

Private equity and responsible investment in Namibia

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ABSTRACT

Private equity (PE) firms are facing increasing pressure from their investors to consider environmental, social and governance (ESG) factors in their investment processes. Few studies have been performed on ESG issues, which confine the understanding of ESG profiles to very few countries. For this reason there is a need to better understand whether responsible investing (RI) practices are restricted to certain countries or whether the drivers and maturation differ between PE markets. This paper investigates the extent to which PE firms incorporate ESG into their investment processes, focussing on the Namibian PE industry.

This study was a qualitative study using data collected via 17 semi-structured interviews. These interviews included ten PE firms, three limited partners, two portfolio companies, the Namibian Financial Institutions Supervisory Authority and the economic policy advisory services department within the Ministry of Finance. Computer-assisted qualitative data analysis software was used to process the data. Thematic coded analysis was performed on the data, and relationships were defined in accordance with the categorisation of themes.

The research found that while the Namibian PE industry does consider ESG factors within their investment practice, the integration of ESG factors in investment processes are somewhat limited. The Namibian PE industry is regulated, though ESG is not specifically addressed in the regulatory framework. Furthermore the drivers of and motivation for ESG differ between developed and developing markets, and limited partner education on ESG is needed to promote the integration of ESG factors in the PE industry.

KEYWORDS

ESG; Namibia; Private Equity; Responsible Investment

DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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ACRONYMS AND TERMS

AUM	Assets Under Management
CSR	Corporate Social Responsibility
DBSA	Development Bank of Southern Africa Limited
ESG	Environmental, Social and Governance
EY	Ernst and Young
GDP	Gross Domestic Product
GIPF	Government Institutions Pension Fund
GP	General Partner
HNWI	High Net Worth Individual
LP	Limited Partner
NAMFISA	Namibian Financial Institutions Supervisory Authority
PwC	PricewaterhouseCoopers
PRI	Principles for Responsible Investment
PE	Private Equity
RI	Responsible Investment
SAVCA	South African Venture Capital and Private Equity Association
SME	Small and Medium Sized Enterprise
SRI	Socially Responsible Investment
UIM	Unlisted Investment Manager
UK	United Kingdom
UNPRI	United Nations Principles for Responsible Investment
US	United States
USD	United States Dollar
VC	Venture Capital
WEF	World Economic Forum

1. CHAPTER ONE – INTRODUCTION TO THE RESEARCH PROBLEM

1.1. INTRODUCTION

This research report studies the extent to which environmental, social and governance (ESG) factors are integrated in private equity (PE) investment in Namibia. PE firms are facing increasing pressure from their investors to consider ESG factors (Gilbert, 2014; PwC, 2016) in their investment decision-making. According to Galbreath (2013), limited studies have been performed on ESG issues. Indeed, the majority of ESG studies are focussed on the United States (US) and United Kingdom (UK). Thus, the understanding of ESG profiles is limited to very few countries.

This chapter provides an introduction to the research problem. It gives a background to the research problem, defines the research scope and provides the rationale for conducting the research.

1.2. BACKGROUND ON RESEARCH PROBLEM

KKR (2014) indicated that, increasingly, investors want assurance that value is created in a responsible manner with respect to ESG standards, and thus demand a higher level of transparency. The focus of business has shifted from simply creating shareholder value to creating value for all stakeholders. This shift is driven by overarching global trends, including demographic changes, increased activism by non-governmental organisations, resource scarcity and utilisation, climate change, employee and consumer attitudes, and increased government regulation (Galbreath, 2013; KKR, 2014). PwC (2016) stated that over the next two years, the significance of responsible investment (RI), meaning ESG integration, will increase either significantly or moderately.

Ng and Rezaee (2015) asserted that business sustainability has become known as the theme of the 21st century whereby regulators, investors and firms are increasingly interested in non-financial ESG sustainable performance. Businesses across the globe are moving beyond the goal of short-term profit maximisation to long-term business sustainability involving ESG goals, due to a growing realisation that a material source

of risk for businesses is ESG factors (Chelawat & Trivedi, 2016). Chelawat and Trivedi (2016), as well as PwC (2014), stated that investors are increasingly identifying business sustainability as relevant. This interest has led to the creation of opportunities and challenges for businesses in relation to shareholders and other stakeholders, furthering the case for RI. This requires that firms focus on activities that maximises firm value in the long-run as well as ESG sustainability and addressing the concerns of all stakeholders (Ng & Rezaee, 2015).

KKR (2014) further argued that businesses are facing unprecedented challenges to achieve optimal performance. On the environmental front these challenges include limited supply of natural resources, including water, minerals and agricultural products, while on the social front they include managing complex labour issues, workers' safety protection and supply chain management. The argument is that ESG integration can be used to address these challenges.

The United Nations Principles for Responsible Investment (UNPRI) recognises that there has been momentum in RI within PE. According to Hayat and Orsagh (2015), assets under management (AUM) of the Principles for Responsible Investment (PRI) signatories have grown from less than \$6 trillion (USD) in 2006 at the start of the PRI Association, to nearly \$60 trillion as of April 2015. According to Gilbert (2014) and the PRI Association (2016a), the momentum was driven by the following:

- Limited Partners (LP) are requesting General Partners (GP) for ESG issues to be considered in their investment processes. This is due to the LPs' own sustainable investment mandates (Fugazy, 2014; Gilbert, 2014). LPs are faced with greater scrutiny themselves, which allows for the creation of greater awareness of their approaches to RI (Fugazy, 2014). PwC (2016) asserted that it is critical for GPs to satisfy the growing expectations of LPs.

Cornelli, Loannou and Zhang (2015) argued that ESG integration has been slower in the PE industry than in the public equity industry. PwC (2016) confirmed that ESG integration within the PE industry is a relatively new area and that it is finding its way, with discomfort between GPs and LPs on how to best achieve RI objectives and integrate ESG factors into investment practices. The expectations and approaches are yet to be aligned between GPs and LPs,

providing the need for further research on ESG integration within the PE industry.

- As it gains access to capital markets, the PE industry is under increasing pressure due to regulatory changes, economic downturn and public scrutiny, to display that it is a responsible corporate citizen. Hayat and Orsagh (2015) asserted that a range of laws and regulations pertaining to ESG issues are already in place and expect more to come.
- There is a renewed focus on value addition to investee companies, and ESG could be a means of achieving this. PwC (2016) stated that LPs believe there is added value in RI.

Even though PE firms have made commitments to RI by incorporating ESG issues into their investment processes, the majority have yet to ensure that these are implemented effectively (Sullivan, 2015). Bailey, Klempner and Zoffer (2016) affirm this – that many investors have struggled to convert their commitment into practise and that investors continue to treat ESG as a sideshow rather than an integral part of investing.

One of the reasons for this is that ESG issues are often missing from investment practices and RI principles are not embedded in investment mandates (Martindale, Sullivan & Fabian, 2016). Hayat and Orsagh (2015) asserted that although voluntary consideration of ESG issues is made, there is no substantive change in how investment decisions are made.

1.3. RESEARCH SCOPE

The aim of this research is to understand the extent to which PE firms incorporate ESG factors into their investments. The research focusses specifically on the Namibian PE industry.

Several concepts have been developed around the theme of RI, including ethical investing, socially responsible investment (SRI), sustainable investing, impact investing and triple bottom line investing (PwC, 2016). For this research, RI will be assessed from the perspective of integrating ESG concerns and issues into investment practices.

This is discussed in Chapter 2. Also for this purpose of this research, the PE definition will include early start-ups, venture capital (VC) and PE businesses (buyouts).

1.4. RESEARCH MOTIVATION

The rationale for the research is that most of the RI academic work has focussed primarily on public financial markets, with limited reviews of ESG-related issues in the PE sphere (Cornelli et al., 2015; Crifo & Forget, 2013). Indeed, there is limited quantitative data and insight around ESG integration in the PE industry. To date, the most of the ESG studies have been conducted in the US and the UK, and the subject remains largely un-researched from an emerging market context, which places a limitation on the understanding of ESG to only a few countries (Chelawat & Trivedi, 2016; Galbreath, 2013; Kurtz, Cooper & Shimada, 2012). This supports the need for studying ESG factors within the PE industry from a Namibian context.

Sullivan and Biliouri (2012) indicated that limited research exists about the responsibilities of investors in emerging markets concerning the practicalities of implementing RI in emerging markets or about the outcomes of RI. Junkus and Berry (2015) affirmed that PE and VC have not been adequately considered in the socially responsible research literature with limited work in emerging markets. RI in developing markets such as Namibia has not even been considered. The argument of Crifo and Forget (2013) is that further research is required to explore whether RI is limited to certain countries or whether the drivers and maturation differs between PE markets. Moreover, Sullivan and Biliouri (2012) asserted that investments in emerging markets differ from investments in developed markets and that the implications may differ for investors.

The study conducted by Suman, Sharan and Sachan (2012) on the research methodologies in PE identified certain gaps within the literature on PE, including the fact that most of the literature has focussed on the US and UK only; the socio-economic aspect of PE have been ignored by researchers; and research in the Middle East, Africa and the South American regions has been limited. This supports the need for the research conducted in this report. Sullivan (2015) further asserted there is limited knowledge on RI due to the evidence available, including whether there is an association between ESG integration and investment performance.

According to White, Zeisberger and Prah (2014), within emerging markets, ESG considerations can act to positively impact local communities to a greater degree compared to developed countries, especially from a social perspective. It is argued that GPs in emerging markets, through incorporating social factors in their investment practices, could deliver impact as a result of financial constraints and the lack of industry best practice in these markets, in relation to developed markets (White et al., 2014). However, there is a perception, per PwC (2016), that the value added by RI was rated lower in emerging markets than developed markets. This further reinforces the need for the research conducted.

There is limited research on sustainable RI in Southern Africa due to the infancy of ESG integration, as well as to the infancy of the PE and VC industries in Southern Africa (Dhlamini & Giamporcaro, 2012). Moreover, the Namibian PE industry is also still in its infancy.

The recent introduction of government regulation that effectively requires all pension funds in Namibia to allocate between 1.75% and 3.50% of their total asset portfolio to unlisted investments, being PE, favours the development of the PE industry (Ministry of Finance, 2013). Given that pension funds are the largest investors in the Namibian PE industry, it is important that ESG considerations be incorporated into their investment practices, to protect and enhance the value of pensioners' funds.

Private, non-listed companies constitute the backbone of the economy (Crifo, Forget & Teyssier, 2012). In particular, within Sub-Saharan Africa, more than 50% of Gross Domestic Product (GDP) can be attributed to the economic activity that takes place in the informal sector, where more than 80% of the population is employed (The World Economic Forum [WEF], 2014). Crifo et al. (2012) argued that sustainable practices by non-listed firms are key to PE financing. This supports the need for the study, due to the developmental state of the PE industry in Namibia as well as the infancy of ESG integration in Southern Africa (Dhlamini & Giamporcaro, 2012).

1.5. CONCLUSION

This research sets out to analyse the extent of ESG integration within the PE industry in Namibia.

Chapter 2 of this research paper discusses the literature review, unpacking the concepts of PE and RI, an assessment of the characteristics of responsible PE, and the development of a framework for ESG integration within the PE industry. Chapter 3 incorporates the research questions developed from the introduction and literature review chapters, while Chapter 4 describes the research methodology applied and how the data was collected and analysed, including any research limitations. The main findings are presented in Chapter 5, followed by a discussion thereof in Chapter 6. The research paper is concluded in Chapter 7, which also considers potential future research paths.

2. CHAPTER TWO – LITERATURE REVIEW

2.1. INTRODUCTION

The aim of this chapter is to provide an overview of the relevant literature, with a focus on ESG integration within the PE industry. The chapter begins with a background on PE, followed by an assessment and clarification of the concepts of RI and SRI, understanding the barriers of ESG integration, reviewing the characteristics of responsible PE, understanding the drivers of ESG integration within the PE industry, and discussing an ESG integration framework.

2.2. BACKGROUND ON PRIVATE EQUITY

According to Heed (2010), PE is defined as “a merger and acquisition activity supported by high amounts of debt, aimed mainly at privately held shares with the help of a specialised management” (p. 26). PE is equity capital that is not publicly traded (Klein, Chapman & Mondelli, 2013). The investments (portfolio companies) of PE firms are usually sold after a certain period of ownership (Rossi & Martelanc, 2013). PE generally covers two types of investments: VC and buyouts (Portmann & Mlambo, 2013). PE is frequently referred to as the buyouts of mature firms, while VC provides seed or start-up capital to early-stage and high-growth firms (Latini, Fontes-Filho & Chambers, 2014; Portmann & Mlambo, 2013). The early-stage and high-growth firms are generally innovation-based. For this research, when referring to PE, the term will cover buyouts of later-stage businesses, start-ups and VC.

PE effectively fulfil the role as financial intermediary between investors and investee companies – the latter being the portfolio companies (Cumming & Johan, 2007). The investors are referred to as LPs and the providers of capital, while PE firms are referred to as GPs and are responsible for managing the investment funds. In other words, the GPs manage the underlying portfolio companies (Crifo & Forget, 2013). The LPs do not take part in managing the PE firm. Their liability is limited to the amount of capital provided, while the GPs are responsible for all debt obligations (Heed, 2010).

LPs consist mainly of the following investors: pension funds, banks, insurance companies, funds of funds, high net worth individuals (HNWIs), government, and

corporate companies (Giligan & Wright, 2010; Rossi & Martelanc, 2013). Pension funds and life insurance companies are the main form of LPs in Namibia.

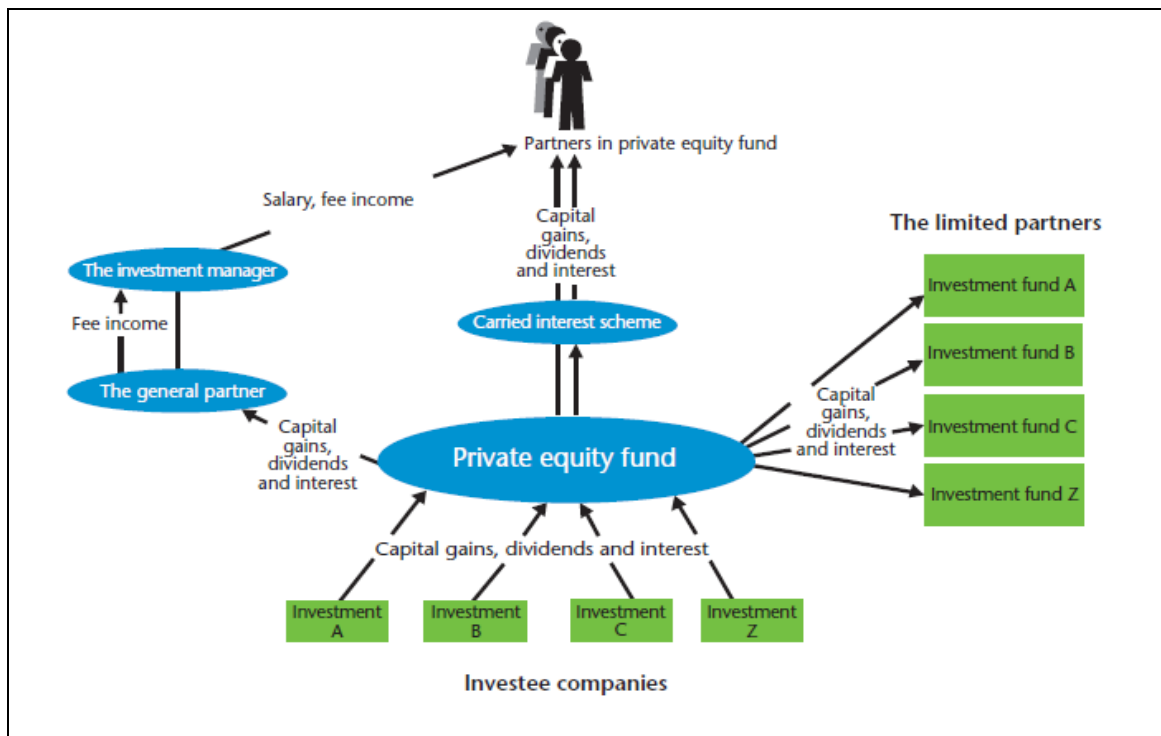
Investment strategies and goals differ between PE firms depending on the investment funds that are created. The below summarises the various funds that can be set up (Heed, 2010):

- Generalist Funds, which are set up to invest in any form of investment, including both VC and buy-out transactions;
- Specialist Funds, with a specific investment mandate such as to invest in technology, healthcare or education;
- Buy-out Funds, in which the goal is company acquisitions. In other words, funds acquiring shares in later-stage developed companies;
- Secondary Funds, which buy limited partnership interests in other funds; and
- Funds of Funds, which are funds that present the opportunity for investment in other funds.

The Generalist Fund is the most common fund within the Namibian market. This is mainly due to the size of the economy, which had a real GDP of N\$106 billion in 2015, along with the fact that the PE industry here is still in its infancy (Brown, Van Zyl & Conradie, 2016).

Figure 1 provides an overview of a typical PE fund, identifying the relevant parties involved as discussed above. In the Namibian market context, the PE fund is referred to as the special purpose vehicle and the investment manager as the Unlisted Investment Manager (UIM), effectively the PE firm.

Figure 1: Structure of a Typical Private Equity Fund (Giligan & Wright, 2010)



2.3. SOCIAL INVESTMENT

PwC (2016) asserted that RI is somewhat of a catch-all idea that has absorbed several concepts, including ethical investing, SRI, sustainable investing, impact investing and triple bottom line investing. For this research, not all these concepts are analysed. This section of the paper reviews the concepts of RI and SRI and concludes by defining what RI means for this research.

The main difference between RI and SRI is that RI focusses on the sustainability of an investment, while SRI considers the social context of an investment. Harji, Reynolds, Best and Jeyaloganathan (2014) stated that RI, when performing an analysis of portfolio companies, integrates ESG risks as a component of risk management, while SRI aligns a portfolio of investments to specific values through the screening of ESG risks, both negatively and positively.

Negative screening refers to excluding investments based on defined ethical criteria, while positive screening refers to investments selected based on their environmental or social benefits (Giamporcaro & Dhlamini, 2015; Sullivan & Fiestas, 2012). In other words, investments are only made in companies that meet specific criteria (von Wallis

& Klein, 2015). Under both types of investments, shareholder engagement influences portfolio companies' behaviour.

von Wallis and Klein (2015) stated an additional screening: the best-in-class approach, whereby investments are considered into companies, based on the company's industry. This means selecting the company which acts most socially responsible within the industry. It can be argued that in developing a framework of ESG integration within the PE industry, it becomes critical to understand the screening of ESG risks, be it negative, positive or best-in-class approach screening.

The most common definition of SRI is that of Eurosif (2008): "ethical investments, responsible investments, sustainable investments, and any other investment process that combines investors' financial objectives with their concerns about ESG issues" (p. 6). This definition is broad and highlights the fact that RI and SRI overlap in certain instances.

Before diving further into the specific discussion on RI and SRI, it is best to place corporate social responsibility (CSR) into perspective. Feng, Wang and Huang (2015) define CSR as a "concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (p. 248). von Wallis and Klein (2015) asserted that CSR is a means to ascertain whether a firm acts in an ethical and responsible way. This implies that CSR is an overarching theme, with RI and SRI viewed as mechanisms that can be utilised to achieve responsible behaviour.

2.3.1. SOCIAL RESPONSIBLE INVESTMENT

SRI is an investment approach that incorporates social, environmental and ethical considerations into investment decisions (Sandberg, 2011). This set of criteria is applied by socially responsible investors to selectively include or exclude assets based on environmental, social, corporate governance or ethical considerations. Investor engagement is used to foster CSR strategies in portfolio companies through engaging with local communities and in shareholder activism (Crifo & Forget, 2013; Renneboog, Ter Horst & Zhang, 2008).

With the corporate scandals that have happened, transparency, governance and sustainability have become important for SRI investors. Furthermore, with the regulation evolving concerning the social, environmental and ethical information disclosure by pension funds and listed corporates, the growth in SRI has increased (Renneboog et al., 2008).

Berry and Junkus (2013) argued that although there has been growing importance of SRI, there is surprisingly no unanimity on what the definition of SRI means to an investor. This can be seen from the definitions provided above on SRI. The research conducted by Berry and Junkus (2013) showcased that from an investor perspective that the prime category corresponding with SRI is governed by the environmental and sustainability issues.

2.3.2. RESPONSIBLE INVESTMENT

Biermans, Kemeling and van Lanschot (2014) discussed the concept of RI as “an approach to investing which explicitly acknowledges the relevance of ESG factors in investment decision-making, as well as the long-term health and stability of the financial market as a whole. Furthermore, it recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well-governed social, environmental and economic systems” (p. 8). The key aspect of RI is sustainability and how the ESG factors can contribute to the sustainability of companies.

