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Value Creation Across Ownership Structures

ARTICLES BEST PRACTICES By Raj Gupta, Mukul Pandya and Bill Hayes | July 24, 2025

Public boards can learn valuable lessons from how private equity and family company directors enhance value for their companies.



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When Satya Nadella became CEO of Microsoft in 2014, the company faced a defining moment. Once the undisputed king of personal computing, Microsoft had stagnated for more than a decade, watching competitors like Apple and Google capture the mobile revolution while its stock price languished. What happened next offers a masterclass in how public companies can orchestrate fundamental transformation while navigating the complex demands of diverse stakeholders, quarterly reporting cycles and activist investors.

Under Nadella's leadership, Microsoft executed a complete business model transformation — pivoting from traditional software licensing to cloud-first services and subscription models. The company reinvented its culture, embraced open-source technologies it had previously shunned and made bold strategic bets on Azure cloud computing and Office 365. The results speak volumes: Microsoft's market value soared from roughly \$300 billion when Nadella took over to approximately \$3.8 trillion now, creating \$3.5 trillion in shareholder wealth and delivering sustained returns that far outpaced market indices.

Microsoft's transformation exemplifies a crucial truth that public company directors must understand: While sustainable value creation represents the universal mission for all for-profit companies, the approaches to achieving this goal vary dramatically across different ownership structures. The strategies, governance models and stakeholder management approaches that enable a public company like Microsoft to thrive differ fundamentally from those employed by private equity (PE) firms or family-owned enterprises.

Understanding these structural differences has become critical for public company directors, particularly as the corporate ownership landscape continues to evolve rapidly. The number of publicly traded companies in the United States has declined dramatically over the past two decades — from approximately 8,000 in the late 1990s to fewer than 4,000 today. Meanwhile, PE assets under management have exploded, growing from approximately \$200 billion in 1995 to more than \$4 trillion today. Family offices and private companies have simultaneously become more sophisticated in their governance approaches.

This shift matters because companies regularly transition between ownership structures. Major public-to-private transactions, successful IPOs of PE-backed companies and family businesses partnering with institutional investors create a dynamic environment where directors must understand the governance implications of different ownership models. Each transition brings unique challenges and opportunities, making this knowledge essential rather than merely helpful.

For public company directors, this understanding proves particularly valuable when evaluating acquisition targets, partnership opportunities or even considering strategic alternatives for their own organizations. Companies operating under different ownership structures approach everything from capital allocation to talent development differently, and directors who understand these nuances make better strategic decisions.

The Advantages and Challenges of Various Ownership Structures

Ownership Type	Advantages	Challenges
Public	<ul style="list-style-type: none"> • Transparency of financials, liabilities, compensation and valuation • Meeting frequency (often quarterly) • Easier access to funding (debt and equity) • Long-term view • High liquidity for investors • Enhanced visibility and credibility 	<ul style="list-style-type: none"> • Broad mix of portfolio • Broad shareholder base • High administrative expenses • Slower decision-making because of portfolio complexity and layers of approval process • Public scrutiny and media exposure • Challenging capital and talent allocation
Private Equity	<ul style="list-style-type: none"> • Focused business • Clear investment time horizon (three to five years) • Clear performance metrics and exit multiple expectations • Well-defined investment thesis • Speedy decision-making • Compensation fully aligned with outcomes • Full alignment between owner PE firm, board and management • Lean structure • Efficient cost structure • No quarterly distraction • No activist threat 	<ul style="list-style-type: none"> • High fee structure requires much higher return than that of public markets • High interest rate (driven by high debt and risk) • High investor expectations of return (both annually and at the end of the cycle) • Limited liquidity • Higher risk of bankruptcy
Private/Family	<ul style="list-style-type: none"> • Steady business portfolio • Long-term view • Strategic and operational flexibility • Tighter ownership and control • Confidentiality • No activist threat 	<ul style="list-style-type: none"> • Shareholder alignment (particularly by the third generation) • Clarity of board role • Slower decision-making • Unwillingness to change or increase risk profile • Inability to attract the best talent • Limited to no liquidity

