businesses across the consumer sector. At a high level, the drivers of value creation are similar across many of these companies, however the approach required to achieve the value is always bespoke. From that perspective, metaphorically, we are not walking around with a hammer looking for a nail – we have developed a broad tool kit that enables us to deploy the right tools for the job, in partnership with portfolio company leadership.

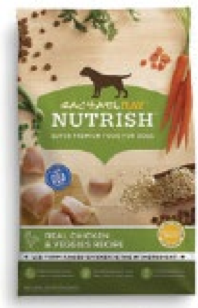
How much does being a sector-focused fund help you with operational value add?

SD: CEOs, boards, and even investment bankers are increasingly aware of our operational success in the consumer arena, and that proprietary edge helps us source deals that fit our skills. Given the competitive dynamic in the private equity space, founders and CEOs are increasingly asking what an investor offers beyond capital. Having the ability to bring case studies and relevant value creation examples to bear is powerful in winning investment opportunities. Further, our sector-specific expertise has helped cultivate a well-developed global network of industry relationships. There are myriad benefits from being a sector-focused fund and from having been a sector-focused fund for 30 years. We can't imagine it any other way.

What do you expect in 2019 for the economy and private equity and can you explain how that may impact your investment thesis?

SD: We're now 10 years into a five- to seven-year economic cycle, so every investment we make today is one in which we forecast a recession within the hold period of that investment. That doesn't mean that we necessarily think a recession will happen in 2019 or in any specific time frame, but we would forecast some sort of pullback in the next few years. This impacts our underwriting, our capital structures, and our value creation plans.

We really do our homework and that's a differentiator for us. Many of us including Karen and me have backgrounds at places such as McKinsey, BCG and Bain and know the value of data and research. As it relates to our investment focus, we are targeting areas where consumers are likely to continue to spend and prioritise. These are driven by secular and demographic trends, technological trends, geographic trends and socio-economic trends. While we expect that there may be some slowdown, we're confident that if we pick a well-positioned company in an attractive and on-trend category and apply our unique capabilities, the investment will still do well.



PREMIUM PETS

When L Catterton invested in fifth-generation family-owned pet food manufacturer Ainsworth Pet Nutrition in May 2014, the consumer growth firm already had a deep knowledge of the pet products and natural pet food space. L Catterton sold Ainsworth to JM Smucker for $1.9 billion in April 2018. Earnings increased by more than 10- fold and on an unlevered basis L Catterton realized an 8x multiple to invested capital during the four-year hold. Ainsworth organically tripled its market share during the period. For their success with Ainsworth, PEI awarded L Catterton the 2018 Operational Excellence Award for the Upper Mid-Market in the Americas. This marked the second-time that L Catterton has garnered the award, having won in 2014 for their successful exit of Restoration Hardware.

What did you see in Ainsworth?

SD: We have watched the dynamics and tracked consumer trends within the pet food category over multiple decades – again, we do our homework. With Ainsworth, one of the opportunities we saw was to bring super premium pet-store quality products to food, drug and mass retailers and grow that in partnership with these retailers. In short, "pet store quality, supermarket easy".

What was your focus once the company was purchased?

SD: We wanted to build the Nutrish brand in the food, drug, and mass market area. That focus led us, in partnership with management, to refocus and align virtually all assets of the business on Nutrish, from marketing and brand building, to product innovation, distribution, and retail strategies, all the way through to operations and operational efficiency. We increased consumer advertising spending in the business almost 10-fold in a period of four years. We worked with the company to write the first TV ad, which was award-winning. By the time we exited the business, we had invested more than $50 million in television advertising and social and digital advertising in support of the Nutrish brand.

Do you see other opportunities in the pet food space?

SD: Absolutely. The pet food business is exceptionally large, and consumer drivers remain strong. We have other investments in the pet space, both domestically and internationally, including Lily's Kitchen, Just Food For Dogs, Canidae, and others. All these investments capitalise on our knowledge of these trends but in slightly different ways. We are also targeting a number of new investments in the space. ■

Five things we learned at the Operating Partners Forum

It was standing room only for much of the first day of PEI's Operating Partners Forum: Europe 2019, where several key themes emerged.

