



How private equity funds influence company management:
Lessons from the Sagard case

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Introduction

Private equity plays an increasingly central role in the financing and strategic steering of European companies. In France, nearly €34 billion was invested in unlisted firms in 2022 — more than twice the level recorded ten years earlier (France Invest, 2023). On a global scale, the sector showed resilience even in periods of uncertainty, with \$592 billion invested in 2020 despite the health crisis (Bain & Company, 2021). This growth is not merely quantitative: it reflects a transformation in the nature of the investor’s role, which now extends far beyond capital provision to encompass governance, performance monitoring, and strategic influence.

Private equity is commonly defined as “any form of investment in an asset whose capital is not freely negotiable on a financial market” (Jacquillat, cited by Glachant, Lorenzi & Trainar, 2008). This broad category includes various strategies — venture capital, growth capital, buyouts — that differ in their investment horizon, level of control, and type of support. Yet this typology no longer fully captures the complexity of contemporary private equity practices, particularly in terms of how investors interact with management teams and shape company trajectories.

Academic literature has long focused on the macroeconomic outcomes of LBOs — job creation, improved profitability, or access to credit. More recently, attention has shifted to the microdynamics of influence: how do funds affect the strategic decisions made by portfolio company managers? What mechanisms - financial, relational, or organizational - do they mobilize to steer performance and ensure alignment? These questions are particularly pressing given the current context of high acquisition multiples, which reached

11.4x EBITDA in the U.S. and 12.6x in Europe in 2020 (Bain, 2021), placing ever greater pressure on management to justify valuations and meet return expectations.

The theoretical framework builds primarily on agency theory (Jensen & Meckling, 1976), which views private equity as an institutional response to the principal-agent dilemma. This perspective emphasizes alignment through concentrated ownership, strong governance tools, and incentive schemes such as management packages indexed to exit multiples or cash generation (Kaplan & Strömberg, 2009; Phalippou, 2021). However, more recent literature highlights the limits of this model and insists on the importance of relational dynamics, board engagement, sector expertise, and the quality of dialogue between shareholders and managers (Antoni, Maug & Obernberger, 2018).

This thesis aims to explore these questions through the lens of a specific case: the French investment fund Sagard, and its two recent investments in Adit and Audensiel. These two case studies offer a natural contrast: in Adit, Sagard acts as majority shareholder, with extensive governance rights and a high level of strategic involvement; in Audensiel, it holds a minority position, which calls for a more collaborative and influence-based approach. By comparing these two configurations, the study seeks to shed light on how ownership structure conditions the fund's ability to influence — and support — management decisions. Beyond contrasting two governance settings, this study aims to provide a grounded view of how private equity funds work with management in practice. Drawing on two cases within the same investor, it examines how formal governance rights interact with day-to-day exchanges, trust, and strategic dialogue. The analysis shows that the balance between control and collaboration is not fixed but shifts with the context, the people involved, and the

company's strategic priorities. By combining detailed field observations with insights from both investor and management perspectives, the thesis contributes to the literature by illustrating how governance approaches evolve over time and under different ownership structures. It also offers practical guidance for investors and executives seeking to build effective partnerships in sectors where alignment, trust, and long-term vision are critical to creating value.

To bring nuance and empirical depth to these theoretical insights, this work combines: a review of the academic literature on agency theory, governance, and incentive design; a six-month immersion within the investment team of Sagard (July to December 2024); a qualitative interviews with investors and managers from Sagard, Adit and Audensiel (January–March 2025); and comparative observations of other funds such as Artémis (low-intervention, patrimonial logic) and Five Arrows (institutional, hands-on approach).

By grounding the analysis in real-world practices, this thesis seeks to move beyond caricatures of private equity as short-term or overly aggressive, and to examine how funds operate today as strategic partners — sometimes directive, often collaborative — whose influence depends as much on trust and alignment as on formal control.

1. Theoretical foundations: the role of private equity funds in strategic governance

1.1. Private equity and top management: definitions and evolution

Private equity refers to all transactions involving the investment of equity capital in unlisted companies with the aim of creating value and reselling the investment in the medium term, generally between five and seven years. Over the past two decades, this asset class has established itself as a major driver of economic transformation, particularly in Europe. In 2022, private equity funds invested more than €130 billion in Europe and nearly €34 billion in France, across all strategies (Invest Europe, 2023; France Invest, 2023). Private equity comprises several segments with distinct rationales:

- Seed capital: intended to support the early stages of entrepreneurial projects with high technological potential
- Venture capital: targeting innovative start-ups with high market risk
- Growth capital: which finances the expansion of established companies, often to conquer new markets or restructure an organization
- Transition capital (leveraged buyouts, LBO): the most widely studied form, which involves an acquisition financed mainly by debt
- Turnaround capital: which focuses on restructuring companies in difficulty

This thesis focuses on transition capital, or buyouts. The challenge goes beyond simply financing the acquisition: it involves transforming the company through active support, combining financial levers, management discipline, strengthened governance, and sometimes strategic overhaul. As Kaplan & Strömberg (2009) point out, LBO transactions are distinguished in particular by:

- tighter governance, with a reorganized board and enhanced shareholder rights
- direct involvement of investors in major strategic decisions
- powerful incentive mechanisms for top management, designed to align financial interests and performance objectives

This approach is consistent with the work of Jensen & Meckling (1976), who argued that reducing agency conflicts requires concentration of ownership and making management accountable through the ownership of capital or economic rights. From this perspective, private equity helps to reduce information asymmetries and restore strategic alignment between shareholders and managers. Furthermore, as noted by Glachant, Lorenzi and Trainar (2008) in their analysis of French capitalism, the development of private equity in continental Europe has been accompanied by a redefinition of the role of shareholders, particularly in family-owned and family-controlled companies. The fund then becomes an active partner, whose time horizon (generally 4 to 7 years) imposes a precise roadmap, structured around operational, financial and sometimes non-financial objectives.

Finally, some authors, such as Phalippou (2021), qualify this view by pointing out that financial optimization, pressure on exit multiples, and acquisition debt can also skew management decisions if governance is not balanced. Hence the importance of understanding, beyond the structure of the investment, the mechanisms through which the fund actually influences the company's strategy.

1.2. The changing role of funds in the economy

The role of investment funds in the real economy has undergone a gradual and profound change over the last few decades. Initially perceived as external financial players focused on optimizing returns through leverage and cost reduction, private equity funds are now increasingly seen as agents of strategic transformation, capable of supporting companies through complex transition phases such as scaling up, geographical expansion, diversification, digitalization, and management restructuring.

As Gompers and Lerner (1999) point out, private equity funds do not just provide capital. They also act as catalysts for growth by providing strategic guidance, sector networks, transactional expertise (particularly in build-up), and a framework of managerial discipline that is often lacking in family-owned or fast-growing companies. This role as an “active partner” has been reinforced with the emergence of specialized funds (health, tech, energy transition) that provide not only financing but also a detailed understanding of sector dynamics.

This trend is particularly evident in Europe. In 2022, according to France Invest, more than 2,700 French companies were supported by private equity funds, the majority of which were SMEs and mid-cap companies. The mid-market segment, in which a fund such as Sagard operates, alone accounts for more than 50% of the amounts invested, reflecting a clear desire to play a structuring role in the productive economy. LBO transactions have thus

become a vehicle for sector consolidation, promoting mergers, the professionalization of support functions (finance, HR, IT), and the internationalization of local players.

Empirical studies confirm this reality. Boucly, Sraer and Thesmar (2010), in an analysis of more than 800 LBOs carried out in France between 1994 and 2004, show that companies supported by funds post a turnover growth 3.4 points higher per year than the control group, with a particularly strong effect in companies that were initially underfinanced. Similarly, Kaplan & Schoar (2005) report a significant improvement in post-investment operating margins, linked to better capital allocation and the implementation of effective management systems.

Furthermore, the contribution of funds goes beyond financial performance. Wright, Hoskisson, Busenitz and Dial (2001) emphasize their role as facilitators in shareholder restructuring, intergenerational transfer, and ESG compliance. This ability to support entrepreneurial trajectories at critical moments - such as the departure of a founder, family succession, or a change in governance - makes funds partners in organizational transformation, rather than mere short-term investors.

Finally, the growing influence of funds is also reflected in global market figures: according to Bain & Company (2023), private equity assets under management exceeded \$8.2 trillion, doubling in less than ten years. This growth reflects both sustained demand from institutional investors seeking returns and growing acceptance of this form of financing by business

leaders, who see it as a lever to accelerate their development while structuring their governance.

1.3. The role of the fund within the company: passive investor or strategic partner?

The theoretical distinction between passive investor and strategic partner tends to blur in contemporary private equity practice, particularly in LBO transactions. These transactions involve joint value creation, made possible by close collaboration between management teams and fund representatives. While operational management remains formally delegated to management, reality shows that investors play an increasing role in strategic direction, decision-making and performance monitoring.

Jensen (1989) highlights one of the major contributions of LBO funds: the introduction of financial and strategic discipline, manifested in tighter governance, explicit value creation objectives, and rigorous monitoring of performance indicators. In line with agency cost theory, this discipline aims to align the interests of managers and shareholders more effectively by limiting managerial discretion on suboptimal choices.

In concrete terms, this enhanced governance translates into:

- a restructuring of the board of directors, often dominated by fund representatives
- the implementation of financial management tools and strategic dashboards
- detailed monthly or quarterly reporting

- and a clear economic incentive framework linking compensation to operational performance or the achievement of a multiple on exit

Acharya, Gottschalg, Hahn and Kehoe (2009), in an empirical study of a panel of LBO companies, show that the best-performing funds are those that combine financial discipline with proactive strategic support. They emphasize the importance of the fund's role as a “catalyst for strategic transformation” rather than a mere financial supervisor.

This positioning is also evident in the testimonials gathered for this study. In an interview conducted in February 2025, Jérôme Gougeon⁽¹⁾, COO of Adit, illustrates this hybrid dynamic: “The fund is not there to run the company for us, but it does intervene in structural decisions. It was the fund that pushed us to abandon certain historical lines of business so that we could focus more on our core expertise.” This quote reflects a stance of active partnership, in which the fund proposes, guides, and validates, but does not replace the manager. It acts as a strategic sparring partner, challenging the company's vision against explicit growth, profitability, and sometimes non-financial impact objectives.

The fund has multiple levers of influence:

- equity ownership (majority or minority with specific clauses),
- statutory governance (veto rights, committees, agreements),
- financial incentives, through management packages often indexed to value created,
- and the ability to mobilize an external network (consulting firms, M&A, recruitment, etc.)

As Bruining, Verwaal, and Wright (2013) point out, this role of “strategic co-pilot” is all the more important when the fund has sector expertise, a clear vision of the investment cycle, and the ability to structure collective decisions in sometimes uncertain contexts. Finally, Cumming & Johan (2013) emphasize that the fund is neither passive nor omnipotent, but dependent on an implicit contract with management. The quality of interpersonal relationships, the fluidity of exchanges, and the convergence of views on strategy largely determine the effectiveness of this relationship. In short, the influence of the fund depends less on its formal power than on its strategic legitimacy and its ability to build trust.

1.4. Strategic alignment and agency theory

1.4.1. The principal-agent relationship: information asymmetry and divergence of interests

The relationship between a private equity fund and the management of a target company can be effectively analyzed using the framework of agency theory, as formalized by Jensen and Meckling (1976). This theory posits that any relationship between a principal (in this case, the investment fund) and an agent (the CEO or management team) involves risks of a divergence of interests, amplified by information asymmetries and distinct strategic objectives.

In an unlisted investment situation, these risks are exacerbated by the fact that the fund, as a majority or significant shareholder, cannot continuously observe or fully control the actions taken by management on a daily basis. The manager, on the other hand, has superior

information about the business, operational risks, execution capacity, and market uncertainties. This information asymmetry gives the agent decision-making power that could potentially be misused to the detriment of the shareholder, which is the very basis of agency costs.

