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Venture capital and private equity investors' impact on the sustainability of Finnish companies

ESG impact study September 2024

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Introduction

Private equity and venture capital investors, as active owners, play a crucial role in shaping the development of their portfolio companies, including their sustainability practices and impact on society.

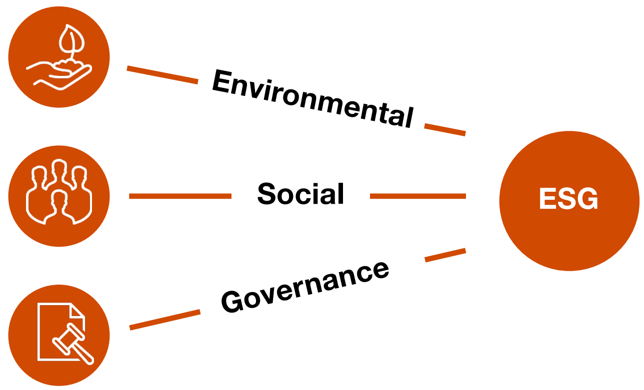
This report aims to provide an overview and, for the first time, quantify the impact of private equity and venture capital investments on the sustainability of portfolio companies in Finland. The selected metrics represent the most common indicators used to evaluate sustainability factors in business operations.

Sustainability, or ESG (Environmental, Social, and Governance) factors, are increasingly important in investment decisions, as they drive value creation and help mitigate risks. For private equity and venture capital investors seeking superior returns, focusing on sustainability is a key factor in creating value.

Environmental factors include a company's impact on the environment, including its practices related to climate change, pollution, resource use, and biodiversity.

Social factors relate to how a company manages relationships with employees, customers, suppliers, and the communities in which it operates, focusing on aspects like labor rights, diversity, and community engagement.

Governance factors relate to a company's leadership, business ethics, and overall transparency, including practices related to anti-corruption, shareholder rights, and internal controls.



Key insights

Over 90% of Finnish private equity (PE)-backed companies have implemented at least some ESG policies. Private equity backing has increased the focus on ESG, with the share of firms having at least one relevant ESG policy rising from 57% in 2021 to 90% in 2023 during private equity ownership.

The number of companies measuring CO2e emissions has dramatically increased under private equity backing. The carbon intensity of portfolio companies backed by Finnish PE investors is also significantly lower than the European benchmark.

The proportion of women on the boards of Finnish PE-backed firms aligns with the broader Finnish economy but falls short of the European benchmark. Private equity backing appears to have little impact on the share of female board members during the ownership period.

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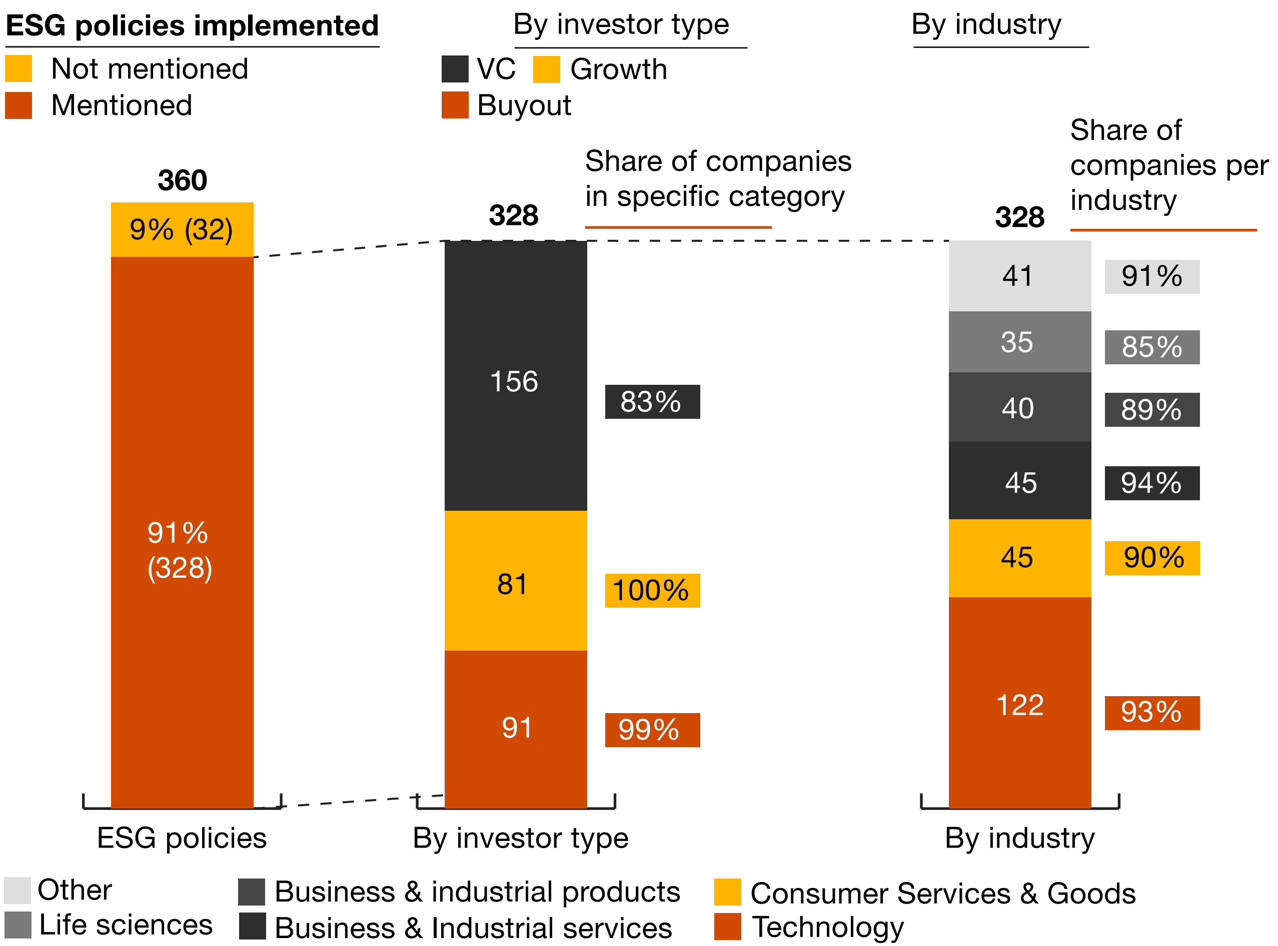
90%+ of all PE-backed companies have implemented ESG policies

Portfolio companies implementing ESG policies, by investor type and industry, 2023, number of companies



In 2023, 328 (91%) of all relevant portfolio companies had implemented at least one ESG policy.

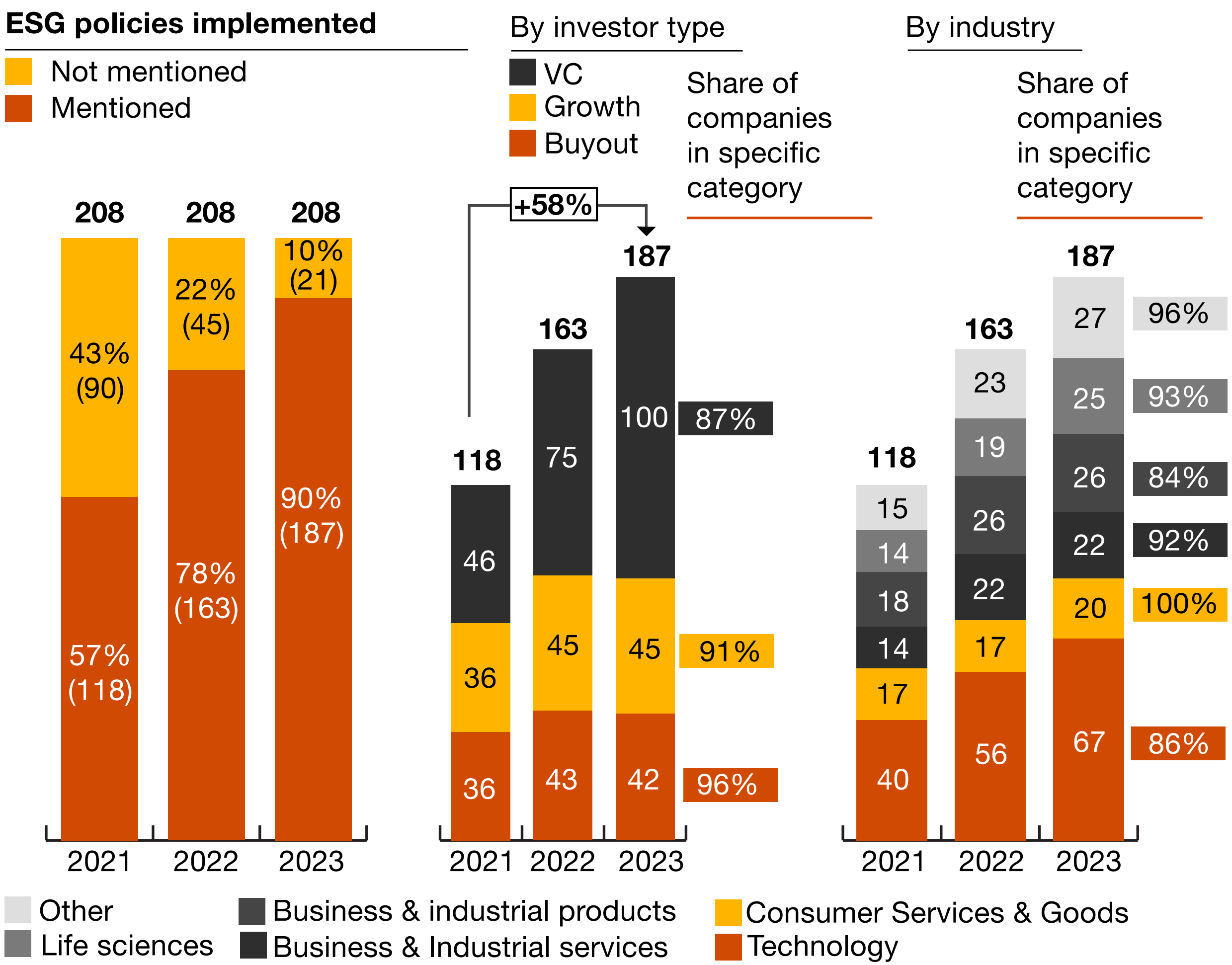
Of the 32 firms that have no ESG policies implemented, 31 are VC-backed, which are smaller by their size and age.

