Heidrick & Struggles

BOARDROOM BRIEFINGS

Chairing Private Equity vs. PLC Boards

Heidrick & Struggles, the global leadership advisory firm, recently hosted a chairman dinner with a discussion focused upon the differences and similarities between chairing private equity versus PLC boards. The discussion prompted a range of interesting ideas that provide useful guidance for chairs contemplating, or engaged in, roles in either or, indeed, both models. In this, our summer boardroom briefing, we explore some of the issues raised.

The dominant theme of our discussion was the benefit in private equity of having the owners of the business in the boardroom. The immediacy of having the investors in, and the owners of, the business in every board discussion was seen as providing clarity, continuity, and a dominant focus upon the strategy and performance of the business and, therefore, the creation of value. It was conceded that there were multiple issues relating to 'old school' private equity of the 1980s and before, where firms operated below the radar of public scrutiny, often investing in troubled businesses, stripping their assets, and exiting in a short time frame. However, private equity has changed considerably in the past decades, in part due to the increased scale and scope of the sector's financial firepower and investments and the resultant higher profile and higher degree of scrutiny that has been brought to bear upon private equity firms.

Over the same time period, many would note that public company boards have become increasingly focused upon remuneration and corporate governance. While these are important parts of any board's agenda, and particularly the boards of businesses owned by a range of institutional and retail investors, some would suggest that there is insufficient focus upon the strategy, performance, and creation of value within a PLC board's discussions.

The need to try to understand, represent, and incorporate the diverse views of not only investors but also analysts, commentators, and stakeholders, combined with the requirements of public reporting, were seen by some as promoting short-termism and lowest-common-denominator strategies. These forces were thought to result in an increasing inability to focus upon long-term business improvement through transformation, investment, and value creation, rather than share price or media coverage.

The short-termism and profiteering of 'old school' private equity, while still prevalent in parts of the sector, are now seen by many to have been replaced by transformation and either investment or the reallocation of existing resources to improve the performance, operations, and inherent value of the enterprise. Without the need to report publicly and no need to try to represent and incorporate the views of an inherently diverse range of institutional investors, brokers, analysts, the press, and broader stakeholders, private equity boards can be seen to focus upon what is truly important in the context of creating value.

However, what of social responsibility in this comparison? Public company boards have a clear responsibility to promote social responsibility and a business' role in the community in which it operates. These are of fundamental importance not just to society and to the business but to the way in which a company and its board thinks, operates and behaves. Public company boards promote and enhance best practice through governance and compliance and are justifiably held to account by both their investors and broader sets of stakeholders, including regulators, governments, and charities. Do we see the same focus upon social responsibility in the context of private equity? The inherent privacy of the sector undoubtedly makes this more difficult to gauge. However, the impact of *The Walker Report* and the reporting expectations taken by many private equity firms, as well as the simple fact that a number of the largest private equity investors are now themselves public companies, has meant that there is a greater openness and focus upon the role that private equity investee companies perform in the communities in which they operate. While this could improve further, there is clearly a balance that can be struck between the benefits of social responsibility prevalent in public company boards with the clarity and focus of private equity ownership.

Some question whether activist investors in public companies now provide a halfway house between public and private equity ownership, with funds focused upon long-term value creation in significant public companies. This positive view is countered by some of the evident short-termism masquerading as long-term capital investment strategies, but there is clearly more to play out as the ever-increasing amount of capital made available to a broad array of alternative investment funds continues to compete for the creation of value through the ownership of enterprises.

The boards of any business are stewards of the capital that has been invested in it. Whether they represent the focused capital of private equity or the diversity of the public equity markets, it is important that directors strike the appropriate balance between financial returns and social responsibility. Both ownership structures and board agendas have merit. Public company boards can run the risk of short-termism and a restrictive focus upon remuneration, compliance, and governance, while private equity-controlled businesses must ensure that they balance the creation of value for investors with the social responsibilities of a business and its long-term future.

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