In an LBO context, this tension is accentuated by the specific nature of the transaction:

- On the one hand, the fund aims for high short/medium-term (often 5 to 7 years) valuation, conditional on the achievement of a target multiple (MoIC) and/or an internal rate of return (IRR)
- On the other hand, management may be tempted to favor a cautious, even conservative, approach, emphasizing organizational stability, gradual growth, or the preservation of certain historical assets

In practice, this strategic divergence translates into a risk of underperformance or managerial drift, which the fund will seek to contain through several levers: restructuring governance, conditional financial incentives, strengthening reporting, active board presence, or even the introduction of veto clauses on certain key decisions (recruitment, acquisitions, dividend distributions, etc.).

Fama and Jensen (1983) complement this approach by emphasizing the importance of separating decision-making from economic risk-taking. In private equity, this separation is partially resolved by the co-ownership of capital by managers, who themselves become

agents and co-principals through their participation in equity plans, thereby aligning incentives more directly.

More recently, Kaplan and Strömberg (2009) have shown that investment contracts in LBOs are increasingly based on sophisticated contractual mechanisms that limit these agency costs: vesting systems, earn-outs, drag/tag clauses, incentive adjustments in the event of underperformance, etc. These contractual tools help to frame the principal-agent relationship within a shared performance logic, but do not completely eliminate the risk of opportunistic arbitrage by managers or strategic disconnect between the parties. Finally, Hart and Moore (1990) offer a complementary interpretation, focusing on the incompleteness of contracts. According to them, the relationship between shareholders and executives is based in part on non-contractual elements such as trust, corporate culture, and informal alignment of values. This explains why some funds seek to establish long-term relationships with executives that go beyond purely financial mechanisms.

In summary, the fund-executive relationship in an LBO is at the intersection of:

- a formal contract (governance rights, incentives, reporting)
- a strategic relationship (value creation objectives, time horizon)
- and a human relationship (trust, legitimacy, cultural alignment)

It is mastery of this complexity that ultimately determines the success of the partnership.

1.4.2. Agency costs in the context of an LBO

Leveraged buyouts (LBOs) are a prime example of mechanisms designed to reduce agency costs between investors and managers. In this type of arrangement, the private equity fund structures the governance and financing environment in such a way as to maximize the alignment of interests and limit opportunistic behavior by managers. These mechanisms have been extensively studied in the literature, notably by Smith (1990), who identifies LBOs as contexts conducive to the introduction of disciplined governance and increased executive accountability. Three main mechanisms can be used to contain agency costs in an LBO:

- a restrictive financial structure: the high proportion of debt introduced into the transaction puts direct pressure on cash flow generation. This discipline through debt limits management's ability to engage in discretionary spending or invest in low-return projects. As Acharya et al. (2009) point out, this budget constraint acts as a substitute for external oversight, forcing managers to prioritize investments and justify each capital allocation. This logic is all the more pronounced as the bank covenants associated with the debt (leverage ratios, coverage ratios, cash tests) are regularly monitored, which imposes rigour in operational and financial management.
- Tighter and contractual governance: LBOs are generally accompanied by a reorganization of the board of directors, with a reduction in the number of members and a concentration of power around the fund's representatives. This streamlined governance allows for rapid decision-making, close strategic monitoring, and direct oversight of the execution of the value creation plan. The shareholders' agreement complements this structure with a series of contractual clauses (veto rights, drag-

along rights, non-competition clauses, disclosure requirements) that strictly limit management's room for maneuver. Cumming and Johan (2013) emphasize that these clauses are essential to preserve the fund's ability to intervene in the event of strategic drift or conflict.

- A performance-based incentive system: the third lever used to reduce agency costs is the introduction of deferred compensation mechanisms linked to performance. These mechanisms, often referred to as management packages, include (i) stock options or free shares (sweet equity), (ii) trigger thresholds indexed to the exit multiple (MoIC or IRR) and (iii) ratchet clauses, which increase the share of capital held by managers if performance exceeds certain thresholds.

The potential enrichment of managers is thus directly dependent on the value created for the fund, in a logic of symmetry of incentives. As shown by Kaplan & Strömberg (2009), these systems make it possible to limit short-term behavior, provided that the objectives are clear, achievable, and aligned with the fund's horizon. The effectiveness of this three-pronged architecture (financial discipline, contractual governance, incentives) makes LBOs a testing ground for the implementation of agency theory. However, as Antoni, Maug and Obernberger (2018) point out, its success also depends on the quality of the relationship between investors and managers, and on the ability of both parties to cooperate in a climate of transparency and mutual trust.

1.4.3. The role of the fund as a mechanism for reducing agency costs

Beyond the contractual and incentive tools traditionally used in LBO transactions, the investment fund plays a central role as an institutional vehicle for strategic alignment. As a reference shareholder, it exercises a decisive influence on the company's direction: it arbitrates priorities, validates investments, and acts as a structuring counterweight to often diffuse governance structures, particularly in family or entrepreneurial contexts.

Kaplan (1989) demonstrated that the entry of a fund into a company's capital is systematically correlated with an improvement in operating profitability, measured by margin growth, return on assets (ROA) or free cash flow. These effects are not so much explained by direct intervention in day-to-day management as by the establishment of a demanding decision-making framework that promotes organizational discipline, executive accountability, and clarification of objectives.

With this in mind, the fund acts as a strategic mediator, ensuring consistency between management's operational decisions and the investment thesis established at the outset. As highlighted by Jensen (1989) and more recently by Lerner, Hardyman & Leamon (2012), this function is based on three attributes: (i) an active presence on the board of directors, which allows it to influence key decisions without encroaching on management; (ii) control over the strategic tempo, with a clear exit horizon that imposes milestones, trade-offs, and a certain urgency in execution and (iii) technical and sectoral legitimacy, which allows the fund to be perceived not as a financial controller, but as a credible co-architect of the growth project.

This reality is reflected in the testimonials gathered for this study. In an interview conducted in February 2025, Éléonore Caramalli⁽¹⁾, Investment Manager at Sagard in charge of monitoring Adit, explained: “It's not about dictating management's choices, but about ensuring that they are consistent with the investment thesis. What we bring is a five-year vision, a rhythm, and a demand for execution.” This quote perfectly illustrates the role of strategic partner played by the fund: neither passive nor managerial, but a vigilant and committed third party. It acts as a convergence point between capital and the business plan, reconciling the short and long term, and reinforcing the legitimacy of strategic decisions in a tightly governed environment.

Wright (2009) also emphasizes the ability of funds to serve as catalysts for transformation by providing complementary skills (legal, operational, M&A), structuring decision-making processes, and facilitating the emergence of a more professional management framework. The fund thus becomes a credible disciplinary institution, substituting for market mechanisms that are absent in the unlisted world.

1.4.4. Equity participation: alignment through capital ownership

In an LBO, one of the most powerful tools for aligning the interests of managers with those of the fund is the implementation of a management package. This is a mechanism that links managers to value creation by giving them a direct or indirect stake in the capital. Their financial gain then depends on the performance achieved at exit. This principle, developed

(1) Interview with Éléonore Caramalli (Sagard), conducted by Simon Louis, February 19, 2025

by Jensen and Murphy (1990), is based on the idea that share ownership encourages managers to behave like owners and to focus on maximizing shareholder value.

The instruments used in management packages include:

- Ordinary shares: often subscribed through a management holding company; they allow the executive to become a minority shareholder
- Preference shares: allocated under certain conditions (liquidation preference, break-even point, etc.) and sometimes non-dilutive for the fund
- BSPCE, stock options, or free shares: used in particular to avoid a high initial contribution, with performance and duration conditions (called vesting)
- Ratchets: clause adjusting management's shareholding in the event of outperformance. E.g.: share of capital increases from 5% to 10% if the MoIC exceeds 2.2x
- Sweet equity: share of capital granted to management at a preferential or symbolic price, often conditional on performance
- Vesting: gradual acquisition of rights (e.g., 25% per year over four years) to prevent key executives from leaving prematurely
- Good/bad leaver clauses:
 - *Good leaver* (retirement or sale of the fund): partial or total retention of securities
 - *Bad leaver* (voluntary departure or misconduct): loss of unvested rights, or even repurchase at cost

- Drag-along clause: allows the fund to require management to sell its shares in the event of a global sale
- Tag-along clause: gives management the right to sell its shares on the same terms as the fund

The effectiveness of these mechanisms is widely documented in academic literature. Kaplan and Strömberg (2009) show that the best-performing transactions systematically include conditional shareholder incentive schemes. Acharya et al. (2009) observe that these structures are more common in funds in the top quartile of performance. However, as Phalippou (2021) points out, inappropriate calibration can lead to adverse effects: excessive pressure, disproportionate risk-taking, or short-term strategies that are disconnected from fundamentals.

Ultimately, management packages are a particularly effective alignment tool in an unlisted environment, provided they are balanced, understandable to beneficiaries, and consistent with the fund's value creation strategy.

1.4.5. Performance-based bonuses

In addition to equity investments, private equity funds systematically use variable compensation schemes indexed to operating performance. These bonuses, paid on an annual or multi-year basis, strengthen management commitment throughout the holding period, without waiting for the exit date. They ensure short-term execution discipline while maintaining consistency with the fund's value creation strategy. These mechanisms are

designed to diversify incentives, avoid the exclusivity of a single objective (such as final valuation), and reward performance from the operating phase onwards, without misaligning strategic efforts.

Performance bonuses are defined upon entry into the capital, based on a contractual incentive plan, and structured around:

- KPIs (Key Performance Indicators) tailored to the company's strategic plan, which may include:
 - financial indicators: revenue, EBITDA, gross margin, operating cash flow
 - operational or qualitative indicators: integration of a build-up, structuring of a management team, penetration of a new market
- Progressive trigger thresholds, most often set as follows:
 - floor threshold: no bonus below a certain performance level
 - intermediate thresholds: partial bonus if the target is achieved between 80% and 100%
 - ceiling: maximum bonus amount, often capped at 120% or 130% of the target
- Payment frequency: annual or multi-year, depending on the nature of the targets

During an interview in March 2025, Nicolas Bonnard⁽¹⁾, Managing Director at Sagard in charge of monitoring Audensiel, explained: “The package must balance two things: long-term ambition, linked to equity, and immediate execution dynamics. A good incentive mixes the two without upsetting the balance of governance.” This testimony clearly illustrates the

(1) Interview with Nicolas Bonnard (Sagard), conducted by the author, March 15, 2025.

underlying logic: the bonus is paid annually, in line with the monitoring of strategic execution, while the equity scheme crystallizes value over the long term (five to seven years). The balance between the two aligns management with the fund's dual logic: continuous performance and deferred valuation.

1.4.6. Earn-outs and deferred exit incentives

In certain investment configurations, particularly when the shareholding structure or growth objectives are complex, private equity funds put in place deferred exit incentive schemes, among which the earn-out mechanism plays a central role. An earn-out involves making part of the future remuneration of management – or sometimes of the initial sellers – conditional on the achievement of performance targets set over a given period, often until the year of the fund's exit.

This mechanism helps to mitigate initial information asymmetry, limit risk for the investor, and reward outperformance at the most critical moment for the fund: the sale. It is particularly used in capital transmission transactions with a high stake in organic growth or post-acquisition integration. Earn-outs are based on:

- a target indicator, often the exit valuation, the multiple of the investment (MoIC), the IRR achieved, or EBITDA at a given date
- a trigger threshold (e.g., a MoIC $\geq 2.0x$)
- a percentage of the attributable capital if the threshold is reached
- a reference period, generally aligned with the fund's investment horizon (5 to 7 years)

- presence conditions: if the manager leaves the company before the target period (except in the case of a good leaver), the earn-out is forfeited

The use of an earn-out has several advantages for the fund:

- Reducing initial exposure: the allocation of capital is conditional and therefore not dilutive ex ante
- Keeping managers committed until exit, particularly in the 12 to 24 months prior to an M&A transaction
- Aligning economic performance with the critical moment of liquidity, which determines the fund's success vis-à-vis its own LPs
- It can also be used to align the interests of a reinvesting seller in the case of a sponsorless LBO or a secondary MBO

Economic literature highlights the effectiveness of earn-outs as a deferred incentive mechanism. Brander, Amit and Antweiler (2002), in a study on entrepreneurial financing arrangements, show that deferred incentives maximize stakeholder contributions over the entire investment life cycle. Kaplan and Strömberg (2009) observe a widespread use of earn-outs in mid- and large-cap transactions, particularly when the valuation is based on ambitious growth assumptions. Finally, Acharya et al. (2009) point out that earn-outs, although powerful, must be used with caution, as if poorly calibrated, they can introduce opportunistic behavior or slow down strategic decision-making in the final years of the investment cycle.

