



Framing operational risk as a value creator for private equity

Thought leadership: Private equity

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Thought leadership

Private equity



Stagnating safety culture and operational alignment in a business landscape that continues to evolve is what currently keeps business leaders awake at night. As more companies emerge from two years of economic and supply chain disruption following the pandemic to face an unstable European political landscape, the ability to identify and manage their most critical operational risks is now a priority.

For private equity firms, defining and identifying operational risk in companies within their portfolio helps plug risk gaps to reduce potential losses and keep investment strategies on track. However, developing a framework that manages critical operational risks post-acquisition through to exit not only reduces the potential for loss but can create value for private equity firms.



1

Address and manage uncertainty

Operational risks do not remain static; they evolve, and new risks emerge. Whether it's improving operational efficiency, safety issues related to the growth in home working or business expansion plans, the immediate post-acquisition risk picture may look very different two or three years down the line. In any uncertain landscape, the ability to build business growth forecasts and make top-line assumptions is increasingly difficult. Private equity firms need to take a forward-looking view of critical operational risks and have a system in place that can identify and manage new risks as they arise. Focusing on how resilient a company is in adapting to business uncertainty can act as an additional benchmark. For example, does the company have a history of riding economic storms or global crises? Incorporating uncertainty into the implementation strategy by looking at a range of non-financial criteria can help paint a clearer picture of how to add value.

2

Don't overlook soft skills critical to value creation

Private equity firms often create value through spotting synergies or digitalisation improvements. But it's also true that poor management practices leave a lot of value on the table. Whether in the boardroom or on the shop floor, 15-20% of additional value can be achieved by effectively addressing, for example, leadership deficiencies, poor engagement of organisational processes, inadequate safety behaviours or timing of critical decisions. It's an approach that also helps improve the overall organisational culture needed to harness better management practices that support business growth forecasts and expectations. A further added value benefit of improving management practices and company culture is the ability to attract additional talent into the company required to achieve growth targets.

3

Provide support and guidance through the change process

Post-acquisition, there is usually a lot of pressure on management teams to continue daily operations while operational alignment actions to meet the private equity mandate are introduced and implemented. Generally, top management can perform necessary technical changes to operations with little support. But sometimes operational risks can arise during the change management process where leaders may have little experience. Supporting leaders through mentoring or introducing specific leadership training during the change process period can help maintain and add value. This is particularly important when operational risk has been identified in safety processes or plugging environment, societal and governance (ESG) gaps where specialist training may be required.

Four lessons learned

In an era when economic uncertainty and an evolving business landscape is becoming the norm, addressing operational risk management through the lens of improved operational efficiency, safety excellence, encouraging resilience and supporting leadership throughout the investment life cycle can help create additional value for private equity firms.

Lesson #1:

Loss versus value

Operational risk does not have to be one-dimensional. Private equity firms can boost the benefits of effective operational risk management by broadening its scope to include a framework that also extracts value and includes loss prevention.

Lesson #2:

Manage the investment life cycle

There is a focus on front-loading operational risk scenarios at the due diligence stage. Yet risks can evolve, and new threats appear post-acquisition through to exit. Private equity firms should adopt a forward-looking approach that monitors critical operational risks throughout the investment life cycle.

Lesson #3:

Broaden inputs

Growth is not just a numbers game. Harnessing better management practices can help to improve business growth forecasts. Private equity firms can add up to 20% of additional value by including non-financial inputs such as leadership skills, decision-making and company culture into their operational risk management strategy.

Lesson #4:

Support the transition

Providing additional support and training during the change management process can improve critical operational risk outcomes such as operational efficiency, safety excellence and leadership transition to add additional value.



Join the movement

Operational risk management and improving operational efficiency has become a key focus for all companies. dss+ supports private equity firms in developing and implementing operational risk management strategies. We invite you to join the movement on preparing your teams for future operational challenges together.

Business leaders



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About dss⁺

dss⁺ is a leading provider of operations management consulting services with a purpose of saving lives and creating a sustainable future. dss⁺ enables companies to build organisational and human capabilities, manage risk, improve operations, achieve sustainability goals and operate more responsibly.

By leveraging its DuPont heritage, deep industry and management expertise and diverse team, dss⁺ consultants are on the ground and in the boardroom helping clients work safer, smarter and with purpose.

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