



Guest comment

Why sharing value makes good investment sense

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Now that the worst of the downturn may be behind us, the need to rethink business values has become a priority. The economic crisis has revived the old debate over which stakeholders firms should focus on most: their shareholders and investors, their customers, their suppliers, their employees or the wider communities in which they trade and for whom value is created.

Throughout the 1990s, the “shareholder value” mantra was the creed for company owners and managers. The new millennium saw an increased interest in corporate social responsibility, but these concepts did not always sit well with the frenetic search for growth through leverage. Now, in the aftermath of the financial crisis, at gatherings around the world such as Davos, and indeed in many forums where I meet investors, we hear people seriously questioning how business goes about business, how the nature of capitalism may need to change, and how capitalism itself is meant to serve society, not undermine it. It is appropriate that we in the private equity industry should also embrace these issues.

So, for Axa Private Equity, the cause of the problem is not the shareholder-value model, but rather the temptation to maximise shareholder value only over the short term. We are convinced that in focusing too much on short-term gain, longer-term issues will be ignored, and the relationships with stakeholders, which determine longer-term success, will not be developed properly.

These stakeholder relationships are crucial to longer-term success, because when true value is created, society as a whole benefits – there are more jobs, the economy is stimulated and tax income for communities is increased. Of course, the benefits are mutual – business benefits from better infrastructure and education. So it would seem evident, based on values such as self-discipline, fairness and social responsibility, that all those who contributed to the creation of value should be justly rewarded.

This is not incompatible with the ultimate objective behind every private equity investment – a profitable exit – quite the contrary. The development of capitalism is itself based on the assumption that every contribution to the creation of value should be rewarded, and this is particularly true of private equity.

In September 2008, when Axa Private Equity sold its controlling stake in Photonis to Astorg Partners, 4% of its realised capital gains were redistributed to all Photonis’ employees. Similarly, in February this year, when the firm sold its stake in Spotless Group to BC Partners, every Spotless employee received a bonus the equivalent of two months’ salary following the completion of the transaction.

Axa Private Equity has always believed the alignment of interests of all parties in an investment is crucial to its success in the long term. We hold the view that responsible investment improves long-term performance. This is because risks are reduced on portfolio companies and funds, and management practices are improved when corporate social responsibility is integrated into investment decisions. Sharing the value created by all parties is simply an extension of this philosophy of self-discipline, fairness and social responsibility, all of which have been part of Axa Private Equity’s DNA since we started in 1996. In short, it makes good business sense to share the value created.

The traditional debate over where the value created by private equity should be shared must move on. The pursuit of short-term profit has tarnished private equity’s reputation and played havoc with many solid businesses. At Axa Private Equity, we believe we should regard the building of relationships with all stakeholders as an investment in itself, in order to maximise the benefit to all parties over the long term.

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