ESG is a source of potential competitive advantage and increases access to funding, but regulation and compliance also drive the development.

As the European CSRD becomes increasingly implemented, regulation is also likely to become stricter, leading to further increased focus on ESG topics.

Private-equity backing increases the focus on ESG

Portfolio companies implementing ESG policies, companies reporting 2021–2023, number of companies



Of the portfolio companies with data for 2021–2023, the share of firms with at least one relevant ESG policy implemented increased from 57% in 2021 to 90% in 2023.

Of the 21 companies with no policies implemented in 2023, 19 are VC-backed, which are generally smaller and younger companies.

Buyout-backed firms implement policies the most, as 96% of all the companies in the survey have implemented policies, which can be explained by their increased size and maturity.

100% of the consumer services & goods companies have at least one policy implemented, but in most industries, 85%+ of all companies have at least one policy implemented.

Social and governance policies widely implemented, room to improve on environmental policies

ESG policies implemented by investor type, 2023, % of portfolio firms

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
VC	36%	27%	7%	20%	3%	10%	5%	13%	100%	10%	41%	37%	26%	55%	35%	36%	21%	35%	45%	55%	10%
Growth	57%	48%	26%	18%	12%	10%	11%	60%	98%	43%	78%	60%	54%	94%	68%	75%	47%	78%	67%	74%	35%
Buyout	65%	51%	23%	69%	17%	32%	2%	67%	100%	53%	64%	74%	41%	88%	79%	66%	66%	64%	71%	73%	30%

1) Corporate Responsibility / Sustainability Policy

2) Environmental Policy

3) Environmental Management System

4) Calculation of greenhouse gas (GHG) emissions

5) Emissions data reviewed/ audited by 3rd party

6) GHG emission reduction target

7) Net-zero target

8) Energy consumption monitoring

9) No activities in the fossil fuel sector

10) Waste amount monitoring

11) Anti-discrimination and equality policy

12) Diversity plan/policy

13) Written salary and remuneration policy

14) Regular employee survey

15) Whistleblower and grievance procedure

16) Work community development plan

17) Human rights policy

18) Anticorruption & bribery policy

19) Cyber security risk management programme

20) Code of Conduct

21) Supply-chain screening for ESG-related issues

% implemented per investor type

- <40% implementation
- 40-60% implementation
- >60% implementation

Notes: Number of implementations per policy varies from 0 to 150 depending on the investor type and policy; Excluding all companies with less than 10 employees

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Private equity-backing increases the focus on ESG as can be seen by the increased number of firms with implemented policies

Average change in ESG policies implemented for companies reporting 2021–2023 by investor type, 2021–2023, percent point change

	1	4	8	10	12	13	14	20	21
VC	40	19	15	8	31	26	36	51	5
Growth	44	4	71	20	27	42	22	47	0
Buyout	56	51	42	27	36	13	27	44	4

1) Corporate Responsibility / Sustainability Policy

4) Calculation of greenhouse gas (GHG) emissions

8) Energy consumption monitoring

10) Waste amount monitoring

12) Diversity plan/policy

13) Written salary and remuneration policy

14) Regular employee survey

20) Code of Conduct

21) Supply-chain screening for ESG-related issues

Change per investor type

- <0pp
- 0-20pp
- >20pp

Notes: Number of implementations per policy varies from 0 to 150 depending on the investor type and policy; Excluding all companies with less than 10 employees; Includes only policies that were included in the questionnaire for both 2021 and 2023

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Room for improvement in implementing environmental policies in portfolio companies

Environmental policies implemented by investor type,
2023, % of portfolio firms

	2	3	4	5	6	7	8	9	10
VC	27%	7%	20%	3%	10%	5%	13%	100%	10%
Growth	48%	26%	18%	12%	10%	11%	60%	98%	43%
Buyout	51%	23%	69%	17%	32%	2%	67%	100%	53%

2) Environmental Policy

3) Environmental Management System

4) Calculation of greenhouse gas (GHG) emissions

5) Emissions data reviewed/ audited by 3rd party

6) GHG emission reduction target

7) Net-zero target

8) Energy consumption monitoring

9) No activities in the fossil fuel sector

10) Waste amount monitoring

% implemented per investor type

- <40% implementation
- 40-60% implementation
- >60% implementation

Through the CSRD (Corporate Sustainability Reporting Directive), various environmental topics have become increasingly regulated – such as measurement of GHG emissions and energy. However, CSRD is only mandatory for companies with >250 employees.

This can explain the low implementation rates for especially VC-backed companies, as they are often small and recently established.

The EU Taxonomy also touches upon many different environmental topics but is only seen as a source of guidelines and recommendations rather than mandatory regulation.

The high implementation rates of energy consumption monitoring can partially be explained by the energy crisis in 2021.

Notes: Number of implementations per policy varies from 0 to 150 depending on the investor type and policy; Excluding all companies with less than 10 employees
Source: The European Comission

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Private equity-backing increases the focus on environmental topics such as emission, energy and waste monitoring

Average change in E policies implemented for companies reporting 2021–2023 by investor type, 2021–2023, p.p. change

	4	8	10
VC	19	15	8
Growth	4	71	20
Buyout	51	42	27

4) Calculation of greenhouse gas (GHG) emissions

8) Energy consumption monitoring

10) Waste amount monitoring

Change per investor type

- <0pp
- 0-20pp
- >20pp

There exists data limitation in the years between 2021–2023; hence, there are few measurable policies.

In the three policies measured, there is a clear increase in implementation with most policies having p.p. improvements of above 20%.