By James Linacre | 22 May 2019

Private Equity International's Operating Partners Forum: Europe 2019 occurred in May, with a focus on portfolio operational assessment and value creation. Men and women from the operational coalface discussed how to deliver value-creation strategies, create top-line growth and drive EBITDA improvement.

1. LPs want to see operating partners on the team, says operating partner

"LPs love to see the sharing of best practice across portfolio companies and the operating partners can be drivers of that," said Conor Boden, head of portfolio board development at Advent International. LPs are increasingly focused on the operating partner's role, but their inclusion comes at a cost that has to be justified. Christian Unger, partner at Partners Group, said he or she needs to be able to create EBITDA or otherwise generate momentum beyond what would be there.

2. Year-one growth matters

"Grow early, exit well," implored Jim Corey, managing partner at Blue Ridge Partners. He noted that the correlation between year-one growth and good exits has been clearly demonstrated. If a manager waits three or four years before starting to pull levers for value creation, that is three or four years wasted and it is going to be tough to fundamentally reform the business. Gregg Meheriuk, senior vice-president at 24 Hour Fitness, agreed that it is impossible to start planning too early.

3. Pricing is overlooked

A greater focus on pricing would be broadly welcomed. Mark Billige, managing partner at Simon-Kucher & Partners, shared his firm surveyed operating partners on value-creation strategies and found pricing is frequently overlooked.

He said: "Private equity operating partners told us that they are all interested in volume growth and taking cost out. Of the three, the largely under-focused one is pricing. When we asked where the most ROI is, interestingly there is much bigger bang for your buck on pricing."

4. Everything that can be automated will be automated

Automation is gaining traction and the future of the workplace is one where humans and bots work side by side, predicted Anubhav Saxena, executive vice-president at Automation Anywhere. "We have clients who will talk about Melissa or talk about Susie, and these are not human employees like you and me, but bots, that do HR work. With these HR bots you do not miss payroll or miss bonuses; everything is paid on time, they are available 24/7 and you get a chance to say what you want to them," said Saxena.

There were a million digital workers deployed in 2018 but Saxena noted we are on course for 3 million or more digital assistants and colleagues in 2020.

5. The CIO role has evolved into a business role

"As a company is developing, the CIO should be at the table with the other business leaders, understanding the business and where it is headed, so that they can think about what the underlying technologies are that are required for the company to move forward," said Georgette Kiser, operating executive at The Carlyle Group.

Kiser noted that when it comes to digital transformation, "process trumps technology all day long". That means it is vital to understand the end-to-end processes and what makes that individual company make its money: what drives it, what customers are looking for and what employees want. ■

The human dimension of value creation

'Enhancing talent' is named the number one lever for growth by a survey of CEOs unveiled at Wednesday's Operating Partners Forum in New York

By Graeme Kerr | 18 October 2018

New York Forum: more than 200 delegates attended

One of the world's leading gatherings of operating partners opened in New York in October 2018 with calls to put talent management at the heart of the value creation process.

A survey of CEOs unveiled at PEI's Operating Partners Forum New York 2018 found that "enhancing talent" was the number one driver of value creation, a theme that resonated with speakers at the forum.

"You really can't create value unless you have a good operation," said Andy Studdert, the former chief executive officer of private equity-owned NES Rentals, one of the US's largest leasers of construction equipment, such as cranes and forklifts.

Asked the biggest single action he took to create growth at NES Rentals, he said: "This is going to sound really off the wall, but we focused on employee well-being and safety. We were a 41-unit roll-up of small companies. They said they all missed the owner-operator model so we were able to recreate that in a company of 4,000 people."

Studdert is a former chief operating officer at United Airlines, who was in charge of the crisis centre in Chicago on September 11, 2001 when two United Airlines planes were flown into the World Trade Center in New York.

