



Thought Leadership

Three ESG trends set to impact private equity

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As interest in sustainability grows, environmental, social and governance (ESG) factors are high on the list of investment criteria for family offices, asset managers and pension funds. Increasingly, high ESG, health and safety standards are no longer optional for companies; they are essential as consumers show a greater preference for sustainable products and employee talent seeks out sustainable companies. Regulators are also pushing the agenda with the European Green Deal and Disclosure of EU taxonomy alignment in December 2021 set to redirect capital flow towards environmentally sustainable activities.

While larger listed companies have the tools, time and budget to help them move to a more sustainable business footing, many private companies may not have the ESG maturity of their larger peers. At the same time, private equity firms are increasingly being asked to qualify the ESG standards of their investment portfolios. So with ESG requirements on the rise, what are the trends set to impact private equity going forward?

Widening the due diligence lens

Eight out of ten due diligence reports do not cover process and people safety issues and their impact on operational excellence exhaustively. With information not always readily available or lacking in detail, private equity firms should pay particular attention to integrating ESG factors alongside safety and operational excellence into their due diligence procedures. By widening the lens, private equity can gain a better picture of risks on the horizon to support early bid considerations and risk mitigation management. As a result, the input of ESG data and service providers will become integral to the private equity due diligence process.

Customised value creation

Managing value creation alongside ESG factors will increasingly be based on best-in-class operational standards that are customised to establish and quantify the company's full ESG potential. Developing a clear benefits plan will help to accelerate and maximise value creation in a way that reassures investors that covenants and KPIs on ESG have been fully understood and integrated into the investment life-cycle. Expertise that understands and addresses private equity's full investment life-cycle will be crucial.

Strengthening value protection

To gain a competitive advantage, private equity firms will need to focus on protecting value through more stringent and continuous assessment of performance and operational risk factors that consider ESG, health, and safety. This is particularly important when preparing an exit strategy. Sell-side support that promotes the asset's ESG potential will become an essential consideration for private equity firms.

4 thoughts to consider in your ESG-related investment strategy

In a changing world where environmental and sustainability factors are increasingly important investment metrics, private equity firms need to assess the trends that now require them to adopt a more holistic approach and develop a clear vision on ESG evaluation. Focusing on safety and operational risk can help private equity firms develop a forward-thinking approach to sustainability.



LESSON #1:

Governance and processes that integrate all ESG elements needed to drive sustainable performance are often lacking in private companies, leading to less resilient health and safety management processes.



LESSON #2:

Standards and tools that drive sustainable operational risk reduction are often not integrated across the value chain or understood by employees. Poor technical foundations lead to a lack of understanding of the impact of ESG on risk management.



LESSON #3:

With the growing complexity of ESG, skills and capabilities are often stretched. New leadership skills necessary to create a working environment that drives sustainable value forward is often missing. Ensuring there is an effective L&D programme will keep skills and capabilities aligned with ESG priorities.



LESSON #4:

Achieving sustainable business objectives requires the right mindset, and the right discipline. To turn ESG into a competitive advantage, create value and improve business efficiencies - with a clear impact on EBITDA, you need to translate ESG ambitions into Operational Transformation.

As we go forward, private equity firms must take on board the above lessons and make the necessary operational and strategic changes to strengthen their occupational safety and health systems to build resilience into new ESG requirements.

Join the movement

Sustainability is imperative and has become a key focus for all organisations. DSS has supported small and large companies worldwide on strategies to strengthen, develop and implement sustainable strategies to keep businesses operational in a safe manner.

Using this experience, we have developed an ESG-enabled value creation roadmap for private equity firms that generates tangible value for portfolio companies throughout the investment life-cycle.

As ESG priorities take centre stage, we invite you to join the movement on preparing your teams for future sustainability challenges together.

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DuPont Sustainable Solutions (DSS)

is an international operations consulting firm that enables organisations to protect their employees and assets, realise operational efficiencies, innovate more rapidly and build workforce capability. By leveraging its DuPont heritage, deep industry, business process expertise and a diverse team of expert consultants, DSS helps clients turn operations management into a competitive advantage.

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