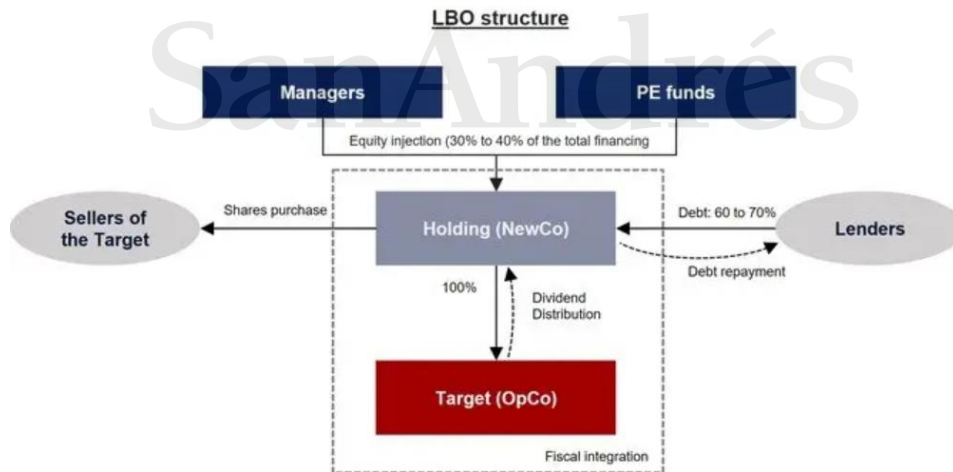
1.5. Structure of an LBO and value creation levers

1.5.1. Specific legal and financial structuring

Leveraged buyouts (LBOs) are based on a standardized legal and financial structure designed to optimize both value creation and risk management. This arrangement involves setting up a dedicated chain of companies, generally structured around three levels:

- NewCo (or BidCo): an acquisition vehicle owned by the fund, and often by the management, created specifically to buy the target company and pay the debt
- TargetCo (opco): the target operating company, which generates the cash flow used to repay the debt at the higher level

The structure is designed to ring-fence risk and maximize return on invested capital through financial leverage. Typically, an LBO is structured as follows:



Source: *investprep.fr*, accessed on May 24, 2025

There are two main objectives underlying this structure:

- Limiting economic risk for the fund: the debt is contracted at the holding company level, not at the parent company or fund level. In the event of failure, losses are contained within the acquisition structure. This principle, often referred to as “non-recourse debt,” is a pillar of risk management in LBO transactions.
- Financial leverage: by mobilizing a significant portion of debt (often between 50% and 70% of the enterprise value), the structure maximizes return on equity (RoE) in the event of a successful resale. This mechanism is central to the returns sought by funds.

For example, if a company is acquired for €100 million, with €30 million in equity and €70 million in debt, a resale at €150 million would, all other things being equal, yield a multiple of 1.67x for the debt, but 2.67x for the equity, after repayment.

The debt used in LBOs is often structured in several overlapping tranches, each with a different risk and return profile:

- Senior secured term loan:
 - This represents the most secure layer of debt
 - It is repayable on a contractual basis (amortizable or bullet), with regular maturities
 - Its cost is relatively low (e.g., Euribor + 300–400bps), in exchange for strict compliance with financial covenants (leverage, interest coverage, etc.)
 - It is generally provided by banks or senior debt funds
- Revolving Credit Facility (RCF):

- Credit line that can be drawn upon in the event of a temporary cash requirement
- Rarely used to finance acquisitions, but essential for securing working capital requirements
- Often accompanied by a liquidity maintenance commitment
- Mezzanine or unitranche debt:
 - Positioned between senior debt and equity, mezzanine debt offers a higher return (often 10-15%) in exchange for increased risk
 - It is generally repaid in a lump sum at maturity (bullet), with capitalized interest (PIK)
 - The unitranche version, which emerged with private debt funds, combines the characteristics of senior debt and mezzanine debt in a single instrument at an intermediate rate (c.6 to 9%)
 - This type of debt is more flexible in terms of contract and is often used in the mid-cap segment.
- PIK (Payment in Kind) notes or subordinated bonds:
 - Hybrid instruments whose interest is capitalized and paid at maturity.
 - They are expensive, but they reduce pressure on cash flow during periods of growth or transformation.
 - They are used as a complement to maximize leverage while avoiding liquidity shortfalls.

The structuring of the LBO is accompanied by a strategic takeover by the fund:

- The board of directors is reorganized around representatives of the fund and management
- A shareholders' agreement specifies governance rights, exit clauses (drag/tag), and information requirements
- The business plan is contractually aligned, often through performance or capital adjustment clauses (ratchets, earn-outs, etc.)

This model allows the fund to exert a structuring influence without direct operational interference, in line with the recommendations of Kaplan and Strömberg (2009), who describe this type of governance as “active but non-intrusive supervision.”

1.5.2. Financial leverage: an imposed discipline

Debt is a fundamental lever in the structuring of an LBO, not only to amplify the return on equity, but also as a tool for managerial discipline. By introducing a periodic repayment obligation, debt forces managers to manage cash flow rigorously, thereby refocusing the company's actions on actual economic performance. As early as 1986, Michael Jensen, in his article on the *free cash flow hypothesis*, pointed out that companies with excess cash are tempted to finance low-return projects or increase discretionary spending. Conversely, a debt-laden capital structure limits this drift by forcing managers to allocate cash flow to debt servicing, thereby establishing a logic of prioritizing the most profitable projects. This mechanism imposes a form of budgetary discipline that is often absent in formerly family-owned or loosely constrained companies.

In an LBO, this logic is reinforced by the presence of contractual covenants negotiated with creditors. These clauses strictly regulate management activity:

- Financial covenants: these require compliance with key ratios (leverage, interest coverage, available cash flow). Exceeding these ratios may lead to a default event or forced renegotiation.
- Restrictive clauses: these limit the possibilities for additional debt, dividend distribution, or investments not provided for in the business plan.
- Performance tests: sometimes associated with incentive mechanisms (e.g., authorization of dividends conditional on exceeding an EBITDA threshold).

This contractual architecture, described by Hart and Moore (1995) as “indirect discipline through debt,” imposes strategic rigor while leaving operational management to management. This framework promotes tight governance without necessarily resorting to direct interference by the fund. Steven Kaplan (1989) shows that companies under LBOs record a significant improvement in their margins and return on invested capital in the years following the transaction, in line with the pressure induced by the debt structure.

More recently, Axelson, Jenkinson and Weisbach (2009) have emphasized that private equity funds optimize the level of debt, taking into account both the stability of the target's cash flows and its growth potential. Too little leverage would lead to underperformance, while excessive leverage would unnecessarily increase the risk of default in the event of a downturn.

In practice, this financial framework leads managers to transform their management style:

- working capital requirements are optimized
- investment decisions are more selective and based on profitability
- financial reporting is strengthened, with monthly or even weekly dashboards in some cases
- the organizational structure may be adjusted (e.g., hiring an external CFO to strengthen financial discipline)

By imposing strict management rules and a requirement for immediate profitability, debt thus becomes a vehicle for profound transformation in the management of the company. It constrains without paralyzing, provides a framework without directing, and constitutes one of the fundamental pillars of the logic of value creation in private equity.

1.5.3. Operational and strategic levers

In an LBO transaction, value creation does not rely solely on financial leverage. Two other essential dimensions complete this triptych: operational leverage and strategic leverage. These two levers are at the heart of the funds' activities from the moment control is acquired and are often the main source of increase in enterprise value between entry and exit.

Operational leverage consists of improving the intrinsic performance of the company by acting on its cost structure, internal processes, and management tools. This lever is particularly effective in SMEs or family-owned groups that have not formalized their

procedures or that suffer from a lack of managerial or technological investment. Common interventions include:

- centralizing support functions (finance, HR, purchasing, IT) to improve efficiency
- implementing robust financial and operational reporting based on key performance indicators (KPIs), often inspired by the methods of Kaplan and Norton (1992) (Balanced Scorecard)
- digitizing processes, including integrating an ERP system or redesigning the value chain
- strengthening the management team by recruiting experienced people, particularly for key roles (CFO, COO, etc.)
- outsourcing non-core tasks (logistics, accounting, payroll, etc.) to refocus the company on its core competencies

This lever is part of a rapid and measurable transformation process with a direct impact on EBITDA. It is in line with the approach advocated by Michael Porter in his work on competitive advantage (1985), according to which improving the internal value chain is a key factor in sustainable performance.

The strategic lever aims to reorient or amplify the company's development. It is based on an in-depth diagnosis of the company's positioning when it enters the fund, followed by the joint development of a strategic business plan with management. The main dimensions of this lever are:

- redefining the offering or market positioning

- geographical expansion, particularly internationally (setting up a local office, adapting the product range)
- penetrating new distribution channels (e-commerce, retail, B2B, etc.)
- launching new product lines or moving upmarket
- deploying a build-up strategy through the acquisition of complementary players (geographical, technological or commercial)

These actions require close strategic dialogue between the fund's managers and teams, often reflected in an initial business plan that is revised at each key stage (organic growth achieved, structuring buyback, change of team, etc.). According to Acharya et al. (2009), it is precisely in the execution of these levers that the performance gap between first-quartile funds and the rest widens. The best-performing funds do not just buy “cheap”; they actively transform their holdings through structural initiatives.

The success of an LBO therefore depends on the fund's ability to simultaneously activate these three levers - financial, operational, and strategic - while maintaining effective governance and alignment of interests with management. The operational lever often produces rapid effects that are visible in the first few financial years. The strategic lever, which is more complex to implement, generates more structural and sustainable growth. Both require the same rigour and foresight, but do not call on the same skills within the fund: operational management for one, and the ability to develop a long-term vision for the other.

1.6. Overview of private equity strategies

1.6.1. Venture capital, growth capital, buyout, distressed

Private equity covers a broad spectrum of investment strategies, differentiated by the maturity of the target companies, the nature of the risks assumed, the value creation levers mobilized, and the degree of involvement in governance. These strategies profoundly structure the relationship between the fund and management, particularly in terms of alignment of interests, pace of intervention, and governance logic.

Venture capital is invested early in the growth curve, in start-ups or young companies with strong technological potential. These companies have a high risk profile: product uncertainty, lack of profitability, and often negative cash flows. In this context, the fund's involvement is primarily strategic: it supports product development, helps with commercial structuring, facilitates market access, and provides support for successive rounds of fundraising. As highlighted by Gompers and Lerner (1999), venture capitalists play the role of “active mentors,” intervening in strategic pivot decisions, the formation of the founding team, and the protection of intellectual property.

Governance remains flexible (minority), but is exercised through specific clauses (liquidation preference, anti-dilution, veto rights), which protect capital and guide key decisions.

Growth capital targets profitable SMEs and mid-cap companies in the organic expansion or structuring phase. The aim is to support accelerated development by providing human, financial, and strategic resources. The funds often take a minority but structured stake (20%

to 49%), which requires active dialogue with management. The intervention generally focuses on:

- opening up new markets
- optimizing core functions (CFO, IT, HR)
- digitization of operations
- professionalization of governance (strategic committee, regular reporting)

This approach corresponds to “demanding support” governance, as defined by Talmor and Vasvari (2011), where the fund acts as a catalyst for change without taking control.