Sullivan (2015) argued that RI can be differentiated in two ways:

- Firstly, that the goal of RI is to not only focus on short-term returns but to focus on the creation of sustainable, long-term investment returns; and
- Secondly, that investors are required to focus on the broader contextual factors such as the solidity and well-being of the economic and environmental systems as well as the evolvement of communities' values.

PwC (2016) also defined RI as the way ESG factors alongside traditional financial metrics are acknowledged and integrated into investment decision-making, protecting and enhancing returns over the long-run.

Table 1 showcases examples of what these ESG factors can be.

Table 1: Examples of ESG Factors (Biermans, Kemeling & van Lanschot, 2014)

EXAMPLES OF ESG FACTORS		
ENVIRONMENTAL	SOCIAL	GOVERNANCE
Air and water pollution	Customer satisfaction	Accounting standards
Biodiversity	Data protection and privacy	Anti-competitive behaviour
Climate change *	Diversity and equal opportunities	Audit committee structure
Deforestation	Employee attraction and retention	Board composition
Ecosystems services	Employee engagement	Bribery and corruption
Energy efficiency	Government and community relations	Business ethics
Hazardous materials	Human capital management **	Compliance ****
Land degradation	Human rights	Executive remuneration
Resource depletion	Indigenous rights	Lobbying
Waste management	Labour standards ***	Political contributions
Water scarcity	Labour-management relations	Risk management
	Marketing communications	Separation of chairman and CEO
	Product mis-selling	Stakeholder dialogue
	Product safety and liability	Succession planning
	Supply chain management	Whistleblower schemes

The growth in ESG considerations to be incorporated by investors has mainly been driven by the significant changes in populations, utilisation of resources, climate change and employee and customer views, together with the global financial crisis, all of which have pushed firms to address their responsibilities to all stakeholders (Galbreath, 2013).

Based on the above discussion there are key similarities between RI and SRI. While both concepts incorporate the environmental and social aspects, the key difference is that SRI covers ethical considerations while RI includes the concept of governance. While these two terms, ethics and governance, are different in their meanings, governance includes an element of ethics. Moreover, RI focuses on sustainability, which refers to a long-term view to be taken.

For this research, after considering the above-mentioned discussion the concept of RI has been defined as investment decision-making that specifically considers ESG factors in addition to profit, with the view of creating sustainable investments (Sievänen, Sumelius, Islam & Sell, 2013).

2.4. ESG DISCLOSURE

To understand ESG integration with reference to Table 1, it is important to comprehend the disclosure requirements in relation to the ESG factors from an investor and company perspective. In achieving the proper disclosure on ESG issues – by the firms in which investors invest as well as investors' own reporting on their activities – and advancing the implementation of RI principles, are part of understanding the ESG disclosure. These principles usually consider investors requesting standardised reporting on ESG issues by companies and for the incorporation of ESG issues within the annual financial reports (Sievänen et al., 2013). Furthermore, such reports should include reporting on progress or achievements with regards to ESG integration.

Sullivan (2015) argued, however, that there is a lack of transparency with regards to RI practises, processes, performance and outcome, creating a gap by limiting investors' accountability to their stakeholders. This creates the need for greater ESG disclosure.

This section of the paper elaborates more on the disclosure with regards to each ESG factor.

➤ Environmental Disclosure

According to Ganda and Ngwakwe (2013), environmental disclosure entails reporting on information concerning environmental conservation, resource utilisation and the natural environment. The requirement to disclose environmental issues comes from government regulation that seeks to ensure companies are transparent on the impact of their activities on the environment. Hanson (2013) argued that environmental disclosure is a matter of concern for lawmakers and regulators alike. Ganda and Ngwakwe (2013), as well as Hanson (2013), further asserted that evidence showcased the influence that companies' stakeholders have on environmental disclosure, requesting the need for it.

➤ Social Disclosure

Ganda and Ngwakwe (2013) discussed social disclosure as a company's challenge to address its legitimacy by building positive perceptions about the company and its operations. Social disclosure is further thought of as a barometer of how a company

performs as a corporate citizen as perceived by the respective stakeholders (Hanson, 2013). Social disclosure is important as it assists companies in being socially accountable to the communities in which they operate, by compensating communities for the impact of their business operations, including accounting for social costs and benefits to improve society. The critical matters considered under social disclosure include workplace diversity, human rights, community engagement, consumer protection, and animal welfare (Ganda & Ngwakwe, 2013).

➤ Governance Disclosure

Governance disclosure outlines how corporate governance matters are managed and disclosed by companies, critically assessing the quality of a company's structure so as to attain sustainability (Ganda & Ngwakwe, 2013). According Ganda and Ngwakwe (2013) corporate governance can be described as the rules and activities by which a company's board of directors guarantees accountability and transparency in its association with all the stakeholders of the company. Some of the key aspects of governance include the size and composition of the board, sub-committees of the board, stakeholder engagement, and executive remuneration (Ganda & Ngwakwe, 2013).

To assess the existence or non-existence of ESG disclosure it is important to understand the extent of ESG disclosure by PE firms to their investors, from a Namibian context. This topic is discussed in Chapter 5.

2.5. BARRIERS TO ESG INTEGRATION

From a PE firm's perspective, there are many reasons why firms do not effectively implement RI principles. The key hurdles for the adoption and implementation of ESG policies are discussed below, and are based on the work of Martindale et al. (2016).

Firstly, there is a perception that ESG issues do not add value to investment decision-making. This is supported by PwC (2016), which asserted that the value added by RI was rated lower in emerging markets than developed markets. These perceptions, however, continue to exist even though research demonstrated that ESG integration limits investment risks and can create investment value. Hayat and Orsagh (2015) asserted that empirical evidence does not support the notion that ESG considerations

necessarily adversely affected performance. This is substantiated by (Bos, 2014; Kurtz et al., 2012), who stated that there is a misperception that RI will reduce the investable universe and negatively impact investment performance. It is therefore argued that PE firms require a better understanding of the drivers and the intent and reason behind ESG integration.

Secondly, the implementation of ESG integration assumes that significant additional resources are required for it to be implemented. This is particularly the case when RI is viewed as independent to the organisation's core purpose. Cornelli et al. (2015) cited that there is difficulty in collecting ESG data. PwC (2016) further asserted that there is an additional cost in the collection of ESG data. The argument is that for smaller PE firms this would be a major concern.

Hayat and Orsagh (2015), as well as PwC (2014), believe that mandatory corporate disclosures provide limited information on ESG-related issues, with a high level of dissatisfaction from investors with regards to the sustainability-related information provided by companies. Dossani (2012) argued that discovering good investments is costly due to the relative scarcity of information on unlisted firms. This is further complicated by the timing aspect, specifically when the ESG-related disclosures are released in relation to the release of regular annual financial statements (Hayat & Orsagh, 2015).

Lastly, PE firms do not have the range of sustainability and RI-related capacities and skills to integrate ESG issues into investment practices. Internal ESG intentions and expertise of the PE investors and portfolio companies remains a challenge (Cornelli et al., 2015; Hayat & Orsagh, 2015). This is substantiated by Dhlamini and Giamporcaro (2012), who indicated that skills are limited in terms of measuring and quantifying ESG information. Dhlamini and Giamporcaro (2012) further stated that a lack of standardised ESG data and standardised reporting requirements is a challenge for GPs.

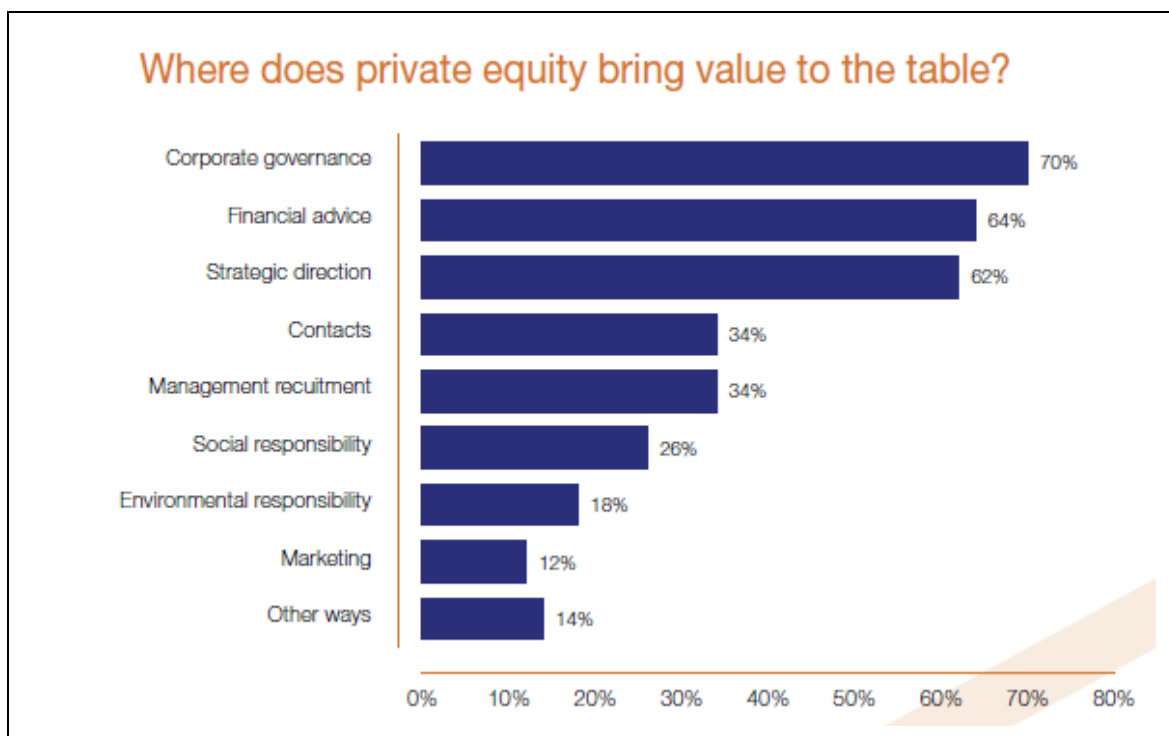
It is important to understand whether similar barriers exist in Namibia, and/or whether there are any additional barriers in the Namibian market. This topic is discussed in Chapter 5.

2.6. CHARACTERISTICS OF RESPONSIBLE PRIVATE EQUITY

For this research, RI was assessed from the perspective of integrating ESG concerns into investment practices by PE firms. Crifo and Forget (2013), as well as Crifo, Forget and Teysier (2015), argued that PE firms' investment decisions are impacted by ESG factors together with the quality of disclosed corporate practises.

The following characteristics of PE have been identified by Crifo and Forget (2013): “information asymmetry reduction, agency costs cuts, governance engineering and operational engineering” (p. 24). Before discussing the key characteristics of PE it is, however, important to understand what value PE firms bring to a portfolio company. The following figure encapsulates that value and is aligned to the characteristics of PE discussed below. It can be argued that the value-add by PE firms can also be aligned to the concept of RI as some of the value-add items reflected in the below figure relate to the ESG Pillars showcased in Table 1.

Figure 2: Private Equity Value-Add (DBSA & SAVCA, 2013)



The key themes around the characteristics highlighted above are discussed below from a responsible PE perspective (Crifo & Forget, 2013).

- The incorporation of ESG issues into the business practices of portfolio companies by PE firms

PE reduces information asymmetry by means of monitoring portfolio companies. Crifo and Forget (2013) argued that ESG integration can be used to achieve a reduction in information asymmetry and to improve businesses due to the level of influence that PE firms have on portfolio companies. PE further reduces agency costs, as investors' and management's interests are aligned (Klein et al., 2013). The reduction in agency cost will lead to investors considering CSR in their portfolio companies, driving the need for ESG integration (Crifo & Forget, 2013).

KKR (2014) debated that LPs are best served when the interests of PE firm employees are aligned with those of investors. One means of driving this alignment is through a performance system at a PE firm level, ensuring ESG integration. PE firms usually align the portfolio company goals with the remuneration package of the portfolio company executive to achieve alignment with investors (Rossi & Martelanc, 2013).

- Governance aspects within ESG factors more favoured by PE firms

One of the characteristics of PE firms is governance engineering, referring to the way boards of portfolio companies are controlled by PE firms and how PE firms are actively involved in governance compared to the boards of public companies, giving rise to stronger and more effective boards (Kaplan & Strömberg, 2009; Klein et al., 2013). This means managing governance issues is key to PE firms (Crifo et al., 2015).

The establishment of governance processes, for instance, may include reviewing board composition, separating the position of chairman and chief executive officer (CEO), and establishing committees, including an audit committee and remuneration committee. These processes are usually initiated by PE firms, including changing the composition of the various committees (Dossani, 2012). Latini et al. (2014) substantiated that PE firms are obliged to play an active role on a larger number of issues, including executive recruiting, compensation, evaluation of mergers and acquisitions, management systems, tax assessments, and financial audits.

Crifo et al. (2015) noted that the governance factor has a strong bearing at the investment stage, both on firm valuation and the investment decision. Value creation in PE has been credited due to corporate governance mechanisms, particularly as levers to reduce agency costs and improve operating performance (White, Prahla & Ziesberger, 2016).

➤ Responsible PE relies on investor engagement

Operating engineering is one of the attributes of PE firms, meaning that PE firms have the necessary operational and industry expertise to add value to portfolio companies through influencing the management, strategy and operating performance of companies (Dossani, 2012; Kaplan & Strömberg, 2009; Klein et al., 2013). This value-creation process generates the necessity for engagement with investors (Crifo & Forget, 2013). KKR (2014) showed that the collaboration and discussion of ESG best practices with LPs is key to executing ESG integration.

Cheng, Loannou and Serafeim (2014) contended that superior CSR behaviour is connected to good stakeholder engagement (ensuring stakeholder dialogue with respective stakeholders). Ng and Rezaee (2015) substantiated that considering the interests of all stakeholders is critical for the sustainability of businesses. According to them, business sustainability considers stakeholders “as those who have property/legal claims (shareholders) with direct interest (stake) and bear risks associated with business activities and other stakeholders who may have contractual agreements/legal claims/moral obligations (e.g. creditors, employees, suppliers, society and the environment)” (Ng & Rezaee, 2015, p. 129). This indicated that RI is a means of achieving good stakeholder engagement, thereby contributing to the sustainability of businesses.

Sandberg (2011) motivated that legal reform should be imposed on LPs to encourage RI practices. This is in line with the UNPRI stating LPs are requesting GPs for ESG issues to be considered in their investment processes. This will result in greater investor interaction between LPs and PE firms to ensure that the respective RI practices are achieved, guaranteeing these are in line with LPs’ investment mandates.

Cornelli et al. (2015) claimed that value creation in portfolio companies is achieved through ESG policies as a strategy, especially in large PE firms where investor push is

more acute. The view is that future pressures may come from government and regulators, requiring engagement with all stakeholders.

- Large PE firms are more likely to implement ESG integration issues in terms of workforce

A scarcity of strategic CSR proficiency exists – in other words, ESG integration proficiency. PE firms which have access to large human resources are more likely to obtain the required CSR competency. This is an ESG management concern, as well as the skills and time involved in developing this human capital. Crifo and Forget (2013) argued that specialised skills and expertise are required for ESG integration.

Per Zarutskie (2010), better investment performance is achieved by PE firms that employ task-specific and industry-specific human capital compared to general human capital. The term specific human capital refers to human capital distinctively required for a particular setting or time, in other words human capital relating to a particular firm, industry or task, while general human capital refers to skills that can be applied across most firms (Zarutskie, 2010). This validates the argument of Crifo and Forget (2013) that specialised skills and expertise are required for ESG integration. An additional challenge for small PE firms is the affordability to employ staff to manage ESG integration (Gilbert, 2014).

Understanding the characteristics of PE is important for assessing how ESG factors can be incorporated by these firms.

2.7. DRIVERS OF RESPONSIBLE PRIVATE EQUITY

Before discussing the framework for ESG integration it is important to understand the drivers and motivation for responsible PE. Crifo and Forget (2013) identified the following drivers of ESG integration at a PE firm level: value creation, risk management, entering a new market, differentiation, and complying with LPs' demands. This is supported by several others, including Blanc, Cozic, Hobeika and Gerain (2011), Dhlamini and Giamporcaro (2012), Hayat and Orsagh (2015) and PwC (2016), all of whom stated that risk management is the most important driver for PE firms to integrate ESG, followed by meeting the requirements of investors. Bos (2014) substantiated that integrating ESG factors within the investment process reduces

reputational risk as the reputational risk of investments selected will be lower compared to investments perceived to have a negative impact on society and the environment. Risk management is key to the survival and sustainability of businesses.

ESG integration can act as a tool for managing risk by PE firms. Lyudvlg, Naidoo-Ngcse, Tarrant, van der Merwe and Wroblewska (2016) argued that ESG is more than risk management; that it is a means of building better companies and thereby ensuring the sustainability of companies as it affects all aspects of a company, from board structure to labour-related issues. The African Venture Capital Association and EY (2013) argued that ESG practises not only improve company performance but also give future buyers of portfolio companies confidence that certain key risks are mitigated therein.

PE firms that integrate ESG are more likely to attract funding and differentiate themselves from their competitors (Crifo & Forget, 2013; Ng & Rezaee, 2015). Cheng et al. (2014) argued that lower capital constraints are encountered by firms with better CSR behaviour. Cheng et al., (2014), Ghoul, Guedhami, Kwok and Mishra (2011), and Girerd-Potin, Jimenez-Garces and Louvet (2014) confirmed that improving ESG integration reduces the firm's cost of equity, which indicates that PE firms can attract cheaper funding when integrating ESG. ESG performance influences an investor's evaluation of uncertainty and risks about a business's future cash flows (Ng & Rezaee, 2015).

Incorporating ESG practises may also affect the exit proceeds of PE firms, particularly with multi-national buyers. The probability is high that these buyers will pay a premium for businesses they consider to be well run (African Venture Capital Association & EY, 2013). Fugazy (2014) confirmed that there is growing affirmation that corporates with high-quality ESG management tend to be valued higher.

It is important to understand the drivers of responsible PE, especially from a different market dynamic – Namibia being a developing country – as well as acknowledge the fact that the drivers for responsible PE may differ.

2.8. DEVELOPMENT OF ESG INTEGRATION FRAMEWORK

The ability of PE firms to manage ESG investment considerations in portfolio companies has received increased attention (White et al., 2014). Although ESG factors are not a new concept, the development and application of a broad framework to manage ESG consideration is, with the PE industry still in search of best practices. One of the challenges in developing a framework is due to there being no policy documents defining RI in actual practice, as practical definitions appear to derive from investors and asset managers (Sievänen et al., 2013). In managing ESG considerations, the following three emerging frameworks are used (White et al., 2014):

- Firstly, management of risk – ESG risk factors mainly reviewed during the pre-investment process;
- Secondly, programme-driven – managing ESG considerations through targeted initiatives such as employing an experienced ESG specialist; and
- Thirdly, an integrated approach – ESG activity across all relevant GP activities covering investment, portfolio operations, investor relations, and legal.

Lyudvlg et al. (2016) substantiated that ESG issues can simply not be aggregated into top metrics or indicators of companies but need to be incorporated in the detail of the company operations. This is supported by Ng and Rezaee (2015), who stated that ESG has two attributes: ESG performance and ESG disclosure.

The following discussion outlines the factors that have been identified in developing an effective ESG framework (White et al., 2014). It is vital to state that ESG considerations are different from GP to GP with regards to investment decision-making, as some GPs may focus more on the environmental aspect while others may focus more on the social and governance aspects. PwC (2016) argued that in emerging markets there is greater focus on governance than on environmental or social issues.

From a research perspective, it is important to understand these key common aspects necessary in developing a framework. Some of the key principles of RI by UNPRI have been incorporated in discussing the framework as the principles are intended to

develop and promote best practice in RI by facilitating the integration of ESG considerations into investment practices (PRI Association, 2016b):

➤ Committed Leadership

The commitment and endorsement of the leadership and investment teams to ESG management is critical for ESG integration (Lyudvlg et al., 2016; White et al., 2014). Fugazy (2014) argued that the appropriate organisation and culture is critical as it enables firms to take into consideration the full range of ESG issues in their portfolio analysis.

Scholtens and Sievänen (2013) found that cultural values impact on investors' preference to account for ESG issues. The argument of Bailey et al. (2016) is that ESG is caught in a cultural trap and that conventional wisdom has held ESG merely as a side-line, not incorporated into the investment practices. This indicates that for ESG integration, the appropriate culture needs to be understood and encouraged by the PE firm's leadership team.

The senior leadership of PE firms should ensure the alignment of the organisation's ESG focus with its values and long-term strategy. Cumming and Johan (2007) argued that socially responsible institutional investment in PE is influenced by the organisational structure. Therefore, ensuring the appropriate organisational structure allows for increased probability of ESG integration.

It is important for ESG policies to first be communicated internally to ensure the whole organisation is aligned to the ESG integration (Blanc et al., 2011). Senior leadership should raise employees' awareness of ESG issues through various training initiatives.

