



The pandemic has emphasized the roles of business leadership, corporate social responsibility, and effective stakeholder management as never before. ESG is central to our investment beliefs at HarbourVest because we believe it is central to doing good business. The events of the past year presented numerous opportunities for great leadership and learning, and we decided to engage directly with GPs on these topics to draw out best practices.



To signal our belief in the role of business leadership, we signed the [Investor Statement on Coronavirus Response](#) in June. The statement acknowledges that to protect our society and the companies that we invest in from the worst potential outcome of the pandemic means protecting workers, and urges companies to consider these steps in particular:

- Provide paid leave
- Prioritize health and safety
- Maintain employment
- Maintain supplier/customer relationships
- Financial prudence

We sent the statement to our key manager exposures across all strategies and conducted 31 dedicated calls in July 2020 with GPs to ask about the social impacts of COVID-19 in their portfolio as well as any implications for their ESG programs going forward.

We used the following questions as a framework for dialogue »



OBSERVATIONS

We found these dialogues to have a common thread: Effective ESG crisis management is about addressing short-term issues with a view to the long term. Once the immediate priority of liquidity was dealt with, GPs agreed that the main priorities swiftly became the health and safety of employees, clear communications, and job retention to either maintain business activity or prepare for its resumption. Our case study on portfolio company Rodenstock [below](#) provides a good example of this.

Our two main takeaways from these dialogues were that:

1. In our view, GPs with established ESG programs were better prepared to respond to the social impacts of the pandemic
2. Private equity is a unique form of finance in a crisis, and has been a means of invaluable support to portfolio companies

Looking ahead, the pandemic will have lasting, transformative effects on many business sectors. The GPs that we spoke to in July 2020 were already deep in board-level discussions about the operating future of their businesses, and we expect that the heightened expectations on societal responsibility will be an important factor for businesses in rebuilding for long-term resiliency.



IMPORTANCE OF ESG PROGRAMS

GPs with established ESG programs were better prepared to respond to social impact issues

- Social and governance issues as business-critical: employee safety and well-being, stakeholder management, cybersecurity, financial prudence
- Structures in place for monitoring impacts
- Confidential reporting in place to capture mismanagement of protocols
- Company response and reputation as paramount



CRUCIAL ROLE OF PRIVATE EQUITY

Beyond a source of liquidity, private equity can provide hands-on support in a crisis

- Share expert guidance and best practices across the portfolio via centralized resources, dedicated channels and forums
- Build networks to connect portfolio company executives grappling with the same issues
- Increase frequency of Board meetings, with employee health and safety as top priority
- Build structures for talent mobility and retention within the portfolio

PORTFOLIO COMPANY CASE STUDY: RODENSTOCK



- Germany's leading manufacturer of ophthalmic lenses and frames.
- HarbourVest acquired exposure through a complex secondary transaction, partnering with Compass Partners on the acquisition of a portfolio of companies from Bridgepoint.
- HarbourVest spoke with the COO and HR Lead at Rodenstock in July 2020, asking them to look back on the past few months of the pandemic which were divided into two phases: from February to mid-March 2020, when the company's priority was securing supply chain from Asia, and from mid-March 2020, when Europe went into lockdown, order entry dropped by 85-90%, and production was halted.
- HarbourVest, together with Compass, injected capital to help support the business; Compass and the senior management team at Rodenstock then implemented and executed on a very successful recovery strategy.

[Read more about Rodenstock's COVID-19 Strategy »](#)

[Note »](#)

[STEWARDSHIP INITIATIVE »](#)



We used the following questions as a framework for dialogue:

- Have you taken any special measures to identify and address key operational and ESG impacts on the portfolio?
- Are you tracking data on job retention and losses? What oversight do you have on fair practices and the risks of discriminatory impact and litigation costs?
- Are you evaluating the diversity breakdown of layoff figures? How can we safeguard against certain communities being disproportionately affected?
- Can you ensure that companies have emergency paid sick leave for all employees – even when not required by their contract?
- Have you engaged with unions or similar stakeholders in responding to employment-related issues during this crisis? Any reflections there?
- Are there systems in place that allow portfolio company employees to anonymously and confidentially report COVID-related ethical, policy, or health and safety breaches to the Board and/or firm?
- How are portfolio company boards providing oversight and response to emerging ESG risks, particularly social risks that have been exacerbated as a result of the crisis?

