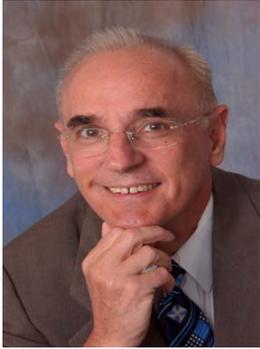


Building the Leadership Systems of the Post-Public Company

The public company is the foundation of modern economic systems. Yet even such a venerable institution has to change with the times, to evolve to fit changing circumstances. The emergence of private equity and its power to mobilize huge pools of capital without resorting to the public is shaking the foundations of the public company framework. In the process, it is changing fundamentally the way we need to identify, select and develop leaders.



Author Dr. E. Ted Prince
Founder and CEO of
Perth Leadership Institute

The premise of this article: many public companies have not kept pace with this development. In order to stay relevant and to be capable of producing leaders that, above all, build value - they need to create just the types of leaders that private equity now produces and grows.

Comings and Goings

The record shows that only a minority of companies currently in the Fortune 50 were there 50 years ago. Public companies, like all companies, have a finite lifecycle. They start, grow, go public, often decline and then either are acquired or go out of business.

Once companies go public, different dynamics apply. These include the short-termism being driven by quarterly stock pressures, the need to be seen as socially responsible, the mounting pressure of legacy obligations such as health plans, pensions and union obligations, and inevitably, increasing bureaucracy. The result is often corporate lassitude, decreasing ability to innovate and execute and, eventually, corporate death. This process can take many years but is almost inevitable for most companies.

Private equity promises to break this cycle by catalyzing rejuvenation and rebirth, often by means which public companies and social constituencies deplore, or even despise. Yet, no matter how they are viewed, they have clearly struck a chord with investors. The view of the latter is that only tough love of the sort that private equity players dish out will break the cycle of corporate decline and restore declining companies, once more, to the pantheon of market value leaders.

"Private equity promises to break this cycle by catalyzing rejuvenation and rebirth, often by means which public companies and social constituencies deplore, or even despise."

Unfair Competition?

“Academic research does not support the common perception that private equity usually reduces value.”

Private equity is about growing corporate value without the constraints of the public company. Shorn of the need to satisfy numerous stakeholders with often incompatible or even irreconcilable objectives, private equity can build value by taking actions which are often not possible for a public company. In so doing they may restore once dominant corporate icons to their lost glory and, in the process, make vast amounts of money for their owners and investors.

Research shows that it is a moot point as to whether all private equity deals result in an increase in market value over the longer-term. Certainly some do. Academic research does not support the common perception that private equity usually reduces value. While often viewed as asset strippers, the data suggest that the sometimes deleterious impacts of private equity, are no less than what occurs with the at least 50% of acquisitions that result in loss of corporate value. One thing on which all observers agree is that private equity does bring about change which often could not have occurred within the confines of a public company structure.

Leading by a Nose-for-Profit?

The \$64 question: in what way is leadership different under private equity? Is there any difference? Do public companies have something to learn from private equity in the leadership arena?

Leadership in public companies has to cater to a variety of differing needs, not all of which directly impact the creation of market value. This is reflected in the leadership development systems used by public companies. Since criteria other than pure market value are a key part of leadership, their leadership development systems reflect this fact.

“Since criteria other than pure market value are a key part of leadership, their leadership development systems reflect this fact.”

The ability of a leader to deal with regulatory, legal, employee, fairness and ethical issues are key factors in their performance and, not surprisingly these are reflected in the types of leadership assessment and development systems and approaches they utilize. Personality and competency assessments do a very good job of identifying and measuring skills which have high applicability in these areas as do 360° approaches.

But public company leadership development approaches focus far less on the direct business and financial aspects of creating and enhancing market value. To the extent that they do, it is frequently largely a byproduct of such approaches, created through on-the-job experience rather than through formal training and development.