The committed leadership aspect relates to the UNPRI principle of incorporating ESG issues into investment analysis and decision-making processes. Sievänen et al. (2013) discussed this as addressing ESG issues in investment policy statements and developing ESG-related tools, metrics and analyses, including advocating ESG training for investment professionals. This should be driven by the leadership teams of PE firms.

➤ Integrated Responsibility

Part of developing an ESG framework is placing the execution strategy with the PE firm during the investment due diligence process and with the management team of the investee company throughout the duration of the investment holding (White et al., 2014). Blanc et al. (2011) argued that ESG considerations reduce from when the investment is made to when the investment is sold, with environmental considerations given less emphasis. This is substantiated by PwC (2016), which stated that most of the activity on ESG is spent during the due diligence process before the investment is made.

It is recommended that ESG issues be included on the agenda of portfolio companies' board meetings or in the respective shareholder agreements. Lyudvlg et al. (2016) motivated that PE firms should demonstrate their willingness to engage deeply with their portfolio companies and to ensure that ESG is not a checklist exercise but driven by the needs of the portfolio companies proactively managing and implementing ESG integration.

Bos (2014) argued that as part of integrating ESG factors into an investee company evaluation there should be a focus on materiality – materiality in this context refers to factors that will significantly influence the long-term viability of a business. The argument of Sullivan (2015) is that there is an inadequate evaluation of the financial materiality of ESG issues, making it difficult to assess investment implications. Examples of materiality in the context of ESG would include safety standards within the mining industry, social and labour issues in the consumer sector, and governance and alignment between management and shareholders in companies (Bos, 2014).

Integrated responsibility addresses the UNPRI principles of promoting acceptance and implementation of RI principles within the investment industry, and working together to enhance the effectiveness in realising said principles (Sievänen et al., 2013). Various actions are included under these principles, including communicating ESG expectations with PE firms from the perspective of LPs, and revisiting relationships where PE firms fail to meet ESG expectations (Sievänen et al., 2013). This needs to filter through to the portfolio company management in addressing ESG integration.

Another principle of RI addressed is that of being an active owner and incorporating ESG issues into ownership policies and practices. This involves the monitoring of compliance of ESG factors both from a PE firm and portfolio company perspective (Sievänen et al., 2013). It also involves reporting on this from a board perspective and providing feedback to investors.

➤ Value Creation

The focus of ESG factors should be to act as levers for value creation to ensure the alignment of ESG management with the core function of PE. This addresses the obstacle of seeing RI as independent to the firm's core objective (Martindale et al., 2016). Blanc et al. (2011) argued that ESG considerations are mainly assessed to prevent major risks or compliance risks with regards to investor and regulatory requirements, without integrating a value creation approach. Changing the focus of ESG to value creation from managing risk helps the investment team to think differently about ESG, as opposed to being an obstacle to executing investment transactions.

➤ Portfolio Expertise and External Consultants

Although expertise and skills are seen as barriers to ESG integration it may be that existing portfolio companies have experience in relation to firm sustainability and CSR practices. PE firms can use this expertise to develop initiatives to target specific ESG investment considerations. PE firms should engage and employ external consultants to assist with the execution of ESG due diligence pre-investment, and with specific ESG activity during the investment holding period. The research by Dhlamini and Giamporcaro (2012) indicated that GPs consult experts in areas where they lack the necessary expertise to attend to ESG factors. External consultants can also assist with the development of the PE investor's ESG framework by integrating best practices (White et al., 2014).

It is important to understand that the development of the ESG framework is based largely on research conducted in the US, UK and Europe, further highlighting the need for research from a Namibian context.

2.9. CONCLUSION

The literature review has demonstrated the characteristics of RI from a PE perspective, identifying the barriers to ESG integration, the key drivers and a developmental framework for ESG integration by PE firms. However, much of the research was undertaken from a US, UK or European perspective, indicating that a better understanding of ESG integration within the PE industry in other countries is required and whether RI practices are restricted to certain countries or whether the drivers and maturation differ between PE markets (Crifo & Forget, 2013). This is substantiated by Suman et al. (2012), who argued that certain gaps within the literature on PE exist, including the fact that most of the literature has focussed on the US and UK only. The argument is that ESG integration within the PE industry, including the barriers to ESG integration and the drivers of responsible PE may differ from one from market to another. This validates the need for the study, understanding ESG integration from a different PE market perspective.

Chelawat and Trivedi (2016), further stated that ESG remains largely un-researched within emerging economies. This is supported by Dhlamini and Giamporcaro (2012), who stated there is limited research on RI in Southern Africa. Lyudvlg et al. (2016) asserted that, although a growing number of African investment funds are incorporating ESG, ESG integration remains a complex and serious undertaking, thus supporting the need for the study.

The objective of this research paper is to attempt to fill the gap in understanding ESG integration within the PE industry from the perspective of a developing country such as Namibia.

3. CHAPTER THREE – RESEARCH QUESTIONS

The aim of this research is to investigate RI within the PE industry, within the context of Namibia. The preceding chapter reviewed the literature with regards to RI and PE, with particular focus on responsible PE and developing an ESG integration framework. The focus of this chapter is to set out the key research questions being investigated in this research project. The research questions assisted in shaping the research focus and allowed that the process of collecting data was clear. The data and findings related to each question are presented in Chapter 5, while the discussion of the findings is presented in Chapter 6.

The following questions, adapted from Crifo and Forget (2013), were investigated by means of the research project:

- Research Question 1:** How are ESG factors integrated at a private equity firm level?
- Research Question 2:** How are ESG factors incorporated at a portfolio company level?
- Research Question 3:** What is the level of engagement with investors from an ESG perspective?
- Research Question 4:** What motivates the private equity firm to account for ESG issues in their investments?
- Research Question 5:** What is needed for the development of ESG integration within the private equity industry?

Please refer to Appendix 3, the consistency matrix, which links each of the individual research questions to the relevant literature, the data collection instrument, and data analysis methods used to best answer the research questions.

4. CHAPTER FOUR – RESEARCH METHODOLOGY

4.1. INTRODUCTION

The aim of this research is to explore RI within the PE industry in Namibia. This chapter discusses the research methodology and design used by the researcher in gathering and analysing data used in the study. The justification for the research approach is provided. This chapter further outlines the sampling methodology, the measurement instrument, the data gathering process, and the analysis approach, along with the research limitations.

4.2. RESEARCH METHODOLOGY

4.2.1. RATIONALE FOR THE RESEARCH METHOD

The nature of the research topic and research questions was used as the basis for determining the methodology design for this research. To answer the research questions, an explorative design was used. A qualitative research approach was undertaken to gather and analyse the data.

Kothari (2004) defined exploratory research as “to gain familiarity with a phenomenon or to achieve new insight into it” (p. 2). Saunders and Lewis (2012) further explain exploratory research as “research that aims to seek new insights, ask new questions and assess topics in a new light” (p. 110). Cornelli et al. (2015) stated that in the context of the PE industry there has been a limitation on the systematic review of ESG-related issues, giving an indication that limited academic information exists, thus supporting the case for an exploratory research approach. In this research, ESG-related issues within the PE industry will be assessed in a new context, that of Namibia.

Edmondson and McManus (2007) defined nascent theory as “topics for which little or no previous theory exists; topics which attracted little research of formal theorising to date” (p. 1161). Per Edmondson and McManus (2007), nascent theory can only be researched through an explorative study. Dhlamini and Giamporcaro (2012) argued that literature on SRI in the Southern African PE industry is limited due to the infancy

stage of ESG integration as well as the infancy stage of the Southern African PE industry, thus supporting the choice of an explorative study.

Within Crifo and Forget (2013), the question that arises is whether RI is restricted to certain countries or whether the drivers and maturation of RI between PE markets differ. Galbreath (2013) further stated that evidence indicates that the existing studies on ESG issues are limited as most ESG studies are US and UK based, which limits the understanding of ESG profiles to only a few countries. Chelawat and Trivedi (2016) asserted that ESG remains largely un-researched within emerging economies, hence the need for this research, particularly given that existing ESG studies are limited to a small number of countries (for example the US, the UK).

White et al. (2014) argued that although ESG factors are not a new concept, the development and application of a broad framework to manage ESG considerations is. The PE industry is still in search of best practices for ESG integration. For this reason, an explorative approach to the research would be appropriate.

While the topic of ESG integration in PE has been researched in markets such as the US and UK, it has not been as extensively researched in Southern Africa, let alone Namibia.

4.2.2. RESEARCH PROCESS

A two-phased qualitative study was undertaken due to the aim of the research, which is to explore RI from a PE perspective in Namibia. A holistic approach was used by engaging with various research participants to answer the research questions posed.

The research participants included:

- UIMs, which effectively are the PE firms. UIM and PE firms have been used interchangeably in the research report;
- The regulators, namely Namibian Financial Institutions Supervisory Authority (NAMFISA) and the Ministry of Finance;

- LPs, which mainly are pension funds and life insurance companies in the Namibian context; and
- The portfolio companies, which are the investee companies.

Phase One:

This phase consisted of semi-structured interviews with the UIMs. The researcher inquired from the local regulator (NAMFISA) concerning the registered UIMs. The researcher engaged with the department looking after the UIMs from a regulatory perspective. A request was made to obtain a list of all registered UIMs. The researcher gave background as to why the list was requested. The department agreed to share the list of registered UIMs with the researcher. The key individuals considered for the interviews were the CEOs or the portfolio managers of the respective UIMs, as these individuals were best placed to answer the research questions. The aim of this research phase was to determine the level of ESG integration by UIMs in their organisation, investment processes and portfolio companies.

Phase Two:

This phase included semi-structured interviews with the local regulators, LPs and portfolio companies.

From a regulator perspective, the aim was to assess how ESG factors are integrated within the regulatory framework, or if not integrated, how regulation intends to address this. The key regulators are NAMFISA and the Ministry of Finance. At NAMFISA the Manager: Collective Investment Institution, within the unlisted investments department, was interviewed.

The assessment from an LP's perspective is guided by ESG integration in respect of their own mandates. The selection involved deciding which LP to focus on and which individual within the LP organisation was best suited to answer the research questions.

Lastly, from a portfolio company perspective, it was necessary to determine how ESG factors have been incorporated into their organisation and if any value has been created by PE firms through the integration of ESG factors. The researcher decided on the companies that were considered for the interviews. Permission was obtained from

the UIMs to engage the management of the portfolio companies, and the interviews were conducted with the CEOs.

4.3. VALIDITY AND RELIABILITY

Saunders and Lewis (2012) asserted that the validity and reliability of research findings and conclusions is critical to the research process, as any research can be affected by different kinds of factors that could render the findings invalid. Creswell (2003) affirmed that the standards of validity and reliability are important in qualitative research.

Validity is concerned with whether the findings are about what they profess to be about (Saunders & Lewis, 2012). Yin (2011) defined a valid study as “one that has properly collected and interpreted its data, so that the conclusions accurately reflect and represent the real world (or laboratory) that was studied” (p. 78). One means of achieving this is to seek other evidence which confirms the answers that were obtained from the data collection tool used (Kothari, 2004).

For this research, the validity and consistency of the research was verified through the formation of codes and themes enabling the building of a consistent framework across all interviews. The insights gathered from the data with the literature review conducted in Chapter 2 were reviewed and analysed to ensure that the validity of the research questions was maintained. This supports a deductive research approach.

Saunders and Lewis (2012) described reliability as using data collection methods and analysis that produce consistent findings, such that other researchers will produce similar results. Merriam and Tisdell (2016) affirmed that reliability “refers to the extent to which research findings can be replicated” (p. 250). Key to the reliability process was ensuring that all stages of the research process could be audited and would be repeatable by other researchers. This was incorporated into the research process to give assurance that the findings were reliable.

4.4. POPULATION AND UNIT OF ANALYSIS

4.4.1. POPULATION

The population was identified in relation to the aim of the research and the research process adopted, identifying the participants which were best able to answer the research questions.

Key to identifying the population was understanding the universe, which was narrowed to the context of Namibia, with reasons provided as part of the introduction and literature review chapters.

The universe for this research was the UIMs that met the following criteria:

- All registered UIMs with NAMFISA.
- The mandate of the UIMs was to operate and invest in portfolio companies within the Namibian market.
- The structure of the investment funds operated by the PE firm must meet the definition of one of the fund structures as discussed as part of the background on PE section, found within the literature review chapter.

However, to obtain a holistic view of ESG integration within the PE industry in Namibia, the universe was expanded to include key parties that were interconnected to UIMs in addressing ESG integration as well as parties that were interconnected to the PE industry. These parties were identified as the regulators, LPs and portfolio companies.

The population analysis is reflected in Table 2.

Table 2: Research Phase and Population

Phase	Participants	Population
Phase One	Unlisted Investment Managers (UIMs) (PE firms)	All registered UIMs with NAMFISA
Phase Two	Regulators	NAMFISA and the Ministry of Finance
Phase Two	LPs – Pension Funds and Life Insurance Companies	All registered pension funds and life insurance companies with NAMFISA
Phase Two	Portfolio Companies	Portfolio companies managed by the respective UIMs

4.4.2. UNIT OF ANALYSIS

The unit of analysis was confined to the following participants. The participants included the UIMs, the regulators (NAMFISA and the Ministry of Finance), the LPs, including pension funds and life insurance companies, and the portfolio companies, managed by the UIMs. The researcher notes that the main unit of analysis was the UIMs, as they were best able to answer the research questions.

4.5. SAMPLING METHOD AND SIZE

Table 3 provides a summary of the sampling technique undertaken, the sample size and the data collection tool.

Table 3: Research Phase and Sampling Methodology

Phase	Participants	Sampling Technique	Sample Size	Data Collection Tool
Phase One	UIMs (PE firms)	Tested 100% of the population *	Tested 100% of the population *	Semi-structured interviews (Saunders & Lewis, 2012)
Phase Two	Regulators	Purposive sampling	2	Semi-structured interviews (Saunders & Lewis, 2012)
Phase Two	LPs	Purposive sampling	3	Semi-structured interviews (Saunders & Lewis, 2012)
Phase Two	Portfolio Companies	Purposive sampling	2	Semi-structured interviews (Saunders & Lewis, 2012)

* The researcher intended to interview all UIMs registered with NAMFISA (19 in total). However, the researcher was only able to interview ten UIMs due to lack of response from the other nine UIM's.

The reason for selecting purposive sampling was due to the researcher's understanding of the PE industry in Namibia. For this reason, the researcher could choose those participants who were best suited to answer the research questions and contribute to the study.

4.6. DATA COLLECTION AND DATA ANALYSIS

4.6.1. DATA COLLECTION

Per Saunders and Lewis (2012), semi-structured interviews are useful when the researcher is uncertain of the respondents' feedback, the questions raised are complex, or where the questions raised may vary in order or where the actual questions raised may differ. The chosen area of study (ESG integration within the PE industry) required in-depth and detailed discussions, and thus the data collection was conducted by means of semi-structured interviews. The interview process was pre-tested with a knowledgeable individual within the PE industry in Namibia. The pre-test was to assess the appropriateness of the interview guides, effectively reviewing and understanding the research questions, while validating the output of the data analysis tool.

The interview guides are reflected in Appendix 2 and differ depending on the participant who was interviewed, be it a UIM, regulator, LP or portfolio company. The question guide for the UIM was guided by Crifo and Forget (2013), together with the literature review conducted. The question guides for the other three (the regulator, LP or portfolio company) were developed in relation to the literature review conducted.

Depending on the participant to be interviewed, the relevant set of questions was reviewed in preparation for the specific consultation. An interview preparation sheet was shared with the participant a day before the interview, providing them with an overview of the interview topic, thereby allowing for a more meaningful discussion.

All semi-structured interviews were conducted face-to-face, allowing for greater interaction and transparency from the participant with regards to the questions raised. A consent form was presented to each participant, and the contents thereof explained. The consent forms were signed by each participant. The interviews were conducted at the offices of the respective participants, allowing for the creation of a conducive

environment whereby the participant was comfortable to share in relation to the interview questions asked.

At the start of the research interview, permission was requested from participants for the interview to be recorded. The recordings were sent for transcribing after the interviews were conducted. Limited notes were made during the interviews.

4.6.2. DATA ANALYSIS

In analysing qualitative data, Saunders and Lewis (2012) suggested that the following steps be followed: developing of relevant groupings or codes; deciding on the unit of data that is suitable for the data scrutiny; and attaching the codes to the units of data. The codes were developed by analysing the interview transcripts to identify any patterns or themes that may be recurring. Upon completion of coding, the data was analysed to identify any similar patterns or differences. The coding process is discussed in detail later.

The data analysis approach identified above is in line with the data analysis process of Edmondson and McManus (2007), an iterative and exploratory content analysis which entails a detailed examination of data gathered – in this case semi-structured interview transcripts.

A discussion of the two preceding paragraphs was used as the basis for the data analysis process. After each interview, the recordings were stored on an external hard-drive storage device, as well as on the Cloud platform, Dropbox. The recordings were then shared with the transcriber for transcription. Once the recordings were transcribed, the transcribed document was reviewed for accuracy and completeness.

During the data analysis process, both deduction and induction approaches were used to identify patterns within the data collected. Deduction involves the testing of theoretical proposition, while induction involves theory development because of analysing data collected (Saunders & Lewis, 2012). This research is based on existing literature pertaining to ESG integration within the PE industry, and aims to assess whether existing literature applies equally within a Namibian market context. Therefore, a deductive approach was applied from the start.

It was, however, expected that the data collected would demonstrate that the existing literature would not apply fully due to the different market mechanics. This led to the development of new and alternate literature to explain findings, resulting in the use of an inductive approach.

The transcribed data were analysed using content analysis and constant comparison (Creswell, 2003). This process involved identifying key patterns or themes that were recurring from the data, referring to an iterative and exploratory exercise with regards to the transcripts (Edmondson & McManus, 2007). Themes were identified through the following processes: the preparation work, the actual interviews, and a review of the transcripts and assessment of the accuracy thereof. This process also allowed for differences to be identified. Atlas.ti, a software programme, was used to analyse the data.

4.6.2.1. CODING

The coding process was very time-consuming as each of the transcripts was read and re-read to identify matters that were central to the questions asked and the research topic in general. The frequency of certain words was also researched, along with patterns that occurred across the interviews.

To help ensure that the research questions were properly tested, overarching codes were created based on the theory described as part of the literature review conducted in Chapter 2. If certain elements were outside the predefined categories, new categories were created to ensure that data were not discarded. The search for codes varied depending on the interviews, as some information was explicitly stated in the interviews, while other information was more implicit.

Bowen (2008) defines saturation as the point where the researcher gathers data to the point of diminishing returns, whereby nothing new is being added. As more transcripts were reviewed by the researcher, so the number of new codes diminished, allowing for the saturation point to be reached as codes were repeated.

4.7. RESEARCH LIMITATIONS

It was the researcher's intention to interview all UIMs registered with NAMFISA. However, due to the non-responsiveness of some of the UIMs, only ten out of the existing 19 UIMs were interviewed.

Due to non-probability sampling being used, not every participant had an equal chance or probability of being selected (Saunders & Lewis, 2012). This was particularly the case with the LPs and portfolio companies. Purposive sampling involved judgement due to the smaller sample size. This may have resulted in researcher bias since it was based on the judgement of the researcher and may have neglected other, more appropriate, samples (Saunders & Lewis, 2012).

With the researcher's limited experience in conducting research interviews, sub-standard information may have been extracted during the first few interviews. Furthermore, due to an exploratory study conducted on the research questions, tentative answers may have been provided, which may need to be followed up with detailed research to present more reliable answers (Saunders & Lewis, 2012).

The PE industry is a competitive industry, with each PE firm protecting its strategic plans. This could be perceived as a limitation to the research based on the information that was shared during the semi-structured interviews.

5. CHAPTER FIVE – RESULTS

5.1. INTRODUCTION

The results in relation to the research questions detailed in Chapter 3 are presented in this chapter. The results are presented in the same sequence as detailed in Chapter 3.

The data was collected through semi-structured interviews that were conducted by the researcher. The interview guides used during the interviews are included in Appendix 2.

5.2. SAMPLE DESCRIPTION

The sample comprised ten UIMs (PE firms), three LPs, two portfolio companies, NAMFISA, and the economic policy advisory services (EPAS) department within the Ministry of Finance. Six of the UIMs were purely Namibian companies, with three of them having a business relationship with a South African company, either through a group shareholding structure or having a technical South African partner on board. Lastly, one of the UIMs was a subsidiary of a Botswana PE business group.

In terms of the investment mandates of the respective UIMs, seven of the ten UIMs invested in portfolio companies through taking equity stakes, while three of the UIMs provided debt funding to portfolio companies. Most of the UIMs interviewed are still in investment stage mode – in other words, still in the process of making investments into portfolio companies.

The data was collected over a two-month period. All the semi-structured interviews were conducted face-to-face.

Table 4 provides the list of participants who participated as part of the research conducted. The order in which the participants are listed below is not the sequential order in which the interviews were conducted.