Buyouts are at the heart of the private equity market, particularly in Europe. They involve acquiring a mature company, often as part of a succession plan, a founder's exit, or a spin-off from a large group. The acquisition is carried out through leverage (LBO), combining equity and debt, and is accompanied by a majority takeover. The fund becomes the reference shareholder, imposes new governance, and implements a structured transformation plan. According to Kaplan and Strömberg (2009), it is in this context that the fund exercises the greatest strategic influence: restructuring the board of directors, implementing a detailed business plan, and defining management incentive mechanisms (ratchets, earn-outs, etc.). Value creation is based on three pillars: financial leverage, operational improvement, and strategic expansion (build-ups, internationalization).

Turnaround capital targets companies in difficulty, often loss-making, with deteriorating profitability or an unbalanced balance sheet. This riskier segment requires very strong involvement from the fund in day-to-day management. The turnaround plan involves:

- financial restructuring (debt-to-equity conversion, negotiations with creditors)
- management overhaul (replacement of senior management)
- rationalization of costs or unprofitable business lines

The investment horizon may be longer (7 to 10 years), and governance extremely tight, sometimes with transitional management. This type of operation requires specific skills in turnaround and restructuring and remains the preserve of specialized funds.

This overview provides a better understanding of why alignment and incentive mechanisms differ profoundly depending on the type of transaction and the maturity of the target. In the case of an LBO – which is the main focus of this thesis – financial and strategic levers are combined with tight contractual governance, optimized for an exit horizon defined at the outset.

1.6.2. Specific strategies: build-up, carve-out, diversification

Beyond the traditional private equity models, some funds develop targeted strategies based on sector dynamics or market opportunities. Although these approaches vary, they share one thing in common: they require greater involvement from the fund in operational execution and strategic governance.

The build-up strategy consists of acquiring a so-called “platform” company and then gradually adding several complementary companies (often smaller in size) to it, with a view to sector consolidation. The aim is to create a critical mass capable of generating economies of scale, expanding its geographical footprint or completing its value chain. This approach is particularly widespread in the European mid-market, in fragmented sectors (healthcare, B2B services, specialized engineering, tech, etc.). It is based on:

- active identification of targets by the fund, often in collaboration with the platform's management
- financial and legal structuring tailored to each acquisition
- rapid post-deal integration, with a strong focus on synergies (HR, IT, purchasing, sales)

According to a study by Ernst & Young (2021), more than 60% of European mid-cap funds use build-up strategies, which contribute on average to more than 50% of value creation over the holding period. The success of this approach depends on the ability to standardize integration processes while maintaining the agility required for each acquisition.

A carve-out refers to the extraction of a non-strategic business from a large group with a view to turning it into an autonomous entity. The main challenge lies in rebuilding independent governance and infrastructure capable of running the business without the support of the original group.

The fund plays a central role in the early stages of the carve-out:

- it defines the target business model by reassessing priority markets, pricing policy, and cost structure
- it rebuilds support functions (IT, HR, finance, legal) that were previously shared with the group
- it supports the cultural transition, as managers must shift from a group mindset to a more agile entrepreneurial approach

As Michael Porter (1987) explains, a unit that is spun off from a large group regains its own strategic space, provided that the framework for autonomy is sufficiently clear and supported. In practice, carve-outs are complex, but can generate considerable value creation when executed well; especially if the business had untapped potential within the group.

Diversification (whether geographical, sectoral or through product range extension) aims to open up new growth drivers beyond the initial core business. This strategy is not based on restructuring but on active strategic support from the fund:

- to define relevant target markets, often internationally or in adjacent niches
- to support the investment required for development (product launch, subsidiary, local recruitment, etc.)
- and sometimes to coordinate a repositioning of the offering in line with changing customer expectations or available technologies

From a PE perspective, well-executed diversification can increase the exit multiple by broadening the addressable market, reducing dependence on a single segment, and

positioning the company as a more strategic player for potential buyers. Acharya et al. (2009) emphasize that these profound transformations are often better supported in an LBO framework, where tight governance allows for rapid execution of strategic shifts.

These three strategies - build-up, carve-out and diversification - share the same requirement: a strong commitment from the fund to operational execution, often beyond a purely financial role. They are part of a strategy of transformational value creation, where the fund is simultaneously investor, strategist, and accelerator. They require specific skills within the management teams (M&A, carve-out management, product strategy) and are a differentiating factor in the selection of funds by LPs, who value the GP's ability to create value beyond simple financial leverage.

1.6.3. Impact on the nature of the fund-management relationship

The investment strategy adopted by a fund directly influences the nature of its relationship with the management of the target company. The degree of involvement, the terms of interaction, and the tone of the strategic dialogue vary considerably depending on the profile of the company, the type of transaction, and the objectives pursued.

- In venture capital, the relationship is generally based on providing strategic support to a founding team. The fund acts as an experienced advisor, facilitating access to markets, talent, and successive rounds of financing. The tone is collaborative, with frequent engagement, but no hierarchical structure.

- In buyout capital, the relationship is based on a contractual alignment of interests. The fund imposes a sustained pace and a precise execution framework, with high performance expectations. Operational pressure is high, framed by tight governance and demanding incentive mechanisms. Kaplan and Strömberg (2009) point out that in this context, the fund's role evolves toward that of a “strategic coach,” focused on achieving the objectives defined at the outset.
- In turnaround capital, the relationship can be more tense. The fund often has to make managerial changes, review the corporate culture or take unpopular decisions to turn the situation around. Governance becomes more interventionist, sometimes facing internal resistance, and requires strong leadership and transformation skills.
- In build-up strategies, the relationship is often almost daily. The fund works hand in hand with management to identify targets, structure acquisitions, integrate acquired companies, and harmonize practices. Strategic proximity is essential to success.

As Thomas Perrot⁽¹⁾, M&A Director at Audensiel, explained during a discussion in February 2025: “There is no single way to be a good shareholder. It all depends on the timing, the profile of the manager and the strategy being pursued. In a build-up, we are there every week. In a stable investment, we focus on milestones.”

This testimony illustrates a reality that is well documented in private equity literature: a fund's ability to adapt its level of involvement and adjust its strategic discourse is a key factor for success. According to Talmor and Vasvari (2011), the best-performing funds are those that

(1) Interview with Thomas Perrot (Audensiel), conducted by Simon Louis,, February 15, 2025

are able to adopt a flexible approach, acting as either a committed partner or a structuring shareholder, depending on the specific needs of the company.

This flexibility reinforces the role of the fund not as a mere supervisor, but as a demanding strategic partner, whose added value lies as much in its management discipline as in its ability to build a relationship of trust and stimulation with the managers. Far from a single governance model, private equity therefore operates according to a situational logic, which requires a keen understanding of human, economic, and sectoral dynamics. It is in this balance between high standards and adaptability that the success of the fund-management relationship is rooted.

1.7. ESG and the transformation of the fund-management relationship

1.7.1. The rise of ESG criteria in investment decisions

The integration of environmental, social, and governance (ESG) criteria is now a structural turning point in the evolution of private equity. Long considered peripheral to financial objectives, non-financial factors have become central, both to meet the expectations of institutional investors (LPs) and to anticipate regulatory and reputational changes in the market. According to a report by Bain & Company (2023), more than 80% of European private equity funds say they integrate ESG criteria from the due diligence phase onwards. This percentage has been rising steadily since 2019, supported by the rise of European regulations (SFDR, Green Taxonomy) and the growing commitment of signatories to the Principles for Responsible Investment (PRI). Once perceived as a compliance risk or a “cost of conscience,” ESG analysis is now valued as:

- a risk management tool (reputational, regulatory, operational)
- a lever for competitive differentiation, particularly in B2B or public tenders
- as a driver of value creation

Recent studies published in the Harvard Business Review and by McKinsey & Company show that companies with good ESG ratings have a valuation premium at exit (higher transaction multiples), a lower customer churn rate, and a greater ability to attract talent. In private equity, these factors directly influence the business plan, exit pricing, and the sustainability of the growth strategy. In this context, funds are no longer content to simply tick boxes during the analysis phase. They now structure active monitoring of ESG performance throughout the holding cycle:

- Identification of material ESG issues during due diligence (carbon footprint, working conditions, diversity within management bodies, supplier ethics, etc.)
- Integration into the strategic action plan, with quantified targets for three or five years
- Regular reporting to the strategic committee or board of directors
- Setting ESG targets that determine part of management's variable compensation

ESG is thus becoming a key focus of dialogue between funds and management, on a par with traditional financial indicators. This development reflects a paradigm shift: it is no longer a matter of ancillary reporting, but a cornerstone of the strategic roadmap, integrated into quarterly reviews, growth roadmaps and exit valuation criteria.

However, this rise in prominence is not affecting all private equity strategies in the same way. Growth capital and mid-cap buyouts, which are closer to the expectations of European institutional investors, are leading the way on this issue. Conversely, venture capital and turnaround capital still show more uneven integration, due to the youth of the structures or more short-term priorities. But the trend is clear: in the coming years, ESG will no longer be a differentiating selection criterion, but a minimum standard for accessing capital. Funds that can demonstrate structured and documented management of their non-financial performance will have a major competitive advantage, both in raising funds and in executing their investment strategies.

1.7.2. ESG as a tool for managerial influence

ESG is no longer limited to a compliance exercise. It is gradually becoming a tool for strategic influence over management, structuring priorities and influencing decisions at all levels of the company:

- Environment: funds impose targets for reducing CO₂ emissions, relocating supply chains, and eco-designing products. These environmental targets are integrated into strategic action plans, often with a 3- to 5-year horizon.
- Social: the focus is on formalizing HR policies, diversity, equal pay, and transparency on social indicators (turnover rates, workplace accidents, employee satisfaction).

- Governance: strengthening board independence, implementing compliance mechanisms, and structuring decision-making processes are becoming prerequisites for any support.

These requirements reflect the principles promoted by the PRI and the SFDR standards, and are increasingly seen as levers for performance as well as risk management (Bain & Company, 2023; McKinsey, 2023). ESG also influences variable compensation for management teams, particularly in management incentive plans (MIPs). Funds are now introducing ESG criteria alongside traditional financial objectives, such as:

- % of revenue from sustainable products
- obtaining ESG certification
- improving the product mix
- reducing the carbon footprint



According to McKinsey (2023), more than 60% of European mid-cap funds now link part of their executives' bonuses to ESG objectives, compared with less than 20% in 2019. As Nicolas Bonnard⁽¹⁾, Managing Director at Sagard, sums it up: “We recently revised a CEO's incentive package to include a more sustainable product mix indicator. This type of target is becoming as strategic as an EBITDA target.” This integration marks a shift: ESG is becoming a management alignment tool, both incentivizing and structuring, at the heart of the relationship between funds and executives.

(1) Interview with Nicolas Bonnard (Sagard), conducted by the author, March 15, 2025.

1.7.3. Towards a new contract between funds and executives?

ESG is helping to reinvent the relationship between funds and management by establishing a broader form of contract that goes beyond the creation of financial value alone. It also redefines the role of executives, who are now expected to demonstrate societal leadership, ethics, and long-term vision. This evolution is not without tension. Some executives perceive ESG as a set of vague or overly ambitious objectives. Others, on the contrary, see it as an opportunity to strengthen their legitimacy, attract talent, or differentiate themselves commercially.

For funds, the challenge is to strike the right balance between ambition and pragmatism, and not to distort the economic alignment that remains the foundation of LBOs. As Éléonore Caramalli⁽¹⁾ sums it up: “ESG must not become a cosmetic layer. It must be linked to the core of the business model and, above all, be a driver of performance.” In the years to come, the ability of funds to integrate ESG in a structured, measurable and incentivizing way could well become a decisive competitive advantage, both in the selection of targets and in their value creation.

This first section has laid the conceptual foundations necessary for understanding the relationship between a private equity fund and the managers of a target company. Whether in terms of governance mechanisms, incentive tools, or recent developments in ESG requirements, it is clear that the fund's role goes far beyond simply providing capital. It is part

(1) Interview with Éléonore Caramalli (Sagard), conducted by Simon Louis, February 19, 2025

of a strategy of strategic influence, structural transformation, and alignment of interests over the holding period.

