RISK MANAGEMENT: Karsten Langer, The Riverside Company

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The Riverside Company is a US-owned private equity investor with operations in Europe. Its chief risk officer is its chief financial officer, who is supported by colleagues from legal and financial backgrounds. Riverside considers risk in two main categories – the risks related to the companies that Riverside invests in (essentially a due diligence role performed by the investment teams); and the risks faced by Riverside itself, such as execution risk related to large flows of money.

"Private equity is also referred to as risk capital so obviously risk is an important feature of the industry," says Karsten Langer, transacting partner for Benelux and France. Although there have been no radical changes to the company's risk management set-up, there is a concerted effort to be more proactive this year, says Langer and there are several areas of risk management where awareness has been heightened.

"For example, as a US-owned company we have to comply with federal anti-bribery regulations, but we have taken this a step further by hiring a third party to train our portfolio companies in complying with the regulations," says Langer. He also highlights a whistleblower report line that Riverside has set up over the last twelve months to enable employees to report suspected issues at any portfolio company. "We insist on full disclosure and we are very open with our investors and counterparties," says Langer. "This has helped us to create a culture of risk awareness throughout the company."

"Risk management cannot be a function that works in isolation," says Langer. "It has to be embedded throughout the organisation and not just left to a few people sat in a basement room poring over a series of reports."

In order to help formalise this principle Riverside has also built its own proprietary risk system for all of its portfolio companies to upload their monthly financials so that Langer and his risk management colleagues are able to monitor the performance of each company and to head off any potential risks before they grow to unmanageable proportions.

"When things go wrong, it often starts with a slackening of reporting, so this is a great way to mitigate that risk," says Langer.

Of course, it is all very well talking about risk management but it is results that count and the difficulty in measuring the effectiveness of risk management is something the industry has often struggled with. In Langer's view, there are a number of different ways that risk management can be measured. "We have had very few instances of litigation against us and our loss of capital ratio is well below the industry average."