



P+P

SuperReturn Reception



Crisis = A Time for Owners' Responsibility, a Time for Private Equity and Family Businesses?

This talk is supposed to be about “*Crisis = A Time for Owners' Responsibility, a Time for Private Equity and Family Businesses?*” The answer obviously is: Yes, this is a time for owners' responsibility, for private equity, and for family businesses. I'm not talking on behalf of any private equity investor or any family business or anybody else - I'm just talking on behalf of myself.

A Long Crisis and the Search for the Best Owner

As we stand here these days, we are at the beginning of a crisis, which will be with us for a couple of years. And we will never be back to where we were before. I think, we shouldn't even want to be back to where we were before, because we should want to go forward.

We thought - those of us, who lived and worked in this financial and business world in the last one or two decades - that we had earned our little bit of success by hard work and brilliant intelligence. But, as we now find out, in each and every buy-out, we earned our little successes through what you might refer to as a special kind of carry trade, transforming short-term money into long-term money, viz. debt into equity, which is the most long-term form of investment.

We now learned that “liquidity” means little in the sense of being able to *sell* something. The ability to sell something requires not an asset, but a buyer. We learned that “liquidity” has meaning in the sense of old-fashioned cash.

A crisis re-shuffles things, breaks things, and *is meant* to re-shuffle and break things. We thought we were being involved in seeking the best owner for businesses, and we did that in style and comfort - like on a cruise. Now, the cruise has turned into white-water rafting.

We still seek the best owners for businesses. This search has gone on and will go on forever! As a German poet, not otherwise famous in a capitalist environment, said: “*All things should belong to those who are good for them.*”¹ Who is good for a business? Today, many

people think: the old and wise, or the old *or* wise. It is those - like myself and a few others - who *caused* this crisis. We certainly are not part of the solution. I think, who is good for businesses, are those who are young - those who have the future in front of them and who, in their own future, should care about businesses. Because only business creates value.

Identifiable Owners and Survivor Bias

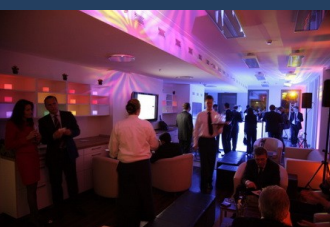
It is true that these days remind us of responsibility - responsibility of owners, responsibility of managers. For a long time we thought - and I think it was true - that responsible owners of businesses used to be private equity firms and what's called “family businesses”. Those are identifiable owners: You have an owner to grasp, to shake and to hold responsible for what he is doing. It is not about families - I've never seen a family running a business. I've seen individual owners, whom you could identify to be responsible for the business, but never a family. Responsibility implies taking the blame.

Good owners survive, good managers survive. We see those who survive and see only them - most of the time, most clearly. Therefore, our perception of the world suffers from survivor bias. It's a way of identifying good owners *ex post*. What would characterize good owners *ex ante*? What characterizes a good owner or a good manager of a business?

Long-term vs. Short-term

Everybody says today, and has said for a long time: that characteristic is the long-term view of good owners of businesses - which to some extent is true for private equity owners and certainly is true for family business owners. But the long-term view was relevant in the past, when people were supposed to prepare for the times which have come now. Long-term views are not relevant for dealing with the immediate and existential problems we are confronted with. Long-term views are good as a look forward into the future of our businesses. But again, the future is not our present

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problem. And the future is too far ahead to think about today. Our problems are here and now, our responsibility is here and now.

We have been thrown into a situation where short-term views and short-term actions have come to be perceived as more relevant - and I think they are. Good owners (private equity owners, family businesses) are supposed to be able to act - think first, hopefully, and then act - *fast*. They are supposed and required to decide, now.

I think today and for quite a while ahead of us, it is this short-term ability which will distinguish the good owner.

Equity vs. Debt

It is true, also: Owners love equity more than debt, which is a good tradition, because it is very difficult to acquire equity. You have to compete on the market for customers, and you have to compete with products, not with arguments. It requires more sweat and blood to love equity and to fund your business with equity.

Good owners are characterized by a love for equity. This is obviously good today. But not only for the reason that equity makes them more independent. Rather, also for the reason, that it forces them to look only at the market, where the competition is and where the fight is. Earning equity is not about arguing with banks, analysts, lawyers or anybody else, it is about convincing customers.

Responsible for What?