Table 4: List of Participants

Phase One	Participant	Designation	Namibia/Foreign Affiliation
Participant 1	UIM	Managing Director	Namibian
Participant 2	UIM	Managing Director	Namibian
Participant 3	UIM	Managing Director	Foreign Affiliation
Participant 4	UIM	Portfolio Manager	Foreign Affiliation
Participant 5	UIM	Managing Director	Namibian
Participant 6	UIM	Managing Director	Namibian
Participant 7	UIM	Managing Director	Foreign Affiliation
Participant 8	UIM	Managing Director	Foreign Affiliation
Participant 9	UIM	Managing Director	Namibian
Participant 10	UIM	Managing Director	Namibian
Phase Two			
Participant 11	NAMFISA	Manager: Collective Investment Institution	Namibian
Participant 12	EPAS Ministry of Finance	Deputy Director	Namibian
Participant 13	LP	General Manager: Investments	Namibian
Participant 14	LP	Principal Officer	Namibian
Participant 15	LP	Chief Operating Officer	Namibian
Participant 16	Portfolio Company	Managing Director	Namibian
Participant 17	Portfolio Company	Managing Director	Namibian

The duration of each interview was between 30 and 45 minutes. The details of the interview lengths are presented in Table 5.

Table 5: Interview Details

Description	Quantity
Total Number of Interviews	17
Total Duration of Interviews	609 minutes
Average Duration of Interview	36 minutes

A sufficient number of interviews were conducted, allowing the researcher to gain a broader view in relation to the research topic. The open-ended questions provided the basis for the conversation to flow with participants, enabling a greater insight into the research questions being explored.

5.3. DATA ANALYSIS

A thematic analysis was used to aggregate coded data into categories. The overarching codes were created based on the theory discussed in Chapter 2 (Saunders & Lewis, 2012). This was to ensure that the research questions were properly tested and to simplify the categorisation process. The relevant quotes were identified in accordance with the research questions to which they related. If certain elements were outside the categories identified, new categories were created to prevent any data from being discarded.

5.4. OVERVIEW OF PRIVATE EQUITY INDUSTRY IN NAMIBIA

In starting to present the results, the researcher found that it was important to provide an overview of the PE industry in Namibia based on the data collected through the semi-structured interviews. The overview provides context in relation to the PE industry in Namibia and helps to put the research topic aim and purpose into perspective.

The first PE firm commenced business during 2004. The researcher could interview this PE firm, namely Participant Nine.

*“Participant Nine was the first private equity fund, having been established in 2004.”
[Participant Nine]*

As time passed, additional PE firms came into existence during the period 2009 to 2010. The establishment of additional PE firms was due to the largest pension fund in Namibia, the Government Institutions Pension Fund (GIPF), allocating a small portion of its assets to the unlisted investment space.

The next wave of PE firms happened when the government of the republic of Namibia introduced regulation 29, legislating that all pensions needed to invest into the unlisted

investment space. This was to support and stimulate the PE industry in Namibia. The researcher noted that in terms of the investment mandates of the PE firms, most of the investment funds are generalist funds.

5.4.1. REGULATION 29

Effectively, regulation 29 requires all pension funds to invest between 1.75% and 3.5% of their total portfolio into unlisted businesses (Ministry of Finance, 2013). The regulation was promulgated with effect from 31 December 2013. As stated previously, with the introduction of regulation 29, several PE firms emerged. By June 2016, 19 PE firms were registered with NAMFISA. Given this, one can see that the PE industry in Namibia is still in its infancy.

An interesting observation was made by participant 11, from a Southern Africa perspective, that Namibia is the only country where PE (the unlisted investment space) is specifically regulated. In other jurisdictions, such as South Africa, PE firms only have to report on their unlisted investments and are not specifically regulated on how to go about performing their business activities.

“In other countries I know how they have been doing it, specifically South Africa, is that you only had to report on it and say that ‘we invest 2.5%, the required amount, into unlisted investments.’ How you do it is not the concern of the regulator or anyone else, as long as you just in your returns, your reporting, you report to the regulator to FSB (Financial Services Board), and say that 2% of our pension funds has been invested in unlisted investments and you do your own due diligence in terms of how you recover that money. But in Namibia specifically we are not giving you that mandate to say ‘give the money and manage it yourself.’ We want that money to be protected. And the regulation came back to protect those monies. When you look around other countries some, we are talking about our neighbouring countries, if you look at Botswana for example, they are not having this type of regulation. If you go further to... it is only us that is having this regulation.” [Participant 11]

During the interview process, the researcher gained an understanding of the intent and reason for the introduction of regulation 29. It was important to understand why the regulation was introduced. What was evident from the data collected was that regulation was introduced to stimulate economic growth, addressing the failed

Development Capital Portfolio attempt of the GIPF, providing a framework for managing the unlisted investment space and allowing for a sound environment for prudent management. The following quotes were extracted from the transcribed interviews:

“Specifically with regulation 29, it came about as (this is now historic), as a result of the failed Development Capital Portfolio (DCP) investments from GIPF where entities were given money, there was not really a framework in terms of how they should manage these funds, and government felt that GIPF being one of the biggest pension funds in the country, there was a need to bring about a framework how to regulate private equity.” [Participant 11]

“If you look at the bigger picture, the intention of regulation 29 is to stimulate economic growth as well, where you want to start off with trying to grow the local economy.” [Participant 11]

“The policy is to encourage or to mobilise domestic savings, domestic institutional investments, create an environment that allows for the churning of such investments in the private and unlisted investments in the economy.” [Participant 12]

“So for regulation 29, to come to your question, is then to say that the intention is to, from a regulatory or policy point of view, make sure that we provide for a framework of managing the unlisted investments that private equity funds or non-private, that could be invested in that space. So you want to make sure that at least the management of such investments are done in a manner that is prudent, so as to instil confidence in investors to place their investments in such assets.” [Participant 12]

“And it is born out of experience, for example, what we saw was happening at the GIPF, Development Capital Portfolio (DCP), where you have some investments made in the real estate sector, intention is good generally but maybe the management of entities or asset classes has not been really up to standard, just because you did not provide for prudent environment for managing and monitoring those investment placings. So the intention is then to bridge that gap. That is, I think, the relevance of Regulation 29.” [Participant 12]

“I would think in terms of the primary purpose of the regulation it provides for that sound environment for prudent management.” [Participant 12]

The concept of prudent management alluded to by Participant 12 was an interesting observation. The researcher assessed this concept in relation to regulation 29, to understand whether regulation 29 covers this. It was found that the concept of prudent management is supported by the duties and responsibilities of the directors of the UIM.

Some of the key responsibilities of the directors of the UIM are disclosed below (Ministry of Finance, 2013):

- *“must conduct its business in a responsible way and not engage in practices which would prejudice the interests of investors, special purpose vehicles, portfolio companies and other stakeholders”,*
- *“may not engage in speculative activity”,*
- *“must exercise the voting power in such a manner that best serves the interests of the special purpose vehicle”,*
- *“must promote and maintain ethical standards of conduct and deal fairly and honestly with investors, special purpose vehicles, portfolio companies and other stakeholders”, and*
- *“must be accountable to the special purpose vehicle by fully disclosing information in a manner that is clear, fair and not misleading”.*

The above extractions from regulation 29 include elements pertaining to ESG. This was supported by Participant 11, who stated: *“I think in terms of the regulation itself it is somehow silent – not very silent but in terms of ESG it doesn’t really come out so strongly”.*

Further comments were extracted from the data collected to support the above.

“From an industry perspective. So is it fair to state that ESG is not featuring at the moment in terms of best practices that can be applied in the industry? I think because we are still in the early stages of developing the industry. So it is more in terms of making sure the regulation is there. I wouldn’t say ESG is not specifically there, it is there in terms of the investment plans and trust deeds.” [Participant 11]

“But what we have seen in the investment plans that we have renewed and approved there is a lot of mention of ESG components in the investment plans, that the unlisted investment managers will consider, the environmental, social impact and governance issues, and ESG from a regulator perspective, even if I am saying that, from the regulations it is not coming out strongly.” [Participant 11]

“So I think from the social perspective you have that indirect link. It might not be spelt out in the regulation but where the investment is realised (the portfolio investment had been made) then you have other policies, other provisions – environment is one.” [Participant 12]

No specific evidence could be provided by participants 11 and 12 as to whether future regulation would specifically consider ESG from a PE perspective.

5.5. CATEGORIES AND THEMES

Before presenting the results in relation to the research questions, the researcher thought it best to display the key categories and themes used to analyse the data collected. The key categories and themes are presented in Table 6.

Table 6: Key Categories and Themes

Category	Theme
Incorporation of ESG at Private Equity Firm Level	Awareness of ESG
	ESG Policy Development
	Team Development on ESG
	ESG as part of the Investment Process
	ESG and the Investment Mandate
Incorporation of ESG at Portfolio Company Level	ESG Exclusions
	ESG at Post-Investment Stage
	ESG Support to Portfolio Company
	Monitoring of ESG Practices at Portfolio Company Level

Level of Investor Engagement	ESG Formalised Request by LP
	Reporting to LPs
	Examples of ESG Reports to LPs
Motivation for ESG	Exit Consideration
	Motivation from an LP Perspective
	Business Sustainability
	Global Trends
	Private Equity Firm Reputation
	Socio-Economic Development
	Value-System of Private Equity Firm
ESG Challenges	Cost Implications
	Access to Data
	Access to Specialists
	Size of Private Equity Firm and Investment Funds
	Meeting Investor Return
	Lack of Incentives for ESG
	ESG Process Formalisation
Recommendations for ESG Development	

5.6. RESEARCH RESULTS FOR RESEARCH QUESTION ONE

How are ESG factors integrated at a private equity firm level?

The first research question as noted above was investigated to obtain an understanding of ESG integration at a PE firm level. This entails how PE firms think about ESG, whether there is an awareness of ESG, and how ESG is integrated within the business and the team.

5.6.1. AWARENESS OF ESG

The researcher observed that with all the PE firms interviewed there was an awareness of ESG at a firm level. With several of the PE firms, ESG is seen as a matter of importance. This awareness and importance was demonstrated by some of the comments made by the various participants:

“I mean ESG factors are important in the space that we operate.” [Participant One]

“ESG or extent of ESG or lack of ESG is something that we come across when we are vetting potential investment targets.” [Participant Two]

“The ESG factors, it has come to stay with us, we cannot avoid you know, to do away with that; because at the end of the day it is responsible investing as a fund manager.” [Participant Three]

“So we do consider the ESG, it is part of our due diligence process, and I think as you know it depends on what investment you are looking at, as to what aspects you are looking at. So yes, that is how it works.” [Participant Five]

“ESG is something that you will always consider but that is not the core business of private equity.” [Participant Six]

“Because it is entrenched in how you do business. It comes naturally. If it is not in the process, then it is not part of your culture.” [Participant Eight]

The researcher highlights the observation that was made by Participant Six that ESG is always considered but noting that ESG is not core to the business of PE.

The ESG awareness demonstrated above is supported by the fact that four of the PE firms prescribe to the principles of the UNPRI. This provides evidence that the PE firms consider ESG in their investment processes, including from a portfolio company perspective. Participant 13 was the only participant that is a signatory to the UNPRI.

“We subscribe to all of the values and principles of the UN’s PRI, Principles for Responsible Investing.” [Participant Two]

“We are just prescribing to the principles.” [Participant Three]

“This thing (ESG) is becoming more and more important, how the largest pension fund have signed on as a signatory to PRI and more and more they will be looking into this, this is one of the key things they will want to look at, ESG.” [Participant Four]

5.6.2. ESG POLICY DEVELOPMENTS

An awareness was demonstrated by the PE firms with regards to ESG; however, the level of ESG integration between the PE firms varied. Five of the PE firms indicated that they had formal ESG policies, while others indicated that they were still in the process of developing such policies. Although ESG policies were not formalised, the PE firms stated that ESG was considered in their investment processes. This is evident from the below extracts from the research interviews.

“We developed a policy, and we had an orientation session on that, on how to implement it, on how to account and incorporate it in our processes.” [Participant One]

“I think in terms of the ESG, our starting point was to start with the drafting of policies.” [Participant Three]

“So, from a policy perspective, how we craft our own, one must remember that when it comes down to regions, there are specifics in regions that one has to take into account – not necessarily regions, but territories and countries – and those would be then tailored if need be, to a specific country or region.” [Participant Four]

“So mainly – let’s start at the beginning – so is there a policy in place? It is in our investment process that we need to look at ESG and we have a table of examples of the kinds of things that we need to look at but we don’t have a formalised document with all the details at this point.” [Participant Five]

“We have got an extensive policy in terms of what and how, but we have a provision in our policy in terms of that, and there are reasons why it is not a standalone.” [Participant Seven]

“So I have to admit there is no specific policy in place. It is more something that we have been working towards without putting it in writing, where we have certain guidelines to say okay it should not be environmentally objectionable and morally objectionable; but what that means in detail is not defined.” [Participant Ten]

5.6.3. TEAM DEVELOPMENT ON ESG

The PE firms interviewed are small in terms of staff complement, which affects the level of ESG integration within them. For this reason, some of the firms stated that if the PE firm cannot deal with certain aspects of ESG, then these aspects are usually outsourced.

It was observed through the interviews that, in terms of developing a culture of ESG orientation within PE firms, limited training on ESG seems to take place. Due to PE firms having such small teams, much of the ESG orientation and awareness is developed through communication among team members and on-the-job training. This is evidenced by the below extracts from the research interviews:

“We have this in-house training, and not only in-house training but also this industry training, right? So we go to associations like this SAVCA meetings, we go to the council session meetings like NPR in the US, AVCA as well – I mean believe you me, there is a lot of stuff that you pick up from these industry meetings, things that ideally one would not get in a class.” [Participant Three]

“As new entrants get into the UIM space, they would obviously be trained from a theoretical perspective, but also on-the-job type of coaching – what are the things one would look at in these three pillars.” [Participant Four]

“That then becomes policy and that then gets communicated down into [the] team. With any policy we would probably have to sign something which says you have read the policy and understood the policy.” [Participant Four]

“We are also establishing that role so we have actually just hired an analyst and one of his focusses is going to be ESG. So he is going to become our ESG person and make sure that ESG gets done.” [Participant Five]

“So the team is very much aware that we must do ESG within all of our considerations of portfolio companies and we have sent through – you know one of the things that you need to look at.” [Participant Five]

“Yes I think it is very important for us, so we would always discuss it in our decision-making process, but yes since we are all in the same office our way of doing transactions is different because we are all working on it all the time, so we live what we decide, or the way we look at a deal. We do it every day – that is what I mean.” [Participant Six]

“Put them in the Johannesburg office and put them through a bit of a mill. And say this is how things work. There is a bit more pressure in Johannesburg than here, so they get used to it. We put them there for six months. And they work on projects from scratch, we do quite a lot of investment and advisory as well. We have a boutique investment business as well so that also moulds the guys in terms of how to produce and getting used to the culture. Because it is entrenched in how you do business. It comes naturally. If it is not in the process, then it is not part of your culture.” [Participant Eight]

5.6.4. ESG AS PART OF THE INVESTMENT PROCESS

As part of the research interviews, the researcher gained an understanding of how ESG is integrated into the investment processes of the PE firms. Although sometimes not explicitly stated, the PE firms do consider ESG as part of their investment process. One key pattern that the researcher observed was that the level and extent of ESG integration is also dependent on the underlying investments into the various portfolio companies. This is demonstrated below:

“So it comes up in the due diligence processes, if a business has a considerable environment impact then you know we have people as part of our team that can actually do an audit of their environment management system. So look at their environmental impact assessments, look at their environmental management plans, and look at any key staff and their qualifications for managing the environmental management program.” [Participant Two]

“So we do consider the ESG, it is part of our due diligence process, and I think as you know it depends on what investment you are looking at, as to what aspects you are looking at.” [Participant Five]

“Yes. Look, every transaction is different, we are not afraid to address any and all of these issues in any investment, but they don’t necessarily have to play a role. In some cases, you have a bit more of this or a bit more of that, but in principle we look at the double bottom line, triple bottom line methodology type of thinking; so it is not only about achieving financial success, we look at the various other factors in deciding whether we invest or not. But yes, it differs from deal to deal.” [Participant Six]

“During the screening process we introduce ESG as well, people’s scorecards, we screen our investments.” [Participant Eight]

“All of the projects we have screened to date have all got ESG compliance built-in already.” [Participant Eight]

In terms of the ESG pillars, the researcher gained an understanding of whether more preference is given to one pillar than to the others, or whether all three pillars are considered equally. The observations varied between participants. The researcher further observed that the governance pillar had a higher preference, followed by the social pillar, and lastly the environmental pillar. One of the key drivers of this was the investment mandate of the PE firm. The results are reflected below:

“I would say our focus is really more on the G – on the governance – that is one. And then the second one is the S, the social aspect. And the third one is Environmental, because I think social and environmental at the end of the day are things that are outside of our sort of forte, so you rely on [a] third party to assist you with some of those things, to implement some of those things. But things like governance, really that is something that is in our DNA.” [Participant Three]

“So for us I think that is where our focus is always going to lie, on the S and G.” [Participant Five]

“But it was very clear that part of our mandate was about employment creation in line with what is required in the country. You know, the S part is never a question for us.”
[Participant Five]

“So the S side of things is part of our being, and because of the fact that the Namibian companies lack that governance, especially the size of companies we are looking at; it sort of comes with the package. So I think the thing for us is more different, that we really need to think about, is the environmental side. So that I would say is the part that you need to re-apply your mind almost.” [Participant Five]

“Well I think you don’t want to do that, in terms of neglecting one for the other, but I think they all have an equally important role to play. In a country like ours where there are huge inequalities, social responsibility is key in terms of giving back to the communities – bursaries to study, to make sure that people who have the potential actually have the opportunities. Corporate governance is key, and you cannot have social responsibility with poor corporate governance, because even the channelling of the social responsibility means accountability – so you can’t have one without the other. Then the environment is very important, we need to preserve it for generations to come. So I think one should just be careful how you go about it without neglecting the one at the expense of the other.” [Participant Seven]

“You know we do the investment process and when you do your DD you look for financial, legal, and environmental; those are the three Ds that you do. The social side hasn’t been touched at all but when we take on a project and invest something we always look at the social impact. So you focus on sectors that have a social impact.”
[Participant Eight]

Key to understanding the ESG pillar preference was to consider the views of the regulator and the LPs. This was considered important as it may influence the manner in which the PE firms consider the ESG pillars in their investment practices. Their views are reflected below:

“It is in terms of governance, where we want to see that there are proper governance structures in place. But when we talk about social issues, we want to make sure whoever gets these investments must also be socially responsible and environmentally responsible. Like I earlier mentioned is that in most of these trust deeds we do see it

come through, and in the investment plans where the entities state that they will not invest in entities that are not ESG compliant, for example.” [Participant 11]

“Yes, look, so I think it would be very difficult to say that the social aspect ranks higher than perhaps the governance one or the environmental one because you know in essence all three of them should really be areas of priority. But as it is, you know taking our history into account – that is now Namibia’s history as a country – I think you know we are leaning a bit more towards the social element, for it to weight a bit more. And when you read through these additions that we have in our contracts you will see it points a lot to the social aspects a bit more. But we are not neglecting the environment and governance issues as well. But there is a bit higher focus on the social aspects.” [Participant 13]

“Yes, the G is probably the one that would have got quite a bit of attention – so how does your board look and what processes do you apply and how independent are you and how are your decisions made? So I guess that’s true. I guess the whole governance is big, sitting with the trustee head on, that is my biggest risk.” [Participant 14]

“The big thing for us was more the social aspects. We didn’t really consider environmental aspects but I think that is a general flaw in Namibia and how we do business; we don’t really care that much about the environment. I mean it is important but the focus really was more on the social elements – what are these asset managers doing – you know you are giving them your money, what projects are they investing in? So for us it was important, we did not want to invest in asset managers that predominantly look at things like start-up businesses or your bigger, they offer you opportunities to invest in the bigger companies: for us it was important to have infrastructure – so we wanted schools, we wanted hospitals, we wanted roads projects, we wanted to see the money practically being invested.” [Participant 15]

“Let’s start with the governance. Obviously we are regulated and hence we have to have strong policies and procedures in place”; “So the social aspect, all that I see here is obviously very important for us”; “If I look at the environmental aspect of it, I don’t think it affects us that much.” [Participant 17]

From the insights reflected above, there appears to be a higher preference towards the social pillar.

