

**Gadiesh, Orit & MacArthur, Hugh – Lessons From Private Equity Any Company Can**

**Use,** *Harvard Business Press, 2008, [Finance]* Grade ★★ ★

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Does private equity owned companies have a superior management model than public owned companies? The writers of this book certainly like to think so. Israeli born strategy expert Orit Gadiesh is the chairwoman of the management consulting firm Bain & Company and Hugh MacArthur is the leader of the same firms' - huge - global private equity practice. In this short book they describe the private equity (PE) management model and try to show how public companies can utilize the same techniques.

As the writers also state the successful PE funds of the 80's and the 90's had a relatively easy task. They bought a company, applied substantial amounts of leverage to it and did some restructuring. Pretty much irrespective of whether the restructuring was effective or not they earned huge amounts of money as equity prices in general were rising and the cost of borrowing in general was going down. Applying cheaper and cheaper leverage to a booming equity market made PE a super charged money machine. Myself, I would add the feedback loop of success that large PE companies ended up in as another critical factor. The successful PE fund often gets to see potential projects first and hence, have a very valuable "right of first refusal" and on top of that the usage of corporate executives on advisory boards gives the PE company almost an insider position in many industries. The last ten years the environment has been different as the stock market hasn't automatically risen and lately the access to leverage has not been a given. This has done organic value creation in the companies owned much more critical.

As PE funds often own firms for 3 to 5 years before they exit this is also the basis for their management model which is structured like a medium term project work. The key parts of the project as described in this book are to 1) define the full potential of the company; 2) to develop a

strategic plan to reach that full potential; 4) to accelerate corporate performance, build a result oriented corporate culture and utilize the right talent to execute the plan and finally to 4) use leverage, and the scarce resources that come from the cash drain from leverage, to bring discipline into the capital usage. This improvement project is then continually renewed to constantly try to move the goalposts further.

This is a rather thin book and it cannot give justice to the management work PE companies do but what strikes the reader is the almost trivial nature of the advice given. Everything is common sense topics that any management book would bring up. In that respect the text is somewhat of a disappointment. The CEO of a public company probably doesn't find much he didn't already knew. Most of the text is probably written in 2007, a time when Steven Schwartzman of Blackstone and Henry Kravitz of KKR were the rulers of the world, and there is a certain smug tone in the writing. However, even if the management practices hardly are novel I would say that they still are in short supply in many organisations. Having clear targets, alignment of interests, accountability and focus on value creation is not necessarily how one would describe most companies. Perhaps the value of the PE model rather lies in all the factors surrounding the model. The boost that a spun-off company get when they are relived from corporate overhead, the explicit mandate to focus on the mid-term instead of being locked in into yearly budgets or quarterly results and on top of that the substantial economic rewards if you succeed. These later factors are perhaps in a way also part of the PE-model, if not of the PE management model, and should not be frowned upon.

The reader that tries to understand the work of PE companies will learn very little from this text. Better instead to read a proper management classic such as for example Build to Last etc.

Mats Larsson, December 10, 2011