



SEARCH

NYT Since 1981

Search

TimesSelect

NEWS TRACKER

TIMES FILE

[Business Home](#)[Media & Advertising](#)[World Business](#)[Your Money](#)[Markets](#)[Company Research](#)[Mutual Funds](#)[Stock Portfolio](#)[Columns](#)

DEALBOOK

Public Companies, Singing the Blues

By **ANDREW ROSS SORKIN**

Published: January 29, 2006

DAVOS, Switzerland

AMID the lectures and power meetings of the World Economic Forum last week, some of the world's top buyout kings, including David M. Rubenstein of the Carlyle Group and Stephen Pagliuca of Bain Capital, met for a private dinner Wednesday night. Between courses, one attendee raised a provocative question that made many of the private equity believers in the room want to start a food fight.

Daniel Loeb, the famously outspoken hedge fund manager of Third Point who has made a career out of agitating for change at big public companies, asked: Why can buyout firms take public companies private and make enormous returns, while the same type of returns seem out of reach for public companies and their shareholders? He went on to posit that private-equity firms were essentially arbitraging the public markets and "are appropriating profits that should belong to public shareholders."

The question drew scorn from most people in the room, but, then again, people also whispered at their tables that he wasn't so wrong. That's exactly what private equity firms do. Indeed, the dinner's title was, "Escaping the Market's Tyranny." The real question is: Does it really have to be that way?

The answer, perhaps sadly for Mr. Loeb, is probably yes. Over and over again throughout the week, chief executives of some of the world's largest companies repeatedly lamented the costs of being public, and some

Advertisement

[E-Mail This](#)[Printer-Friendly](#)[Reprints](#)[Save Article](#)ARTICLE TOOLS
SPONSORED BY

acknowledged that in this new era of megabillion-dollar buyouts, they would actually prefer to be taken private if possible.

But it may not be for the reasons you think. While everyone here complains about what they say are the onerous costs of complying with the Sarbanes-Oxley Act or dealing with pesky shareholders, it is much more than that.

There is a feeling among some managers that being public hinders the fundamentals of their business, from the quality of boards to decision-making and recruiting talent.

"Do I want a board of people who are owners that want to make the business better, or a group that acts like scared regulators?" said one top executive of a major Fortune 100 company. "I'd much rather have a strong businessperson on my board than a Harvard professor who is an expert in corporate governance who only wants to talk about process."

Some public companies are embracing private equity techniques. On Thursday, for example, [Affiliated Computer Services](#), a computer outsourcing company, said it would borrow \$3.4 billion to buy back about 45 percent of its shares, a move that caused its stock to jump 11 percent. But examples like that are few and far between.

Cristóbal I. Conde, chief executive of [SunGard Data Systems](#), said that after a consortium of investment firms took his company private, one of his great surprises was how helpful it was to have a board made up of owners with immense resources at their disposal — like a team of analysts to help each director. Others spoke of the freedom at private companies from having to meet quarterly earnings expectations.

Then there is the issue of recruiting. Private companies can pay executives more without having to face the wrath of shareholders or the public. One executive at a public company, referring to Stephen A. Schwarzman, chief executive of the Blackstone Group, said, "If I were paid what Steve Schwarzman would pay me if he owned my company and it was still public, someone would find a way to put me in jail."

Many good executives at big public companies may actually be in luck. One of the other themes that emerged from the conference was just how big private equity deals

eureka
powered by cisco.

Roll over the ideas to see what Cisco can do for your business.

scroll for more ideas

CISCO SYSTEMS
innovation. powered by

The advertisement features a central image of a wire mesh trash can on a carpeted floor, with two crumpled pieces of paper on the floor. One piece is to the left of the can, and the other is directly in front of it. Two white arrows point down towards the crumpled paper. At the bottom of the image, there are two circular navigation arrows (left and right) flanking the text 'scroll for more ideas'. The background is a blurred office interior with a window.

Most E-Mailed Articles The New York Times

Past 24 Hours | [Past 7 Days](#)

1. [Climate Expert Says NASA Tried to Silence Him](#)
2. [Seeing Fakes, Angry Traders Confront EBay](#)
3. [Editorial: Spies, Lies and Wiretaps](#)
4. [Democracy Undone: Mixed U.S. Signals Helped Tilt Haiti](#)

may become. With some private equity funds raising as much as \$10 billion, the conversation has turned to whether there will be a day when a \$100 billion fund arrives, fundamentally changing the landscape between public and private businesses.

In some ways, such megafunds could reinvent the conglomerate, something that many of these firms are resembling more and more already. In The Times of London on Thursday, Martin Halusa, chief executive of Apax Partners, mused about the possibility of such a fund in the next 5 to 10 years; that created a conversation-starter around town.

One question that people asked repeatedly was whether there were enough companies that were both so big and so poorly run that these megafunds would have sufficient opportunities to justify their creation. I've asked this myself in previous columns about the dangers of big deal-making.

But the people who run some of the largest private equity firms, including Mr. Rubenstein and Mr. Pagliuca, said that the next big opportunities were not in small companies but in big companies, where the inefficiencies are writ large. As one big private equity investor said, "The bigger the company, the better chance it is badly managed."

Maybe so. But, as Mr. Loeb suggested, wouldn't it be nice for public shareholders if those badly managed businesses could be fixed while still being public?

DealBookcovers the news of deals daily by e-mail. A free subscription is available at nytimes.com/dealbook.

[Next Article in Business \(10 of 18\) >](#)

[**Special Offer: Home Delivery of The Times from \\$2.90/week.**](#)

[Toward Chaos](#)

5. [Op-Ed Contributor: Finding a Place for 9/11 in American History](#)

[Go to Complete List](#)

Movies
nytimes.com/movies

[Readers give "Brokeback Mountain" 4.77 stars. What do you think?](#)

Also in Movies:

➔ [Remember John Travolta in "Urban Cowboy"](#)

➔ [Don't forget Jon Voight in "Midnight Cowboy"](#)

➔ [Did you see Matt Dillon in "Drugstore Cowboy"?](#)

ADVERTISEMENTS

[Visit vanguard.com.](#)

Invest in over 100 no load mutual funds

[Free Online Investment Guides](#)

Investment help from T. Rowe Price

[Join Ameritrade.](#)

Up to 35 COMMISSION-FREE trades + \$100 cash.

[\\$7 Trades at Scottrade](#)

Ranked "Highest in Investor Satisfaction"



Ads by Google

what's this?

The Billionaires' Secret

Investment Vehicle of the Wealthy Free Book Understanding Hedge Funds
Hedge-Fund-Investing.com

High Yield Returns, 20% +

Earn Quarterly Dividend Checks Serious Investors Only. 15K Min
www.leapoutsidethebox.com

Invest in Biotech Stocks

3 Biotech Stocks to Buy Now Free Book on Biotech Investing Boom
www.Biotech-Investments.com

INSIDE NYTIMES.COM

ARTS

[A Revolution in
11,000 Photos](#)



WEEK IN REVIEW

[Ultrarich Can't
Stay Married](#)



THE CITY

[Trouble in
Hospital Land](#)



MOVIES

[And the Nominees
Aren't ...](#)



BUSINESS

[Sneaker Makers on
Fresh Turf](#)

[Copyright 2006The New York Times Company](#) | [Home](#) | [Privacy Policy](#) | [Search](#) | [Corrections](#) | [XML](#) | [Help](#) | [Contact Us](#) | [Work for Us](#) | [Site Map](#) |
[Back to Top](#)