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For COO Dr. Michael Kleer, the first half of 2020 had a unifying effect on the company.

Rodenstock proved it was not only reliable in a crisis but could also ramp up its capabilities more quickly than its competitors, satisfying clients and improving their market share.

Dr. Kleer's main takeaway: "If you treat people right and keep them onboard, that is just as important as managing cashflow."

While private equity can be an invaluable partner in weathering a storm, businesses must be able to bounce back quickly. This case study details the processes Rodenstock put in place to ensure they could recall their fully trained staff immediately to meet the re-surge in demand when it came.

Senior company leaders communicated with factory managers daily to forecast for site re-openings. Because its order entry buffer is so small, with only a five-day lag between order and delivery, it was a delicate balance between opening the factories too soon and having to shut back down again or opening too late and lagging on orders. In all, the company had two to three months coverage with safety stock.

Pre-lockdown, Rodenstock had the following safety procedures in place to address transmission risk:

- A COVID-19 Coordinator was identified as being responsible for global safety procedures and adherence to regulation. Their telephone number was made available to the whole company, with the promise of confidentiality if needed.
- All global sites (factories and offices) were provided with washable masks, temperature equipment, and disinfectant. Social distancing rules, increased cleaning, and temperature checks were installed, and mask-wearing and testing were mandatory.
- Shift patterns were strictly observed to support contact tracing and to limit the risk of factory closure. A few cases of COVID-19 were experienced; the employees and those in contact were sent home and paid throughout quarantine; testing was also paid for by the company.

This meant that when Rodenstock resumed part-time production in June/July, the company had well established procedures in place. As a global company, however, with operations in 13 countries, the return to work had varied and complex factors to consider:

- **Headquarters:** The firm's headquarters in Germany had agreed-upon measures with the Workers Council (elected representatives of the employees), who met with Rodenstock's HR Lead (specialised in labor law) and the COVID Coordinator every two to three weeks. Workers could contact the Workers Council directly and confidentially with any concerns and could also apply to the Employment Agency. Rodenstock's primary goal was to avoid layoffs during this period, using the German short-time work policy of Kurzarbeit to maintain 100% salaried staff. When HarbourVest spoke to Rodenstock in July 2020, all of its nearly 1,200 headquarters-based staff were still onboard, and the company's contribution to salaries had gradually increased to 60-70% levels in correspondence with the return to part-time production.
- **Factory operations:** When more than 1,000 employees at Rodenstock's Bangkok facility were sent home without any government support, the company paid 75% of salaries for six weeks. When HarbourVest spoke to Rodenstock in July 2020, the Bangkok site had been open for two and a half weeks – their COO stressed the importance of giving employees a week's notice to return as most had travelled away from Bangkok to be with their families. All employees returned to work, and the COO was pleasantly surprised by the goodwill that had been created during this period. As a relatively new factory site, they had experienced initial problems with recruitment and operations. Since re-opening, the COO reported that operations had been performing significantly better.
- **Supply chains:** Another challenge was maintaining supply chains, particularly in phase 1 of the pandemic when some areas in China were completely closed. Rodenstock maintained all supplier relationships, with a commitment to continuous support and the ability to reach gentlemen's agreements on deferred payments. The company's strong relationships with suppliers in China, Japan, and Korea also enabled them to purchase face masks directly and affordably during the early stages of the pandemic.

Despite the severe impact from COVID-19, Rodenstock experienced a V-shaped recovery as lockdowns eased across Europe and is now trading very well. In hindsight, the support provided by HarbourVest and Compass Partners, as well as the company's commitment to its workers, allowed it to lean into its recovery.

For COO Dr. Michael Kleer, the first half of 2020 had a unifying effect on the company. Rodenstock proved it was not only reliable in a crisis but could also ramp up its capabilities more quickly than its competitors, satisfying clients and improving their market share. Dr. Kleer's main takeaway: "If you treat people right and keep them onboard, that is just as important as managing cashflow."

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