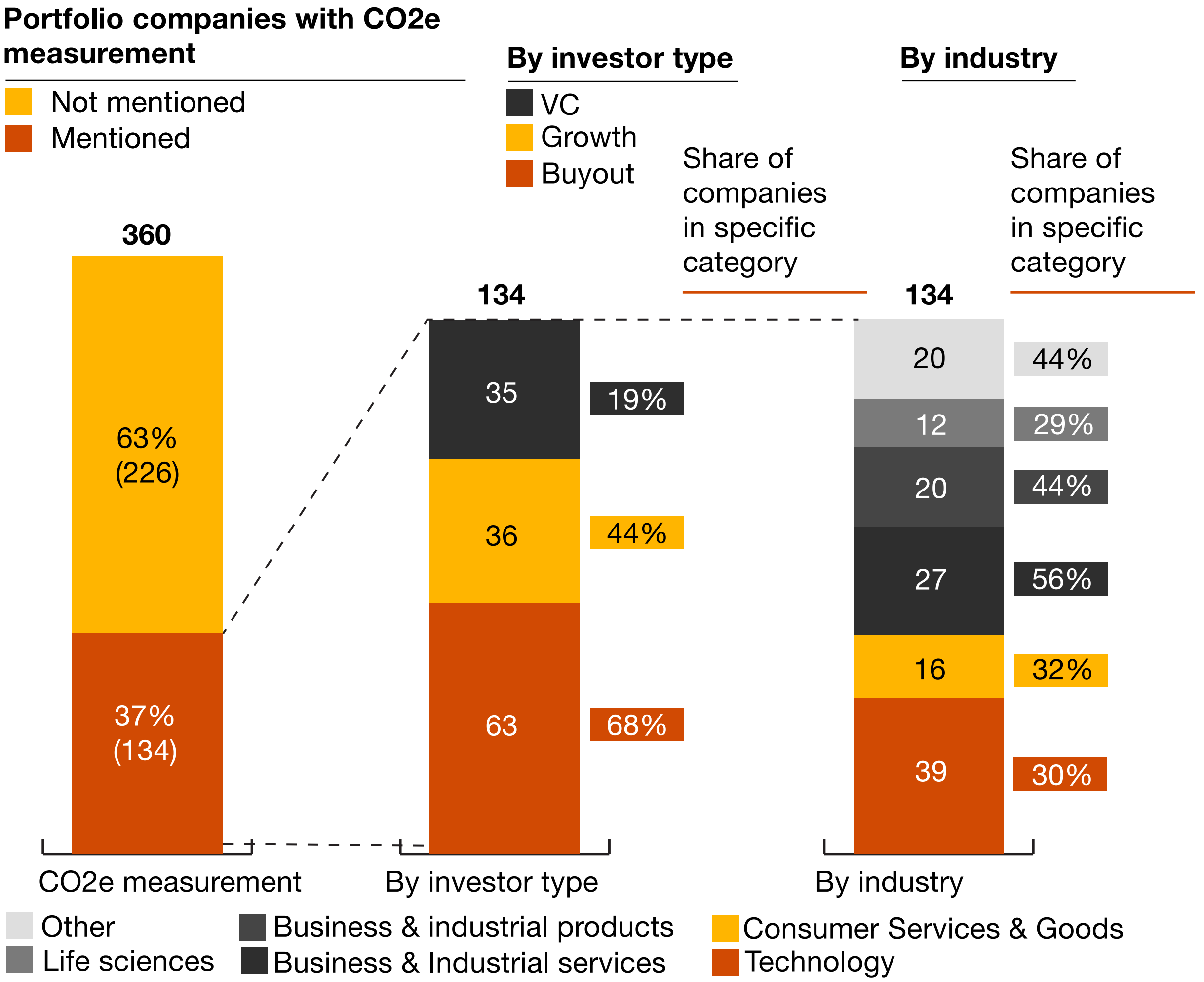
In particular, energy consumption monitoring has increased heavily since 2021, which can be explained by the energy crisis in 2021, when energy prices soared and became a hotly discussed topic globally.

The number of buyout-backed companies measuring GHG emissions has increased heavily, which might be explained by CSRD-regulation, which is likely to affect buyout-backed companies that grow over the limit of 250 employees.

Notes: Number of implementations per policy varies from 0 to 150 depending on the investor type and policy; Excluding all companies with less than 10 employees; Includes only policies that were included in the questionnaire for both 2021 and 2023

In 2023, 37% of all companies measured CO2e emissions (combined scope 1, 2 and 3)

Portfolio companies measuring CO2e, by investor type and industry, 2023, number of companies



134 (37%) of all companies measured CO2e.

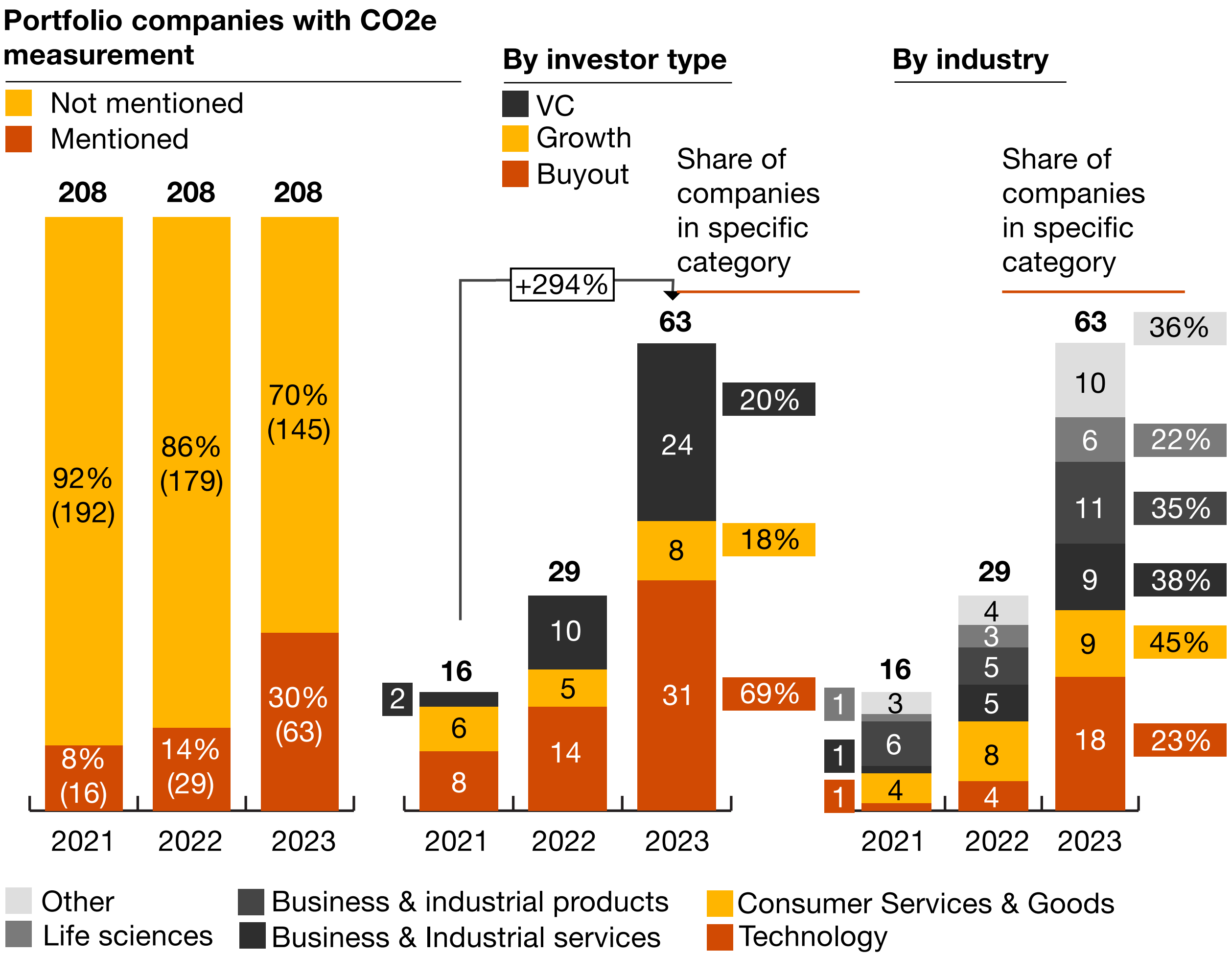
Of those firms, 63 are buyout-backed, which is 68% of all buyout-backed firms in the sample.

Technology industry has the largest number of companies reporting, but CO2e reporting is more common in industries such as business and industrial services and products.

Notes: Excluding all companies with less than 10 employees; Combined scope 1, 2 and 3 measurement

Number of companies measuring CO2e has dramatically increased under private-equity backing

Portfolio companies measuring CO2e, reporting 2021–2023,
number of companies



For the portfolio companies reporting data for 2021–2023, the number of firms measuring CO2e has increased from 16 companies in 2021 to 63 companies in 2023.

The 63 firms that do measure CO2e exhibit no common characteristics, varying both by industry and size.

Buyout-backed firms measure the most CO2e, both in absolute and relative terms, which can be explained by their increased size.