The CEO survey, carried out by Blue Ridge Partners, found that more than a third of CEOs – 35 percent – are planning major changes in their organisation in 2018 or 2019, with bolstering their talent base named the single most important reform, following by reforms to sales structures.

The forum, now in its eighth year, has a record 435 delegates, including more than 200 operating partners. Topics on the agenda included the synergy between operating and deal partners and how the operational role has evolved to what one panel described as "Operating Partner 3.0".

Transformations and turnarounds were another matter for debate with "operational reluctance to change" and "inadequate change management" named by delegates as the biggest single roadblock to successful transformation, followed by "overall lack of leadership or a capable change champion".

Digital innovation also featured strongly with Georgette Kiser, the chief information officer of the Carlyle Group, among the speakers.

But time and again the discussions returned to how human capital is a key lever of value creation. Tim Figueroa, partner at JM Search, which specialises in providing executives for mid-market portfolio companies, led a panel on talent management on Wednesday afternoon. "Talent determines the outcome of deals. That is one of the key takeaways from the Operating Partner Forum. Those with successful outcomes typically have great management teams," he said.

Figueroa says that the number one search his firm does is for portfolio company CFOs – the most important criteria being someone who has previously been a finance executive at a private equity company.

Operating partners at the event agreed that nurturing talent, having the right team and winning over the workforce lies at the heart of value creation: "Everything starts with human capital," said one delegate who is the director of portfolio operations at a US private equity firm. "We work a lot with tech firms and it's absolutely crucial to ensure buy-in from the team when you acquire the firm. ■

Value creation in 5 charts

Transforming a portfolio company requires overcoming some significant roadblocks, operating partners say.

By Graeme Kerr | 19 October 2018

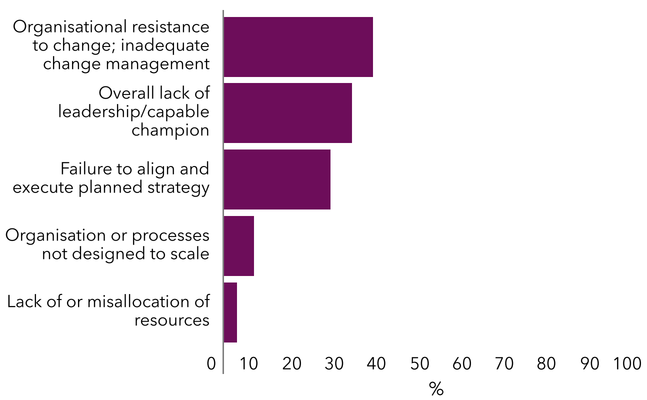
No one said that creating lasting value was easy – especially in a struggling company.

October 2018's Operating Partners Forum in New York discussed all aspects of value creation, from what it takes to transform a troubled business to how to harness technology to boost the bottom line.

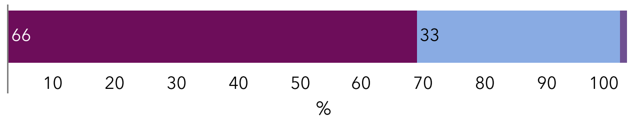
More than 200 operating partners attended the event, and as these polls of delegates show, successful transformations have to overcome some significant roadblocks.

THE VALUE CREATION JOURNEY

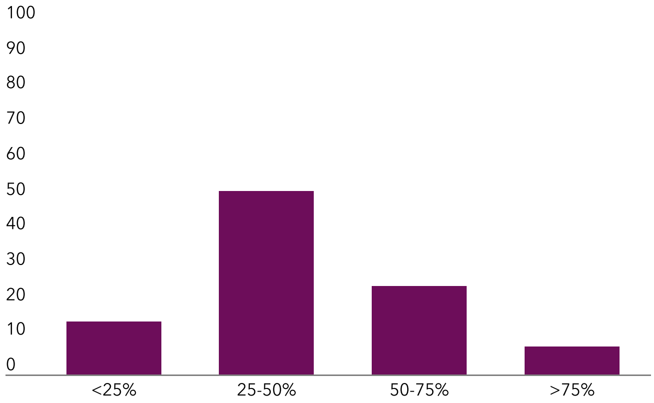
Based on your experience, what is the biggest roadblock to successful transformation?