Public Companies: Mastering Complexity and Transparency

Public companies operate within a unique governance framework that shapes every aspect of their value-creation approach. The typical board composition of eight to 12 members — featuring one or two management representatives alongside seven to 10 independent directors — reflects the transparency imperative that defines public company governance. Quarterly reporting cycles, SEC filing requirements and diverse stakeholder demands create both opportunities and constraints directors must navigate skillfully.

Public companies must manage a broad range of shareholders, often with conflicting expectations, including forever index funds, short- and long-term active managers, employees, hedge funds, activists, foundations and insurance companies. This shareholder complexity requires sophisticated investor relations and strategic communication capabilities.

The advantages of public company governance are substantial. Superior transparency through rigorous financial reporting builds stakeholder trust and enables sophisticated capital allocation decisions. Access to both debt and equity capital markets provides flexibility during growth phases and economic downturns. High liquidity for investors enables efficient capital allocation and attracts diverse sources of capital. Most importantly, the governance infrastructure — when properly managed — can support long-term value creation despite short-term pressures.

Amazon exemplifies how public companies can leverage these advantages to create extraordinary value. Since its 1997 IPO, Amazon has generated nearly \$2.4 trillion in total wealth for investors. The company accomplished this by continuously reinvesting profits into new business lines, from e-commerce to cloud computing (Amazon Web Services) to digital media and logistics. Amazon's willingness to sacrifice short-term profitability for long-term growth — while maintaining transparent communication with stakeholders about its strategy — demonstrates how public companies can balance quarterly pressures with transformational investments.

Apple provides another compelling example, having created approximately \$3.2 trillion in shareholder value over the past 30. Apple's success stemmed from its ability to reinvent itself repeatedly — from niche PC maker to consumer electronics leader — while maintaining the governance discipline and stakeholder communication required of public companies.

General Electric offers a powerful illustration of how leadership change can drive value creation across different eras. Under Jack Welch's leadership, GE became one of the most admired companies globally, reaching a market capitalization high of \$450 billion and consistently ranking among the top performers in the Fortune 500. However, over the subsequent two decades under Jeff Immelt, the company stagnated dramatically, with market cap falling to a low of \$60 billion.

The appointment of Larry Culp as CEO in 2018 marked a turning point, as the board led a comprehensive transformation that created three sector-focused companies — GE Aerospace, GE Healthcare and Vernova — each with refreshed boards and new CEOs. Today, according to Statista, the combined value of these three spun-off companies totals \$465 billion, reflecting the successful transformation under Culp's leadership. This example demonstrates how diversified large companies can successfully navigate transformation through proactive board leadership and strategic CEO selection.

However, public companies face distinct challenges that directors must address proactively. Managing stakeholder complexity requires sophisticated investor relations and clear strategic communication. Administrative burdens — including compliance costs and regulatory filings that can consume 1% to 2% of sales — demand efficient governance processes. Quarterly earnings pressures can undermine long-term investment decisions without strong board oversight. Portfolio complexity in large public companies requires sophisticated capital and talent allocation frameworks.

Private Equity: Execution Focus and Aligned Incentives

Private equity companies operate under fundamentally different principles that enable rapid decision-making and intense value-creation focus. The typical board structure of six to eight members — including three to four private equity firm representatives alongside domain experts — facilitates swift execution and eliminates many bureaucratic layers that slow public company decision-making down.

A critical advantage of the PE model is the complete alignment of compensation and rewards between owners, boards and management, creating powerful incentives for value creation that often exceed what public companies can achieve.