Notes: Excluding all companies with less than 10 employees; Combined scope 1, 2 and 3 measurement

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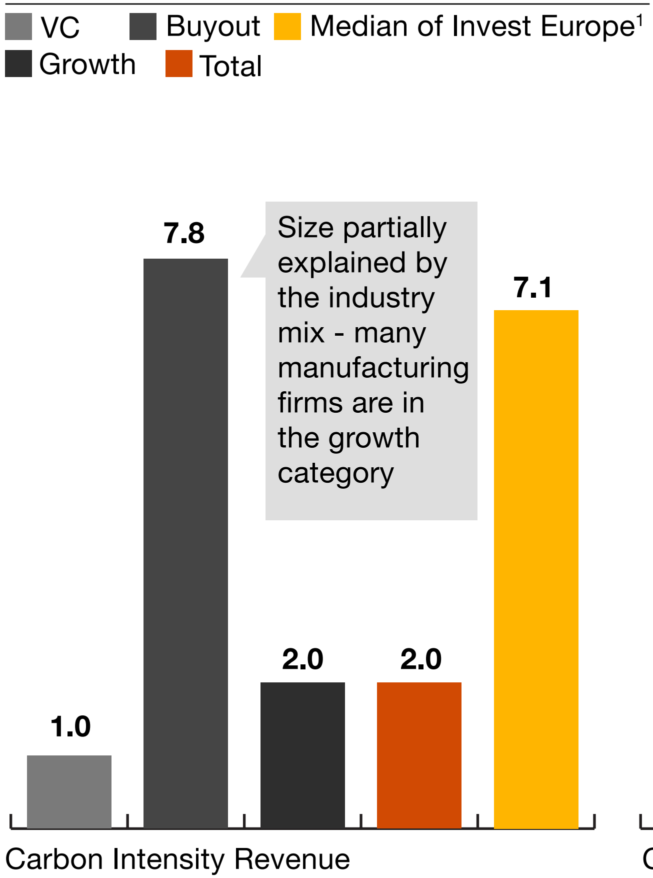
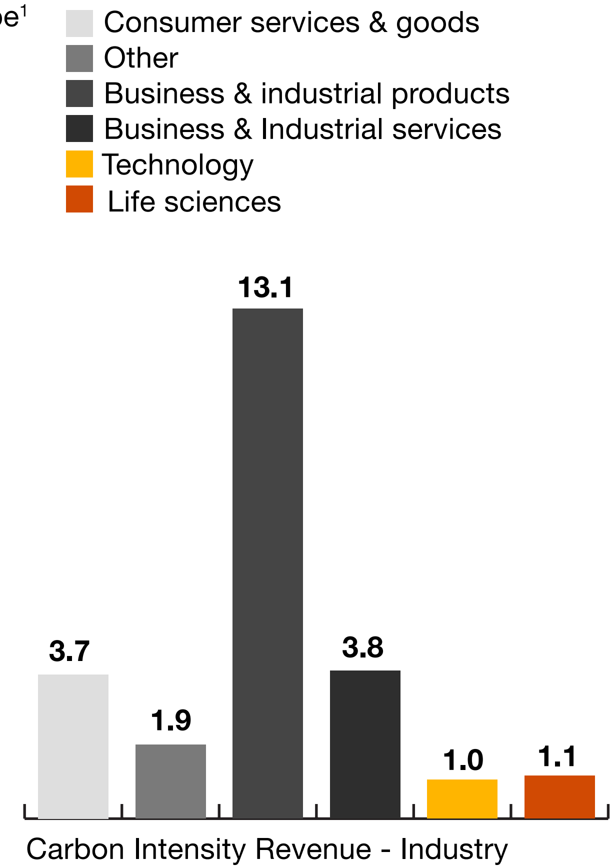
Carbon intensity by revenue significantly lower compared to European benchmark

Median carbon intensity by revenue per investor type and industry, 2023, tCO2e per €M

Median carbon intensity by revenue by investor (tCO2e per €m), 2023



By industry



Carbon intensity is defined as tonnes of CO2e per €M of revenue.

Median carbon intensity in the sample is 2 t/€M. This is clearly lower than the 7 t/€M in European PE-backed companies, as shown by Invest Europe's study from 2022.[1]

Not surprisingly, there are clear differences by industry, with business & industrial products being more carbon intensive

The intensity varies clearly by investor type with growth-backed companies being more carbon intensive. This is partly explained by their industry mix.

1) Invest Europe, 2022. Notes: N = 22/VC, 30/growth, and 58/buyout ; N = 14/Consumer services & goods, 19/Other, 14/Business & industrial products, 25/Business & industrial services, 27/Technology, and 11/Life sciences

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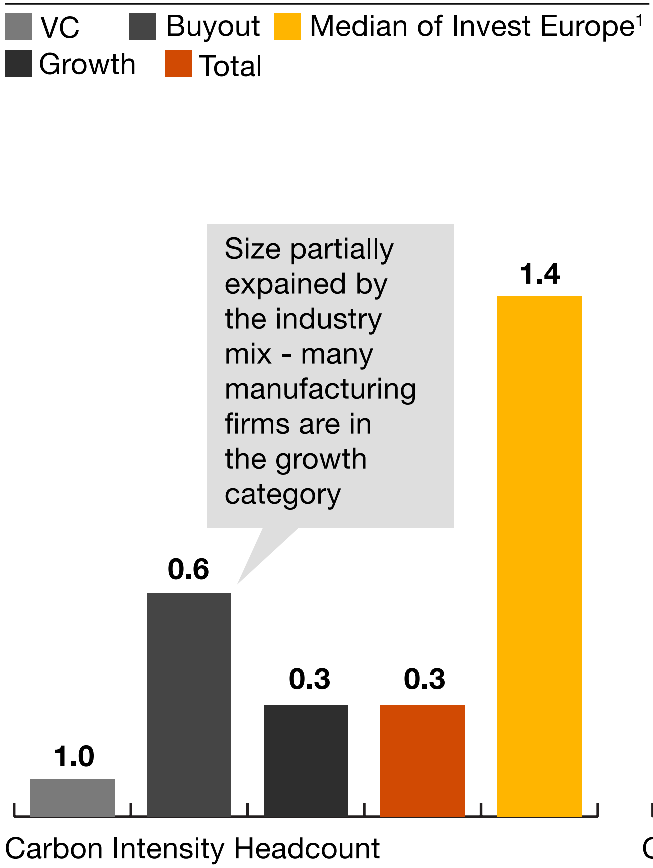
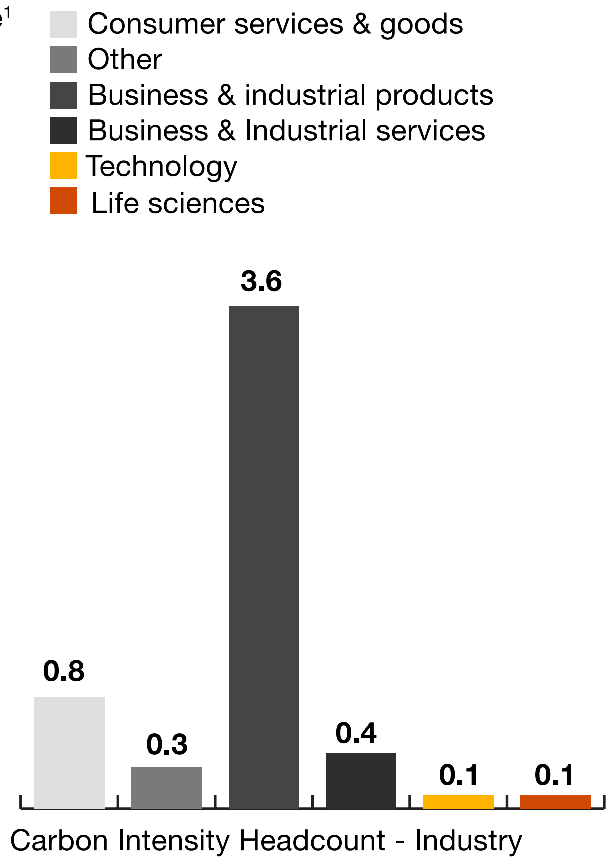
Carbon intensity by headcount significantly lower than in European PE-backed companies

Median carbon intensity by headcount per investor type and industry, 2023, tCO2e per employee

Median carbon intensity by Headcount by (tCO2e per employee), 2023



By industry



Carbon intensity by headcount is determined as tonnes of CO_2e per employee.