Good owners may be wrong in their specific decisions like anybody else. But apparently, they decide the right things and they steer the right things in the right direction - at least those whom we perceive because of survivor bias, those who have survived. Responsible owners are believed to do the right things - what are they responsible for? There is an old saying, that we all know, *"The business of business is business"*. Good owners of a business are not dealing with anything other than their business. Good owners do not think about the economy at large - national, international or otherwise. They think about their business. They think about the economy as anybody else does - out of office, in private discussions - but they do not engage in discussions about the economy, because they are not experts in "the economy". They are experts in running a

business, their business. This is their responsibility. Good owners do not deal with corporate social responsibility. Good owners do not deal with social matters in their capacity as good owners. They think about social and other matters as human beings. (And to also, consciously, be a human being may make them a better owner, too.) It is self-evident that, as good owners, they act legally, they act ethically - but they don't proclaim to be dealing with social matters, political matters, etc. What would you think of your son or your neighbor putting up a poster at the door of their room proclaiming *"I intend to behave legally"* or *"I intend to lead an ethical life"* or *"I am socially responsible"*? Such a proclamation may, and should, raise a number of question marks. So why should business owners put up posters of this type?

The Future and the Opportunistic Approach

Good owners do not try to foresee the future and do not speculate about the future. They try to be open, attentive, on the alert, on the watch, ready to act, actively waiting for something to happen - bad things, but also opportunities, and crisis is about opportunities.

Business life - like all life - is opportunistic, it's about opportunities. All life is about delaying death, delaying decay, postponing death, staying alive to meet more opportunities, staying healthy and strong to grasp opportunities which we meet. Life - business life and all life - is not about creating opportunities or foreseeing opportunities. It is about recognizing them and using them and turning them into something better.

An Opportunity to Acquire Businesses?

What opportunities are there in a crisis like this? Initially, I thought, this is the time where, soon, the opportunity arises to acquire businesses, to buy businesses. I must confess, again, I was wrong. It was far too early, and it is far too early. With another hat on, with an endowment or a family office investment hat on, every time when we *considered* to invest in stocks, we were glad that we didn't. The *present* opportunity in this crisis is *not* acquiring businesses. It may be merging businesses, it may be combining businesses. But not buying a business for cash. This will change when inflation comes; but inflation is not there, yet, and we will deal with that problem when and as it arises. It is not fruitful to deal with problems today, which likely *will* arise but later. Again, it is not my business to think



about whether they will arise. I'm prepared for the moment when it will arise, and then we will deal with inflation - not now.

There are three real opportunities, which we encounter now every day from morning until nighttime, which arise from this crisis:

An Opportunity to Acquire People

The first one is about acquiring people, being able to find managers, engineers, researchers - people of all sorts, whom we would never have been able to attract in good times or which would have come to the market only very occasionally and only for very thrilling tasks - and now you can attract them, for instance, with the stability of your boring business.

In the context of interviewing, I met a CFO who had seen everything which could be seen in the last couple of years. He said, he had left Germany because it was too boring, and went to London, and now he's coming back to Germany, because it is so boring and is looking forward to it, for his daughter, his family and himself. In the past, I could not have hired him for a regular German business and attract him out of London. Today it is possible.

An Opportunity to Acquire Efficiency

So, acquiring people is one opportunity - the second one is acquiring efficiency, optimizing processes, turning your old business into a new business. Benefit from the wake-up call, wake up yourself! It is a wake-up call, which has not been heard yet in Germany in general, but it will be heard; and you are there and we are there, and we hope to be there *awake*.

Acquiring efficiency and optimizing processes are not just a euphemism for making things cheaper, *saving*. We want better, more efficient processes - better, more attractive services and products, because we have to fight for customers, we have to fight *harder* for customers, and customers are not forgiving.

Good owners of businesses want their businesses to survive and, therefore, they want to acquire efficiency.

An Opportunity to Acquire Knowledge

The third opportunity in times of crisis is to acquire *knowledge* - individual and organizational. If you are out of work, it's a very good time to acquire knowledge - to study, to train, to learn, to learn more about the world, to get better. This is true for the individual who is out of work, fully or partly, and it is true for a business, an



BERLIN
Potsdamer Platz 5
10785 Berlin
Phone: +49 (30) 25353-0
Fax: +49 (30) 25353-999

FRANKFURT / MAIN
Hauptwache
Zeil 127
60313 Frankfurt/Main
Phone: +49 (69) 247047-0
Fax: +49 (69) 247047-30

MÜNCHEN
Fünf Höfe
Kardinal-Faulhaber-Str. 10
80333 München
Phone: +49 (89) 24240-0
Fax: +49 (89) 24240-999



organization whose business is slow or slack in times of crisis. Learn, get better! Again, unfortunately, this is not for my generation, but there are plenty of young people around, and for them, it's more worthwhile than for the old, to use that opportunity of acquiring more knowledge and more talent and more ability to survive.