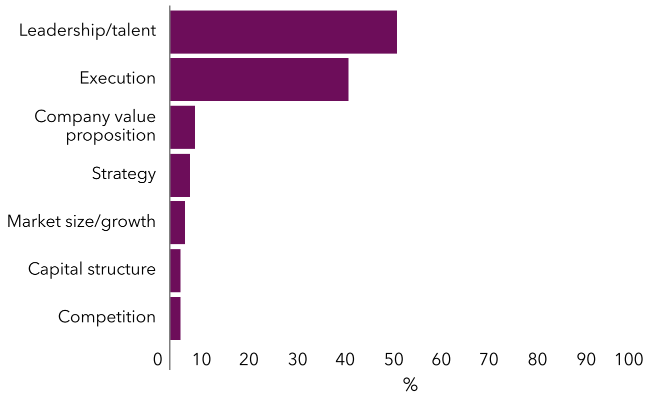
How many turnarounds are actually successful?



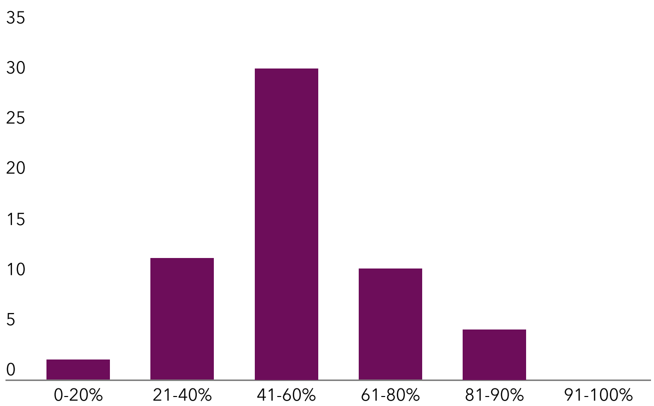
In your experience, when pursuing integration through M&A, what percentage of transactions fail to achieve desired synergies due to cultural misalignment?



What is the most common root cause of portfolio company underperformance?



After trouble/turnaround what percentage of your management turns over?



Source: PEI Operating Partners Forum

In search of a Plan B

The market currently shares many of the characteristics seen in the lead-up to the 2007-08 crisis. But is private equity better prepared for a future downturn this time around, ask Vicky Meek and Graeme Kerr.

1 October 2018

Few would argue that we are, right now, in a hot M&A and private equity market. Fuelled by liquidity in the private equity world (dry powder stood at over $1 trillion at Preqin's last count) the ready availability of debt and a corporate appetite for acquisitions, worldwide M&A increased by 5 percent by number in Q1 2018 over the same period in 2017, with numbers forecast to increase by 8 percent in the second half of the year, according to Intralinks Deal Flow Predictor.

This is having an inevitable effect on M&A valuations – in 2017, average M&A EBITDA multiples hit their highest recorded levels, at 10x in North America and 7x in Europe, PitchBook figures suggest. And what's striking is that, in a reversal of historic norms, private equity is often paying more for deals than strategics. In the UK, for example, private equity deals were struck at an average 13.5x EBITDA in Q2 2018, considerably higher than the 11.6x for the overall private company universe and higher even than FTSE All-Share valuations of 12.9x, according to BDO's PCPI.

Future shock

With the re-emergence of all-equity underwritten deals in some instances (with a plan to raise debt following the deal), plus a hefty dose of cov-lite (86 percent of new institutional loans issued in Europe in H1 2018 were cov-lite, up from just over 8 percent in 2007, according to LCD, S&P Global Market Intelligence), it's not surprising that many private equity houses and their advisors are considering the future with some degree of trepidation, given the pain many suffered in the aftermath of the global financial crisis.