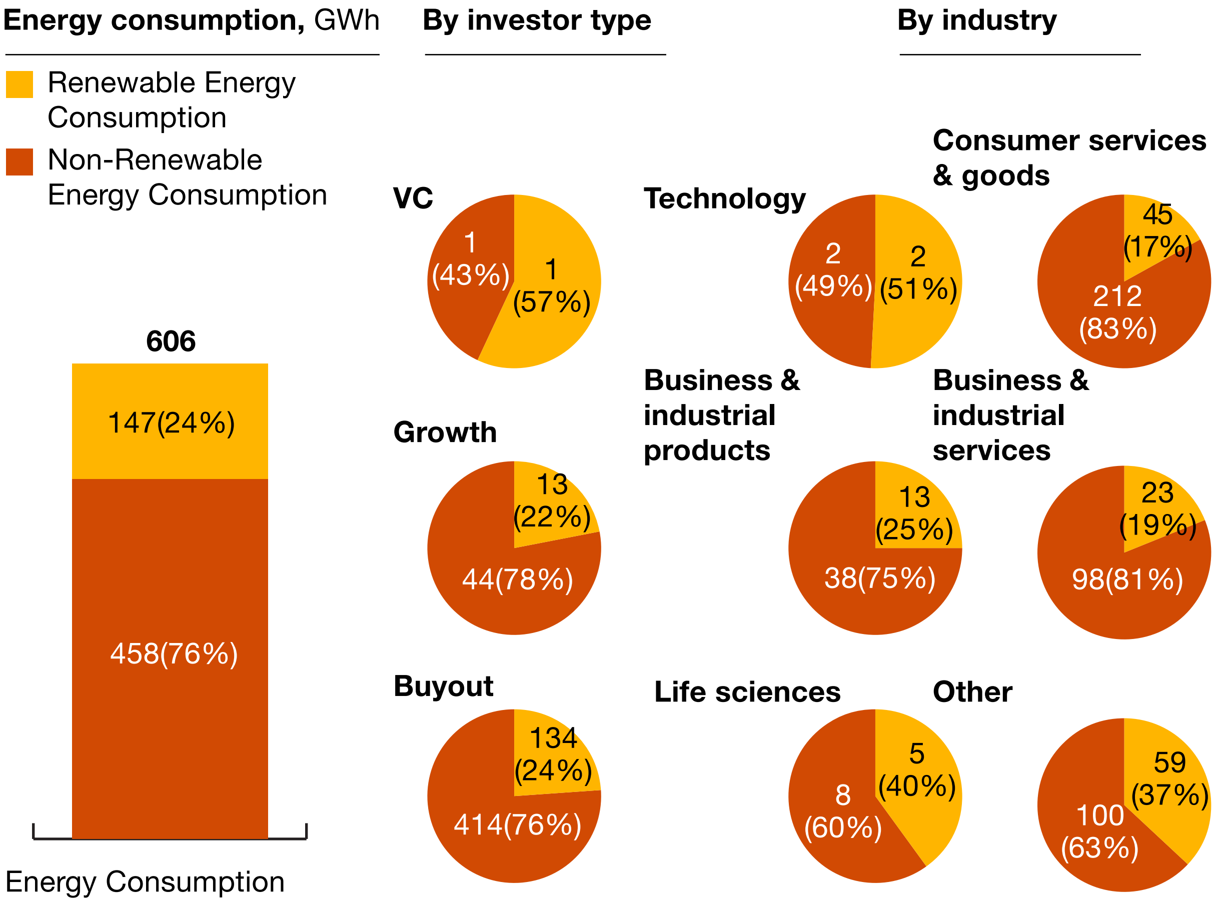
The median for carbon intensity by headcount is 0.3 tCO_2e per employee, with business & industrial products being the highest with 3.6 tCO_2e per employee.

The median of Invest Europe's study from 2022[1] is 1.4 tCO_2e per employee, which is significantly higher than that of Finnish portfolio companies.

1) Invest Europe, 2022. Notes: N = 22/VC, 30/growth, and 58/buyout; N = 14/Consumer services & goods, 19/Other, 14/Business & Industrial products, 25/Business & Industrial services, 27/Technology, and 11/Life sciences;
Excluding all companies with less than 10 employees

24% of all energy consumed by portfolio companies came from renewable energy sources in 2023

Energy consumption in terms of renewable/non-renewable by investor type and industry, 2023, GWh



Total energy consumption of the portfolio companies is 606 GWh, of which 24% (147) is from renewable energy sources.

The share of renewable energy is 57%, 13% and 24% for VC-, growth- and buyout-backed companies respectively.

One explanation for these results is that VC firms are often more focused on technology with lower energy consumption.

There are many manufacturing companies in the growth-backed companies, which can explain their low percentage of renewable energy.

It should be noted that nuclear energy is not counted as renewable so the share of energy coming from fossil fuels is much lower than 76%.

Notes: Excluding all companies with less than 10 employees; N = 11/VC, 31/growth, and 63/buyout; N = 13/Consumer services & goods, 18/Other, 15/Business & Industrial products, 29/Business & Industrial services, 22/Technology, and 8/Life sciences

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Large focus on policies concerning social issues – especially in growth and buyout-backed firms

Social policies implemented by investor type,
2023, % of portfolio firms

	11	12	13	14	15	16	17
VC	41%	37%	26%	55%	35%	36%	21%
Growth	78%	60%	54%	94%	68%	75%	47%
Buyout	64%	74%	41%	88%	79%	66%	66%

11) Anti-discrimination and equality policy

12) Diversity plan/policy

13) Written salary and remuneration policy

14) Regular employee survey

15) Whistleblower and grievance procedure

16) Work community development plan

17) Human rights policy

% implemented per investor type

- <40% implementation
- 40-60% implementation
- >60% implementation

In general, we see very high implementation rates for all social policies – especially in growth- and buyout-backed companies.

Work community development plan is mandatory under Finnish legislation for companies >20 employees.

Having a written salary policy is mandatory for companies >100 employees through EU directives – in 2026 it will become mandatory for all.

Having an anti-discrimination policy is mandatory for bigger companies in Finland.

Notes: Number of implementations per policy varies from 0 to 150 depending on the investor type and policy; Excluding all companies with less than 10 employees

Private equity-backing improves the implementation of social policies

Average change in S policies implemented for companies reporting 2021–2023 by investor type, 2021–2023, p.p. change

	12	13	14
VC	31	26	36
Growth	27	42	22
Buyout	36	13	27

12) Diversity plan/policy

13) Written salary and remuneration policy

14) Regular employee survey

Change per investor type

- <0pp
- 0-20pp
- >20pp

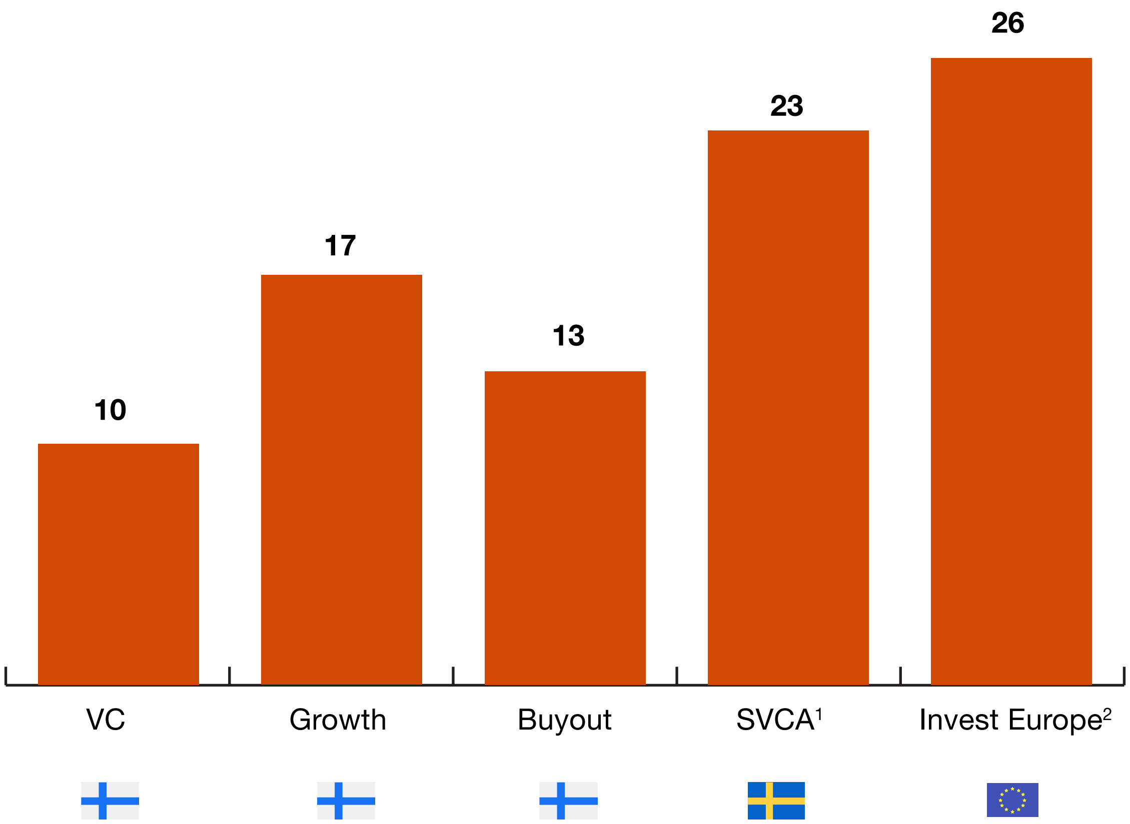
Since 2021 all measurable policies have increased in level of implementation – most of them above 20 p.p.