Fairness vs. Fitness

The leadership development systems of most public companies are, not surprisingly, focused on the many demands they currently face, of which the creation of market value is just one. Leadership development approaches reflect a long-term attenuation of the market value creation criterion. This phenomenon will be more marked in companies that are in the later stages of the market cycles where products are mature and have become, or are in the process of becoming commoditized. Leadership development systems will reflect the dominant ethos of the company, whether it be to lead the market or otherwise.

Contrast this with the single-minded focus of private equity companies where the selection of leaders and their management teams has a laser focus on creation of market value. Although they are not usually seen as leaders in leadership development, private equity companies have in fact pioneered a ruthless focus on linking leadership with the creation of market value in a way that public companies rarely match. As such, private equity is providing a new model for leadership development.

In the private equity leadership development philosophy, building a leadership pipeline is the same as building a profitability pipeline. Leaders – at all levels, not just the C-levels - have to be selected and developed primarily for their impact on value creation and enduring profitability.

Of course, this is precisely what current leadership development philosophy in today's public companies would claim. But the reality is different and the message is diluted by the practice which seldom focuses single-mindedly on the financial and profitability focus of leaders.

This can be seen in the development and implementation of most high potential programs. In the main they focus on personality and competency assessments and approaches but rarely have any focus on business acumen and financial results, other than occasionally to conduct business literacy courses, and only then usually for lower level managers.

Once More Unto the Breach...

“The LBO artists forever changed how managers managed and how investors invested and the private equity players are doing that now.”

We cannot say for sure whether or not the private equity phenomenon will endure. No doubt much of it has been a result of the super-low interest rates we have experienced over the last few years. So it is possible that private equity has hit its peak, at least at this stage in the business cycle, and, just like the leveraged buyout players in the 90s, will fade away for the moment until business conditions favor them again.

However it probably does not matter. Just as the LBO players in the last decade were a catalyst for business change and company rejuvenation and for the destruction of companies too, so too the private equity players are fulfilling the same role now. The LBO artists forever changed how managers

managed and how investors invested and the private equity players are doing that now.

Their message is that, unless public companies undertake a continuing process of creative self-destruction and renewal, the market will do it for them, but on its terms rather than theirs. If private equity stays, we can be sure that leadership development approaches will change to focus more on value creation. And if it does not, it will have shown companies what they need to do to their leadership systems and pipelines to keep investors happy.

Public Equity, So Yesterday?

Public companies have had a long and august existence ever since the beginnings of modern capitalism. But even the very form of the public company is not immune from the creative forces of destruction. These forces will not only lead to the demise of individual public companies that get too comfortable with life. They could, under certain circumstances that are not too difficult to imagine, also lead to the very demise of the institution itself. We are not saying that will happen, but we shouldn't just assume things will go unchanged either.

Managers of public companies, HR heads and leadership development managers need to take this into account. In formulating their leadership strategies and development programs they need to ensure that they guide creative destruction to its next major achievement - the continued viability and strengthening of public companies - rather than to their possible irrelevance.

Hints and Recommendations

- Get a private equity player involved in your training programs.
- Integrate value creation and business acumen formally into leadership development programs.
- Simulate what would happen if private equity got involved with your company, as a learning and development exercise.

For more information on the Perth Leadership institute and Perth upcoming events,
please visit us at: www.perthleadership.org

Perth Leadership Institute: 100 SW 75th St, Suite 107 - Gainesville, FL - 32607 LeadershipInfo@PerthLeadership.org
Telephone: 352.333.3768 **Fax:** 407.540.9479

To subscribe to Perth Leadership Institute, send email to: subscriptions@perthleadership.org.

If you would prefer to receive this newsletter in text-only format, please [contact us](#) with your request.

To unsubscribe, send email to: unsubscribe@perthleadership.org.

Copyright Perth Leadership Institute 2007

All Rights Reserved. Articles may not be copied or reproduced without the permission of the Publisher.