5.6.5. ESG AND THE INVESTMENT MANDATE

The researcher found that the investment mandate of the investment funds which the PE firms manage is crucial. It was further found that the investment mandates specifically address the elements of ESG. This is evident from the below extracts:

“So those ESG policies are actually copyrighted in to the investment guidelines or investment mandates.” [Participant Three]

“It is referred to normally in your mandate, but that comes from the asset manager side.” [Participant Five]

“We have a broad and open mandate. We are not told in which sectors to invest, which sectors to stay away from, limits and all of that; which companies [to] invest in, but we know that companies that are conformed to best practice as environment and socially or in terms of their governance are more sustainable, they are more attractive, they relate to consumers a bit more and from that perspective they are just better presented as investment cases.” [Participant Nine]

“But what we have seen in the investment plans that we have renewed and improved there is a lot of mention of ESG components in the investment plans, that the unlisted investment managers will consider, the environmental, social impact and governance issues.” [Participant 11]

“But it has been incorporated by some of these managers (unlisted investment managers) in terms of their mandate? With all of them, yes. With all of them.” [Participant 13]

Participant 13 shared with the researcher an extract from an investment mandate specifically considering RI considerations. The considerations are included in Table 7. The RI considerations align with the ESG pillars.

Table 7: Responsible Investing Considerations

Number	Considerations
1.	The Investment into Portfolio Company has contributed to the economic empowerment of previously disadvantaged persons/communities.
2.	The Investment into the Portfolio Company has contributed to job creation, SME development, and financial inclusion.
3.	The Investment into the Portfolio Company is in tandem with relevant Government policies like the industrialisation policy, Financial Sector Strategy goals, Financial Sector Charter goals and National Development Plans.
4.	The Investment into the Portfolio Company has not contributed to environmental degradation and climate change.
5.	The Portfolio Company is practising good corporate governance and labour standards.
6.	The Portfolio Company has or supports programmes that address skills shortages, training and skills development.
7.	The Portfolio Company has or supports programmes that address education, health and social welfare of local communities.
8.	The Portfolio Company employs or procures goods and services from previously disadvantaged persons/communities.
9.	The Portfolio Company does not practice or tolerate bribery and corruption.

5.7. RESEARCH RESULTS FOR RESEARCH QUESTION TWO

How are the ESG factors incorporated at a portfolio company level?

Firstly, the research question was intended to understand if there are any types of businesses that a PE firm would not invest in (the so-called exclusions). Secondly, the purpose of this question was to understand how PE firms provide support to portfolio companies with regards to ESG practices. This includes how PE firms ensure that ESG practices are implemented at a portfolio company level. Lastly, the question aimed to understand the monitoring procedures applied by PE firms in ensuring that ESG practices are incorporated by the portfolio company management team.

5.7.1. ESG EXCLUSIONS

Understanding the ESG exclusions provided an indication of the extent to which PE firms have thought about ESG and the importance thereof in terms of the business

activities of the firm. The below extracts from the research interviews demonstrated that the PE firms have considered RI practices as part of their investment processes:

“We tend to shy away from the sin industries.” [Participant One]

“On our restrictions list, prohibitions list, things like the so-called ‘sin’ businesses – gambling, liquor-driven businesses, anything related to tobacco. We probably wouldn’t invest in anything that has an adverse impact on any community, whether it is social or environmental. We wouldn’t invest in businesses, for example, that are in contravention of CITES, which is the UN Convention on International Trade in Endangered Species. And you know it is stuff like that which is on our prohibitions list. Anything related to pornography. Businesses like that we won’t get involved in.” [Participant Two]

“Yes, so all of that is driven by [investment] mandate and [investment] mandate is driven by... If, for example, you look at a specific industry as infrastructure, they can definitely narrow that down as to what is the type of infrastructure in which you can invest. Now there might be investing possibilities outside of that list, which is not necessarily to exclude industries, but because it is narrow and you are limited to your [investment] mandate, you can’t go outside of those. So we are essentially dictated by a [investment] mandate, we don’t have free will; if we had free will there would be some excluded industries, like, for example, weaponry – I can think of weaponry now – which you wouldn’t necessarily go into, which would be a national exclusion.” [Participant Four]

“For us fishing, mining, power generation, at this point infrastructure and agriculture and agribusiness. And that is not just for the ESG that for us is not the focus of our fund. But I think from an ESG perspective we have excluded those – fishing, mining, gambling – those sorts of things we stay out of.” [Participant Five]

“Like child labour for instance, we won’t be able to go to child labour, because of the financial reputation we have.” [Participant Seven]

“And there are certain undesirable opportunities that you don’t want to be associated with either because of the defined values or the defined values of your investors, industries that might have practices that are inconsistent with, say, for instance, conservation or socially acceptable practices, then you just say okay I don’t want to

stay... Oh yes, there have been some investments that we walked away from and that is mostly on account of governance structures.” [Participant Nine]

“Then from a board perspective what has been excluded is effectively morally and environmentally objectionable businesses which are involved in arms and ammunition and the manufacturing thereof, child abuse, child labour and issues around that.” [Participant Ten]

Participant Ten presented to the researcher an extract from their investment mandate providing a list of activities that the investment fund is prohibited from investing in. Table 8 below showcases the list of exclusions.

Table 8: List of Exclusions – Participant Ten

Number	Investment Fund prohibited from investing in any such company directly or indirectly involved in any of the following activities:
1.	Production or activities involving forced labour or child labour.
2.	Production or trade in any product or activity deemed illegal under Namibian laws or regulations or international conventions and agreements.
3.	Production or trade in: <ul style="list-style-type: none"> ➤ Weapons and ammunitions; ➤ Tobacco; and ➤ Hard liquor.
4.	Gambling, casinos and equivalent enterprises.
5.	Any business relating to pornography or prostitution.
6.	Trade in wildlife or wildlife products regulated under CITES.
7.	Production or use of or trade in hazardous materials such as unbounded asbestos fibres and products containing polychlorinated biphenyl.
8.	Cross-border trade in waste and waste products unless compliant to the Basel Convention and the underlying regulations.
9.	Drift net fishing in the marine environment using nets in excess of 2.5 km in length.
10.	Production, use of or trade in pharmaceuticals, pesticides/herbicides and other hazardous substances subject to international phase-outs or bans.
11.	Significant conversion or degradation of Critical Habitat.
12.	Production and distribution of racist and anti-democratic media.
13.	Significant alteration, damage, or removal of any critical cultural heritage.
14.	Relocation of Indigenous Peoples from traditional or customary land.
15.	Any such company directly or indirectly engaged in illegal activities.

Through gaining an understanding of the ESG exclusions, the researcher discovered that there was a particular focus on the ethical reputation of the promoter or entrepreneur. This was evidenced by the below:

“Look, I mean, there could have been cases where we found that there were ethical issues around the applicant and we would not want to do that [the investment transaction].” [Participant One]

“We have come across a couple of opportunities where we just don’t believe in the integrity of the people.” [Participant Five]

“Governance issues by far are the ones that pop up and then you walk away from the deal to say look I... At the end of the day we have to invest in management. Invest in management and management are believed to move that investments in a way that is consistent with our values and the values of investors.” [Participant Nine]

“So sometimes you find, especially when you do a due diligence of the business, you find things that you might not like. You find fraudulent activities, you find misappropriation of funds, you find misconduct between the directors at the highest level, and then you know if they can do that with somebody else, or if they’ve been doing that, if it is the culture then they will do that with your money as well. So you tend to kind of just walk away and rather not be associated with that particular investment.” [Participant Nine]

5.7.2.ESG AT POST-INVESTMENT STAGE

It was important for the researcher to understand how ESG is implemented at the post-investment stage. This entailed how PE firms drive the awareness of ESG and integrate ESG practices at a portfolio company level. This involved engaging with the management teams of the portfolio companies on ESG practices. The following extracts demonstrated how PE firms go about this:

“So once we then get to post transaction, what we try to do is use all of the data that has been picked up by the due diligence process, in executing the growth strategy; and so then we look at the ESG pieces and it is then that we can actually make a case for

making the capital investments that more often than not go with sustainable ESG or sustainable commitment to ESG.” [Participant Two]

“So I think the first one is that you know up front we highlight what the issues are, after we have done the due diligence and had a discussion with them and seen what needs to be changed. And then because we are involved in the board of these companies from there we can actually influence and assist, and then get in place what they need to get in place. I mean we will rely on them to a certain extent to actually do the things because we are not actually operationally involved.” [Participant Five]

“And as part of the 100-day plan as well, so initially we will check in a little bit more frequently than just at the board level, and there it is important to actually see are the guys getting stuff in place. So, for example, now (new portfolio company) had a few things that they needed to sort out in this first month but actually from now on they also need to be getting our board changes in place – board governance, all those things they didn’t have. So we help get those things in place but it is actually someone in the company that needs to drive it.” [Participant Five]

“Well for me the way of doing ESG first of all, you need to gauge whether the guys understand what ESG is first – if they understand – then you would need to understand if they are implementing this ESG, right? If yes, to what extent, and if not – why? So it would have to be clear to them, and you would need to let them know the sort of thing you are looking at and the reasons why it is important for you. So there is a discussion that needs to be held. So it won’t escape the business; everyone needs to know about it. So you will not go in blind, those companies would definitely be informed, you would let them know ‘look this is what we need and this is what we want to do’.” [Participant Seven]

“You put everything in place, you put your audit and risk committee in place, you put board structures in place.” [Participant Eight]

“So in terms of governance at a board of directors’ level it is important that we understand what those risks are and we understand how those risks move and how they are mitigated and to what extent are the risks arising or not?” [Participant Ten]

The following examples, provided by the PE firms themselves, are given to illustrate how ESG is implemented post the investment stage:

“I think let me start with the G (Governance), because I think that is the easier one. Again you are right, as a private equity fund manager your involvement in the portfolio company is at a strategy level, which is at your board level, but again it also depends on the portfolio company. Some of these portfolio companies will be well developed, like for instance if you are to invest in a company like Company A (well-established, mature company), those guys are like, I mean those governance issues are a non-starter because those things are up and running. But if I give a specific example of where we are now, Company B (a portfolio company), when we went in there – yes, one would have expected certain matters to be in place. But as a fund manager the expectation is usually that one would end up at a strategic level. But I think sometimes it is difficult because you have to roll up your sleeves and get involved, because these are small companies (portfolio companies), these are young companies, and most of these promoters do not know much about these ESG issues, do not know much about the governance issues. So we help them, for instance Company B, to streamline. In terms of monthly reporting we [try] to ensure that management provides monthly reporting figures to us by specific dates. We also had to inform them there has to be a year-end audit on these specific dates. We have to have an audit and risk committee and these committees need to meet at least four or six times in a year. We have to have a board meeting that also has to meet at least four times in a year. So those are the specific things that we have done.” [Participant Three]

“For example, if you look at Company A (new portfolio company). So for us it was important that Company A had their environmental impact certificate. But when we got into it we found that actually all of their products are biodegradable, and the impact and what they are working with they don’t need environmental clearance. But for us it was more important when you had a look at the social and governance aspects. Company A had a CC (close corporation) structure. For us it was important to put in a proper governance structure. We [are] putting a board in place, we are getting audit committees, your risk committee – none of that stuff was happening! So for us that was a massive focus and the social side was also a big focus, to have a look at what are the ratios internally, how can we bring in senior management that improves the picture, how can we start training up people, and then beyond that how does that play a role in

Namibia? And for us it was a perfect example of how it fits in with all of Namibia's plans for industrialisation, exporting and manufacturing, etc." [Participant Five]

"What is important for us is to invest into a company that has governance, obviously an important consideration, and practically it just means that you need to be able to trust the systems and the processes and the procedures from a distance when you are not involved, because the nature of equity investments from our perspective is that we take an equity stake and then we participate on a strategic level, we don't become operationally involved. That is the job of management, it is our job to pick a management team and put them in place to run the business for us. So from that point of view it is almost self-interest to make sure that the governance structures are in place, that we are able to see transparently the business from a distance where we are not involved. But, secondly, also just to make sure that the business is compliant with what it needs to comply to because again it's to protect your investment again apart from just being good practice because you don't want to run a business, for example, that operates in the industry that requires a licence of sorts and they don't have it and they operate with unaudited financial statements or a few other governance structures which you expect to be in place, so you know that governance portion will be sorted from that perspective." [Participant Nine]

Reviewing the above examples, the dominating feature in terms of ESG seems to be the governance pillar.

While considering ESG at the post-investment stage, one of the participants raised a concern about the challenge of convincing the portfolio company management to introduce ESG practices. In this case, this would result in a misalignment of interest between the portfolio company management team and the PE firm.

"I am not so worried about the ESG aspect of it. I think my biggest challenge when it comes to ESG won't be a capacity thing, it will be about convincing portfolio companies of the importance of making the capital investments in ESG that will actually contribute to their long-term sustainability. I think that is more interesting or more challenging, because everybody comes at it with these perceptions that have been formed over time, especially given this country's history." [Participant Two]

5.7.3.ESG SUPPORT TO PORTFOLIO COMPANIES

This part of the question aimed to better understand the support that is provided by the PE firms to the underlying portfolio companies. The main view is that PE firm support is provided at a strategic level through representation of PE firms on the board of directors of the portfolio companies, with limited involvement in the daily operations of portfolio companies. Additional support factors were identified as well. This is evident from the below:

“But obviously on other softer issues like general administration, accounting practices, good governance practices, we try and expose them to training.” [Participant One]

“And so we try and invest in the softer issues of business, which obviously we understand are quite critical to business being sustainable.” [Participant One]

“People need to be capacitated and empowered, to be in charge of their financial destination. How do you do that? Through enterprise development.” [Participant One]

“So there is a re-education piece and there is a way of showing people how you can actually make their businesses more sustainable by incentivising staff.” [Participant Two]

“As a private equity fund manager, your involvement in the portfolio company is at a strategy level, which is at your board level, but again it also depends on the portfolio company – some of these portfolio companies will be well developed.” [Participant Three]

“Again it will be determined by the underlying portfolio company – what they do. Some of them are not close to any of this, or may have portions of it, but yes, it differs from company to company.” [Participant Six]

“So I would say limited on a day-to-day operational level, and then more with regard to long-term strategy – where we are going, what is our capital investment, what is our expenditure for the next five years, and where do we want to grow the company. So more on a high level, strategic platform, but also not something that is managed on a

daily basis. So it is something like ‘this is where we are going to’ and then ‘how are we going to reach it’. [Participant 16]

“I think from a governance point as well, very, very critically involved. From day one you know, looking at the feasibility of the company when the original investigation was done.” [Participant 16]

The researcher also observed that the extent of ESG support is dependent on the stage of the business life cycle of the portfolio company. The results showcased that more support is required if it is a start-up or early-stage portfolio company. This is evident from the below:

“More experienced management teams, they’ve got more processes and procedures that they’ve put in place and they’ve learned from doing things, through trial and error, so they have learned. And because they’ve been around in the market longer, doing things the right way will also give them a competitive advantage, so they’ve got a bit more money to spend, become a bit more ecologically conscious. And you know start-up businesses would tend to be a bit more opportunistic, they will tend to be a bit more entrepreneurial in terms of their approach to things, they do things to just kind of survive and get out of that stage you know so there won’t be a great deal of consideration at that stage on those things. So they will not look it up until such time that they really need those things to be in place for them to understand the business or carry the business forward.” [Participant Nine]

5.7.4. MONITORING OF ESG PRACTICES AT PORTFOLIO COMPANY LEVEL

Part of the PE firm’s responsibility is evaluating and monitoring whether the portfolio company has incorporated ESG practices or not. The following key mechanisms were identified to assist in monitoring portfolio companies:

- Firstly, through the active participation on the board of directors of the portfolio company;

- Secondly, through the participation in various committees of the portfolio company such as the audit committee, human resources committee and remuneration committee;
- Thirdly, through the annual budget review process of the portfolio company; and
- Lastly, through the reporting of the portfolio companies to the PE firms.

The results are presented below:

“Then you also have the monitoring, which we need to do. Because what we do is on a monthly basis we do have reports coming in from the portfolio companies. Our in-house team reviews those reports. And what we have done as well as a form of monitoring, is to incorporate some ways of telling our client ‘look here after the financial reporting you also need to report to us on the following identified ESG issues’ – more like the ones I have talked about here.” [Participant Three]

“What we have done is out of the four board meetings in a year, two of those are held on site. So we actually go down to the performing company to see exactly what is happening, and that forms part of our review as well. And then the last aspect in terms of implementation of responsible investment is just the auditing; auditing again we use experts, to assist us in terms of just checking some of those initiatives we have identified as part of the ESG reporting. But again, like I was saying in terms of reporting and auditing, it is important for us that they also have to commit to a company report to us on an annual basis, in their annual reports, to say they have actually complied with the following ESG factors.” [Participant Three]

“So once again what one would want to do is on a monthly basis, if there are monthly management meetings, when you go through not only the numbers but there are some qualitative items that need to get discussed. You come close, no portfolio investment you should let go for a quarter, you come close, you monitor what needs to be done, what has to be done, and by whom and by when, and what needs to be done. And those get monitored or tracked on a management level and then on a quarterly basis when you have board meetings, those need to be reported on up to board, and certain decisions have to be made if certain of those things haven’t been adhered to and

implemented – from board level, which needs then to be pushed down into management level.” [Participant Four]

“There are a couple of areas that we need to look at. One is obviously the key tool which I see as a planning tool, which is the budget. The budget, you have the opportunity to look at the budget, approve it, have your input and all of that. And the budget would also show you spending priorities, it will show you where the money is going to be made and how the money is going to be spent. Basically so, it almost then sets out what you may endorse or what you may be happy with or what you may not be happy with and that is the first sort of level where you can make a direct contribution in terms of the direction of the business. Other one is from a revenue perspective, new markets that you need to explore or your expenditure side of [the] business in terms of how you are going to spend. Social responsibility will also be tied back to the budget because you can then, if you have a strong orientation towards one or the other environmental or social initiative, that is where you can also make an impact, it’s on the corporate social responsibility or an allocation or how the business should conduct itself in terms of its expenditure.” [Participant Nine]

“I think what is important especially with regard to your scenario [ESG] is the fact that you are working with mostly dangerous substances, so there is a big responsibility on the company with regard to being environmentally responsible and making sure that the product is being utilised in the environmental, professional, responsible way.” [Participant 16]

“Obviously according to the shareholders’ agreement, the private equity investor has a mandate to appoint directors, so all information is respectively shared with the directors on a board meeting basis or, if necessary, between board meetings. Information has to be shared; however, the input of directors needs to be there. On a day-to-day basis the private equity investor obviously is not involved, management is taking care of that; however, we have regular information sessions about how the business is doing, what we are doing, what the plans are, strategic sessions. That’s it basically.” [Participant 17]

“Yes, we have him [managing director of PE firm] as part of the human resources committee and also the finance committee, so he is very much involved when it comes to our audit, which covers governance obviously. And from a human resources

perspective, he is also involved in the remuneration committee and so on, he is part of that – which also opens up the social aspect to it”; “I must say from his side that is very important, specifically employee retention and obviously the further development of human capital.” [Participant 17]

5.8. RESEARCH RESULTS FOR RESEARCH QUESTION THREE

What is the level of engagement with investors from an ESG perspective?

The purpose of this question was to understand the level of engagement between PE firms and investors from an ESG perspective. The aim of the question was also to understand whether LPs have specifically requested PE firms to consider ESG in their investment processes and what the reporting back to LPs entailed.

5.8.1. ESG FORMALISED REQUEST BY LP

The researcher noticed that in some cases, a formal request for ESG consideration by PE firms had not been made by the LPs. However, there were instances where this request was formalised by the LP. The details are reflected below:

“New mandates of the largest pension fund, they actually want us to apply some ESG factors.” [Participant One]

“So it was a formal request.” [Participant One]

“So I think going forward we have to report on these ESGs as well, incorporate the ESG factors into a report. So it wasn’t specifically asked from their LPs, no.” [Participant Three]

“But no, saying that, I don’t think they [other pension funds] have similar importance as [to] what, the largest pension fund in Namibia, would have. I think it will take some time for the next largest pension fund which is... I don’t know which one – one of the two now – that they would also start looking into signing into that (becoming a member of UNPRI), as a responsible investor.” [Participant Four]

“From the investors, in our case, it is not clearly communicated.” [Participant Nine]

“But so far the investors have not been very insisting on ESG factors at all.” [Participant Nine]

“So no, I don’t think that [LPs requesting ESG considerations] has come across our table.” [Participant Ten]

“Yes, so with the old mandates that we had, that is now the mandates in 2010 and 2011, ESG was of course not a consideration. It is definitely now a requirement that they consider, so that once investments are made that they consider the ESG principles and once they have made the investments that those are applied in how they are trying to grow the various businesses to be able to excel at some level of profit if you will later down the line.” [Participant 13]

“Yes, well to be quite frank – and I guess this is where research comes into it – at this point we don’t spend a lot of time, very, very little time on that [ESG]. I guess to some extent because we are not making the investment call per se.” [Participant 14]

“We are more interested in the more traditional stuff: what processes do they follow, what people do they have. Performance is one of them and I guess the old theory is around that, and it can’t be done without ESG but at this point we are not saying well okay, ‘here are two managers and the one is stronger on ESG than the other one and therefore we will accept them’.” [Participant 14]

“In my work we have got an investment policy as a fund, it is quite comprehensive, covering all sorts of things, but ESG might be mentioned, but it is not something that is big at this point.” [Participant 14]

5.8.2.REPORTING TO LPs

This part of the research question considered the level of reporting, communication and dialogue between the PE firm and the LP. There is a general consensus from the participants that investor reporting is in place. The reporting mainly happens on a quarterly and annual basis.