To illustrate these dynamics in concrete terms, the second part draws on two contrasting case studies from Sagard's investment universe. These two transactions - one majority (Adit) and the other minority (Audensiel) - allow us to analyze how the fund's strategy, the nature of its stake, and the management profile influence the governance arrangements put in place. Through these examples, enriched by testimonials from interviews conducted between January and March 2025, we will highlight the diversity of practices, the levers activated, and the challenges encountered in building a balanced partnership between investors and managers.



2. **Methodology**

2.1. **Research design and methodological approach**

This thesis investigates how private equity funds influence strategic decision-making within their portfolio companies - a question that cannot be addressed solely through formal models or quantitative indicators. The mechanisms of influence in LBO contexts are not limited to board rights or financial incentives; they also involve soft levers such as strategic dialogue, informal pressure and relational capital. Capturing these dimensions requires a research approach that is both flexible and sensitive to context.

I therefore adopted a qualitative case study design. This choice reflects the nature of the research question - a “how” question, embedded in a complex and evolving setting - as well as the need to understand not just what funds do, but how they do it, with whom and under what conditions. Case studies are particularly relevant when the phenomenon under investigation is entangled with its environment, and when the boundaries between formal structure and practical execution are blurred.

This work builds on an embedded comparative case study focused on two companies — Adit and Audensiel — both backed by the same investor, Sagard. While the investment thesis and value creation ambitions may appear similar on paper, the two cases differ significantly in terms of governance posture: Sagard holds a majority stake in Adit, giving it strong formal levers of control, whereas in Audensiel, its minority position limits its ability to intervene directly. This internal contrast allows for a nuanced exploration of how governance strategies

adapt to ownership structure, and how different forms of influence - contractual, relational, strategic - are mobilized depending on the context.

The methodological approach is also inductive and processual. Rather than testing a predefined model of governance or applying a fixed theoretical grid, I draw on field data to reconstruct the actual practices and representations of those involved. This aligns with a stream of research in management and private equity that emphasizes the relational and negotiated nature of governance (Cumming & Johan, 2013; Bruining et al., 2013). In particular, it makes it possible to observe how control and alignment are not simply imposed from the top down, but often emerge through iteration, compromise, and mutual adjustment. In this respect, the case study does not aim to generalize statistically, but to generate situated insights into how private equity governance works in practice — how formal and informal mechanisms interact, how incentives are translated into behavior, and how the balance of power evolves over time.

2.2. Relevance of the Sagard Case

The choice of Sagard as the central case for this thesis is based on both conceptual richness and empirical accessibility. From a research standpoint, it offers a rare opportunity to observe and compare two contrasting governance configurations within the same investment framework: a majority participation in Adit and a minority stake in Audensiel. This internal contrast provides fertile ground for analysing how ownership structure shapes the fund's strategic posture, the governance mechanisms it deploys, and the nature of its relationship with management.

In Adit, where Sagard holds a majority position, the fund plays a leading role in defining value creation plans, structuring management incentives, and steering strategic decisions through board participation. In Audensiel, by contrast, its minority stake limits formal control, pushing it to rely more on relational capital, informal influence, and co-construction with the founding team. Studying these two cases side by side offers a unique lens on the continuum between control-oriented and partnership-based governance, and illustrates how private equity firms adapt their tools and posture to different contexts.

This contrast also enables a critical reading of agency theory (Jensen & Meckling, 1976), challenging the assumption that formal levers are always the primary channel of influence. In practice, alignment often emerges through iterative interactions, mutual adjustments, and trust dynamics — especially when control is limited. The Sagard case thus provides an opportunity to explore not only governance tools, but also the relational and dynamic processes through which alignment is built.

Finally, while Sagard is a specific case, it reflects broader trends in mid-market European private equity: active engagement in value creation, widespread use of performance-based incentives, increasing attention to ESG, and a pragmatic approach to governance. In this sense, it serves as a strategic vantage point from which to analyse how private equity governance is evolving in practice

2.3. Data collection and access to internal materials

The empirical material used in this thesis combines confidential internal documentation, daily observation, and in-depth interviews, made possible through a six-month immersion within Sagard's investment team. This privileged position provided access to management packages, investment committee memos, board materials, governance tools, and internal reporting systems — including documents rarely available to external researchers. These sources offered a detailed view of how governance mechanisms are designed and applied in practice, particularly regarding incentive structures (ratchets, leaver clauses), ESG-linked performance metrics, and reporting frameworks.

In addition to these internal materials, the research draws on four semi-structured interviews with key stakeholders from the two portfolio companies:

- Nicolas Bonnard, Managing Director at Sagard (February 12, 2025)
- Éléonore Caramalli, Investment Manager in charge of Adit (February 19, 2025)
- Thomas Perrot, Head of M&A at Audensiel (March 15, 2025)
- Jérôme Gougeon, Operations Lead at Adit (March 6, 2025)

These interviews were selected to capture complementary perspectives from both the investor's side and the portfolio companies. They provided valuable insights into how governance mechanisms are perceived, negotiated, and enacted. Beyond factual information, they revealed how formal tools are interpreted in practice, how influence is exercised, and how trust, alignment, or tensions develop over time.

This internal access proved especially valuable when cross-referenced with the interview material, consistent with established case study methodologies that emphasize

triangulation to improve the robustness and validity of findings (Yin, 2018; Eisenhardt, 1989).

For example, during my discussion with the investment manager in charge of Adit, I compared her perspective on performance-based incentives with the actual governance agreements and leaver clauses, highlighting discrepancies between intended mechanisms and their interpretation in practice. This type of triangulation strengthened the analytical depth of the research and helped validate the findings beyond purely declarative material.

From a methodological standpoint, such embedded access offers a rare “behind-the-scenes” perspective often missing from traditional governance studies. It made it possible to observe not only what decisions were taken, but also how and why they were made, and how tensions were navigated over time. Rather than relying solely on official narratives or retrospective accounts, I was able to analyse actual processes and internal debates as they unfolded — particularly during moments of strategic divergence or incentive misalignment.

In this respect, the Sagard case goes beyond the illustrative function often assigned to case studies. It serves as a research observatory where mechanisms, interests, and relational dynamics can be empirically documented and conceptually analysed. This depth of access was essential in linking abstract theoretical models — such as agency theory and relational contracting — with the realities of governance in practice.

While efforts were made to ensure analytical rigour - through systematic coding, data cross-checking, and theoretical grounding - the results should be viewed as contextual insights, rather than objective truths or universally applicable models.

2.4. Limitations of the approach

While this embedded case study offers valuable insights into the governance practices of a private equity fund, it also presents several limitations that should be acknowledged.

First, the empirical material is based on a single fund and two portfolio companies, which limits the generalizability of the findings. Although the internal contrast between a majority and a minority investment provides analytical leverage, the cases remain tied to a specific firm culture, investment style, and governance philosophy. The extent to which these findings can be transferred to other funds - particularly outside the European mid-market - must therefore be considered with caution.

Second, my position as an intern within the investment team, while offering privileged access, may also introduce biases linked to proximity. Even with a critical lens, it is possible that certain dynamics were interpreted through the fund's perspective, or that access to dissenting views (particularly from top managers) was limited by the hierarchical structure or the confidentiality of certain discussions. I mitigated this risk through triangulation, combining interviews, internal documents, and direct observation.

Finally, the thesis focuses primarily on the relationship between investor and top management, and does not fully explore how governance mechanisms cascade to the broader organization (e.g., middle managers, operational teams). Future research could extend this perspective by looking at how strategic alignment is maintained throughout the organization, especially in cases where transformation plans require deep cultural or structural change.

3. Case study: Adit and Audensiel

3.1. Presentation of Adit (majority stake)

Founded in 1992 on the initiative of the French government, the Agency for the Dissemination of Technological Information (ADIT) was originally tasked with structuring and professionalizing national economic intelligence. Initially a public institution, ADIT was transformed into a public limited company in 2003, thereby beginning its privatization and gradual opening up to the private sector. This development marked a major strategic turning point, with a gradual increase in its activities in competitive markets. Since then, ADIT has established itself as the European leader in strategic intelligence consulting, with a presence in more than 130 countries, a portfolio of more than 1,000 clients, and a strong representation among major French companies, particularly those listed on the CAC 40. Its unique positioning is based on its expertise in geopolitical, industrial, and competitive issues, with a focus on economic sovereignty and the security of strategic assets.

The group is currently structured around seven complementary operational divisions, enabling it to cover the entire economic intelligence value chain:

- Business intelligence: investigations, competitive intelligence, risk mapping
- Business ethics: due diligence, compliance audits, anti-corruption mapping
- Businesses & territories: strategic support for local authorities and regional SMEs
- Business diplomacy: complex negotiation consulting, international mediation
- Business security: risk management, security engineering, interference prevention
- International deployment: export and establishment support via Salveo

- Digital strategy: e-reputation, influential communication, online monitoring via Stratinfo

This matrix organization enables ADIT to meet the needs of a diverse client base - companies, public institutions, local authorities - with a focus on high value-added and highly confidential consulting services.

The company has pursued a targeted external growth strategy to strengthen its sector expertise and geographical coverage. Notable operations include:

- Salveo: a key player in international business support, providing a network of local experts in more than 50 countries
- Geos: specializing in security, crisis management, and security intelligence
- Stratinfo: expert in e-reputation and cyber surveillance
- Eurotradia: a long-standing international trade company, at the crossroads of consulting and export intermediation

These acquisitions have helped to strengthen the group's vertical integration, broadening the range of skills available while consolidating its position as French champion of economic intelligence.

Since 2022, the Sagard fund has held 43% of Adit's capital, alongside Parquest Capital (25%), Amundi PEF (15%), and Bpifrance (11%), while the management team, led by CEO Philippe Caduc, retains a significant minority stake. This distribution reflects a desire to strike a

balance between financial investors and managerial continuity, ensuring stability and strategic consistency.

Sagard's investment in Adit is part of a clear strategy: to support a strategic French player in its ambition to become an international leader by supporting organic development, accelerating external growth, and structuring governance in a rapidly changing market environment (cybersecurity, economic warfare, geopolitical tensions).

3.2. Nature of the relationship between Sagard and Adit's management

Sagard's investment in Adit has resulted in the establishment of a close, structured, and strategic relationship between the fund and the management teams. As the majority shareholder, the fund has sought to establish a balanced partnership: demanding but not intrusive, guided by rigorous governance and incentive-based alignment tools. Sagard has several seats on the board of directors, alongside Parquest, Bpifrance and Amundi PEF. This governance structure allows for quarterly monitoring of strategic indicators, while giving operational management autonomy in execution. There is a lively dialogue, particularly with Philippe Caduc (CEO) and the wider management teams, through half-yearly reviews of the roadmap. As Éléonore Caramalli, who is in charge of the file at Sagard, explains: “What makes Adit's case so strong is the highly specialized expertise of its management. Our role is not to intervene in operations, but to frame strategic priorities, challenge options, and ensure execution.”

Upon entering the capital, a management package was structured to align the interests of the executives with the value creation trajectory. This package combines:

- a personal co-investment by top management, representing approximately 0.5 to 1.0% of the capital upon entry (i.e., a personal investment of between €500,000 and €1 million for the CEO)
- an allocation of performance instruments (through BSPCE), representing up to 7 to 8% of fully diluted capital, conditional on exit multiple targets (MoIC \geq 2.0x) and IRR (> 20%).

Potential gains are capped by a tiered system:

- below 1.7x MoIC, performance shares are heavily discounted or even worthless (bad leaver);
- between 2.0x and 2.5x MoIC, executives can capture approximately 3 to 4% of the value created;
- above 3.0x MoIC, profit sharing can represent up to \$8–9 million for the extended team, with significant upside for the CEO (up to \$3 million net in the event of outperformance).

Non-financial objectives have also been incorporated, particularly with regard to international growth and ESG compliance (certifications, diversity policy, climate policy).