Significantly more companies have implemented a diversity plan/policy, which highlights the focus of portfolio companies on becoming more diverse in their organisations.

Notes: Number of implementations per policy varies from 0 to 150 depending on the investor type and policy; Excluding all companies with less than 10 employees;
Includes only policies that were included in the questionnaire for both 2021 and 2023

Share of women on boards significantly below Swedish and European portfolio firms

Average share of women on boards, %



The share of women on the boards of private equity-backed firms can be compared internationally, for example, to Swedish companies or a broader group of European PE-backed companies.

Internationally Swedish Venture Capital and Private Equity Association published a study of 95 companies, in which 23% of board members were women[1].

Invest Europe has also published a study on European PE-backed companies, in which 26% of board members were women.

In Finland, the proportion of women on the boards of such companies is clearly below the levels seen in Sweden and Europe.

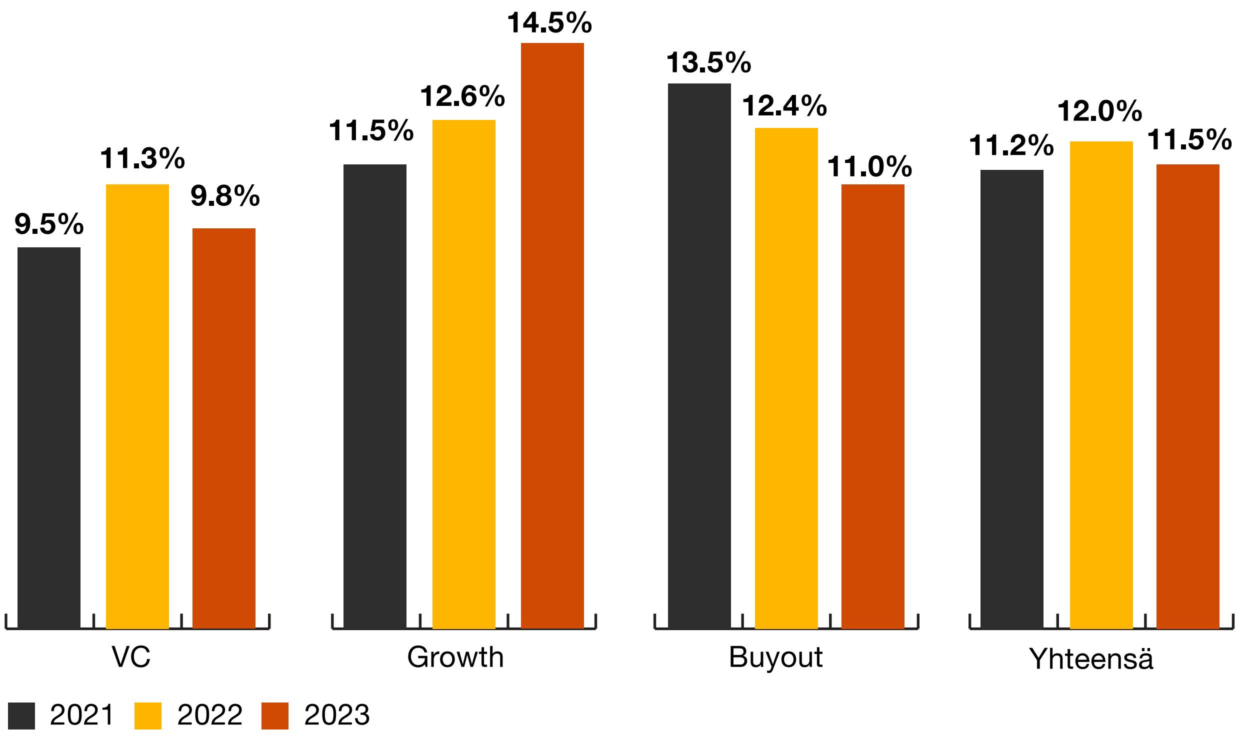
1) SVCA: The ESG Status of Swedish Private Equity (2023).

2) Invest Europe (2024)

Notes: Excluding all companies with less than 10 employees;
N = 430/total, 241/VC, 94/growth, and 95/buyout

Private equity backing has little impact on share of female board members during ownership period

Average share of women on boards with companies reporting for 2021–2023 by investor type, %



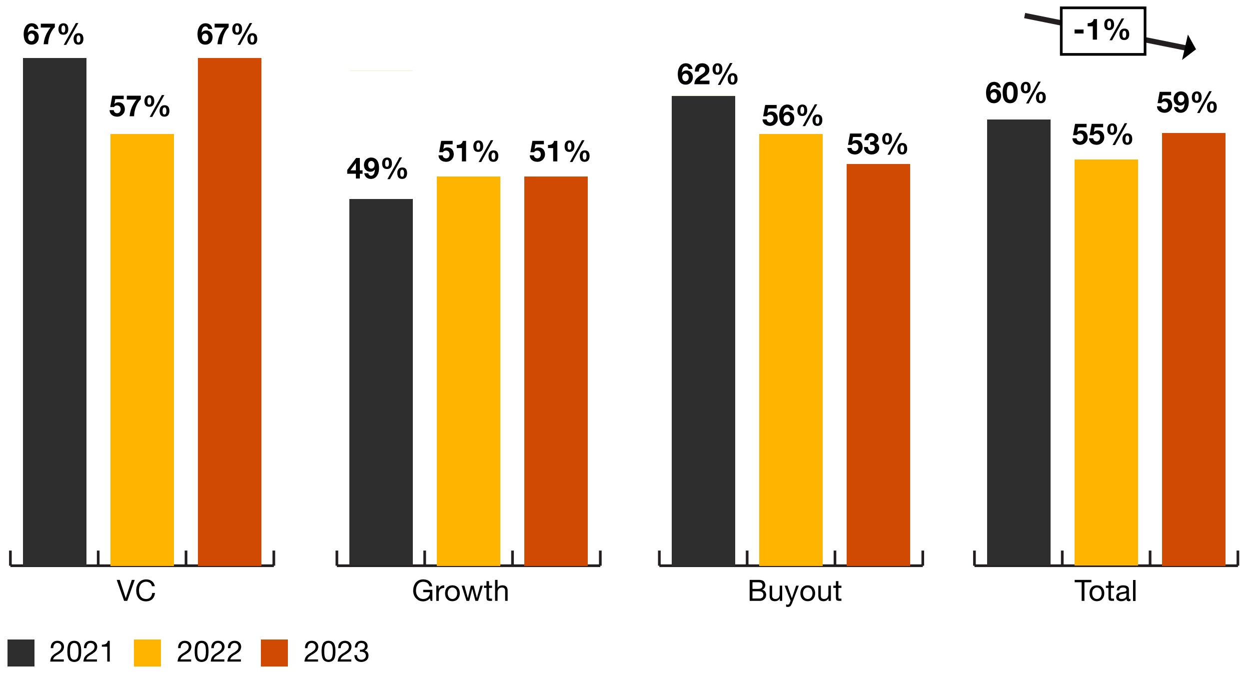
When focusing on the subset of companies that have reported their figures for the three consecutive years 2021–2023, we can better see the impact that private equity investors have on the companies they own. Within these firms the average share of women has changed very little over the years.

There are differences between investment classes, with buyout-backed firms showing a negative trend with the share of women decreasing from 13.5% to 11.0%, and growth-backed firms showing a positive trend with the share of women increasing from 11.5% to 14.5%.

Notes: Excluding all companies with less than 10 employees; Includes only firms with data for all the years 2021–2023; N = 54/VC, 35/growth, and 34/buyout

More than half of all portfolio companies reporting 2021–2023 have no female board members

Average share of companies with no female board members reporting 2021–2023, %



The share of companies with no female board members has been quite steady slightly above 50% over the years.

VC-backed firms have significantly more work to do in terms of board diversity compared to other investor types, as ~2/3 of all firms have no female board members.

Buyout is the only investor type that shows an improvement over the years, dropping 9 p.p. from 62% to 53%.

