A stakeholder-centric approach to private equity investment

Board perspectives

Sunny Vanderbeck, a managing partner and cofounder of Dallas-based Satori Capital, is trying to prove that a stakeholder-centric approach to private equity investing can generate returns at or above market expectations.

Unlike impact investing, which backs businesses with specific social or environmental agendas, and is often believed to generate below-market returns, Vanderbeck's firm focuses on how portfolio companies operate. This includes everything from how a company treats its employees, customers, and other stakeholders to how the board and executives stay focused on the long term.

Satori Capital takes this approach to running its own business, and believes this model can generate healthy returns by investing in like-minded companies.

Satori Capital's approach is grounded in Vanderbeck's experience as the CEO of Data Return during and after the dot-com boom, where he ushered the company through an initial public offering and additional public and private equity transactions. "Building great things takes time, and that is in conflict with 'quarterly, quarterly, quarterly,'" Vanderbeck said in a recent interview with KPMG.

"Investors tend to deprioritize the nonfinancial dimensions of the business, if they acknowledge other stakeholders at all."

Vanderbeck and Satori Capital cofounder Randy Eisenman were determined to show that a stakeholder-centric approach to investment and operations could be effectively implemented through private equity. "We realized that we needed to help evolve and involve the community of investors. And we needed to go prove it," Vanderbeck recalled.

Satori Capital, which manages in excess of $600 million, is now investing in companies looking to grow beyond a cash flow range of $5 million–$25 million. And the life of an investment is indefinite in order to compel investors to "think like owners as opposed to buyers and sellers." Vanderbeck says the end game is to own businesses that, like Satori Capital, are "focused on all stakeholders with a long-term view. Those are also the companies that others are willing to pay a premium for."

Even when investment professionals and operating partners are aligned in the mission to assess a portfolio company's nonfinancial performance, this requires judgment and the right data points. Vanderbeck says the key is to build a mosaic of nonfinancial metrics—such as safety, customer satisfaction, employee behavior—and to stay focused on the following indicators of a portfolio company's commitment to all of its stakeholders:

— **Tone at the top.** Company attitudes toward business relationships begin in the executive ranks. "One of the things you can do to quickly change the company for better or worse is to change who comes in the door," says Vanderbeck. A company's people, culture, and performance are inextricably linked.

— **A framework for discussing performance through multiple stakeholder lenses.** Identify and monitor the key indicators of the company's performance in the eyes of its stakeholders—investors, employees, customers, suppliers, and others. At the same time, stay focused on near-term financial targets and help ensure that they are aligned with the long-term strategy.

- **Board leadership.** If the company is taking a stakeholder-centric approach to doing business, then board leadership is essential. Smaller boards on which everyone contributes can help set the company's tone and culture and ensure that directives are clear.

"Running the business with a long-term view allows you to see profit as a measure of value creation rather than simply value extraction," says Vanderbeck. The results that he is seeking for his own company, and its portfolio companies, "will be proof," he says, "that there is tremendous value in focusing on the long game."

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