Sagard adopts a targeted strategic management approach:

- during external growth operations, where it co-manages due diligence and structuring (see acquisition of Stratinfo)
- in cross-functional projects, such as the digitization of reporting, the strengthening of middle management teams, or the professionalization of support functions
- and in the development of the three-year strategic plan, which is regularly adjusted to incorporate market developments and the group's ambitions

The Adit case illustrates a governance model specific to majority LBOs with a strong strategic component: the fund sets the course, arbitrates priorities, and secures exit conditions, but leaves management fully responsible for execution. This partnership based on transparency, high standards and a shared vision is a key factor for success in a sensitive sector, where value creation depends as much on operational expertise as on the ability to expand internationally.

To date, Sagard is scheduled to exit in September 2025, after a holding period of approximately three years. Interim valuation work indicates an estimated exit multiple of 2.3x invested capital, in line with initial expectations. This performance incorporates organic growth, build-ups achieved since 2022, and improvements in the ESG indicators included in the investment thesis.

3.3. Presentation of Audensiel (minority stake)

Founded in 2013, Audensiel is a consulting firm specializing in digital transformation, technology engineering, and IT services. Positioned at the crossroads of digital technology and innovation, the company supports its clients in their transformation, IT architecture, cybersecurity, and application development projects, both on the technological and business sides.

The group mainly targets large accounts and mid-sized companies operating in technology-intensive sectors such as banking and insurance, industry, telecommunications, energy, and the public sector. In 2024, Audensiel will employ nearly 1,600 people across more than 20 locations, including Paris, Lyon, Nantes, Geneva, Madrid, Montreal, and Toronto. Audensiel's business is based on four strategic pillars:

- Digital transformation consulting: project scoping, IT strategy, change management
- Software & data engineering: custom development, cloud architecture, data science
- Cybersecurity & compliance: auditing, intrusion testing, SOC, GDPR compliance
- Outsourcing and service centers: management of delegated IT activities (TMA, support)

The group's strategy is firmly focused on innovation, with a distinctive positioning in emerging technologies (artificial intelligence, blockchain, advanced cybersecurity). This positioning has enabled Audensiel to achieve sustained growth in recent years: in 2023, revenue amounted to nearly €130 million, with organic growth of more than 15% per year and operating profitability exceeding 13% EBITDA.

Audensiel has also expanded through targeted external growth operations, with more than five acquisitions completed since 2018, including players specializing in cybersecurity, data science, and digital marketing, strengthening its regional network and sector coverage. In 2022, Sagard acquired a minority stake in Audensiel alongside the management team led by founder Nicolas Pacault, who remains the majority shareholder. The transaction was designed to support the group in a new growth cycle, while structuring governance with a view to consolidating the market.

Sagard holds approximately 30% of the capital, without a majority on the board, but with strategic rights governed by the shareholders' agreement (reporting, veto on certain structural decisions, support for build-up). The stated objective is twofold: to accelerate the group's internationalization (particularly in Canada and Spain) and to prepare a critical-mass transaction by 2025–2026, with a view to sector restructuring.

3.4. Nature of the relationship between Sagard and Audensiel's management

Sagard's acquisition of a stake in Audensiel was part of a minority growth investment strategy aimed at supporting a founding CEO who was still heavily involved in operations, while structuring the company with a view to sector consolidation. This position requires a delicate balance between strategic support and respect for entrepreneurial autonomy. Sagard does

not hold a majority on the board of directors, but has specific rights under the shareholders' agreement. These rights enable it to influence structural decisions, in particular through:

- a veto right on major decisions: modification of the business plan, significant debt issuance, disposal of strategic assets, change of governance
- a detailed monthly and quarterly reporting obligation, including financial and operational KPIs
- a priority liquidity clause in the event of a change of control or partial sale

In addition, Sagard has secured tag-along clauses (joint transfer rights) to enable it to exit at the same time as the founder, and a drag-along clause (joint exit obligation) that can be activated in the event of a majority sale by 2025. These tools guarantee the fund visibility and indirect control over the outcome of the investment, without calling into question Nicolas Pacault's operational leadership.

The fund adopts a demanding sparring partner approach, particularly in structuring projects (reporting, HR, CRM, build-up). It is also active in providing international support, particularly through its offices in Canada and Spain. As Nicolas Bonnard⁽¹⁾, Managing Director at Sagard, explains: “We don't steer the course on a day-to-day basis, but we challenge the options and support the execution of structuring projects. The objective is clear: to help build a coherent pan-European player.”

(1) Interview with Nicolas Bonnard (Sagard), conducted by the author, March 15, 2025.

As a minority shareholder, Sagard has structured a Management Incentive Plan (MIP) designed to ensure that management is strongly aligned with growth objectives. This MIP is based on two pillars:

- a significant co-investment by the founder, representing approximately 2% of the capital
- an allocation of performance instruments (preference shares), representing up to 5% of fully diluted capital, with progressive activation thresholds

The full value of the MIP is triggered upon the achievement of certain collective targets:

- MoIC $\geq 2.0x$ for Sagard at exit
- IRR $\geq 18\%$

If these targets are not met, the MIP is partially deactivated. The agreement also includes bad leaver/good leaver clauses specifying the conditions for retaining or cancelling securities in the event of departure.

Audensiel's strategic direction for 2025 is based on becoming a consolidated player, either through an industrial sale to a European player or through a secondary LBO. In this context, Sagard is involved in defining the exit criteria, while leaving the founder in charge of execution. This relationship is based on co-construction rather than intrusive governance. To date, Sagard is expected to be exited in December 2027, as part of a secondary LBO or a significant industrial transaction. The projections established by the fund's teams are based on a target multiple of 2.5x the capital invested, driven by continued organic growth, accelerated internationalization, and the effect of ongoing build-ups. At the end of 2024, the

multiple achieved is estimated at 1.7x, reflecting a dynamic trajectory but still in the deployment phase of growth drivers.

3.5. Comparative summary: Adit vs. Audensiel

The cases of Adit and Audensiel illustrate two very contrasting approaches to private equity investment. A comparative analysis reveals the main factors that determine an investor's strategic role depending on the type of stake, the management profile and the growth strategy pursued.

1. Type of intervention: majority vs. minority

One of the most significant differences lies in the nature of the stake:

- In the case of Adit, Sagard holds a 43% majority stake, giving it a central role in governance and significant strategic decision-making power. The fund is actively involved in medium-term strategy, acquisitions, performance reviews, and ESG oversight. This configuration allows for tight and direct governance through strong involvement in the board of directors and committees.
- Conversely, Audensiel is a case of minority ownership (30%), in a context where the founder is still the majority shareholder and fully operational. Sagard's role here is more indirect: it involves structuring, advising, and opening up growth opportunities, but without interfering in day-to-day operations. The fund relies mainly on contractual rights to manage its exposure (veto, liquidity clauses), while respecting entrepreneurial governance.

2. Strategic role and position of the fund

- Adit: Sagard acts as a co-architect of the strategy. It intervenes at key moments: validation of build-ups, monitoring of the ESG roadmap, steering international growth. The fund plays an active role in the reconfiguration of the group, in conjunction with the other financial shareholders and management.
- Audensiel: Sagard plays more of a catalyst role. It supports expansion projects (particularly in Canada and Spain), provides sector benchmarks and helps structure reporting. However, the roadmap remains largely defined and driven by Nicolas Pacault. Here, the fund positions itself as a support for a project led by an experienced entrepreneur.

3. Governance and control tools

- Adit: active governance, monthly reporting, involved board of directors, regular strategic committees. The strategy is reviewed every six months with precise monitoring of KPIs.
- Audensiel: structured shareholder agreement with tag-along and drag-along clauses, quarterly reporting, veto rights on certain critical decisions. The fund does not systematically sit on operational bodies but ensures that its contractual rights are respected.

4. Alignment of interests and structuring of MIPs

Both cases are based on solid incentive packages, but adapted to the ownership contexts:

- Adit:

- MIPs representing up to 8% of fully diluted capital, with thresholds conditional on a MoIC $\geq 2.0x$.
 - Personal co-investment by top management of 0.5 to 1.0% of capital.
 - Clearly defined exit objectives, with bonuses linked to ESG criteria and external growth.
- Audensiel:
 - MIP structured around 5% of capital with progressive triggering based on MoIC (between 1.7x and 2.5x).
 - Co-investment by the founder of 2% of capital.
 - Bonuses indexed to strategic objectives (opening of new markets, sustainable revenue growth).

These two systems enable shared value creation, while adapting the incentive pressure to the level of risk, involvement and control of the fund.

5. Exit prospects and expected performance

Finally, the two cases differ in terms of their maturity and exit horizon:

- Adit: exit planned for September 2025, with a target multiple of 2.3x. The customer portfolio, growth in strategic activities (cybersecurity, business diplomacy) and structuring efforts have enabled the objectives set when Sagard invested to be achieved.
- Audensiel: exit expected in December 2027, with a target of 2.5x, compared with 1.7x achieved at the end of 2024. The group is continuing its build-up and international

development strategy. The final valuation will depend on the ability to structure a major consolidation operation on a European scale.

A detailed study of the Adit and Audensiel cases highlights the diversity of relationships between private equity funds and company executives. It also reveals how these relationships can be adapted to different ownership structures (majority vs. minority), management profiles, and strategic ambitions. In both cases, the fund acts as a catalyst, while structuring a governance and incentive framework designed to secure the value creation trajectory.

However, these two examples, rich as they are, cover only part of the spectrum. To fully grasp the issues at stake, we now need to broaden the analysis to other fund models - patrimonial or institutional - and compare them with theoretical contributions from management science and academic literature. This is the purpose of this fourth part: to identify cross-cutting lessons learned from the practices observed, propose a typology of fund-manager relationships, and open up avenues for reflection on possible developments in the role of funds in corporate strategic governance.

4. Lessons and theoretical perspectives

4.1. Three investment postures

Not all relationships between investment funds and management teams look the same. Behind the general label of “investor” lie very different ways of interacting with portfolio companies - some more hands-on, others more formalized, and some more oriented toward control. These differences stem from the fund’s culture, constraints (investment horizon, reporting to LPs), and its broader view of governance and the role it wishes to play.

Looking at three contrasting examples - Sagard, Artémis, and Five Arrows - we can outline a typology of investment postures. Each follows its own logic, with clear distinctions in terms of governance style and manager interaction.

Artémis is a family holding company founded by François Pinault. It invests with a long-term, legacy-driven mindset across various sectors - fine wine (Château Latour), art (Christie’s), media (Le Point), and luxury (Courrèges). Artémis has no defined exit horizon or fundraising constraints. Its investment approach emphasizes discretion, trust, and autonomy for portfolio company leadership.

Five Arrows is the private equity arm of Rothschild & Co. It operates multiple institutional funds raised from global LPs and follows a highly structured model. It invests along clear sector theses (B2B, healthcare, technology), uses complex legal frameworks, and puts strong pressure on financial performance. This is a representative example of how PE has evolved into a professionalized, rules-driven industry over the past two decades.

These three firms illustrate very different postures toward portfolio management, which we can summarize as: the strategic co-pilot, the trusted advisor, and the institutional supervisor.

4.1.1. The strategic co-pilot: Sagard

Sagard takes a flexible and pragmatic approach, aiming to strike a balance between financial discipline and strategic involvement. It adapts its level of engagement depending on whether it holds a majority or minority stake.

At Adit, where Sagard is the majority shareholder, the fund plays an active role. It contributes to strategic discussions, supports build-up efforts, and helps define the ESG roadmap. The governance structure is formalized, with regular reporting and a management incentive plan based on both financial metrics (MoIC, IRR) and non-financial goals.

At Audensiel, where Sagard holds a minority position, its involvement is more measured. The fund relies on contractual rights (vetoes, reporting obligations) to maintain oversight, but avoids interfering in daily operations. The relationship is based on constructive dialogue with the founding team. This setup initially caused some tension but eventually led to a more fluid collaboration.

This “strategic co-pilot” model is about finding the right level of involvement: structured without being rigid and engaged without being overbearing. It works best when managers are open to external input but still want to remain at the helm.