"There is a mismatch between the quality of assets and the price currently," says Ewa Bielecka Rigby, head of value enhancement at LDC. "In a year or two, we will see the next wave of restructuring. The money you can borrow on the market is extremely cheap and that can hide a lot of problems."

Indeed, there is a growing feeling the music will have to stop – it's just a question of when. "Capital structures are as rich as they could be for debt," says Amanda Good, partner at HgCapital. "We're not yet seeing any signs of contraction in the financial world and that is driving incredibly high valuations – there's still a lot of flex in capital structures. But these will inevitably change at some point. We're at all-time high levels of debt and that's not sustainable."

Lessons learned

Yet while there is a sense of inevitability about a future turning of the cycle, there is also a degree of confidence that private equity could weather a turning of the economic cycle reasonably well.

"Today's capital structures are very similar to what we saw in 2008," says Jim Corey, managing partner at Blue Ridge Partners. "Yet the financial crisis is still very much in peoples' minds. There are bubbles rising in various parts of the market, but one of the key lessons from last time around is the importance of moving quickly. Private equity is better prepared to react promptly to a change in conditions – firms know they need to take costs out of the business and make deep cuts."

Many point to structural changes in the make-up of today's firms versus 10 years ago. "Private equity has done a lot of work around operational improvement in the years since the crisis – they have hired people in-house to drive operational change," says Mike Mills, partner, KPMG. "That means there is a lot of focus even at pre-deal stage today about how operational change can drive value, 100-day plans have evolved into value creation plans and firms now look at a three-year horizon."

This greater pre-deal preparation is also behind the increased use of advisors to test downside scenarios. "We are involved more and more in recession-proof due diligence," says Mills. "Firms are looking at cashflow and how they can squeeze out additional working capital. They are much more focused on these areas than 10 years ago."

What if?

This external work complements and helps inform internal conversations around the effect of a recession on a company well before deals are completed. "There is no deal team or investment committee discussion that doesn't include an analysis of what a downside or recession case would look like," says Fredrik Henzler, partner at Partners Group. "We take the development of the industry and its competitors as a proxy for examining what effect a V-shaped or U-shaped recession would have or what a drop in EBITDA or cashflow would do."

Firms are also creating plans for different scenarios – in fact, as Good says, this was one of the main lessons her firm learned from the crisis. "From an operational perspective, you can't always expect that Plan A will happen," she says. "This is especially so when looking at organic revenue growth. You have to question whether the budgets will be there the following year. Will companies spend more with you next year if their budgets get cut? You have to devise a case for if there might not be as much money to spend on your products or services. You have to have a Plan B that might be very different from your original investment case."

They are also looking at which sectors or niches are likely to weather any future downturn better than others. "You can't create a company that's recession-proof," adds Good. "You have to look at industries that are more recession-resilient. For us, that's areas such as technology that provides critical workflow services businesses – you can't turn off the back office in patient healthcare records, for example. You have to know what kind of industries you, as a firm, are going to be more comfortable with if a downturn hits."

Cautious approach

With the right operating partners on board, private equity firms should be in a better position to manage portfolio companies in a crisis. "One of the big lessons we learned was that it's not enough to buy a company and then just let the management team run with it," says Bielecka Rigby. "That only works in one in 10 instances. We have to apply our own skills and experience to help management teams to deliver better results. Operating partners, which have become a much more common feature of in-house teams, bring a lot to the table, from increased focus and monitoring and changing targets when conditions shift through to being at the top of the game all the time."

Whether these changes in the make-up and priorities among private equity firms mean the industry's portfolio weathers the next downturn better remains to be seen.

As Mills says: "I don't know whether private equity businesses will be recession-proof in the event of another crisis."

Yet it's clear what happened 10 years ago is still imprinted on many executives' minds. And perhaps one sign of a more cautious approach at a time of high valuations is that many firms we speak to not only acknowledge the fact that prices will have to reduce at some point, but are also making the assumption in many investments now that their exit multiples will be lower than those at entry. ■

The value of diversity

No longer simply a compliance item, diversity is now recognised as a value creation driver. Victoria Robson outlines the seven steps you need to take to ensure an inclusive workplace.