Blackstone Group illustrates the power of the private equity model. The firm's assets under management exploded from approximately \$3 billion in 1995 to more than \$1 trillion by 2024, making it the world's largest alternative investment manager. Blackstone achieved this scale by focusing intensively on operational improvements and strategic repositioning across its portfolio companies. The firm's legendary 2007 buyout of Hilton Hotels generated some \$14 billion in profit through systematic operational enhancements and strategic timing.

The advantages of the PE model are compelling for value creation. Focused business strategies driven by well-defined investment theses eliminate diversification disadvantages. Speedy decision-making processes — enabled by concentrated ownership and weekly or monthly board meetings during critical periods — allow rapid responses to market opportunities. Fully aligned compensation structures tie management rewards directly to value-creation outcomes, creating powerful incentives for performance. Lean organizational structures eliminate bureaucratic overhead that can burden public companies.

New Mountain Capital demonstrates how the PE model can generate consistent value through disciplined approaches. Despite its mid-market focus, the firm has generated roughly \$100 billion in enterprise value gains across its portfolio since 1999. Remarkably, New Mountain has never experienced a portfolio company bankruptcy or debt default, reflecting its emphasis on “defensive growth” and fundamental value creation over financial engineering.

KKR & Co. (KKR) provides another example of sustained PE value creation. Since its 1976 founding, KKR has invested in portfolio companies totaling approximately \$710 billion in enterprise value. While famous for landmark buyouts like RJR Nabisco, KKR’s long-term success reflects its evolution into adjacent areas while maintaining discipline on core buyout strategies.

However, private equity companies face distinct pressures that public company directors should understand. The 2-and-20 fee structure requires delivering approximately 15% returns to match 10% index fund performance after fees. High leverage ratios — often reaching four to eight times EBITDA — create bankruptcy risks during economic downturns. Fixed investment horizons can force suboptimal exit timing when market conditions deteriorate. Limited liquidity requires investors to accept illiquidity premiums in exchange for potentially higher returns.

Family and Private Companies: Patient Capital and Relationship Focus

Family and private companies operate with distinctive advantages that enable multigenerational value creation. Board composition typically features six to 10 members, often including four to six family members alongside two to four independent directors, creating governance structures that balance family stewardship with business performance.

Cargill Incorporated demonstrates the potential of family ownership for sustained value creation. As the largest privately held company in America, Cargill has grown revenues from approximately \$51 billion in 1995 to some \$160 billion in 2023. The company has ranked first on Forbes’ list of top private companies for 28 of the past 30 years, reflecting consistent expansion across multiple economic cycles.

Cargill achieved this growth by leveraging its family ownership structure to make patient capital investments in global supply chain capabilities and strategic diversification. Unlike public companies facing quarterly pressures or PE firms operating under fixed time horizons, Cargill could invest in long-term capabilities that generated competitive advantages over decades.

Koch Industries provides another powerful example of family company value creation. The company grew revenues from roughly \$30 billion in the mid-1990s to about \$125 billion by 2024, achieving this through aggressive reinvestment of approximately 90% of earnings back into the business each year. Koch’s “market-based management” philosophy drives entrepreneurial decision-making while maintaining family ownership benefits.

Mars Incorporated shows how family companies can successfully execute major strategic transformations. As a 100% family-owned business, Mars grew annual sales to nearly \$50 billion by 2022, expanding from core candy brands into pet care and other food categories. The \$23 billion Wrigley acquisition in 2008 roughly doubled Mars's size while extending market leadership across multiple product categories.

The advantages of family and private ownership for value creation are substantial. Long-term orientation enables multigenerational thinking and patient capital deployment. Stable ownership provides protection from activist investors and market volatility. Relationship focus builds deep stakeholder partnerships over decades. Cultural continuity creates strong organizational identities that endure through leadership transitions.

However, family companies face unique governance challenges. Succession planning becomes critical, particularly around third and fourth generation transitions, where many family businesses fail. Professionalizing governance while maintaining family values requires careful balance. Capital constraints from limited access to growth capital can restrict expansion opportunities. The board's role becomes critical when family members serve simultaneously as owners, directors and executives.