Notes: Excluding all companies with less than 10 employees; Includes only firms with data for all the years 2021–2023; N = 54/VC, 35/growth, and 34/buyout

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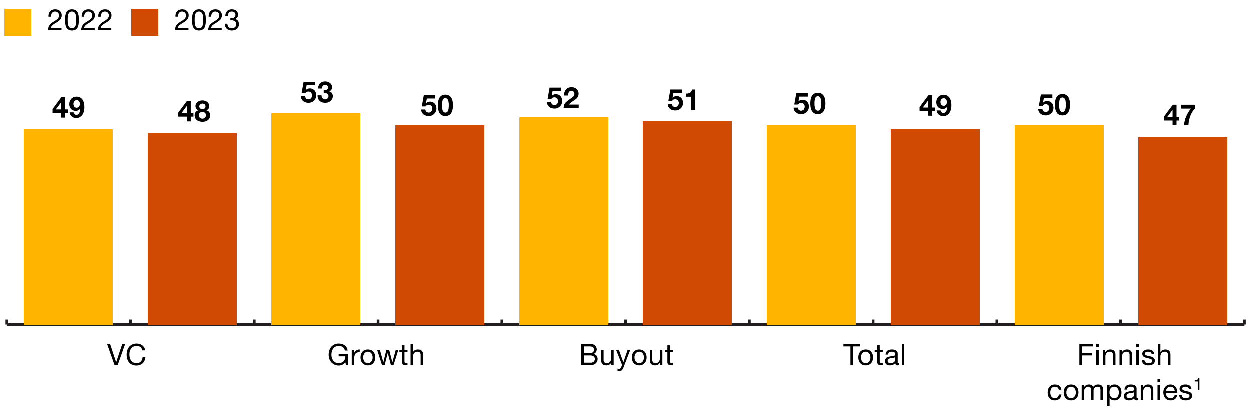
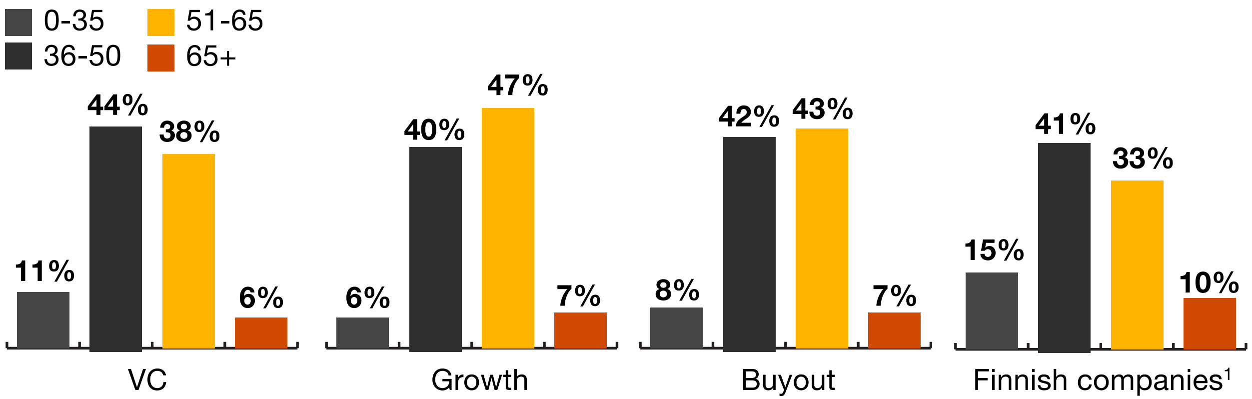
Average age of board members in PE-backed firms slightly higher than average of Finnish firms

Diversity in boards of portfolio companies

Average age of board members by investor type, 2022–2023



Age distribution of board members by investor type, 2023



In 2023, the average age of board members in PE-backed companies was 49 years, a decrease of one year since 2022. In the same period, the average age of board members in Finnish companies went down 3 years[1], resulting in PE-backed firms having an average age of 2 years higher than Finnish companies.

There are differences in the averages between investor types, with VC-backed firms having marginally the lowest average age (48) in 2023.

The founders of VC-backed startups are often relatively young, and they often stay on the board, which might explain the younger average age of board members of VC-backed companies.

This is also reflected in the age distribution of board members, where VC-backed firms have 13% of board members below 35 years vs. 6% (growth-backed) and 8% (buyout-backed).

1) Tesi: Suomalaisten yritysten hallituskokoonpanot 2023

Notes: Excluding all companies with less than 10 employees; N = 430/total, 241/VC, 94/growth, and 95/buyout

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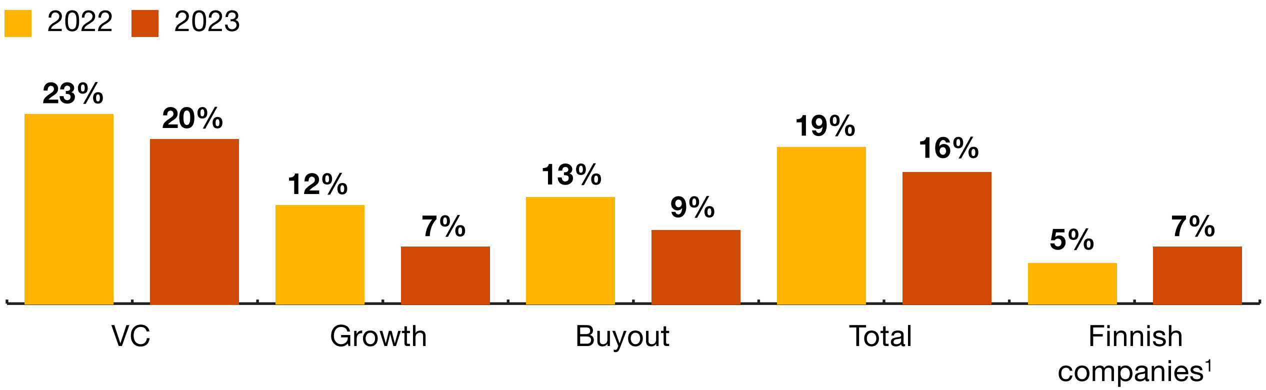
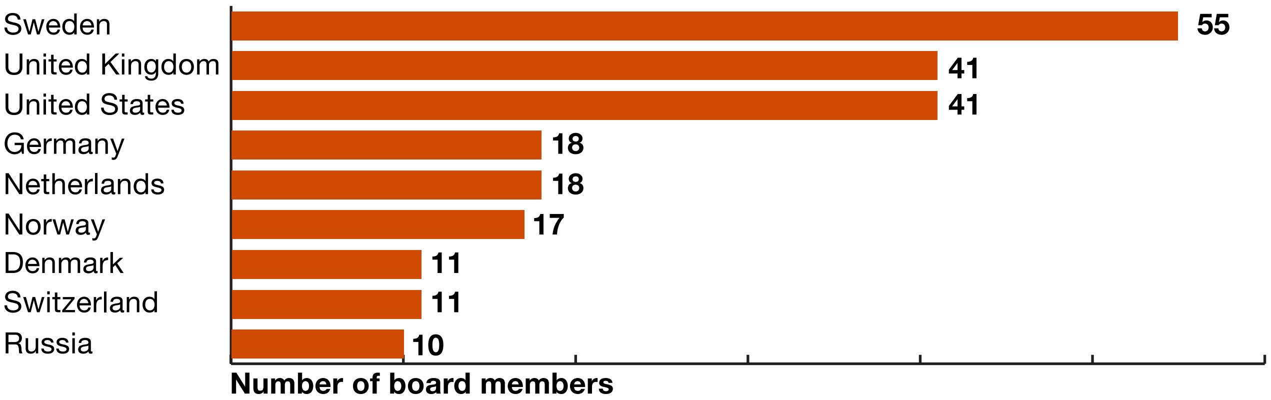
Private equity-backed firms more international than other Finnish private companies

Diversity in boards of portfolio companies

Average share of non-Finnish board members by investor type, % 2022–2023



Most common board member nationalities (excl. Finland) number, 2023



PE-backed firms have more international boards than private companies in general. In 2023, 16% of the board seats in PE-backed companies were held by people with non-Finnish citizenship versus 7% at Finnish companies in general[1].

There is a clear difference between investment classes, with VC-backed firms having the highest share at 20% and growth-backed firms having the lowest share at 7%. This could be explained by the more international nature of many startups and many of them having international investors with board seats.

The decrease in internationality between 2022 and 2023 can partially be explained by an increase in the average number of BoDs in 2023, with the average number of non-Finnish BoDs staying the same.

Most common non-Finnish nationalities for board members were Swedish, British and American.

