PE vs Plc:
The Board Perspective

The running of private equity and public companies vary greatly, as do the Boards' responsibilities. Here, **Mary-Anne Baldwin** uncovers what it's like to be on the board of each of those asset classes

Private equity and public ownership structures make for very different board environments, each bringing their own challenges. Knowing the difference between those two asset classes can help in deciding which setting is right for you.

For example, while private equity players have the burden of ensuring a quick return for their owners and being highly responsive to their demands, Plc board members face more personal exposure and public accountability.

Penny Hughes who is currently Chairman at the public company, The Gym Group, surmises: "The high-risk, high-reward in PE is different from the public nature of a Plc but that doesn't mean tough decisions aren't made in both places."

Getting on Board with the Team

The dynamic of those around the board table will not only affect you personally but the running of the entire company, so it's important to understand the differences between them.

According to **Penny**, private equity boards can have tunnel vision, seeing only the numbers and not the softer issues. **Penny** explains that when she joined The Gym Group, it was private equity-owned and moving towards its IPO. At that time, every member of the board had financial qualifications.

"In public companies there is an expectation that you talk about how value is created, not just financially but through the business model and expertise. This sits less comfortably in a PE Board," she says. >

Graham Love, who is currently Chairman of PE-backed Xendo and SLR Consulting Group, agrees that PE boards are typically dominated by financial minds. He recalls: "I once chaired a business with three equal PE investors, and we generally had at least six accountants plus the CFO around the table, all very keen to talk about the numbers. It was one of my jobs as Chairman to get those number dealt with promptly – ideally before the board meetings – so that we could move onto the wider strategic issues."

Leslie Van de Walle takes the same approach with the board at private equity-backed, Weener Plastic Packaging Group, of which he's Chairman of the Supervisory Board. He shares: "I get the PE guys to hold a finance meeting the day before the board meeting to go over all the numbers they want and so we can limit financial discussion during the board meeting to 45 minutes at most."

Risk and Remuneration

The decision to join a board will be affected by many factors, be they experience, cachet, or being able to take a step back from executive life. Yet somewhere, financial reward also plays its part.

"Certainly in a lot of the PE boards I sit on, the NEDs are incentivised principally through the equity as opposed to the fees," says **Graham**. "A NED could typically have five to ten times the annual fee invested in the business and their interest lies in maximising that. I'd look for people who aren't constrained by short-term cash flow and so might take a longer-term view on value creation."

> *" I think Plc non-execs should have skin in the game, but not too much "*

Many believe that Plc NEDs should likewise be financially invested in their company. **Leslie** argues: "Personally, I think Plc non-execs should have skin in the game, but not too much because you want them to remain independent."

Penny shares this opinion and has given thought to just how much investment Plc NEDs should take. "My rule of thumb is that a non-exec should build up one annual fee worth of shares as a minimum within three years. Normally that's not such a big sum but at least it demonstrates a level of commitment and alignment; it's not the same risk and reward that sits in PE but I think it is good practice," she offers.

Added to that, a bigger pay out to Plc NEDs could counterbalance the mounting risk and regulatory responsibilities they now face. As **Leslie** points out: "While the reporting responsibilities for Plc NEDs are increasing, I think the fees have not caught up with the expectations."

Apples and Oranges?

In many cases there are elements that companies in one asset class can learn from the other, which is why **Penny** appreciates being on boards with a mix of expertise.

"I think it's great to have a key PE insight on a Plc board and equally a Plc insight on a PE board, because each have got a valid perspective," says **Penny**. "Plc boards I'm on have directors with PE experience. The different experience and perspective is useful."

Being exposed to the methods of running a company under another asset class has helped **Penny** make decisions about her own. She explains: "I've often sat on the Morrisons board and asked what a private equity player would do with the company. It's a really good question to ask in a sector like grocery, which is struggling."

Although the inherent differences between Plcs and PE-backed companies mean they can't entirely duplicate each other's way of working, each have a lot to offer the other, and likewise a lot to offer those who join the boards. ■

Leslie, Penny and Graham will continue the debate on Plc versus PE at Criticaleye's Non-executive Director Retreat 2016, held in association with Santander

Featuring Commentary From:

Graham Love
Chairman
Xendo and SLR Consulting Group

Leslie Van de Walle
Chairman, SIG and Robert Walters
Chairman of the Supervisory Board, Weener Plastic Packaging Group

Penny Hughes
Chairman, The Gym Group
Chairman of the Sustainable Banking Committee, RBS

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