The war for talent

The trend is unmistakable: Executives are opting for the world of private business.

BY DENNIS CAREY AND MICHAEL USEEM

One of us helps prepare future managers for the executive suite, and the other helps place accomplished managers in the executive suite. Though at opposite ends of the career line, we are hearing the same refrain: Get us into private equity!

Private equity — that world of investment firms like Blackstone Group and Clayton, Dubilier & Rice (CD&R) — is still a small slice of corporate space. Assets managed by private equity firms — estimated at several hundred billion dollars — are still dwarfed by those held by public equity firms like Fidelity and Vanguard, estimated at several trillion dollars.

Still, an emergent trend is unmistakable: Blackstone Group began with $84 million under management in 1987; today it oversees $6.5 billion. Started in 1978, CD&R now presides over $3.5 billion. Today, more than 100 private equity firms each manage at least a billion dollars.

The private equity trend is equally evident in business schools. Though investment banking and management consulting remain the careers of choice for MBA students, the real buzz is now around private equity. "The interest level in private equity is off the charts," says the Wharton School's career director, Peter Degnan. In his survey of 800 incoming MBA students conducted last August, 150 placed private equity at the top of their career choice list, up from 110 just two years earlier.

The trend is also evident in executive search. From our experience, many more executive candidates would now opt for placement in a firm that is privately held — or, even better, a private equity investment firm — if the choice is placed in front of them.

And it is evident in post-executive choice. When Lou Gerstner retired as CEO of IBM in 2002, he opted to become chairman of a private equity firm, the Carlyle Group. When Jack Welch stepped down as CEO of GE in 2001, he chose to work with CD&R.

Private equity had been gathering steam for a decade, but the Enron and WorldCom bankruptcies and the Sarbanes-Oxley regulations have accelerated the tempo — and made the world of private business that much more attractive. Public-company executives complain about burdensome reporting, and directors wonder if board service is worthwhile anymore. They daily feel the probing eye of equity analysts, the heavy hand of institutional investors and shareholder activists, and the caustic attitude of politicians and journalists. The outside world is demanding better performance and lesser pay, but private-company executives and directors face none of that.

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Peter Peterson, chairman of Blackstone, observes that in contrast to five years ago, his firm almost never fails to attract its first-choice executives for running firms it has taken private. "We now have far more people coming at us," he says, "who want to go private." Donald Gogel, president of CD&R, concurred that he no longer has problems recruiting the talent he needs. "I don't know a single executive," he says, who "does not want to move into the private space."

If private equity is where money is flowing and careers are prospering, the ascent of the widely held company over the past century may be cresting. The managerial revolution had long ago replaced owner-managers with professional managers, and a follow-on investor revolution in recent years had brought big holders into the catbird seat.

Today we may be witnessing a startling reversal of those transformations, returning power to managers who once again are owners. They take big personal stakes in their enterprise private, with nobody except their equity partners telling them what to do. They can focus on results three years out without worrying about earnings three quarters ahead.

As a result, private equity is quietly transforming the operating calculus of even public companies. Resisting a hostile bid from pharmaceutical firm Sanofi-Synthelabo, for instance, Aventis turned to Blackstone for help. Burdened with debt, Britain's largest utility, National Grid Transco, turned to five private equity firms for respite. Scalded by executive scandal, Tyco will likely seek help soon from private equity in spinning off assets.

Private equity is quietly altering the career planning of company executives as well. Private equity firms can offer what publicly held companies no longer can — personal wealth and confidential operation.

During the late 1990s, many public companies feared that their best talent would be lured away by exciting startups and bundles of options. Today, those same public companies should worry about losing top talent again, but this time to the increasingly irresistible world of privately held enterprise. ■