From an LP perspective, Participant 13 (a member of UNPRI) indicated what is required from them from a reporting perspective, including the feedback required from being a member of UNPRI:

“Yes, and then on an annual basis they require you to actually complete some forms, but it is essentially to try and gauge to what extent you have [been] able to implement the commitments, or you know the principles that you have committed to when you signed up as a member of the UNPRI.” [Participant 13]

“Yes, so on a quarterly basis we expect them to then provide us with reports, you know a general report regarding the asset or the portfolio that they are managing on our behalf. But then now it needs to have an element of reporting on the RI principles as well.” [Participant 13]

The below are additional extracts from other LPs:

“Yes, it is indirect. The consultant has got more contact with the unlisted manager: he would give us feedback and we would maybe ask a few questions.” [Participant 14]

“We get quarterly reports, all the detail of what projects they are involved in. But I wouldn’t say you can actually see ESG considerations... But there we get the detail of the type of projects they are involved with.” [Participant 15]

The following extracts specifically related to the reporting by the PE firms:

“Quarterly. We report to investors and credit line providers quarterly.” [Participant One]

“We have an AGM [annual general meeting] and then we try and do a stakeholder event every 18 months and then obviously that is a larger pool of our stakeholders, including our investors.” [Participant One]

“ESG we have agreed to report semi-annually. We provide other reports on a quarterly basis but that is more related to portfolio performance, of which there is a mention of ESG. So it is different levels of detail. In a quarterly report we will note certain things, especially things if they are material, but in a semi-annual and an annual report we go

into a lot more detail around the ESG components related to portfolios, company-specifically, but then also a portfolio in general.” [Participant Two]

“What we then do on a quarterly basis is to report back to the investor through the quarterly report-back sessions. Again as a start, can we again have what we call an annual report, do we invest in? So you also do a similar thing in that respect, to say ‘this is what we have done, this is what the company is doing’. So, two-fold reporting, as well as the annual reporting, cascades back to your LP or your investors.” [Participant Three]

“We have ongoing discussions with all our investors. It depends on who it is, but we have those maybe even weekly in some cases. We involve our investors on a transparent basis in all our deals.” [Participant Six]

“So I would like to think that from a quarterly reporting procedure perspective, ESG is not specifically addressed in any of those reports in terms of feedback reports.” [Participant Ten]

Participant Eight – who reports back annually to LPs – provided the researcher with the company’s annual ESG report and annual social impact report for 2016. The researcher noted, however, that not all PE firms interviewed produced separate detailed ESG reports as did Participant Eight. Elements of ESG are usually incorporated in the investor quarterly and annual reports, albeit in a limited manner.

5.8.3. EXAMPLES OF ESG REPORTS TO LPs

The following section provides detail as to examples of ESG practices reported back to LPs.

“Like you rightly say, in terms of job creation. What we normally do again on those quarterly reports is we indicate the number of jobs that we have created and even then the number of jobs spread between female and male. What we tried to do the last time, but which is again difficult to sort of get, is to try and see if you could put it in terms of you know, the previously disadvantaged statistics. But that was difficult, a lot of it touches sensitive issues. So we just kept it to the numbers employed, and how many female and how many male.” [Participant One]

Participant Eight presented to the researcher their annual ESG report for 2016 as well as their annual social impact report for 2016. These reports are communicated and presented to their LPs. Table 9 below shows the ESG elements presented in Participant Eight’s ESG report.

Table 9: ESG Elements – Participant Eight

ESG Elements			
Governance	Social	Environmental and Social	Environmental
<ul style="list-style-type: none"> • Commitment to Corporate Governance 	<ul style="list-style-type: none"> • Labour Relations • Socio-Economic Impact • Stakeholder Engagement 	<ul style="list-style-type: none"> • Environmental and Social Management Systems (including Health and Safety) 	<ul style="list-style-type: none"> • Climate Change Vulnerability • Resource Efficiency and Pollution Prevention

The above ESG elements are applied to portfolio companies and are reported to LPs in the annual ESG report. The researcher noted that Participant Eight is a subsidiary of a South African PE firm, indicating that the purely owned Namibian PE firms have not produced such detailed annual ESG reports as did Participant Eight.

5.9. RESEARCH RESULTS FOR RESEARCH QUESTION FOUR

What motivates the private equity firm to account for ESG issues in their investments?

The aim of this question was to understand the drivers and motivation for PE firms to incorporate ESG in their business practices. The following section presents several reasons as to why PE firms would want to incorporate ESG practices. One of the key reasons is that ESG is driven from an LP perspective.

5.9.1.EXIT CONSIDERATION

Participant Three highlighted that one of the factors to consider ESG is from an exit strategy perspective of the underlying portfolio company. The extracts are shown below:

“When you go to exit, your valuation will be determined, ESG will play a key role in your valuation. I think the potential; your potential market will be looking at what are you doing in terms of the ESG factors. So that helps in terms of attracting buyers for your stake in that business. So for me I think those are the two things: it is valuation is enhanced once you bring in your ESG factors, and also attract-ability of your stake is also key.” [Participant Three]

5.9.2.MOTIVATION FROM AN LP PERSPECTIVE

Many PE firms noted that ESG factors are considered in their investment processes as ESG is a requirement of the LP. The results are presented below:

“The other part of it is the largest pension fund in the country, which is our cornerstone investor, has always from the beginning had a strong emphasis on ESG; they wanted us to include it in our reporting, they have essentially said it is a strong part of their overall commitment to the country and, as a result, they need to understand how we incorporate it in our processes.” [Participant Two]

“And I think it probably comes back to the limited partners, probably because it is a requirement from them.” [Participant Four]

“The limited partners insist on ESG.” [Participant Eight]

“That is your primary aim – your LP wants it. That is your primary motivation.” [Participant Eight]

“Because I mean, as the custodian of as an asset owner, we actually have quite a responsibility in that respect, yes.” [Participant 13]

“And the key thing for us for the regulation 15, the factors that we were looking at was firstly what was the spirit and intent of the law – what is the regulation trying to achieve – and for us it was important to go with asset managers that we were of the view complied with that mandate. So really if you look at regulation 15 it is about investment infrastructure, promoting the Namibian economy. It doesn’t necessarily say environmental, social or governance aspects, but it is part of the intention of the legislation.” [Participant 15]

5.9.3. BUSINESS SUSTAINABILITY

The sustainability of businesses, and having a long-term focus in terms of the underlying portfolio companies, was identified as another factor to consider for incorporating ESG. The extracts are shown below:

“Personally for me I believe in sustainably contributing to the broader enterprises, and developing that value chain addition I think is what is relevant for me.” [Participant One]

“The second dimension then would be just what regulation 29 itself provides for bringing forth prudent management, which is then a basis for sustainability going forward. So those aspects I would say provide for promised sustainability of the investment made.” [Participant 12]

“And then you know that manager has essentially killed his business because he wouldn’t be able to source funding from those investors he had the first time, for further rounds of fundraising that he may consider. So that is more of a punitive thing. But practically it becomes very difficult because you know ideally one should have you know first studied your managers quite extensively in the due diligence process before you appoint them, so as to make sure that you have comfort, you as the investor have comfort around how this manager goes about applying these principles in practice.” [Participant 13]

“Indirectly they might say it is more sustainable, and I guess you have to explain to your member that you have to sacrifice a little bit on performance to look at the bigger picture.” [Participant 14]

“Because if you manage this responsibly and effectively, business will be successful. It is just common sense, and for me I am a big believer in sustainability, I always tell the guys working in the factory, that our goal should not be to feed us, our goal should be that our children can feed their children.” [Participant 16]

“So I think for us the biggest one is that it is just good business practice.” [Participant Five]

“And obviously I think in the long-term, when investment companies get that type of investment from the investor, they also engage with their clients in that manner; so you kind of pass on the value system.” [Participant One]

“The critical one is to try and mitigate risk, or not mitigate but to understand where risks are and then understanding whether in fact further mitigation is in fact possible – yes, or no.” [Participant Ten]

“And you know in the long run, companies that apply this will end up being better investments, I have no doubt in my mind about that.” [Participant 13]

“So everybody looks at the company to really focus on sustainability for the long run. Yes, we need to be profitable, we have shareholders, we have funds that are invested in us, so that is always the big picture that you need to look at; you can’t disregard or discard the interests of the other stakeholders.” [Participant 16]

“If you can take care of the environment you are going to have a business in 25 years. If you take care of your employees and do everything then you are going to have a business in 25 years. So for me the overriding factor is it is good business practice.” [Participant 16]

5.9.4. GLOBAL TRENDS

From the transcribed interviews, the researcher noted that participants highlighted a growing global trend in ESG. See below commentary from the participants:

“I think when you look at where the world is moving to now, these things are happening, and sooner rather than later these things will come.” [Participant Three]

“But one must also take note of the times in which we live and this was frowned upon a few years ago but it is not being frowned upon any more.” [Participant Four]

“Anything that is new has a challenge in its own, so you just have to adapt, and if you don’t adapt you are going to stay behind because the rest of the world is going to move past you.” [Participant Four]

“We need to be a bit more engaged even with knowing where the current trends are within the other markets and through that you develop and become stronger and make sure that you operate at a level you should be operating at.” [Participant Seven]

“Understanding where we are from a developmental point of view as an economy in Namibia and looking at the global markets what is considered to be the right thing to do vs the wrong thing to do, philosophically and otherwise, I think you want to err on what is the right thing to do and want to be transparent, morally sound, make sure there is integrity to the processes and the way you operate” [Participant Ten]

“I think in terms of final comments, ESG is a buzz word now, it is a way to go and we have to.” [Participant 11]

5.9.5. PRIVATE EQUITY FIRM REPUTATION

Participants highlighted that ESG is about differentiating PE firms from each other and building a reputable business in the PE industry. The extracts are showcased below:

“It is becoming a differentiating brand.” [Participant One]

“Well it gives your company a very good standing, in terms of transparency.” [Participant Seven]

“So that option is not on the cards, but the betting with private equity vehicles in Namibia, being such a captive market environment assessment, is really around the fact that people would always want, or managers would always want, to raise an additional fund and further funds down the line, and so it is more really of a threat, a veiled threat, that if they don’t do it along those lines and this comes out and it eventually has the chance, you know it is very likely that if they don’t take these ESG factors into account in how they invest, that it will come out in the wash. It will come out.” [Participant 13]

5.9.6. SOCIO-ECONOMIC DEVELOPMENT

Socio-economic development was identified as another reason why PE firms would consider integrating ESG. This is incorporated into the investment mandates of PE firms as reflected in Table 7. The results are presented below:

“Yes, and then I think in terms of individuals, our clients get the benefit of really starting at ground zero and growing – which is probably more of a commercial benefit – but it is a commercial benefit that has significant social impact in the communities that these people live in; so we believe that we contribute to local economies.” [Participant One]

“Yes, I am one of those people that believes that business is kind of a part of every community, just like everybody else is a part of that community. So I believe business has a role to play in that community – whether it is hiring locally, whether it is giving people the right kind of benefits, like for example medical aid, so that people can actually take themselves to the doctor if they have a health issue.” [Participant Two]

“[You] need to look at the broader impact that you have in the society in which you function, so that the society can ultimately support your growth. So I think for us, I mean as I said upfront the E bit is the one that is a bit different, but we feel that the S and the G is just something that you need to do, to know that you are investing in a solid company, that you have the proper decisions being made, that really is creating growth and employment in the country – sort of part of our DNA.” [Participant Five]

“To stimulate economic growth as well, where you want to start off with trying to grow the local economy.” [Participant 11]

5.9.7. VALUE-SYSTEM OF PRIVATE EQUITY FIRM

PE firms want to be seen as responsible corporate citizens in the market in which they operate, hence them incorporating ESG practices to invest and operate in a responsible manner. The results are presented below:

“I think when you look at profits alone it’s merely one element of business. I think what happens is it distracts you from everything else that has the ability to add value.” [Participant Two]

“So I think that any normal corporate citizen would consider those.” [Participant Six]

“So for us we want to be seen as a responsible corporate citizen. We try to make our decisions in the best interests of our members. So ESG I think from an investor perspective to us is very important because our members hold us accountable.” [Participant 15]

5.10. RESEARCH RESULTS FOR RESEARCH QUESTION FIVE

What is needed for the development of ESG integration within the private equity industry?

The aim of this question was firstly, to understand the challenges the PE firms face from the perspective of developing and implementing ESG practices within their businesses, and secondly, to understand what could be recommended for the development of ESG integration within the PE industry.

5.10.1. ESG CHALLENGES

The following challenges were noted by participants with regards to the development and implementation of ESG within the PE industry.

5.10.1.1. COST IMPLICATIONS

The participants noted that developing and implementing ESG will result in additional costs. The results are presented below:

“But in the short term, obviously ESG is also at a cost.” [Participant 14]

“[I] think implementing these ESG factors is costly as a fund manager because your LPs do not want to pay for it. When I say they do not want to pay for it, just look at the management fee we get from the LPs. I mean you go for a fee of 3% and they will bring you down to 1.5%.” [Participant Three]

*“And that is where to an extent I have to outsource – and outsourcing is not cheap.”
[Participant Three]*

*“And then the cost aspect, I mean there is a cost aspect to it, so it is weighing up the
cost benefit and explaining that to whoever placed the costs.” [Participant Four]*

“There is a cost element.” [Participant Seven]

*“So you see this requires resources to be able to report on these things to keep track of
these things and report on what you have done.” [Participant Seven]*

5.10.1.2. ACCESS TO DATA

The participants noted that with developing and implementing ESG practices there is a limitation regarding access to data concerning ESG. The challenges which the participants expressed are below:

*“Look, from an investor company’s perspective, that information is difficult. Small
business owners don’t keep statistics, don’t keep records, and don’t really want to write
down a lot of stuff. So mining the information can be a challenge.” [Participant One]*

*“It is trying to, you know, make a case for something in an environment where you may
not have enough data or research related to it.” [Participant Two]*

*“Because you know you may have a lack of sector-specific data, and so if you have a
lack of sector-specific economic data then it just puts you at a bit of a disadvantage
when you are trying to make an argument based off facts and figures. So I would say
that is probably the biggest challenge. But that is generally Namibia.” [Participant Two]*

5.10.1.3. ACCESS TO SPECIALISTS

Another challenge noted by participants was the fact that the PE firms may not have the necessary expertise or access to the expertise to deal with the ESG aspect in relation to their investment practices. The views are presented below:

“You won’t be able to have all those in-house sort of specialists to look at these issues.” [Participant Three]

“But what we do is we consult, we outsource certain aspects of the legs of ESG in terms of how do we comply with the ESG issues.” [Participant Three]

“From the industry side they might also find they are lacking skills in terms of pulling off these investments.” [Participant 11]

5.10.1.4. SIZE OF PRIVATE EQUITY FIRMS & INVESTMENT FUNDS

The researcher deduced a constant theme throughout the interviews conducted in relation to the size of the PE firm teams. The consensus was that the PE teams are small, as are the investment funds managed. This impacts the extent to which ESG can be integrated within investment practices. The results are presented below:

“So you would not be able to sort of encompass all the ESG principles purely as a function of the smallness of the funds.” [Participant Three]

“So that is the biggest challenge: the size of the fund that we manage. It is too small to warrant the all-out, full ESG factors. And also just the expertise in the market, in our small markets.” [Participant Three]

“So we have been running with quite a small team and actually just haven’t had the capacity with everything going on, to focus on it.” [Participant Five]

“The point I am making is the more funds and the more our footprint becomes bigger, both from the present funding perspective, all of this will obviously also grow in terms of the ESG and the budget allocated to it, the awareness that needs to go to it, and hence that being entrenched as part of organisational culture.” [Participant Seven]

5.10.1.5. MEETING INVESTOR RETURNS

The challenge presented here is that ESG is sacrificed for the purpose of meeting investor return expectations. The results are presented below:

“I think it depends on what the pressures are on private equity fund managers. So, from an internal perspective, if you are being managed for sales numbers or you have to promise the sales or return, then I think it becomes challenging because a certain project might not necessarily give the return.” [Participant 15]

“I think it is a balance between the financial aspects and your ESG. So I think that would be a challenge. And then also it depends on the investment philosophy. So what is important to that specific private equity as a business – do they want to be known for their returns or do they want to be known as a responsible corporate citizen?” [Participant 15]

5.10.1.6. LACK OF INCENTIVES FOR ESG

The lack of incentives for developing and implementing ESG practices presents another challenge for PE firms not wanting to integrate ESG. The results are presented below:

“But currently in Namibia we do not have incentives for ESG.” [Participant Seven]

“Possibly lacking in terms of other policies or in terms of a better way of incentivising such opportunities, the emergence of such opportunities.” [Participant 12]

“I think you know one of the issues is probably the way our legislation is written currently. I think it is written in a form where people think they are just needing to comply with what it says there. So what I picked up is that a lot of asset managers’ view is that you need to invest between and 1.75% and 3.5 % of your total and that’s it.” [Participant 15]

5.10.1.7. ESG PROCESS FORMALISATION

Executing and implementing ESG practices also presents a challenge. There is an indication that the necessary ESG policies may be in place but the incorporation of the policies into the investment practices presents a challenge. The results are presented below:

*“It will be about convincing portfolio companies of the importance of making the capital investments in ESG that will actually contribute to their long-term sustainability.”
[Participant Two]*

“It is probably formalising it as a process. I mean, just to an extent we have been doing it all along; in essence we are just creating another layer of work, so it is how do you incorporate this into existing process, as opposed to just adding another layer of five extra pages of whatever it is you have to do? So I think once it is in place it should be relatively simple but the incorporation into your existing processes is the biggest problem.” [Participant Four]

5.10.2. RECOMMENDATIONS FOR ESG DEVELOPMENT

As part of the research interviews, participants were requested to share any additional thoughts on the research topic, with the aim of identifying what can be implemented and developed from the perspective of encouraging ESG practices in the PE industry. The results are presented below:

“I think going forward in our markets, they are smaller markets, I think it would be pretty much easier for us smaller fund managers to come together and identify these ESG issues, and then use some sort of a common resource to address some of these issues. Because I mean, it won’t make any sense for me to employ someone on a permanent basis.” [Participant Three]

“I think it is a topic that probably needs to be brought out a lot more from an educational or from a developmental, a continued professional developmental perspective. And other than that I think it is a function of integrating into your processes wherever you are and whatever processes you follow it is important that you integrate it into those and start living it, and as we start living it and mirroring it out to the outside world through our networks, we may create further opportunities on it. So from an industry perspective I think it may be something worthwhile pursuing by calling an industry training session or workshop, where we ask the industry players ‘are you interested in coming for let’s say a due diligence kind of workshop with a particular focus on ESG-related issues’.” [Participant Ten]

“But we acknowledge that you perhaps need some add-ons that would address the burning constraints impacting on that space. And there are a host of factors, but we guess some are critical – [the] collateral aspect is quite critical, scarce issues are critical – and therefore one needs from the policy angle also to see how you address the skills development part and how you put up maybe a facility that helps with capacity development associated with what unlisted investments can also offer.” [Participant 12]

“Because if we decide to have our assets that we invest do the talking for us and if we are not happy with certain things for that, to then show what we like and what we do not like. So it is just educating ourselves and then being bold and implementing.” [Participant 13]

“RI is a good development. Institutional investors like ourselves need to follow through on our responsibility that we have in making sure that the commitments that we have signed up to are actually implemented.” [Participant 13]

“I think what I picked up when we were evaluating equity fund managers and portfolio managers and all these unlisted ones, was that a lot of them were not focusing on the intent behind the legislation.” [Participant 15]

“This forms part of your value system so it is not something that you do today or bring in people and say, ‘Listen guys we need to look at the environment and tomorrow morning we walk out and don’t practice what we preach’. So it needs to be part of your value system. And then when it is part of your value system people must understand what you want to address in your value system. And then you need to start living it as management and then you need to start driving it down to all the employees. It is not something that you do, even if it is part of your value system, it is not something that you do once and it is done, you don’t give people a piece of paper and say, ‘This is your values, thank you and there you go and now it is part of things’. It is really something that you need to live and live and experience and have people talk about. It is basically a continuous process and even with that, from my personal experience, it takes years.” [Participant 16]

5.11. CONCLUSION

In the following chapter, insights obtained through the results presented in Chapter 5 are pinpointed and emphasised in conjunction with the existing literature presented in Chapter 2. Chapter 6 will use the results from Chapter 5 to either confirm or invalidate existing literature on ESG integration within the PE industry and use that as a basis to gauge the extent of ESG integration within the PE industry from another market perspective, namely Namibia.