By Victoria Robson | 4 October 2018

The #MeToo movement that began with individual revelations of sexual harassment in the workplace has triggered a society-wide discussion of gender inequality at work. Across the world, diversity is in the spotlight. At the same time, increasing LP pressure, particularly among large US pensions eager to see the mix of their beneficiaries reflected in investment teams, is forcing GPs to address diversity and inclusion internally and at their portfolio companies.

The big European pensions are also active in talking to GPs about gender and cultural diversity at the board level and below, amid a series of studies showing that there are better returns if diversity is taken into consideration.

Among them, McKinsey's Delivering Through Diversity report demonstrates companies in the top quartile for gender diversity at the executive level are 21 percent more likely to generate above average profits than those in the bottom quartile. For ethnic and cultural diversity, top quartile businesses are 33 percent more likely to outperform on EBIT margin.

With a deeper understanding of the environment in which businesses operate, a diverse team can better identify the right investment opportunity, says Adiba Ighodaro, Actis's head of investor development group Americas. "That sets you on a path to great value creation. It's important to avoid groupthink around risk and to have people bring different ideas to the table; to be not only in the market but of the market. Diversity provides a licence to operate in the community."

In a fast moving, highly priced transaction space requiring GPs to execute aggressive value creation plans, employing a diverse workforce also contributes to increased understanding of the customer/client base; more creative thinking and innovation; enhanced employee engagement and reduced churn; and a healthier ability to anticipate market shifts and future customer needs, among other value drivers.

> *Gender inequality and diversity will be among the topics discussed at the forthcoming Women in Private Equity Forum, happening between 28-29 November at the Waldorf Hilton, London.*

"Diversity is critical; you need people to look at problems in a different way," says Andros Payne, managing partner at consultants Humatica.

Clients and customers also expect it. Diversity and inclusion typically fall under the broadening umbrella of environmental, social and governance commitments businesses are expected to make. They are linked to "the transparency and trust discussion and the credibility of a business", says Graeme Ardus, head of ESG at Triton Partners, which has set a target to appoint at least one female board member at each portfolio company.

Here are seven steps GPs can take to ensure increasingly diverse and inclusive workplaces at the portfolio company level:

1. ASSESS DIVERSITY PRE-DEAL

It is never too early to consider diversity. To get a sense of a company's profile at due diligence, managers can ask questions addressing diversity and inclusion procedures, any anti-discrimination policies, whether diversity is discussed at the board level, whether a business has any initiatives such as diversity champions, and if it is a UK business whether it has met its gender pay gap reporting obligations, says Caroline Löfgren, head of responsible investment at Hg. And even if those questions are not asked directly, "consideration of diversity is implicit in the value creation plan", says Ralf Schremper, partner at Oakley Capital. "It comes into the assessment of the management structure and key talent."

2. START AT THE TOP

As the McKinsey study shows, reaping the financial fruits of diversity begins with the executive team. Leadership clones "can make a company single-focused", says Désirée van Boxtel, partner at Karmijn Kapitaal, a female-led GP that invests in Dutch SMEs with a balance of male and female leadership. Enhanced performance results from combining management styles, for example, long and short-term outlooks, risk-taking and risk management, and a results-driven versus client-orientated approach, she says.

And while management spearheads diversity initiatives, the board has a role in ensuring it remains on the agenda irrespective of whether it is a live issue. Here GPs can wield significant influence. "It has to start at the top," says Christian Sinding, head of equity at EQT. "We undertake a clear mapping of the board, which we populate ourselves. Gender diversity is most important. Boards and managers haven't appointed enough females."

3. ESTABLISH DIVERSITY AS A CORE VALUE

Establishing a robust set of business values, which includes diversity and inclusion, is essential to leverage the benefits of different working patterns and approaches. Marshalling the talents of an eclectic group of employees "is a huge leadership challenge", says Payne. "The most diverse organisations have the most consistent values," he notes.