Cross-Learning Opportunities: What Public Companies Can Adopt

Public company directors can learn valuable lessons from both PE and family company governance models to enhance their own value creation capabilities.

From PE, public companies can adopt focused business portfolios and faster decision-making through streamlined approval processes. Many public companies suffer from bureaucratic layers that impede responses to market opportunities. PE companies demonstrate how focused board agendas and frequent meetings during critical periods can accelerate decision-making without sacrificing oversight quality.

More focused performance metrics represent another PE lesson. While public companies must satisfy diverse stakeholder demands, they can benefit from clearer accountability structures that tie executive compensation directly to value-creation outcomes rather than just financial reporting metrics.

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Execution orientation offers a third lesson. PE boards move beyond traditional oversight to actively support value-creation initiatives. Public company directors can adopt similar approaches, providing strategic guidance and industry expertise while maintaining appropriate governance boundaries.

From family companies, public companies can learn deeper stakeholder relationship management. Family businesses excel at building long-term partnerships with employees, customers, suppliers and communities. These relationships create competitive advantages that financial metrics alone cannot capture.

Patient capital thinking represents another family company strength. While public companies face quarterly pressures, the most successful ones — like Amazon and Microsoft — demonstrate how transparent communication about long-term strategy can enable patient capital deployment even within public markets.

All ownership structures face common challenges that require adaptive governance approaches. Increasing global competition, rapid innovation, demographic changes and AI integration demand significant capital investment and cultural transformation. Public companies must balance AI investment with quarterly earnings expectations, while PE firms leverage technology for operational improvements and family companies modernize traditional business models.

Stakeholder capitalism pressures affect all ownership structures through investor demands, employee expectations and regulatory requirements. Geopolitical complexity increasingly impacts global companies through trade tensions, regulatory divergence and supply chain resilience requirements.

Changing capital markets — including rising interest rates, volatile public markets and evolving investor preferences — require all companies to adapt their capital allocation and strategic planning processes.

The board's proactive role in CEO selection becomes critical in this context, particularly when considering future challenges and evaluating both internal and external candidates. Successful business transformations often require leadership change, as evidenced by most of our examples, making proactive succession planning essential for sustained value creation.

Recommendations for Public Company Directors

Excellence in governance requires understanding both universal principles and structure-specific advantages. All successful companies share certain characteristics: clear value-creation focus with alignment on long-term objectives, appropriate expertise with board composition matching strategic challenges, effective processes (including efficient meeting cadences and decision-making protocols), stakeholder orientation that balances various interests and continuous learning capabilities.

For public companies specifically, directors should develop multiyear strategic planning processes that withstand quarterly pressures, invest in sophisticated stakeholder engagement capabilities and build board expertise in technology, sustainability and global markets.

Understanding other ownership structures enables better strategic decision-making when evaluating partnerships, acquisitions or strategic alternatives. Directors who appreciate how PE firms and family companies approach value creation can identify opportunities to adopt best practices while maintaining the transparency and governance rigor required of public companies.

Microsoft's transformation under Satya Nadella and Apple's resurgence under Steve Jobs and Tim Cook demonstrate that public companies can achieve extraordinary value creation by mastering their structural advantages while learning from other ownership models. The key lies in understanding, while sustainable value creation remains the common goal across all ownership structures, the paths to achievement vary dramatically based on structural characteristics and constraints.

The most successful public company directors understand these differences and adapt their approaches accordingly. They leverage transparency and stakeholder complexity as competitive advantages while maintaining long-term focus. They learn from private equity's execution orientation and family companies' relationship capital while preserving the governance rigor that public markets demand.

In an era of increasing complexity and rapid change, this understanding represents essential knowledge. As ownership structures evolve and companies transition between models, directors who understand these nuances will be best positioned to guide their organizations toward sustained value creation for all stakeholders.

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