Global Counsel

Pass the remote control

Blog post by Practice Lead Tom King, 17 July 2020

Governments' support measures for businesses hit by covid-19 have focused on maintaining liquidity through provision of emergency credit. In the UK, government-backed loan schemes have been the main protection over the past few months – but it should be equity, not debt, that revitalises the economy and pump-primes the recovery.

Equity investments are key for small and medium-sized firms that cannot issue bonds and stocks. They come with difficulty attached for the investor: along with readily available capital, detailed knowledge of a business's prospects, the management team and the wider industry is required. Traditional lenders - typically banks – are not set up for this capability. They can therefore only play a limited role in supporting what we hope will be a V-shaped bounce in the latter half of 2020.

The question for private equity firms is whether they can fill that gap. In the eyes of the public and of politicians, the industry is still primarily associated with distressed buyouts of household name retail chains or the UK's dwindling manufacturing base. The likes of Comet, British Steel and MG Rover have lived long in the memory.

While there is some unfairness to this view, with the vast majority of mid-market funds focused on growth rather than financial engineering, there is now an opportunity for investors to move further and faster to promote the benefits that private equity can bring. Given we are moving rapidly into a prolonged period of high unemployment, GPs should be focusing especially on job creation – especially in hard-hit and strategic economic verticals – and the need to restructure businesses for a remote-enabled future.

This is a chance both to tackle unemployment and the UK's long-standing productivity problem. The covid-19 pandemic has thoroughly tested the persistent view that the best way to ensure productivity is to gather people into one place. Despite the UK prime minister's eagerness to get people back to their desks, this particular genie is very unlikely to return willingly to the bottle. Many organisations have already committed to permanent flexibilities for employees, but equally importantly, securing long-run savings by abandoning expensive commercial real estate will be impossible for plenty more to ignore.

On the other hand, the downsides of enforced home working have also been highlighted. Many people are struggling with mental health; many do not have the right technology and equipment. Aches and pains from poor ergonomics and bad habits abound. And in the longer term, people may yet have to learn how to rebalance their lives to make the most of the new freedom. If one truth is that a remote-only environment favours a different kind of personality to that of the traditional office – some pining for social interaction, others for peace and quiet – another is that neither is suitable for everyone. Both maximally and minimally flexible approaches almost certainly hamper workers and companies when applied inflexibly.

Done well, remote-first working squares all sorts of circles: it can improve profitability by both enhancing productivity and slashing overheads. It can also give workers back a sense of autonomy and an escape from presenteeism. And perhaps most importantly for small and medium-sized businesses, it widens the potential talent pool to hire from. This is where companies given the room to restructure and grow will play a huge part in getting the labour market moving again.

Growing companies are often uncertain about how to do this for many reasons. This is where seasoned financial and commercial shareholders and operators can add huge value. PE funds have a unique opportunity to help companies answer restructuring questions in an ethical, humanistic, productivity-enhancing way.

Busy management teams may still be blind to this opportunity. But with the right funding and strategic input, private equity could help to lead the great remote-first revolution of the 2020s.