



Time for Boards to see Private Equity as more than a financial investor

Interview with book author, Professor Claudia Zeisberger

On her new book “Mastering Private Equity - Transformation via Venture Capital, Minority Investments & Buyout”

The Author



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The model and workings of the Private Equity (PE) has evolved over the years. The image of vultures seeking to prey on underperforming companies with steady cash flows in heavily leveraged transactions and riding the investment out to a successful exit has developed to one of highly proficient transformation agents seeking to impact businesses at critical junctures of their development.

Intervention of PE has created positive impact on portfolio companies through increased performance and competitiveness, improved management, and often increased employment (though not always and not necessarily in the short run). Board directors with the mandate to drive performance from the top ought to have a sound understanding of private equity and its potential to transform businesses - if (and only if) the right partner is chosen. Likewise, it would be advantageous for independent directors to have an understanding of the pros and cons of involving PE partners in their respective firms, and how beneficially to do so.

In this issue of Author Interview, we invite [Professor Claudia Zeisberger](#), the academic director of [INSEAD's Global Private Equity Initiative](#) and co-author for the new book “**Mastering Private Equity – Transformation via Venture Capital, Minority Investments & Buyouts**” to comment on the Private Equity scene and the insights that board directors and senior executives may gain from PE in driving value creation and high-performance in organisations.

Thank you Professor Zeisberger for giving us time to conduct this interview.

1) Can you tell us what motivated you to write the book & what did you learn in the process?

Writing this book was a fascinating journey that brought several points to light: PE and VC, whilst popular topics, are rarely if ever looked upon in the context of the broader economy. Private Equity professionals are sometimes frustrated by the lack of understanding of their craft by the business community, which often leads to misinterpretation and misrepresentation and at times to a backlash or unfair accusations. Research papers – both of the applied and academic kind - usually take a close look at narrow and specific areas of private equity deals and investing, yet ignore the broader contextual issues. Resources to understand the big picture, to cover the entire spectrum - from venture to growth equity to buyouts – and to provide perspective are few and far between. There was room for a book to step in to prepare all parties for an informed discussion.

2) In the past decade and a half, the PE assets under management have seen a fivefold increase backed by strong performance and growing investor interest. What are the drivers of success for PE investment?

PE funds have indeed delivered impressive performance both in absolute and relative terms, when compared with other alternative assets (especially Hedge Funds); that has in turn led to a large inflow of new money from institutional investors. There are several ingredients to the secret sauce of PE outperformance: a careful selection of target companies where the PE firm's partners can add value; a rigorous process on how to implement the planned improve-



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ments during the investment period and most importantly: the right incentive structures to ensure that the interests of all stakeholders - management team, business owners and investors - are aligned.

3) How can organizations benefit from engaging with a PE investor?

By selecting the right PE investor, organisations can add significant industry-specific and broad business experience to their boards in order to achieve their respective targets, be it international expansion, aggressive growth or restructuring. PE partners bring new perspective to businesses, open doors to different markets and above all give the firm access to their extensive networks. Finding the right PE firm though is key, and with over 8,000 professional PE vehicles globally this is no mean feat and requires careful planning.

4) What are the core principles of PE governance?

Targets are clearly communicated and incentive structures ensure alignment of interests from senior management down to the factory floor worker. Furthermore, it is single-minded attention on results and execution, not taking your eye off the ball: focus, focus, focus from day one when the investment thesis is implemented based on the 100-day plan all the way to exit preparation a few years later.

5) Are there principles of the model that board directors can replicate in their respective organisations to benefit the various stakeholders, and perhaps reduce the need for an engagement with a PE?

Of course – that is assuming the board has is able to agree on a clear direction for the firm and can then ensure rigorous implementation of those plans. In the end, clarity of goals and diligent execution is key without regard for sacred cows. I would start by defining clear accountability for senior management and by implementing processes to check for deviations from the original plans and put clear remedies in place to get back on track. Unfortunately in publicly listed firms it is often difficult to satisfy the various stakeholder interests and marry the focus on a well-defined long-term plan with quarterly reporting requirements. The same may apply to family owned businesses where governance structures are often lacking.

6) PE is often associated with speed, profits and stress for the executives in place in the organization. What would be your recommendation to them?

I had this discussion recently with a senior executive who had experience working both in public listed companies & under PE ownership. His advice: private equity investors are straight shooters and seasoned professionals. Keep the communication channels open and share information – both good and bad – promptly and honestly. Appreciate the fact that you are working with an engaged and responsive investor who wants the company outperform. When I asked him about his preference he was quick to answer: if you like to get things done, and can stomach the need for speed, then PE ownership is preferred. And let's not forget that management compensation packages in PE-owned firm can be very lucrative assuming all goes to plan.

7) And your recommendation to independent directors, joining a PE portfolio firm?

Be ready to work in a dynamic and fast-paced environment with an active board and experienced co-directors. This desire for strong board oversight will make it an exciting experience for even the most experienced board members.

Link to related resources:

INSEAD Knowledge article: <https://knowledge.insead.edu/blog/insead-blog/do-you-have-what-it-takes-to-work-in-private-equity-4185>

Link to Book website: www.masteringprivateequity.com