And once established, businesses need to ensure they retain those foundational values that have underpinned growth. "As a business scales and grows and recruits more people it becomes more difficult to stay true to the values that often drove the client base," says Cindy Casciani, managing director at non-executive director search company Equity Chair. "It should be a yearly conversation."

Other ways to assess ongoing commitment to diversity include conducting exit interviews on departing employees and assessing how hard individuals are to replace, she says.

4. RECRUIT CREATIVELY

To tap into the range of talent in the market place, GP clients are requesting a more diverse list of candidates, says Casciani. "They want to see us be creative."

Using a variety of recruiters, hosting recruitment forums, establishing female networks, using anonymous assessment software and hiring heads of talent all serve as routes to identify leaders from alternative backgrounds. Setting targets provides a clear goal against which to measure progress, says Ardus. "If you don't set targets, you won't move forward."

Businesses require "robust competencies to execute the value creation plan", says Payne. "Closing competency gaps is almost always linked to diversity and getting people that are not a clone of the current team." To do so, businesses need to "look for areas where there is a monoculture; a blind spot".

Uniformity can be a barrier to recruitment. "In the war for talent candidates have a choice, and choose to work for businesses that take inclusion seriously. This is important at the firm and portfolio company level," adds Ighodaro.

5. BUILD A CULTURE OF INCLUSION

For businesses to benefit from a diverse workforce "an important prerequisite is an open and collaborative culture", says Schremper. This requires encouraging employees to speak up and a leadership secure enough to be challenged.

"The level of participation and transparency over how a business arrives at conclusions and takes decisions is important," he says. "If management is not driving that behaviour it's hard to enforce. If the same [type of] people have the decision-making power, the business culture won't change."

Instead of flourishing, "a team that is very diverse may also die fighting", says van Boxtel. In addition to establishing a core set of values, mentoring and coaching helps a business take advantage of differences in employee style, personality and approach, she adds.

Training, for instance on the benefit of quotas, is key "so that the firm and senior colleagues on the board of portfolio companies are aware of the context and importance of initiatives and are receptive", says Ardus. The need for awareness extends to the workforce as a whole, where employee engagement surveys are useful for assessing the broader business culture, including diversity, he adds.

As an example of how a GP can apply internal best practice to its portfolio, Actis's leadership has participated in unconscious bias workshops that the firm intends to roll out at its portfolio companies tailored to their particular markets, says Ighodaro. "There is no point in having diversity if you don't get the most out of it," she says.

6. LOOK TO THE FUTURE

Working towards greater workplace diversity today enhances the future talent pool. "As we exit or individuals leave, we are building a network of people who we could hire again," notes Ardus.

And while the profile and attitude of senior management is critical to trickling down a diversity culture, businesses also need to consider a variety of entry-level candidates. Embedding diversity from the bottom up is key to succession planning. "Entry-level people are going to be the business leaders of tomorrow," says Casciani. "You want to make sure there is a succession [cohort] coming up, otherwise it's going to be impossible to find leaders that are diverse."

7. LEAD BY EXAMPLE

Many GPs have teams comprised of a variety of international backgrounds and industry experience. However, women are scarce. They occupy only 5 percent of senior roles in European private equity, according to Invest Europe. "The challenge for many PE houses has been the historically low level of women involved in private equity, which to some extent has made them a bit cautious about preaching the benefit of diversity to portfolio companies if they feel their own houses are not in order," says Alison Hampton, founder of responsible investment advisor Alma Verde Advisors.

Talent attraction and recruitment strategies are key in redressing gender imbalance, says Löfgren. Encouraging greater diversity ranges from including more images of diverse teams on the firm's website and using inclusive language in job descriptions, to asking senior women to participate in candidate interviews, she says.

By offering ongoing support, devising family-friendly policies and sharing best practice with their portfolio companies, managers can lead by example. ■