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Fenruary 2, 2021 • buyoutsinsider.com

Private equity carries a big stick and should speak loudly

Communications are key for firms in 2021.

By Chuck Dohrenwend, managing director and head of operations, Abernathy MacGregor

Private equity firms clearly have a big stick in terms of their importance to and influence over the U.S. economy, but historically the vast majority have spoken softly. In today's environment, this needs to change.

Private equity firms are incredibly important to the U.S. economy and the financial security of Americans. They help manage the retirement and life savings of tens of millions of people in the United States. Their portfolio companies account for approximately 5 percent of total U.S. GDP , provide approximately 8.8 million of the nation's jobs and are active in such vital industries as healthcare, defense, technology and education.

The asset class also is a highly effective mobilizer of capital to empower important initiatives that drive our nation forward and provide jobs and other opportunities to Americans.

But doing is only half the equation for private equity, as the industry's public profile continues to grow. It's also important that private equity firms communicate to stakeholders about what they're doing to help our economy and country continue to advance amidst ongoing pandemic-related challenges. Private equity firms themselves expect this level of communication from the companies in which they have invested. They should be held to the same standard when it comes to their own communications.

Strategic communications programs help sponsor firms exert more control over their reputations and provide a public accounting of their actions and principles. This, in turn, creates a favorable public perception, which assists in the execution of their investment and value creation strategies. It also helps private equity firms achieve growth within their portfolios above and beyond the general market's growth.

In the absence of proactive strategic communications, private equity is a large and easy target for critics looking to advance their own agendas, particularly among politicians who continue to zero in on the industry. Private equity firms can do more to make the bullseyes on their chests smaller and harder to hit. They have to stop relying on "word of mouth" marketing and a small number of the more communicative firms among them to do most if not all of their talking.

Now is the time for a greater share of the private equity industry to develop and sustain open lines of communication with those stakeholders, including elected officials, employees and policymakers, who have an impact on their investments and portfolio companies. Firms also should complement their direct efforts with communications through influential channels such as the traditional media and digital platforms like YouTube, LinkedIn and Medium.

Forward-thinking organizations already are implementing more robust communications programs about their cultures, values and guiding principles, in addition to their investment strategies and past successes. These firms include not just the publicly traded and household names but also private partnerships; they all understand that an information vacuum engenders mistrust and mistrust threatens to impede their ability to raise money, execute transactions, generate attractive returns and attract talent.

Private equity firms should utilize strategic communications to address the following questions:

- What, aside from hard numbers, drives your investment decisions and value creation actions?
- What do you do to foster a respectful, diverse, rewarding and productive environment within your firm and at your portfolio companies?
- How do you incorporate ESG principles into the management of your firm, execution of your investment strategy and action plan to build value at your portfolio companies?
- How do you factor in the interests of stakeholders such as employees, customers and suppliers in your day-to-day activities and those of your portfolio companies?
- How are you and your portfolio companies leveraging data and digital analytics to distinguish yourselves in terms of recruiting, talent development, deal sourcing, investment performance and financial reporting?

In the absence of answers to these important questions, constituents will assume the worst, and critics will seize the opportunity to shape a negative public perception of a sponsor, particularly in an economic downturn.

A private equity firm's decisions won't always be met with approval by all of its constituents, and sometimes a firm's actions (e.g., layoffs and facility closings) will not always align with the interests of all of its stakeholders. But, at a minimum, forthright communication will help explain why the actions were taken, engender greater understanding and, if done right, mitigate any negativity that might result.

Strategic communications can no longer be an afterthought for private equity. Instead, communications can and should be an important driver of a firm's success and a critical tool in its ability to assist and move forward our economy and country.

Chuck Dohrenwend co-leads Abernathy MacGregor's private equity practice, which provides strategic communications support to private equity firms and their portfolio companies primarily during consequential events such as investments, fundraising, add-on acquisitions, crises and exits.