

Empowering management

Establishing a close relationship with management teams and empowering them to drive change in their business plays a key part in Rutland's value-creation approach.

As the private equity industry has matured, the value-adding strategy adopted by many investors has become more systemic – be it based on in-depth expertise in a particular sector, a strict focus on fast-growing businesses, or reliance on leverage to drive returns. This can have a significant impact on the management team, with the risk that they will increasingly become the agent of someone else's plan and for which they are then accountable.

This approach is not viable for the companies Rutland chooses to back, and the way they seek to help them reach their true potential. Rutland's ethos is to establish a close relationship with the management team from the first day of engagement, and actively support or involve them in driving change throughout the business over the course of the investment.

Perfect fit

Rutland sees their role as management support, so they always aim to select good management teams to start with.



Oliver Jones, partner

Management can understandably be apprehensive about a change of ownership and what it might mean for the business and even their own career. Establishing a two-way relationship based on transparency and trust is key: "We demonstrate to them that we are an open book. We have worked hard to earn our reputation as honest and trustworthy, and we want them to be equally honest about the challenges they face, so that we can begin to address these together," says Jones.

Another crucial characteristic is a willingness to implement change. The plan that will work for the business is not always clear on day one, so Rutland will look for managers that are

able to embrace change throughout the course of the investment, and more importantly promote that culture within the rest of the business. "They need to be realistic about what is achievable and over what timeframe. If they have a half-formed plan, that is great of course – but what we really value is them being ambitious and open-minded," says Jones.

Power to the people

Once Rutland commits to an investment, the team's first port of call will be to actively encourage managers to be positive and take ownership of the future trajectory of the company. "These businesses are often on the back foot, have been limited in their capacity to develop or have a variety of differing strategies open to them" says Will Southgate (below).

"Management may have been under pressure and decision-making may have become increasingly short-term out of necessity. There can be a lack of optimism and part of our job is to reinvigorate these businesses to look at themselves afresh and see the opportunities ahead."

Rutland's experience is that management teams may not be confident in articulating what the fix is, while being



Will Southgate, investment manager

very aware of what has gone wrong historically. Engaging with management involves building that bridge between them and us and establishing an ongoing partnership when it comes to strategic decisions. Southgate explains: "We can bring fresh ideas, money, momentum and energy. What management will



bring to the table is knowledge of the sector, experience of getting the business to where it is, and perhaps some vision of where things need to go.

Our mission is to be able to find that solution and then support it with full commitment."

But our support also involves challenges and discussion to make sure the transformation is as ambitious and carefully thought out as possible. Sometimes this can mean challenging managers to critically assess their initial ideas and push them out of their comfort zone. This approach can only be constructive when managers know their investor understands the fundamentals of the business and respects the challenges of the market in which it operates.

Keep your friends close

In Rutland's experience, managers' negative experience or preconception of private equity owners involve investors that will be very engaged in setting the initial strategy and monitoring the progress of their investment, only to become increasingly disconnected from the day-to-day realities of running the business.

Rutland addresses that challenge in two ways. The first is to remain actively involved, right alongside management, throughout the life of the investment. "Engagement is at the heart of our model, so an understanding what managers are doing day to day is key," says Southgate. "You will always find us close to the business and being as responsive to its needs as possible. We won't take day-to-day decisions but will come back to the board table much more informed about what the business needs."

The other key aspect of the relationship is continuity. Some houses have partners that will be heavily involved in the deal process and the initial contact with management but will pass the torch to a separate team post-investment to execute the plan and follow progress. In contrast, Rutland will stay involved in a deal throughout, maintaining regular contact with

management until exit, thus ensuring that the trust and proximity-based relationship never wavers.

Rutland has found that these close relationships, and treating managers as equals throughout the life of the investment, pays dividends well beyond the successful implementation of a growth strategy. Rutland's Pizza Hut UK investment is a case in point – CEO Jens Hofma says that the strong connection fostered over six years encouraged him to seek out the best terms possible for Rutland when management bought the business in 2018: "If you have PE owners that treat you well, you naturally want to return the favour," says Hofma. These partnerships will also extend beyond the initial investment. Rutland routinely calls upon managers of former portfolio companies for insight when evaluating investment opportunities, and to take a seat on the board when their particular expertise is suited to the needs of a new portfolio company.



The Rutland team is very close to the business and clear on what they expect. They listen to management on what needs to be done to deliver against those expectations and they provide support where appropriate, which empowers us to achieve these goals.

Mark Andrews, CEO of Armitage