6. CHAPTER SIX – DISCUSSION OF RESULTS

6.1. INTRODUCTION

The previous chapter presented the results pertaining to the research questions posed in Chapter 3, which concentrated on how RI is incorporated within the PE industry in Namibia. In this chapter, the results are discussed in relation to the literature review conducted in Chapter 2. The results are based on the 17 interviews that were conducted.

The structure followed in Chapter 5 is maintained, allowing the discussion in this chapter to follow the questions that were explored and displayed in Chapter 5.

The five research questions that are discussed in this chapter are:

Research Question One: How are ESG factors integrated at a private equity firm level?

Research Question Two: How are ESG factors incorporated at a portfolio company level?

Research Question Three: What is the level of engagement with investors from an ESG perspective?

Research Question Four: What motivates the private equity firm to account for ESG issues in their investments?

Research Question Five: What is needed for the development of ESG integration within the private equity industry?

6.2. OVERVIEW OF PRIVATE EQUITY INDUSTRY IN NAMIBIA

It has been concluded that Namibia's PE industry is still in its infancy stage; a fact affirmed by Dhlamini and Giamporcaro (2012). It was also concluded that the

investment funds managed by PE firms are mostly generalist funds. With the introduction and promulgation of regulation 29 – albeit that this regulation is still in its early stages of development – a large number of UIMs in Namibia commenced business. One of the key intentions of regulation 29 was to provide a framework for the management of the unlisted investment space and to allow for a sound environment of prudent management.

The results presented indicate that the PE industry in Namibia is specifically regulated through regulation 29 in terms of the business activities of PE firms. This is different to many other Southern African countries where the activities of PE firms are not specifically regulated.

Linking ESG with regulation 29, Participant 11 stated: *“I think in terms of the regulation itself it is somehow silent – not very silent but in terms of ESG it doesn’t really come out so strongly”*. It is concluded that regulation 29 does represent some elements of ESG. This is supported by the key responsibilities of directors of the UIMs as described in regulation 29 (Ministry of Finance, 2013):

“must conduct its business in a responsible way and not engage in practices which would prejudice the interests of investors, special purpose vehicles, portfolio companies and other stakeholders”

“must promote and maintain ethical standards of conduct and deal fairly and honestly with investors, special purpose vehicles, portfolio companies and other stakeholders”.

Cornelli et al. (2015) are of the view that future pressures may come from government and regulators to incorporate ESG practices. No evidence was provided that future regulation would specifically consider ESG from a PE perspective.

6.3. RESEARCH QUESTION ONE

How are ESG factors integrated at a private equity firm level?

6.3.1.AWARENESS OF ESG

The results showed that there is an awareness of ESG integration within PE firms in Namibia. Furthermore, the evidence demonstrated that some of the UIMs prescribe to the principles of RI of UNPRI, with one LP being a signatory to the UNPRI.

Martindale et al. (2016) made the argument that although PE firms have made commitments to RI, implementation thereof has not been effectively performed. Although there exists an awareness of ESG, a question arises regarding whether PE firms implement ESG practices. The results indicated that only five of the UIMs interviewed had formal policies, questioning whether ESG practices are followed and implemented during the investment processes. Based on the results, the argument is that PE firms do consider ESG in their investment processes, though the procedures for implementing ESG practices are not necessarily formalised.

Lyudvlg et al. (2016) and White et al. (2014) argued that the commitment and endorsement of leadership teams is important for ESG integration. Although awareness of ESG was shown by PE firms, the participants have not demonstrated a strong commitment and support for ESG integration. Lyudvlg et al. (2016) further asserted that when engaging with portfolio companies, PE firms should demonstrate their willingness to engage deeply to ensure that ESG is not merely a checklist exercise.

6.3.2.TEAM DEVELOPMENT ON ESG

It was deduced from the results that the teams of the PE firms are small, impacting their level of ESG integration. The results further demonstrated that certain aspects of ESG are usually outsourced. Firstly, this extends the argument that small PE firms have the challenge of being able to afford additional staff for managing ESG integration (Gilbert, 2014), and secondly, that GPs usually consult experts in areas where they themselves lack the necessary expertise to attend to ESG factors (Dhlamini & Giamporcaro, 2012).

Limited training on ESG by PE firms was observed through the results presented. The argument given by participants was that the size of the PE firms – being small – provided for greater communication and transparency among team members on ESG

practices as well as on-the-job training. Those PE firms affiliated with a South Africa firm had an advantage compared to fully owned Namibian firms, due to the potential training offered by their South African counterparts. Crifo and Forget (2013) asserted that there is a scarcity of ESG integration proficiency, supported by the evidence that limited training exists on ESG practices. This is further validated by Cornelli et al. (2015) and Hayat and Orsagh (2015), who confirmed that the ESG expertise of the PE investors and portfolio companies remains a challenge.

6.3.3. ESG AND THE INVESTMENT MANDATE

In focussing on the ESG pillars, the results showed that the ESG pillar preference differs from one PE firm to another. The evidence demonstrated that one of the key reasons for this is the investment mandate of the investment funds which the PE firm manages. The observation made by the researcher is that there is a greater preference for the governance and social pillars. The observation affirmed (White et al., 2014) who stated that ESG considerations differ from GP to GP with regards to investment decision-making, as some GPs focus more on the environmental aspects, while others focus more on the social and governance aspects.

The higher preference for the governance pillar is supported by Crifo et al. (2015), who substantiated that managing governance issues is crucial for PE firms. Kaplan and Strömberg (2009) and Klein et al. (2013) argued that one of the characteristics of PE firms is governance engineering – how PE firms are actively involved in governance matters compared to the boards of public companies.

The focus on the social pillar extends the view of White et al. (2014), who asserted that ESG can act as a means of impacting local communities to a greater degree with emerging markets, especially from a social perspective. This is underpinned by the view of Participant Five: *“So the S side of thing[s] is part of our being”*.

The researcher deduced that the investment mandate by which the PE firms are guided and managed does address ESG practices (refer to Table 7 for specific reference). This signalled that RI behaviour is expected from PE firms and that performance will most likely be measured against the investment mandates by LPs. This is inconsistent with the argument by Martindale et al. (2016) that RI principles are not embedded in investment mandates.

6.3.4. CONCLUSION

In conclusion, there are factors that impact the level of ESG integration at a PE firm level. There is an awareness of ESG within PE firms and that PE firms do consider ESG in their investment practices, although the procedures for implementing ESG practices are not necessarily formalised.

One of the biggest drivers of ESG integration appears to be the investment mandate of the investment funds that the PE firms manages. However, there are a few limitations on ESG integration, such as the size of the PE firms in the Namibian market and the limited training offered by said firms. Sievänen et al. (2013) argued that ESG issues should be addressed in investment policy statements and ESG-related tools, metrics and analyses be developed, including advocating for ESG training for investment professionals.

6.4. RESEARCH QUESTION TWO

How are the ESG factors incorporated at a portfolio company level?

The research question assessed ESG integration at the post-investment stage – how the PE firms encourage and support ESG integration at a portfolio company level. The results showcased that the PE firms are involved at a portfolio company level, post-investment stage.

6.4.1. ESG EXCLUSIONS

Key to answering the research question was to understand the nature of the business activities of the portfolio companies. Evidence showed that PE firms do exclude certain companies and industries from an ESG perspective. Key exclusions include sin industries, in other words, gambling, liquor-driven businesses, and tobacco-related businesses (refer to table 8 for an indication of the list of exclusions). This showcased that PE firms are demonstrating RI practices.

During the results analysis with regards to ESG exclusions, the following additional observations were noted:

- Firstly, PE firms would not necessarily invest in a portfolio company where the value system of the portfolio company is inconsistent with that of the PE firm.
- Secondly, investments are not considered in companies where there are ethical concerns around the promoter, in other words, the entrepreneur behind the portfolio companies. The deduction made was that this can be extended to the management teams of the portfolio companies.

This extends the research of Giamporcaro and Dhlamini (2015) and Sullivan and Fiestas (2012) from the perspective of screening investments, through either negative or positive screening.

6.4.2. ESG AT POST-INVESTMENT STAGE

The involvement of PE firms post-acquisition at a portfolio company level is dominated by the governance pillar, though consideration is also given to the social and environmental pillars. DBSA and SAVCA (2013) underpinned this by asserting that corporate governance is the biggest value-add by PE firms, with social responsibility and environmental responsibility ranking lower (refer to Figure 2). This aligns with the assertion that managing governance issues is key to PE firms (Crifo et al., 2015). This is further substantiated by PwC (2016), which asserted that, in emerging markets, there is a greater focus on governance than on environmental or social issues.

In answering the research question, one of the participants expressed that a key challenge was convincing the management teams of portfolio companies to invest in ESG practices. This gives an indication that the value of ESG needs to be explained and motivated to the management teams of portfolio companies, to obtain their buy-in. This would mean that the interests of the PE firms and the portfolio companies' management teams need to be aligned. Rossi and Martelanc (2013) asserted that the alignment can be achieved through a performance management system for the management teams of portfolio companies. This is corroborated by a comment from Participant Two: *“So there is a re-education piece and there is a way of showing people how you can actually make their businesses more sustainable by incentivising staff”*.

6.4.3. ESG SUPPORT TO PORTFOLIO COMPANIES

The evidence presented shows that PE firms support portfolio companies more on a strategic level, with limited involvement on a day-to-day operational level. The strategic assistance is usually provided from a board of directors' level of the portfolio companies whereby the board considers ESG from a business perspective. Kaplan and Strömberg (2009) and Klein et al. (2013) asserted that PE firms have the expertise to add value to portfolio companies by influencing the management, strategy and operating performance thereof, effectively supporting portfolio companies at a board of directors' level.

Participant Nine argued that the involvement of PE firms is dependent on the experience of the respective management teams of the underlying portfolio companies, specifying that the business life cycle stage of the underlying portfolio company plays a role in supporting the portfolio companies, with start-up businesses requiring more support. This is validated by Participant One: *“But obviously on other issues like general administration, accounting practices, good governance practices, we try and expose them to training”*.

6.4.4. MONITORING OF ESG PRACTICES AT PORTFOLIO COMPANY LEVEL

Another consideration in answering the research question is how PE firms evaluate and monitor the ESG practices of portfolio companies. The main form of monitoring ESG practices is through board of director meetings, whereby PE firms evaluate and monitor the activities of portfolio companies. The monitoring and evaluation of ESG practices is also achieved through the PE firm's involvement in various committees of the portfolio company, such as the audit, human resources and remuneration committees. This extends the argument of Latini et al. (2014), who stated that PE firms are obliged to play an active role on a larger number of issues, including executive recruiting, mergers and acquisitions, management systems and financial audits.

This is further supported by investor reporting, from the portfolio companies to the PE firms. However, the evidence presented does not overwhelmingly state that ESG is considered when reporting back to the PE firms. The annual budget process of the

portfolio company is another tool presented to monitor portfolio companies, as it can be used to assess whether the budget process allows for ESG to be considered and implemented in the business practices of the portfolio company.

6.4.5. CONCLUSION

In conclusion, certain ESG investment exclusions are considered by PE firms before investing into portfolio companies, demonstrating that PE firms are incorporating RI practices into their portfolio management of investments. In terms of the post-investment stage, the governance pillar is the most dominating feature of PE firms. Support to portfolio companies is mostly provided at a strategic level, although this depends on the business life cycle stage of the underlying portfolio company, be it a start-up, early-stage or mature business.

Evaluating and monitoring ESG practices at the portfolio company level is achieved through the PE firm's involvement at the board of directors' level and sub-committees, such as the audit, human resources and remuneration committees, as well as through the annual budget process and reporting from the portfolio company to the PE firm.

6.5. RESEARCH QUESTION THREE

What is the level of engagement with investors from an ESG perspective?

The aim of this question was to understand the level of engagement between PE firms and LPs from an ESG perspective. This was to understand what the ESG requirements were from the LPs' perspective and how this should be communicated and reported back to them.

6.5.1. ESG FORMALISED REQUEST BY LP

The results showed that with the new mandates of the largest pension fund in Namibia, namely the GIPF, ESG integration has become a formalised request. The GIPF is also a signatory to the UNPRI. This meant that PE firms are required to consider ESG integration in their investment processes. Evidence showed that the GIPF is currently the only pension fund in Namibia that is a signatory to the UNPRI.

With the LPs in Namibia mainly being the pension funds, the results displayed that investors have not been very insisting on ESG factors. Sievänen et al. (2013) asserted that ESG expectations should be communicated from the LPs to the PE firms. Relationships where PE firms fail to incorporate ESG expectations should be revisited. The deduction made was that ESG expectations are not communicated by LPs to PE firms. An observation made by Participant 14 was that very little time is spent on ESG, providing an indication that ESG is not seriously considered by LPs. Sandberg (2011) suggested that legal reform should be imposed on LPs to encourage RI practices, ensuring greater investor interaction between LPs and PE firms.

6.5.2.REPORTING TO LPs

The evidence displayed that PE firms are reporting to LPs by means of quarterly and annual reporting, incorporating certain ESG aspects in their reporting. However, ESG incorporation in quarterly and annual reporting is limited with regards to some PE firms. The researcher reviewed the annual ESG report of Participant Eight, addressing specifically the ESG pillars. Besides the reporting, the results showed that there is dialogue and communication between PE firms and LPs.

6.5.3.CONCLUSION

In conclusion, there is engagement between PE firms and LPs. LPs have not been very demanding on ESG integration, except for the largest pension fund in Namibia, requiring that ESG needs to be considered by PE firms. Reporting to LPs happens on an annual and quarterly basis, incorporating elements of ESG. However, ESG reporting is limited to certain PE firms.

6.6. RESEARCH QUESTION FOUR

What motivates the private equity firm to account for ESG issues in their investments?

The research question aimed to answer the drivers and motivation for PE firms to incorporate ESG into their business and investment practices.

6.6.1.DRIVERS AND MOTIVATION FOR INCORPORATING ESG

- Exit consideration is a factor to contemplate for incorporating ESG, as this will enhance the valuation of the portfolio company upon exit and will assist in attracting potential buyers for the portfolio company. African Venture Capital Association and EY (2013) affirmed this view by asserting that incorporating ESG practices may affect the exit proceeds of PE firms.
- The evidence presented showed that LPs are insisting on ESG. This was demonstrated by the participants themselves, such as Participant Eight: *“The limited partners insist on ESG”*. Crifo and Forget (2013) specifically stated that one of the drivers of ESG is complying with LPs’ demands. What is different to the Namibian PE industry is that most LPs are not demanding ESG integration at present. This may be because Namibia’s PE industry is currently still in the infancy stage.
- Ensuring the sustainability of businesses, being the portfolio companies, is another consideration – Participant 16: *“So everybody looks at the company to really focus on sustainability for the long run”*. The argument is that ESG is a risk management tool, thereby creating a sustainable business. Lyudvig et al. (2016) argued that ESG is more than a risk management tool; that it is a means of building better companies and thereby ensuring the sustainability of businesses as it affects all aspects of a company. This is affirmed by Blanc et al. (2011), Dhlamini and Giamporcaro (2012), Hayat and Orsagh (2015) and PwC (2016), all of whom agree that risk management is a key driver for PE firms to integrate ESG.
- Global trends suggest that ESG is becoming more important to business. Participant 11 indicated that *ESG “is a buzz word now, it is the way to go and we have to”*. Ng and Rezaee (2015) asserted that business sustainability has emerged as the theme of the 21st century, whereby regulators, investors and firms are increasingly interested in non-financial ESG sustainable performance. Hayat and Orsagh (2015), meanwhile, asserted that a range of laws and

regulations pertaining to ESG issues are already in place, and expect more to come.

- Participant One argued that ESG integration allows the PE firm to be differentiated, in other words, building a good reputation for the firm. Participant 13 extended that incorporating ESG allows the PE firm to be able to raise additional funding later. This is supported by Crifo and Forget (2013) and Ng and Rezaee (2015), who argued that firms which incorporate ESG are more likely to attract funding and differentiate themselves from their competitors.
- Another reason for ESG integration is from the perspective of supporting socio-economic development in the country (refer to Table 7 for an indication of factors supporting socio-economic development). This extends the view of White et al. (2014), who indicated that ESG integration can act as an instrument impacting local communities to a larger extent than developed countries. The researcher notes that in the literature review conducted in Chapter 2 on the drivers of responsible PE, the factor supporting socio-economic development was not identified. This highlights that the reason for ESG integration differs between developed and developing markets.
- Another factor identified by PE firms was that firms want to be seen as responsible corporate citizens in their business activities. This was not identified as one of the drivers of responsible PE as part of the literature review conducted in Chapter 2.

The evidence has not shown that improving ESG integration can reduce the PE firm's cost of equity, allowing cheaper funding. Furthermore, although value creation was not particularly mentioned as a driver of ESG integration by the research participants, the argument is that value creation can be categorised with exit consideration as the PE firm would want to exit at the highest value possible and ESG is a means of achieving this.

6.6.2. CONCLUSION

In conclusion, a number of factors have been identified as the drivers and motivation for ESG. These include exit considerations, LPs insisting on ESG, business

sustainability, global trends, PE firm differentiation and attracting funds, supporting socio-economic development, and being a responsible corporate citizen. The last two factors are additional to the literature review conducted in Chapter 2.

6.7. RESEARCH QUESTION FIVE

What is needed for the development of ESG integration within the private equity industry?

In answering the research question it is important to first understand what the challenges are in developing and implementing ESG integration. The challenges are discussed below.

6.7.1. ESG CHALLENGES

- Developing and integrating ESG has a cost implication for the PE firm. Participant Three highlighted that *“implementing these ESG factors is costly as a fund manager”*. PwC (2016) emphasised this factor, as well as that ESG integration is an additional cost.
- Access to data is another challenge for ESG integration within investment practices. Participant Two highlighted that there is a lack of sector-specific data, putting the PE firm at a disadvantage when making an argument based on facts and statistics. This limited access to data can be attributed to the fact that Namibia is a developing market. Cornelli et al. (2015) stated that there is a difficulty in collecting ESG data. This is substantiated by Hayat and Orsagh (2015) and PwC (2014), who believe that mandatory corporate disclosures provide limited information on ESG-related issues.
- Another challenge presented is access to ESG specialists, indicating the lack of skills. This challenge is impacted by the size of PE firm teams and investment funds. The evidence showed that the teams of the PE firms are small and that due to this, access to in-house specialists is limited. This results in ESG expertise often being outsourced, adding an additional cost to the business. Cornelli et al. (2015) and Hayat and Orsagh (2015) assert that the ESG expertise of PE investors and portfolio companies remains a challenge.

- For PE firms, meeting investor returns remains critical for the success of the PE firm. This represents a challenge for PE firms not engaging in ESG integration at the expense of investor returns. Empirical evidence has shown that ESG considerations would not necessarily adversely affect performance (Hayat & Orsagh, 2015). Bos (2014) substantiated that there is a misconception that RI will negatively impact investment performance, highlighting that the PE industry in Namibia still believes in this misconception. The rationale is thus for PE firms to better understand the drivers and intent for ESG integration, as discussed above.
- ESG integration is impacted by the lack of incentives for ESG in the country. Participant Seven highlighted that *“currently in Namibia we do not have incentives for ESG”*. This provided an argument for PE firms to not consider ESG practices in their investment processes. Lack of incentives for ESG is an additional challenge identified in relation to the literature review conducted in Chapter 2.
- Another challenge presented was that the ESG processes are not formalised by the PE firms in their investment practices, meaning that ESG is not necessarily implemented by the PE firms.

In relation to the literature review on the challenges to ESG integration was the fact that ESG issues do not add value to investment decision-making. No such mention was made by the participants, contradicting PwC (2016), which asserted that the value added by RI was rated lower in emerging markets than developed markets.

6.7.2. RECOMMENDATIONS FOR ESG DEVELOPMENT

In answering the research question, a few suggestions were made by participants on how to develop and implement ESG practices in the PE industry in Namibia. Due to the diminutive size of PE firms in Namibia and the PE industry itself, and given the limited access to ESG specialists, an argument was made to rather identify and build a common resource within the Namibian market to assist with ESG integration matters for PE firms.

Participant 12 asserted that skills development, from an ESG perspective, should be considered, along with how skills development could be supported from a regulation perspective. This can be addressed from an incentive standpoint. This is supported by Participant Ten, who suggested that ESG should be discussed more from an educational or continued professional developmental perspective. This can be achieved through PE industry training sessions, focussing specifically on ESG-related issues.

Key to propelling Namibia's PE industry to integrate ESG into their investment practices is for LPs to give such mandates to PE firms, incorporating a focus on ESG. LPs need to be bolder and enforce ESG practices on PE firms. Participant 13 indicated: *"So it is just educating ourselves and then being bold and implementing"*.

From an LP perspective, it was found that PE fund managers do not understand the intent and reasoning behind regulation 29, thereby affecting the level of ESG integration by PE firms. The view is that, as mentioned above, it is necessary for PE firms to better understand the rationale, the reasoning and intent of ESG integration.

