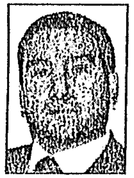
# The contribution of private equity to the succession of family business in Europe...

**... and to the enhancement of their competitiveness**



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The study "Private Equity and Generational Change", recently conducted by EVCA in cooperation with the Centre of Management Buy-out Research at the University of Nottingham (CMBOR) – with additional input for Italy from Professor Buttignon from the University of Padua – has clearly demonstrated that private equity has been an optimal and very efficient solution to manage the delicate process of the generational change that many of the family-owned European companies are facing.

It has been shown that companies, which in a situation of generational change have received investments by private equity funds, have developed faster in terms of occupancy, profitability, international activities and export than those without this form of funding. In addition, they also have significantly increased their competitiveness. All these achievements have been successfully reached by the surveyed companies - even if in most of the cases the transactions, typically buyouts, have been conducted with the use of a leveraged financial structure. Leveraged structures, in fact, allow those who have the expertise and experience to run the company (typically the management), but not the financial resources, to buy the company with the help and cooperation of a private equity fund. Thus, assuring that business continuity and expansion will be based on the fundamental criteria of professionalism and competence and not on the inherent (genetic) relationship that in many cases, as demonstrated by the research, does not offer viable or sufficient professional solutions. This is probably one of the main findings of the research.

From the data provided, it is clear that the temporary effect of a leveraged structure has been more than offset by the strong commitment, motivation and professionalism of the management. This is especially true, if one considers that in these investment structures the management is often directly involved in the transaction and, investing alongside the private equity firm, is directly exposed, in the pros and cons, to the development and success of the company. And this is probably the great advantage that a private equity fund has compared to the industrial or strategic investor. Even if the industrial investor may have, in certain cases, an advantage linked to the possible synergetic effects that may be present within the group, he is also in some way limited by this situation, as far as the management changes and direct investment aligning mechanism are concerned.

Being a generalist investor, when a private equity fund buys a company, the quality and professionalism of the management always comes first and is the most important element to be considered. While buying a company, the private equity fund does not put in place his own management but the best available management. In fact, the private equity fund is asking the management to co-invest alongside with him and, at the same time, is perfectly aligning the management's with his own interests via very sophisticated and detailed incentive mechanisms. This is probably the reason why the Department of Strategy & Management of INSEAD has underlined, in their interesting research titled "Why Financial Investors do it Better", that financial investors, typically represented by private equity players, "create substantially more value (in the acquired companies) than operating (or "strategic") acquirers in spite of the fact that the former cannot rely on any resource sharing and redeployment advantage than the latter by definition have".

This is why we all have to hope that the great contribution of private equity to the succession of family businesses in Europe will continue and develop. We also have to make sure that all the social and financial community representatives, at European level, but not only, fully understand and support the development of such an ideal solution and investment scheme that has proven, with facts, to really enhance the competitiveness and expansion of European family-owned companies, while allowing them to compete in an always more problematic and highly competitive international scenario.