4.1.2. The trusted advisor: Artémis

Artémis follows a completely different logic. As a family-owned holding company, it is not bound by exit timelines or external reporting requirements. This structural freedom translates into a unique governance style - low intervention, no formal oversight, and no performance-based incentives. The relationship with management is built on long-term alignment and mutual trust.

In this setup, there are no investment committees, no KPIs, and no contractual tools like drag-along or vesting clauses. Instead, everything rests on choosing the right people from the outset. Once onboard, the managers are given substantial leeway to execute their vision.

This “trusted advisor” model favors stability and long-term thinking. It tends to appeal to entrepreneurial or creative profiles who value autonomy and dislike institutional pressure. However, the success of the model depends entirely on cultural and strategic alignment from the beginning - there are few safeguards if the relationship turns sour.

4.1.3. The institutional supervisor: Five Arrows

At the other end of the spectrum, Five Arrows operates with a highly structured, institutional model. Its relationships with management are framed by detailed shareholder agreements: drag-along and tag-along rights, vesting schedules, non-compete clauses, preferential liquidation rights, and strict reporting routines.

Managers are incentivized through complex MIPs, often coupled with co-investment requirements and ratchet clauses. Strategic committees meet frequently, and any deviation from the business plan is flagged and discussed.

This model offers clarity and mitigates operational risk. It is well suited to situations where professionalization and performance monitoring are key. However, it can also cause friction - particularly when teams are not used to that level of scrutiny or when the company has a strong entrepreneurial culture. Several managers backed by Five Arrows have reported difficulties, especially around the fund's expectations and perceived rigidity.

The “institutional supervisor” approach works best in mature or highly structured environments but may not be compatible with all management styles.

These three examples highlight the range of postures that investors can adopt from informal partnerships based on trust, to tightly controlled institutional models. None of these approaches is inherently better than the others. What matters is the fit between the fund's posture and the management team's expectations. When that alignment is clear from the start, it can be a key factor in the success of the partnership.

4.2. Reinterpreting case studies through theoretical lenses

While agency theory offers a robust framework for analyzing investor-manager relations, it often falls short of capturing the broader spectrum of interactions observed in the field. In practice, the influence of private equity funds is not solely contractual or incentive-based: it is relational, strategic, and increasingly multidimensional. Drawing on four complementary theoretical lenses, this section explores how Sagard, Artémis, and Five Arrows enact

different postures that transcend the logic of control to build more embedded, value-creating relationships with management teams.

4.2.1. Agency theory: a useful but partial framework

Agency theory (Jensen & Meckling, 1976) posits that managers and investors have divergent interests. To minimize the risk of misalignment, investors rely on formal governance mechanisms such as shareholder agreements, reporting obligations, and incentive schemes — typically linking management compensation to value creation metrics like MoIC or IRR.

This theoretical model fits well with the Five Arrows case. The fund adopts a highly formalized and codified governance architecture: detailed contracts, monitoring committees, vesting clauses, co-investment mechanisms, and ratchets. These mechanisms are designed to ensure close supervision and alignment of interests through financial incentives.

A similar logic applies to Sagard's majority investment in Adit. The governance framework is structured and includes a Management Incentive Plan indexed to both financial performance and ESG indicators. For instance, the decision not to expand into Angola due to ESG risks illustrates how extra-financial criteria can influence strategic decisions in a controlled ownership setup.

However, the limits of agency theory become apparent in less formal governance contexts. In Audensiel, where Sagard holds a minority stake, the fund retains certain rights (e.g., vetoes, information rights), but its influence remains indirect. Despite the absence of controlling power, Sagard plays an active strategic role — a dynamic that escapes the classic agent-principal dichotomy.

In such contexts, alternative conceptual frameworks offer more explanatory power. Relational contracting theory (Macneil, 1980; Poppo & Zenger, 2002) emphasizes the role of informal norms, mutual adjustment, and long-term cooperation, especially where formal contracts are incomplete or insufficient to govern all contingencies. Influence stems less from enforceable rights than from reputation, credibility, and the expectation of continued interaction.

This conceptual shift is even more salient in the case of Artémis, where agency theory is barely applicable. There are no formal reporting lines, no structured incentive plans, and very limited contractual governance. Instead, the relationship is built on trust, shared vision, and managerial autonomy — features better explained by stewardship theory (Donaldson & Davis, 1991), which assumes that managers act as responsible stewards of the company's long-term interests when properly empowered.

While this model may appear risky from a traditional agency perspective, it proves effective when strategic alignment exists from the outset, and when the investor's legitimacy is grounded in long-term commitment rather than formal control.

4.2.2. Beyond agency: other theoretical lenses

While agency theory offers a robust framework for analyzing investor-manager relations, it often falls short of capturing the broader spectrum of interactions observed in the field. In practice, the influence of private equity funds is not solely contractual or incentive-based: it is relational, strategic, and increasingly multidimensional. Drawing on four complementary

theoretical lenses, this section explores how Sagard, Artémis, and Five Arrows enact different postures that transcend the logic of control to build more embedded, value-creating relationships with management teams.

a. The Resource-Based view: funds as strategic partners

According to the Resource-Based View (Barney, 1991), sustained competitive advantage stems from the possession - or access - to resources that are valuable, rare, and difficult to imitate. Private equity funds, beyond injecting capital, often act as conduits for such strategic assets: operational know-how, sector expertise, networks, and reputational capital.

In the case of Adit, Sagard provided more than financial backing. It played a direct role in reshaping the leadership team, notably by recruiting a new CFO to strengthen financial oversight and investor reporting. The fund also helped the company navigate the complex political landscape tied to its shareholder base, which includes the French state - a presence that creates institutional constraints and requires the negotiation of sensitive accreditations for certain transactions. In this context, Sagard acted as a buffer and mediator, enabling smoother execution of strategic initiatives.

Additionally, Sagard was instrumental in executing Adit's external growth roadmap, with the acquisition of DCI standing out as a pivotal transaction. Sagard not only co-designed the rationale for the deal, but also supported due diligence, deal structuring, and post-merger integration - reflecting a hands-on involvement often reserved for majority investors.

A similar dynamic can be seen in Audensiel, where Sagard, despite being a minority shareholder, played a decisive role in the company's buy-and-build strategy. The fund directly recruited Thomas Perrot as Head of M&A, and worked closely with management on several acquisitions, including the 2025 purchase of Gruppo FOS, a move that significantly extended Audensiel's European footprint.

These cases illustrate how funds can act as architects of value creation, leveraging their own resources to amplify those of the companies they back.

b. Embedded relationships: informal influence and legitimacy

The concept of embeddedness (Granovetter, 1985) suggests that economic actions are deeply rooted in social structures and interpersonal relationships. Rather than relying solely on formal mechanisms such as contracts or board representation, some funds exert influence through trust-based, informal governance — a form of soft power grounded in legitimacy and continuity.

This perspective is clearly embodied in Artémis's investment philosophy. The firm deliberately avoids heavy-handed governance, preferring light, trust-oriented structures. Each company is assigned a dedicated contact in the investment team, who engages in daily, informal communication with the CEO or senior management. These exchanges — often unplanned, unrecorded, and non-binding — serve as real-time steering mechanisms that replace formal reporting.

At Christie's, this governance model takes a particularly pronounced form. CEO Guillaume Cerutti has run the company autonomously since 2016, with little operational input from Art emis. Strategic decisions are made independently, and Art emis steps in only when needed or invited. Yet, this autonomy is not accidental - it is the product of mutual trust, built over time through consistent interaction, cultural alignment, and shared expectations about performance and responsibility.

In such cases, the fund's influence is relational rather than institutional. It flows through informal norms, personal bonds, and a stable long-term horizon — enabling a form of embedded governance that would be difficult to replicate in more transactional or short-term investment models.

c. Cultural fit: interpersonal compatibility as a driver of collaboration

Building on Sapienza, Amason & Manigart (1996), the notion of cultural fit emphasizes that the success of a fund-manager relationship hinges not only on governance structures or financial alignment, but also on interpersonal compatibility - shared ways of working, communicating, and solving problems.

This logic is systematically applied at Sagard, where the fund places a strong emphasis on pre-deal relationship-building. Before any transaction, Sagard typically maintains contact with potential investees for 12 to 24 months, using this period to test compatibility beyond business metrics. These interactions include formal meetings but also informal settings, such as private dinners, which allow the team to assess how well they “click” with the management.

This emphasis on relational due diligence is a strategic choice. It reflects the belief that alignment of values and collaboration style is a prerequisite for co-constructing long-term strategy and handling difficult trade-offs post-investment. Once invested, the fund builds on this trust to establish a mode of engagement that is neither invasive nor passive — striking a balance between strategic input and operational autonomy.

In contrast, the approach taken by Five Arrows illustrates a more formalistic and structured relationship. Governance is highly codified, and interactions tend to follow pre-established reporting rhythms. While this allows for clear accountability and strong performance monitoring, it may lack the relational bandwidth required to navigate rapidly evolving situations or to co-create strategy in uncertain environments.

Cultural fit, in this sense, acts as a relational glue - invisible but indispensable - which determines whether a fund's influence will be perceived as a burden or a support by the management team.

d. ESG as a new axis of strategic alignment

Environmental, Social, and Governance (ESG) considerations have gained prominence as levers of strategic alignment between investors and portfolio companies. Far from being merely cosmetic, ESG is increasingly integrated into deal selection, operational monitoring, and incentive systems, adding a normative dimension to traditional financial logic (Cumming & Johan, 2013).

At Adit, ESG has played a concrete role in strategic decision-making. A case in point is the rejection of a potential expansion project in Angola, despite its economic attractiveness, due

to reputational concerns and ESG-related risks. Given Adit's involvement in public affairs and sensitive geopolitical contexts, Sagard deemed the project incompatible with long-term value preservation. The episode revealed a shared understanding between fund and management that reputation and ethics can outweigh short-term financial gain.

At Audensiel, ESG takes a different form, centered on decarbonizing the firm's digital footprint. While less politically sensitive than Adit, the company is increasingly aware that ESG transparency is becoming a differentiator in tech consulting. Sagard has encouraged the formalization of these initiatives, even in a minority position, helping management to define and monitor relevant KPIs.

Finally, Sagard applies strict ESG policies internally - from gender pay equity to digital-only processes and the elimination of paper usage. This coherence between internal values and external expectations strengthens the firm's legitimacy when engaging portfolio companies on ESG issues.

Overall, ESG functions as both a boundary and a bridge - setting limits to strategic choices while opening new paths for value creation aligned with societal expectations.

4.3. Limitations of the model and prospects for change

The case studies and their theoretical reinterpretation reveal several structural limitations inherent in the traditional private equity model. Built on temporary ownership, contractual alignment, and optimized exit strategies, this model increasingly shows its constraints in the face of rising expectations for sustainability, adaptability, and strategic coherence.

4.3.1. Tensions within the conventional model

a) Excessive standardization of incentive schemes

The widespread use of management packages indexed to metrics such as MoIC or IRR often leads to unintended effects. By rigidifying compensation trajectories, these tools may encourage short-term behavior or decisions disconnected from the company's operational needs. The pursuit of peak financial performance at exit can come at the expense of long-term investments or the social sustainability of the business plan.

b) A fragile balance between control and managerial autonomy

Investor protection mechanisms (veto rights, budgetary clauses, enhanced reporting) are designed to secure capital. However, they may be perceived as intrusive or distrustful by management teams especially in minority or founder-led contexts. As illustrated in the Audensiel case, such tensions can undermine the quality of the partnership and slow down strategic momentum during the initial phases of investment.

c) A time horizon sometimes misaligned with strategy

The typical holding period of 4 to 7 years in closed-end funds can constrain strategic ambition, particularly in long-cycle sectors or those less requiring deep industrial structuring. This temporal pressure may lead to suboptimal trade-offs or favor fast value creation over transformative, long-term initiatives especially in areas like energy transition or infrastructure.