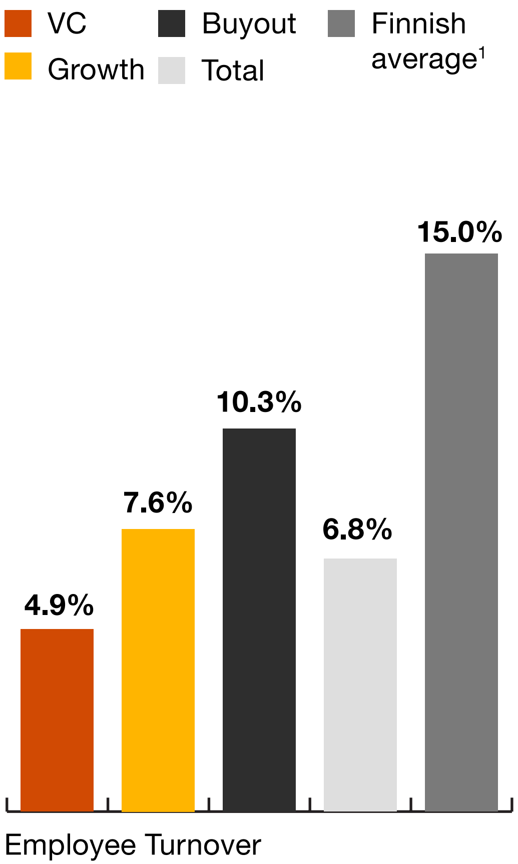
1) Tesi: Suomalaisten yritysten hallituskokoonpanot 2023

Notes: Excluding all companies with less than 10 employees; N = 182/VC, 48/growth, and 38/buyout

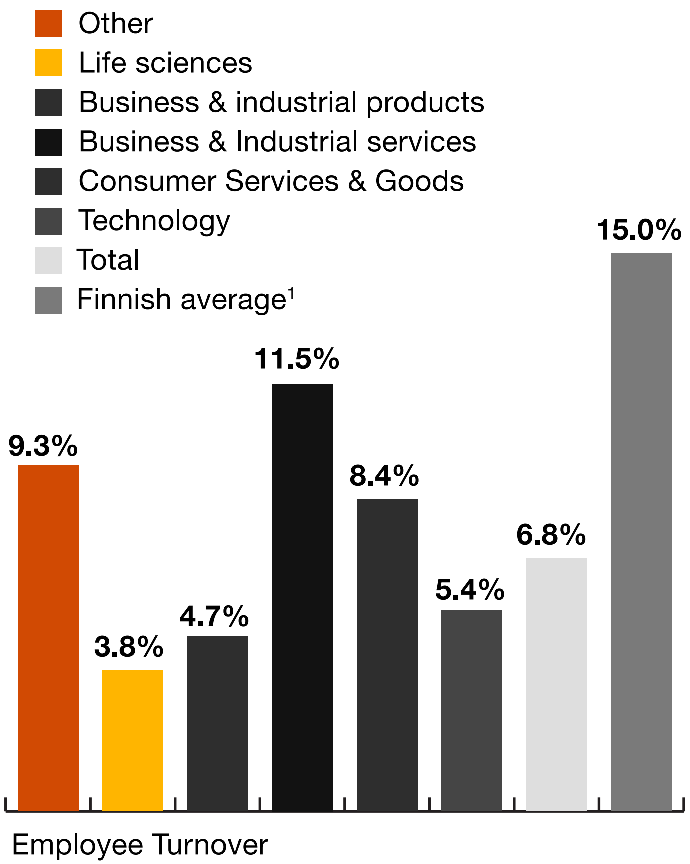
Average employee turnover of PE-backed companies in 2023 7%, less than half of the Finnish average

Average % of employee turnover by investor and industry, 2023, %

Average % of employee turnover by investor type, %



Average % of employee turnover by industry, %



Average annual employee turnover in PE-backed companies was 7% in 2023, which is significantly lower than the Finnish average of 15%. This is presumably due to many of the companies still being young and aiming for rapid growth, which also improves employee engagement.

VC-backed companies have the lowest turnover at 4.9% and buyout-backed the highest at 10.3%.

Business & industrial services is the industry with the highest turnover at 11.5% while life sciences is the industry with the lowest turnover at 3.8%.

1) Elinkeinoelämän keskusliitto (2022). Notes: Excluding all companies with less than 10 employees; N = 149/VC, 81/growth, and 86/buyout; N = 43/Consumer services & goods, 37/Other, 45/ Business & Industrial products, 46/Business & Industrial services, 111/Technology, and 33/Life sciences

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Large focus on policies concerning governance issues – especially in growth- and buyout-backed firms

Governance policies implemented by investor type, 2023, % of portfolio firms

	1	18	19	20	21
VC	36%	35%	45%	55%	10%
Growth	57%	78%	67%	74%	35%
Buyout	65%	64%	71%	73%	30%

1) Corporate Responsibility / Sustainability Policy

18) Anticorruption & bribery policy

19) Cyber security risk management programme

20) Code of Conduct

21) Supply-chain screening for ESG-related issues

% implemented per investor type

- <40% implementation (red)
- 40-60% implementation (yellow)
- >60% implementation (green)

Growth- and buyout-backed companies have higher levels of implementation of governance policies compared to VC-backed companies.

Many of the governance policies listed here are part of the EU Taxonomy, which is not mandatory but rather soft-law, meaning that they can be seen as recommendations and guidelines.

The size of the company determines whether the NFRD and CSRD regulation is mandatory or not. Companies with less than 500 employees (NFRD) and 250 employees (CSRD) are not directly in the scope of the regulation, but might be affected indirectly, if their B2B clients start requiring compliance.

Notes: Number of implementations per policy varies from 0 to 150 depending on the investor type and policy;
Excluding companies with less than 10 employees

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Private equity-backing improves the governance of acquired companies

Average change in G policies implemented for companies reporting 2021–2023 by investor type, 2021–2023, p.p. change

	1	20	21
VC	40	51	5
Growth	44	47	0
Buyout	56	44	4

1) Corporate Responsibility / Sustainability Policy

20) Code of Conduct

21) Supply-chain screening for ESG-related issues

Change per investor type

- <0pp
- 0-20pp
- >20pp

Since 2021, we see positive implementation rate development in all measurable policies.

The policy with the lowest p.p. change is supply-chain screening but we can expect this number to rise significantly as this will become mandatory for big companies at the end of 2024.

Notes: Number of implementations per policy varies from 0 to 150 depending on the investor type and policy; Excluding companies with less than 10 employees; Includes only policies that were included in the questionnaire for both 2021 and 2023

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On private equity

The purpose of this report is to provide an overview of the impact of private equity (including venture capital, growth and buyout investments) on the sustainability of Finnish companies. The analysis was conducted by PricewaterhouseCoopers Oy together with the Finnish Venture Capital Association.

The material in the report consists of companies that are currently in the portfolio of a Finnish private equity investor.

Private equity (PE) investment means corporate financing outside the stock exchange, which is often done in the form of equity financing and typically channelled to the marketplace through PE investment funds. Private equity investors manage funds whose largest investors include pension funds and other institutional investors.

Investments are, in principle, made for the medium or long term and characterised by active ownership.

Active ownership means that the investor engages in close cooperation with the management as a significant shareholder in the company in order to develop its business operations further.

In this report, private equity is divided into three categories: venture capital ("VC", including seed companies), growth and buyout.

VC investments are targeted at early-stage companies that need funding and experts to develop and grow the company.

Buyout investments are often directed at medium-sized companies and are, in terms of their profile, less risky than VC investments.

Growth investments are typically minority investments in companies that are beyond the VC stage but still seeking faster growth than buyout investments.

Private equity investments provide many benefits, for example, by strengthening the financial standing of the company and by enhancing the company’s balance sheet, which enables the company to make new investments or find debt financing for growth.

In addition to capital, PE investors provide companies with strategic expertise, develop the reporting and management systems, create modern incentive and commitment models, and make their own networks available to the company for rapid development of the operations. PE investors enable companies to access new markets through their extensive networks, both at national and international levels.

On methodology

This study by Strategy& / PwC and the Finnish Venture Capital Association (FVCA) examines impact of private equity on the sustainability of Finnish private equity-backed companies.

The data was gathered through a survey from Finnish private equity investors on companies currently in their portfolio. The sample covers 56 investors and 479 portfolio companies, 300 of which were categorised into venture capital, 85 into growth and 94 into buyout and represents a significant share of Finnish private equity portfolio firms.

The data was collected from the investors via a survey that was self-reported. Apart from simple cleansing, it has not been validated by Strategy& or the Finnish Venture Capital Association.

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Pääomasijoittajat
Finnish Venture Capital Association

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