In developing ESG integration, the value systems of the PE firms become more important. Critical to this is understanding cultural values, as these impact on the investors' preference to account for ESG (Scholtens & Sievänen, 2013). This requires leadership in developing a value system that incorporates ESG practices; something which needs to be driven from top management down to the lower level employees in terms of decision-making and behaviour. This is supported by Lyudvlg et al. (2016), who asserted that ESG issues should simply not be aggregated into top metrics or indicators of companies but need to be incorporated into the detail of a company's operations.

6.7.3. CONCLUSION

In conclusion, before understanding what is needed for the development of ESG integration within the PE industry, it is important to understand the challenges in developing and implementing ESG. These include cost implications for ESG integration, access to ESG data, access to ESG specialists, the smallness of PE firms in Namibia, the expectation of meeting investor returns, and the lack of incentives for ESG. Suggestions were made by the participants on how to develop and implement

ESG practices. One of the main reasons identified was for LPs to become bolder and push the ESG agenda from an investor perspective.

6.8. SUMMARY OF DISCUSSIONS

The results discussion is summarised below, identifying key issues and comparing these to the existing literature.

Table 10: Summary of Discussions

Private Equity and Responsible Investment Developing Market: Namibia		
Topic / Issue	New Observation	Confirmation Existing Theory
Characteristics of PE Market		
Regulatory framework for PE in Namibia (regulation 29)	✓	
Small size of PE firms	✓	
Small size of PE market	✓	
Generalist Funds (Heed, 2010)		✓
Limitation on ESG formalisation (Bailey et al., 2016; Hayat & Orsagh, 2015; Sullivan, 2015)		✓
Limited ESG training and development (Crifo & Forget, 2013)		✓
ESG expertise outsourced (Dhlamini & Giamporcaro, 2012)		✓
LPs not insisting on ESG	✓	
Corporate Governance main area of focus for ESG (Crifo et al., 2015; DBSA & SAVCA, 2013)		✓
ESG driven at strategic level. Involvement at board of director and sub-committee. (Kaplan & Strömberg, 2009; Klein et al., 2013; Latini et al., 2014)		✓
ESG Motivation		
Exit considerations (African Venture Capital Association & EY, 2013)		✓



LPs insisting on ESG <i>(Crifo & Forget, 2013)</i>		✓
Business sustainability <i>(Blanc et al., 2011; Dhlamini & Giamporcaro, 2012; Hayat & Orsagh, 2015; Lyudvlg et al., 2016, PwC, 2016)</i>		✓
Global trends <i>(Ng & Rezaee, 2015; Hayat & Orsagh, 2015)</i>		✓
Reputation of PE firm <i>(Crifo & Forget, 2013; Ng & Rezaee, 2015)</i>		✓
Socio-economic development	✓	
Responsible corporate citizen	✓	
ESG Challenges		
Cost <i>(PwC, 2016)</i>		✓
Access to ESG data <i>(Cornelli et al., 2015; Hayat & Orsagh, 2015, PwC, 2014)</i>		✓
Access to ESG specialists <i>(Cornelli et al., 2015; Hayat & Orsagh, 2015)</i>		✓
Meeting investor returns	✓	
Lack of incentives for ESG	✓	
ESG Integration Development		
Investment mandates incorporating ESG <i>(Sievänen et al., 2013)</i>		✓
ESG exclusions <i>(Giamporcaro & Dhlamini, 2015; Sullivan & Fiestas, 2012)</i>		✓
Development of ESG proficiency (common resource) due to size of PE market	✓	
LPs to propel ESG integration at PE firm level	✓	
Leadership <i>(Lyudvlg et al., 2016, White et al., 2014)</i>		✓
Value system of PE firm <i>(Fugazy, 2014; Scholtens & Sievänen, 2013)</i>		✓

7. CHAPTER SEVEN - CONCLUSION

Chapter 7 incorporates a summary of all the main findings based on the research questions explored within this paper. The chapter reviews the findings on ESG integration within the PE industry in Namibia, with the findings presented in light of the results of the comparative analysis with the existing literature (as discussed in Chapter 6). The chapter further considers the recommendations for supporting ESG integration at a PE industry level, recommendations for academics and future research and the limitations within this research.

7.1. RESEARCH BACKGROUND AND OBJECTIVE

The research sought to understand the extent to which PE firms incorporate ESG into their investment practices, with a specific focus on the Namibian PE industry. PE firms are facing increasing pressure from their investors to consider ESG factors in their investment decision-making (Gilbert, 2014; PwC, 2016). In terms of academic literature, Chelawat and Trivedi (2016) and Galbreath (2013) asserted that most of the ESG studies undertaken to date have been performed in the US and the UK, and that the subject thus remains largely un-researched in the context of emerging economies, which limits the understanding of ESG to only a few countries. This is substantiated by Suman et al. (2012) who identified certain gaps within the literature on PE, including the fact that most academic literature focusses on the US and UK only. The research objective was further supported by Crifo and Forget (2013), who suggested that RI may be restricted to certain countries and that the drivers and maturation may differ between PE markets.

The research explored the extent to which ESG factors are integrated in PE, at both PE firm and portfolio company levels. The research was expanded to understand ESG requirements from an LP perspective, including understanding the drivers and motivation for ESG integration, and understanding the challenges of ESG development and implementation. The literature review supported the research objective through investigating what responsible PE is, the barriers and drivers of responsible PE, and discussing the development of an ESG integration framework.

7.2. MAIN FINDINGS

PE is a nascent industry in Namibia, with the main regulatory framework, set out in regulation 29. The intention of this regulation is to provide a framework for the prudent management of the unlisted investment sector. It appears that Namibia is the only country within the Southern African region, where the business activities of PE firms' are specifically regulated. It was concluded further that regulation 29 does not address ESG specifically, nonetheless there is an argument that certain aspects of ESG are included. The research has found no evidence that ESG would be addressed in future regulatory amendments. The argument of Cornelli et al. (2015) is that pressure may come from government and regulators to incorporate ESG practices.

Martindale et al. (2016) asserted that although PE firms have made commitments to RI, the implementation thereof has not been effectively performed. Indeed although ESG is considered by PE firms in their investment practices, the procedures and processes for implementing ESG have not necessarily been formalised.

ESG integration at the PE firm level in Namibia is affected by a number of factors:

- Firstly, the size of the PE firms in Namibia. The small size of the PE firms limits the depth of ESG integration. ESG expertise is usually outsourced.
- Secondly, there is limited ESG training offered by PE firms, a reflection of the scarcity of ESG skills (Crifo & Forget, 2013). Notwithstanding this, the research indicates that the smallness of the PE firms provides for greater communication and transparency among team members on ESG practices, as well as on-the-job training.
- Lastly, the level of ESG integration is affected by the investment mandates of the investment funds that the PE firms manages.

PE firms have demonstrated RI practices from the perspective of ESG investment exclusions. These investment exclusions include not investing in any sin-related industries, such as gambling, liquor-driven businesses and tobacco-related businesses (refer to table 8 for more detail). Another key exclusion presented by the evidence was

not to consider investments where there are ethical concerns around the promoter, entrepreneur or management teams of portfolio companies.

The research findings with regards to ESG integration at a portfolio company level are summarised below:

- Firstly, the biggest aspect of ESG integration is corporate governance, which is seen by PE firms as the biggest value driver (DBSA & SAVCA, 2013).
- Secondly, the support provided by PE firms is mostly at a strategic level, although this depends on the stage of the business life cycle of the underlying portfolio company. This result is consistent with the work of Kaplan and Strömberg (2009) and Klein et al. (2013), who found that PE firms have the expertise to add value to portfolio companies by influencing the management, strategy and operating performance thereof.
- Lastly, the monitoring and evaluation of ESG practices is mainly achieved through the PE firm's involvement at the board of directors' level and at sub-committee level, such as the audit, human resources and remuneration committees.

It would appear that the LPs have not been very demanding on ESG integration, except for the largest pension fund in Namibia, requiring that ESG be considered by PE firms. It would also appear that reporting on ESG specifically is limited to certain PE firms.

Several drivers for ESG integration were identified through this research, including exit considerations, LPs insisting on ESG (Crifo and Forget (2013) specifically asserted that one of the drivers of ESG is complying with LPs' demands), business sustainability, global trends, PE firm differentiation, and attracting funding. From a Namibian market perspective, ESG integration was seen as a means of supporting socio-economic development in the country. White et al. (2014) argued that ESG integration can act as an instrument impacting local communities to a larger extent than in developed countries. PE firms also want to be seen as responsible corporate citizens, thereby encouraging ESG integration.

However, a number of challenges were identified in developing and implementing ESG integration, including additional cost for ESG integration, access to data (Cornelli et al. (2015) asserted that there is difficulty in collecting ESG data), access to ESG specialists, the smallness of PE firms in Namibia, sacrificing investor returns in favour of ESG integration (this is highlighted by the fact that the Namibian PE industry still believes in the misconception that RI will negatively impact investment performance (Bos, 2014)), and the lack of incentives for ESG.

7.3. RECOMMENDATIONS FOR THE PRIVATE EQUITY INDUSTRY

The research has found that due to the small size of PE firms and the PE industry itself in Namibia, and given the limited access to ESG specialists, it is recommended that the PE industry identify and build a common resource (a consulting firm that provide ESG expertise) within the Namibian market to assist with ESG integration. This aims to address the challenge of securing ESG expertise for PE investors and portfolio companies (Cornelli et al., 2015; Hayat & Orsagh, 2015). This approach can also to be applied to other small PE markets such as Namibia.

Although there is already some level of awareness of ESG in PE firms, it is recommended that ESG practices be formalised and implemented as part of the PE firms' investment process. Furthermore, reporting on ESG to LPs should be encouraged. PE firms should be encouraged to follow best practice ESG disclosures. This recommendation again applies to PE markets in developing countries.

LPs should be educated on the intention and benefits of integrating ESG, especially given that the LPs have not been very insistent on ESG best practice in Namibia.

- LPs should be encouraged to sign on as a signatory of UNPRI. This action will create a greater level of ESG awareness among LPs.
- Given the main LPs in Namibia are the pension funds, ESG education should be targeted at the board of trustees of these pension funds, thus ensuring that the ESG agenda is given top priority.

- LPs should insist on ESG practices being incorporated into the investment mandates of PE firms. This is key to encouraging RI practices within the PE industry.

The research found that PE firms have given little to no consideration as to the fact that improving ESG integration could reduce a PE firm's cost of equity, thereby allowing for cheaper funding. Indeed, there seems to be a misconception that RI will negatively impact investment performance (Bos, 2014). For this reason, there is a need to raise awareness in the PE community about the potential benefits of ESG integration, including financial benefits (such as a potential reduction in the cost of equity).

The research found that there was a lack of incentive for ESG integration. It is therefore recommended that the PE industry strives to understand what these incentives entail and lobby with the regulator with regards to possible incentive measures that would encourage PE firms to incorporate ESG practices within their investment practices.

Advocating ESG at a PE firm level requires a certain mind-set in terms of investment practices. This would need to be driven by the value-system of the PE firm. Scholtens and Sievänen (2013) found that cultural values impact on the investor's preference to account for ESG issues. Key to developing a value-system and creating a culture in the PE firm that incorporates ESG practices, is the need for it to be driven by the leadership of the respective PE firm. The research has found that the PE firms have not demonstrated a strong commitment and support for ESG integration. In order to promote best practice, ESG needs to become a way of doing business for PE firms.

7.4. RECOMMENDATIONS FOR ACADEMICS AND FUTURE RESEARCH

Considering that, till now, most of the literature on ESG integration within PE is focused on developed markets such as the US and the UK (Chelawat & Trivedi, 2016; Galbreath, 2013), academic literature is required in understanding ESG integration within PE from a different market perspective such as developing markets. Although this research has contributed to understanding ESG integration from a different market perspective, more contribution is required from academics on the subject matter, as most of the RI academic work has focussed primarily on public financial markets, with

limited reviews of ESG-related issues in the PE sphere (Cornelli et al., 2015; Crifo & Forget, 2013). It is also expected RI will grow in importance (PwC, 2016).

The research found that the PE industry is specifically regulated in Namibia. However, due to the regulation being introduced only recently, future research should understand what the potential benefits would be in regulating the PE industry on the Africa continent, and study what impact such regulation would have on the level of ESG integration within PE firms.

The research results show that the drivers and motivation for ESG integration within the PE industry differed between developed markets and developing markets. Further research should focus on better understanding these drivers and motivations for ESG integration between developed markets and developing markets.

The research has not specifically assessed the level and extent of ESG disclosure by PE firms to LPs. Future research should focus on the level and extent of ESG disclosure, specifically in developing markets, so as to assess what best practice can be implemented or what can be learnt from ESG disclosures.

7.5. LIMITATIONS OF THE RESEARCH

The main limitations of the research, as discussed in Chapter 4 are summarised below:

- The researcher could not access all the registered UIMs due to the lack of response from some of these.
- Purposive sampling was used with specific reference to the LPs and portfolio companies. Purposive sampling involves judgement and may have introduced researcher bias.
- The researcher had limited experience in conducting interviews, which may have resulted in extracting sub-quality information during the first few interviews.
- The PE industry is a competitive industry. This could have limited the information that was shared during the interviews by the PE firms' participants.

- This was the first time the researcher was exposed to the process of coding. This may have contributed in the limitations within this research.
- In terms of the results presented in Chapter 5, although PE firms have made investments into portfolio companies, most of the PE firms are still in the investment mode stage. This may have limited the understanding of ESG integration at a portfolio company level post-investment.

7.6. CONCLUSION

This research has created greater awareness of ESG integration within the PE industry, particularly in developing markets such as Namibia. The research also provided a new market perspective (in this case Namibia) on ESG integration compared to more developed markets such as the US and UK. It is hoped that more studies will be conducted focusing on other developing PE markets.

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APPENDICES

APPENDIX 1: INTERVIEW CONSENT FORM

*I am conducting research on responsible investment within the private equity industry in Namibia, and am trying to find out more about the extent to which private equity firms incorporate ESG factors in their investments, pre-investment and post investment. Our interview is expected to last about an hour, and will help us understand ESG integration within the private equity industry. **Your participation is voluntary and you can withdraw at any time without penalty.** Of course, all data will be kept confidential. If you have any concerns, please contact my supervisor or me. Our details are provided below.*

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Research Supervisor Signature

Research Supervisor Name: Dr Eric Soubeiga

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Phone: +27 83 467 0112

Signature of participant: _____

Date: _____

Signature of researcher: _____

Date: _____

APPENDIX 2: INTERVIEW GUIDE

Private Equity Investors (UIMs) – Semi-Structured Interview Questions (Blanc, Cozic, Hobeika, & Gerain, 2011; Crifo & Forget, 2013)

Focus Area: ESG Focus at a Management Firm Level

- Please provide a brief background on your company.
- What private equity investments has your fund made?
- Have you formalised a policy on how you take into account Environmental, Social and Governance (ESG) criteria into your portfolio and/or investments?
- To whom is the ESG policy communicated?
- Are co-workers trained in ESG issues management and how is training conducted?
- How is ESG performance measured and evaluated by the company?

Focus Area: ESG Focus at a Portfolio Company Level

- Do you exclude from your investments any specific industries and specific policies that are reprehensible? Please explain.
- What means do you use to evaluate ESG practices in companies?
- How do you support your portfolio companies to implement ESG policies?
- Has an ESG evaluation of a company led you to decline an investment or decrease the value of a target company? Any specifics to the scenarios?
- How do you ensure ESG criteria are taken into account in the companies in which you invest?

Focus Area: Investor Engagement

- What ESG reporting processes are implemented and how is this communicated to investors?
- Do your LPs ask you how you manage ESG issues?
- If yes, how have LPs formalised the request?

Focus Area: Motivation

- What are the reasons for taking into account ESG issues in your investments?
- What are the challenges in developing and implementing ESG?

Regulator – Semi-Structured Interview Questions

- Please provide a brief background on the regulator with respect to the private equity industry.
- What is the main regulation governing the private equity industry?
- What was the reason and intent for the introduction of the regulation? (In other words, why was there a need for introduction of the regulation?)
- What key behaviours does the regulator expect from private equity firms?
- How do you monitor private equity firms to ensure compliance with the regulation?
- Are you aware of any significant challenges that the private equity industry is facing from a global perspective?
- From an ESG perspective, how is regulation geared to ensure ESG integration, especially due to global market trends?
- What is the level of engagement between the regulator and private equity firms and what agenda drives these engagements (is it mainly governance, implementing of best practices)?
- What possible policy initiatives might be introduced to better regulate the industry?

Limited Partners – Semi-Structured Interview Questions

- Please provide a brief background to your mandate/objective as an organisation.
- What is the main regulation by which the organisation is governed?
- What are the challenges you face with the regulation, if any?
- Do you belong to any international standards or industry association that promotes responsible investment?
- How are ESG factors incorporated within your organisation?
- What drives and motivates the organisation to implement ESG within the organisation?
- What are the challenges with integrating ESG within the organisation and with carrying out your mandate?
- What is the level of engagement with private equity firms concerning ESG integration?

- How do you monitor ESG integration at the private equity firm level?
- In your view, are private equity fund managers considering ESG within their investment practices?

Portfolio Companies – Semi-Structured Interview Questions

- Please provide a brief background on the organisation.
- What is the main reason for getting the private equity firm on board?
- What is the current percentage holding held by the private equity firm?
- What is the level of representation by the private equity firm on the board?
- How is ESG integrated within the organisation?
- How and to what extent is ESG driven by the private equity firm?
- What value has been added to the organisation since the private equity firm came on board?
- What is the level of engagement with the private equity firm on ESG integration?
- What drives and motivates the organisation to implement ESG integration?
- What best practices can be implemented to ensure ESG integration?

APPENDIX 3: CONSISTENCY MATRIX

TITLE: Private equity and responsible investment in Namibia

RESEARCH QUESTIONS	LITERATURE REVIEW	DATA COLLECTION TOOL	ANALYSIS
RESEARCH QUESTION ONE: How are the ESG factors integrated at a private equity firm level?	(Biermans et al., 2014; Bos, 2014; Crifo & Forget, 2013; Lyudvlg et al., 2016; PRI Association, 2016; Sievänen et al., 2013; White et al., 2014)	Appendix 2 - Interview Guide - Semi-Structured Interviews (PE Firms)	Thematic Analysis. Content Analysis. Constant Comparison Analysis. Atlas.ti. - computer-aided qualitative data analysis software
RESEARCH QUESTION TWO: How are the ESG factors incorporated at a portfolio company's level?	(Bos, 2014; Crifo & Forget, 2013; Dossani, 2012; Kaplan & Strömberg, 2009; Klein et al., 2013; Latini et al., 2014; Sievänen et al., 2013)	Appendix 2 - Interview Guide - Semi-Structured Interviews (PE Firms, Portfolio Companies)	Thematic Analysis. Content Analysis. Constant Comparison Analysis. Atlas.ti. - computer-aided qualitative data analysis software
RESEARCH QUESTION THREE: What is the level of engagement with investors from an ESG perspective?	(Cheng et al., 2014; Crifo & Forget, 2013; KKR, 2014; Ng & Rezaee, 2015; Sandberg, 2011; Sievänen et al., 2013)	Appendix 2 - Interview Guide - Semi-Structured Interviews (PE Firms, Regulators, LPs and Portfolio Companies)	Thematic Analysis. Content Analysis. Constant Comparison Analysis. Atlas.ti. - computer-aided qualitative data analysis software
RESEARCH QUESTION FOUR: What motivates the private equity firm to account for ESG issues in their investments?	(Cheng et al., 2014; Crifo & Forget, 2013; Galbreath, 2013; Ghoul, Guedhami, Kwok, & Mishra, 2011; Girerd-Potin et al., 2014; Hayat & Orsagh, 2015; Kaplan & Strömberg, 2009; Lyudvlg et al., 2016; Ng & Rezaee, 2015)	Appendix 2 - Interview Guide - Semi-Structured Interviews (PE Firms, Regulators, LPs and Portfolio Companies)	Thematic Analysis. Content Analysis. Constant Comparison Analysis. Atlas.ti. - computer-aided qualitative data analysis software
RESEARCH QUESTION FIVE: What is needed for the development of ESG integration within the private equity industry?	(Blanc et al., 2011; Lyudvlg et al., 2016; Ng & Rezaee, 2015; Scholtens & Sievänen, 2013; Sievänen et al., 2013; White et al., 2014; Zarutskie, 2010)	Appendix 2 - Interview Guide - Semi-Structured Interviews (PE Firms, Regulators, LPs and Portfolio Companies)	Thematic Analysis. Content Analysis. Constant Comparison Analysis. Atlas.ti. - computer-aided qualitative data analysis software

APPENDIX 4: ETHICAL CLEARANCE LETTER

Dear Mr Jakob de Klerk

Protocol Number: **Temp2016-01073**

Title: **GIBS - Application for Ethics Clearance - J de Klerk**

Please be advised that your application for Ethical Clearance has been APPROVED.

You are therefore allowed to continue collecting your data.

We wish you everything of the best for the rest of the project.

Kind Regards,

Adele Bekker