4.3.2. Toward more flexible investment models

In response to these limitations, many investment firms are experimenting with hybrid approaches that offer greater flexibility, deeper dialogue, and broader performance metrics in their support of management teams.

a) The rise of hybrid models

A growing number of private equity firms are moving away from rigid, one-size-fits-all governance frameworks and experimenting with hybrid models that blend formal control with relational flexibility. These approaches aim to adapt the intensity and nature of governance to the specific maturity, needs, and culture of each portfolio company, while maintaining a professional and structured approach to value creation.

Sagard offers a telling example of this evolution. In the case of Adit, which was undergoing its first LBO, the fund played an active educational role. Rather than enforcing rigid templates from day one, the investment team took time to gradually introduce best practices in reporting and communication. This included regular visits to Adit's offices, support in building financial dashboards, and a tolerance for a learning curve in the first months. Such flexibility helped foster trust, while ensuring that performance monitoring tools were eventually in place.

By contrast, Audensiel, which had already experienced an LBO with Capza, required no such ramp-up. The management team was already familiar with PE standards regarding incentive schemes, board governance, and financial reporting. This enabled Sagard to adopt a more strategic posture from the outset, focusing its efforts on helping the company execute its

ambitious buy-and-build plan—such as the recent acquisition of Gruppo FOS in Italy—rather than institutionalizing governance.

At the opposite end of the spectrum, Artémis illustrates how relational flexibility can operate within a fundamentally different model. Despite being the principal shareholder of Kering, Artémis rarely intervenes directly in operational or strategic matters. Decisions such as the high-profile acquisition of luxury fragrance house Creed in 2023 were made autonomously by Kering's management team. The role of the shareholder is more that of a long-term companion than a performance enforcer, based on mutual respect, alignment of vision, and personal trust.

These hybrid models reflect a broader redefinition of investor involvement, no longer reducible to the traditional opposition between "active" and "passive" investors. Instead, they suggest a more fluid continuum of engagement - one that depends not only on equity ownership, but also on organizational maturity, the history of the relationship, and the strategic complexity of each situation.

b) Integrating ESG into incentive structures

As environmental and social concerns become central to corporate agendas, private equity funds increasingly integrate ESG dimensions into their governance and incentive frameworks. This shift reflects a broader redefinition of performance — one that encompasses not only financial returns, but also impact, reputation, and long-term license to operate. ESG has thus moved from the periphery to the core of value creation, becoming a lever for alignment between investors and management teams.

In the case of Adit, ESG criteria have been explicitly embedded into the ratchet mechanism that governs the management incentive plan. Certain targets related to compliance, reputation management, and sustainability serve as conditions for unlocking enhanced financial returns for executives. This is not merely symbolic: Adit operates in sensitive international environments and partially under French state ownership, which creates heightened expectations around ethical standards and transparency. For instance, a proposed deal in Angola was declined in part due to ESG-related concerns, reflecting Sagard's insistence on reputational integrity and long-term risk management.

At Audensiel, the ESG approach is more operationally grounded, with a clear focus on reducing the carbon footprint of its activities. This includes efforts to optimize energy consumption in its digital infrastructure and to raise awareness among teams on sustainable practices. While not (yet) integrated into the incentive plan, these efforts structure internal decision-making and reflect a company-wide commitment supported by its investors.

Moreover, Sagard seeks to lead by example. The fund has implemented strict ESG guidelines at the level of its own organization — such as the digitalization of all processes, the phasing out of paper usage, and an active policy to ensure pay equity across teams. These internal commitments strengthen the fund's credibility when engaging portfolio companies on similar issues, and illustrate how ESG can serve both as an evaluative standard and a cultural cornerstone of investor identity.

In all cases, the integration of ESG into the investment relationship reflects a deepening of the investor's role — no longer limited to enforcing performance, but increasingly centered on shaping the purpose and integrity of the companies they support.

c) A redefinition of the investor's role

Over the past decade, the traditional image of the private equity investor as a distant controller focused solely on financial engineering has gradually given way to a more nuanced, multi-faceted role. Investors are no longer merely capital providers or enforcers of performance metrics — they are becoming strategic sparring partners, co-architects of value creation, and trusted counterparts to management teams.

In both Adit and Audensiel, Sagard has exemplified this evolution. Its involvement has gone beyond governance checklists to include close support in defining strategic priorities, navigating complex shareholder dynamics, recruiting key executives, and enabling transformational M&A. The fund's posture is less that of a supervisory authority and more of a catalyst: someone who challenges, supports, and helps stabilize — without replacing or constraining.

This evolution is not anecdotal; it reflects broader structural shifts in the private equity landscape. As competition for high-quality assets intensifies and management teams gain sophistication and bargaining power, investors are compelled to rethink their value proposition. The ability to build long-term trust, provide relevant input, and adapt to the needs of each leadership team is becoming as important as capital deployment itself.

Looking forward, the most effective funds may be those able to combine rigorous value creation plans with empathy, flexibility, and strategic alignment — moving from a model of governance by control to one of governance by partnership. This calls for updated academic frameworks, better suited to capturing the relational and human dimensions that increasingly define successful investment relationships

4.3.3. From Theory to Practice: Insights from the cases

Building on the findings from the four cases, this section synthesizes the main theoretical frameworks mobilized in this thesis and maps their specific contribution to understanding the governance dynamics observed. By aligning each theory with concrete examples from Adit, Audensiel, Artémis, and Five Arrows, the table highlights how these perspectives collectively illuminate the transition from governance by control to governance by partnership — a shift that lies at the heart of the research question.

Theory	Relevance to Research	Illustration – Adit (Majority)	Illustration – Audensiel (Minority)	Illustration – Artemis / Five Arrows
Agency Theory (Jensen & Meckling, 1976)	Highlights the need for alignment between fund and management, especially where monitoring and control mechanisms differ by ownership level	Strong board oversight, structured reporting training for management, detailed KPI monitoring to align incentives	Reliance on contractual safeguards and periodic milestone reviews, limited ability to impose operational changes	<i>Five Arrows</i> : Uses performance-linked earn-outs and board committees for alignment in growth-stage firms
Stewardship Theory (Donaldson & Davis, 1991)	Explains contexts where trust, autonomy, and shared purpose replace formal control as key alignment drivers	Progressive autonomy granted as management adopted Sagard’s reporting culture; collaboration on strategic pivots	High reliance on mutual trust with founders; minimal interference in day-to-day operations, focusing on co-created strategy	<i>Artemis</i> : Delegates wide autonomy to portfolio CEOs (e.g., Kering), acting as long-term strategic partner
Resource-Based View (RBV) (Barney, 1991)	Shows how funds contribute to competitive advantage by providing unique resources beyond capital	Access to Sagard’s operational experts, recruitment of senior talent, network for business development	Support in structuring M&A deals, opening access to Sagard’s corporate network despite minority position	<i>Five Arrows</i> : Provides sector-specific expertise in healthcare and financial services to accelerate growth
Relational Contracting Theory (Macneil, 1980)	Explains how informal agreements and adaptive collaboration sustain partnerships under uncertainty	Early flexibility on reporting deadlines to build goodwill, fostering willingness to adopt best practices later	Continuous negotiation of strategic priorities without formal control, relying on repeated positive interactions	<i>Artemis</i> : Relies on long-standing personal relationships with managers to navigate strategic changes without contracts
Cultural Fit	Highlights the role of shared values and working styles in effective governance	Sagard adapted communication to Adit’s first-time LBO context, emphasizing pedagogy	Alignment with Audensiel’s entrepreneurial culture, avoiding bureaucratic processes that could stifle growth	<i>Five Arrows</i> : Selects investments with compatible decision-making cultures to ease integration
ESG Integration	Shows how ESG is used as both a compliance tool and a strategic lever for value creation	Incorporated ESG KPIs into incentive schemes (e.g., supplier sustainability standards)	Promoted diversity and inclusion policies as part of employer branding to attract talent	<i>Artemis</i> : Positions ESG as a brand asset, e.g., sustainability in luxury brands like Kering

The comparative application of these theoretical lenses shows that governance effectiveness in private equity stems from the ability to combine structured, agency-driven mechanisms with more adaptive, human-centred approaches. In the cases examined, rigorous value creation plans, performance-linked incentives, and monitoring systems provided the formal backbone of governance. Yet, their success depended equally on elements captured by stewardship theory, relational contracting, and cultural alignment -

trust-building, empathy, and shared purpose. Adit's majority-owned context demonstrated how formal levers could be fully deployed, while Audensiel's minority stake illustrated the need to rely on influence, credibility, and negotiated alignment. The experiences of Artémis and Five Arrows further confirm that funds capable of moving fluidly between control and partnership modes are better positioned to sustain alignment over time. This integration of hard and soft levers calls for updated academic frameworks that reflect the relational and human dimensions increasingly shaping successful investment relationships



General conclusion

This thesis set out to examine how private equity funds influence the strategic decisions of their portfolio companies, not only through equity ownership but also through governance mechanisms, incentive structures, and the relational dynamics they build with management teams. Using the case of Sagard and its contrasting investments in Adit (majority stake) and Audensiel (minority stake), the analysis revealed how the fund's influence can range from direct, formal intervention to more subtle, trust-based alignment. In Adit, majority control allowed Sagard to formalise value creation plans, structure detailed management packages with ratchets and leaver clauses, and steer strategy through active board participation. In Audensiel, limited formal control pushed Sagard to rely on relational capital, informal dialogue, and gradual co-construction of strategic priorities with the founding team.

One of the key findings is that the configuration of the investment fundamentally shapes governance posture. The Adit case demonstrates how majority ownership enables structured oversight and alignment through formal tools, while the Audensiel case shows how minority investors can still influence strategic outcomes through credibility, network leverage, and consistent presence. In both situations, alignment was achieved through an iterative process of negotiation, adaptation, and trust-building — challenging the assumption from agency theory (Jensen & Meckling, 1976) that formal levers are always the primary source of control.

The study also highlights the growing role of “soft” governance levers. In Adit, ESG metrics were embedded in incentive schemes, making sustainability a measurable and enforceable priority. In Audensiel, ESG considerations emerged more organically, shaped by the founders’ culture and reinforced through informal discussions rather than contractual obligations. These contrasting approaches show how ESG can serve as both a compliance-driven KPI and a shared strategic value, broadening the understanding of alignment beyond purely financial objectives.

From a practical perspective, the most effective funds appear to be those that adapt their involvement to the company’s maturity, context, and ambitions — acting at times as a coach, at others as a challenger or co-pilot. In Adit, this meant guiding management through its first LBO and introducing formal reporting practices, while in Audensiel, it involved supporting the leadership team’s M&A initiatives without undermining their autonomy. This hybrid role is increasingly recognized by management teams as a source of value, provided it is grounded in mutual respect and strategic clarity.

Looking ahead, several promising avenues for research emerge from these findings. First, examining other types of funds — such as growth equity, venture capital, or activist investors — could test whether the patterns observed here hold in contexts with different investment horizons, sectoral focuses, and risk-return profiles. For example, activist funds might rely more heavily on formal levers even in minority positions, while venture investors could favour relational capital due to early-stage uncertainty. Second, exploring different geographies and

cultural settings would help assess the role of local business norms, institutional frameworks, and cultural attitudes toward control - factors likely to influence governance style. Third, the growing integration of ESG into governance frameworks deserves closer academic attention. The contrast between Adit and Audensiel suggests that ESG's effectiveness as an alignment tool depends on whether it is embedded formally or cultivated informally, raising questions about the conditions under which each approach works best. Finally, the rise of flexible and long-duration capital models - such as family offices, evergreen funds, and sovereign wealth funds - offers a complementary perspective. Without the pressure of fixed exit timelines, these investors may adopt governance styles closer to the minority approach observed in Audensiel, even when holding majority stakes, prioritising trust, adaptability, and sustainable value creation.

In this sense, the Sagard case serves as both a detailed illustration of two governance configurations and a strategic vantage point for anticipating how private equity governance might evolve. It shows that formal mechanisms and relational dynamics are not mutually exclusive but can be combined in context-dependent ways to achieve alignment. By linking abstract theoretical models with concrete, observed practices, this thesis contributes to a more nuanced understanding of the investor-management relationship and offers a foundation for future research into the evolving nature of governance in private equity.

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