The Responsibility to Survive

It is the responsibility of good owners - private equity owners, family businesses and others - it's their responsibility to survive in the unforgiving selection, which takes place in a crisis and will take place for quite a while. It is a fight, which cannot be won by speeches or arguments or reasoning or conceptualizing. It is a fight for survival in the real world, out there in the market, inside our businesses, a fight which takes place every day.

There is an - otherwise fairly macho - poem, about a century old, but it does contain a couple of lines which come to mind in this crisis; it's a fairly personal, non-financial poem otherwise. Still, a few of its lines apply to us, here and now:

*"If you can keep your head when all about you
are losing theirs and blaming it on you;
If you can trust yourself when all men doubt you,
but make allowance for their doubting, too;...
If you can dream - and not make dreams your master;
If you can think - and not make thoughts your aim";
etc., etc.,*

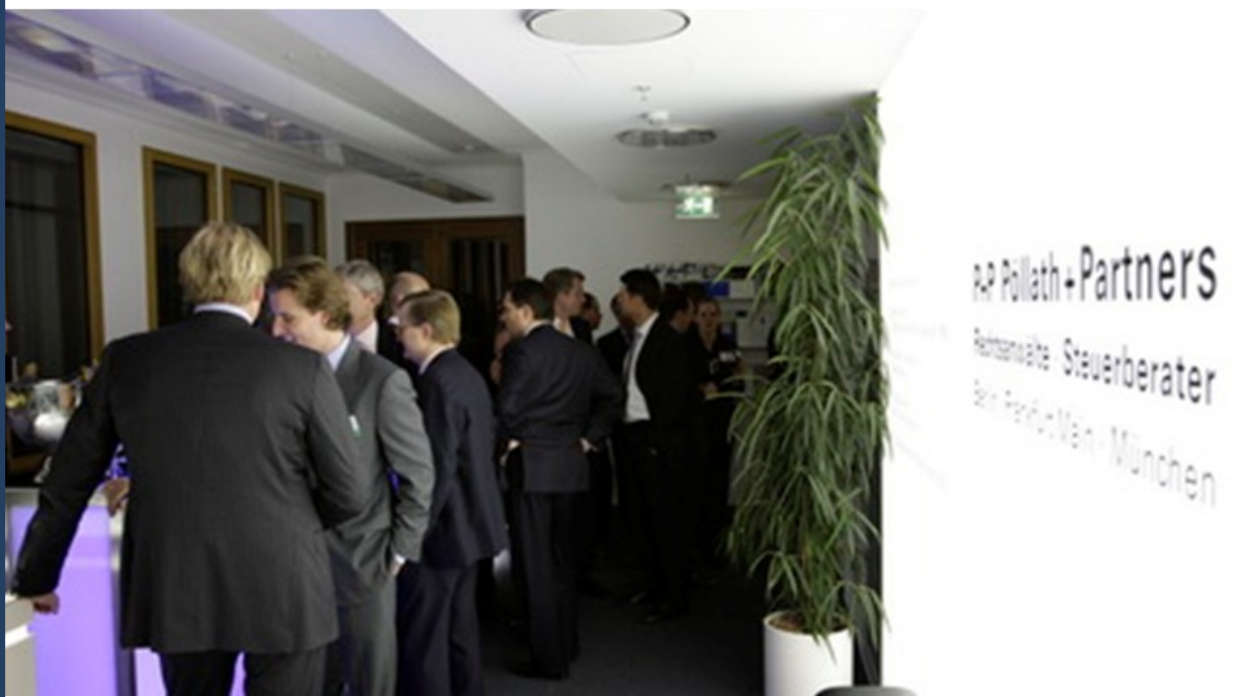
and it ends with:

*"If you can fill the unforgiving minute
with sixty seconds' worth of distance run,
yours is the world, and everything that's in it"; etc., etc.²*

Fill the Unforgiving Minute

This is what being a good and responsible business owner is all about: Filling the unforgiving minute with sixty seconds worth of distance run - not looking for the long-term, not dealing in all these abstract talents which are now being praised about business owners, but, here and now, taking up one's responsibility, taking the blame, focusing on surviving the present crisis, coming out of it stronger than before, being attentive, being actively waiting, being on the alert and using the opportunities which are there today - the opportunities to acquire good things today and, just as importantly, to turn into something good what has been acquired.

I wish you all the best, I wish myself all the best, I wish all of us all the best in this new world, a great new world, which is in front of us. Thank you very much.



¹Bert Brecht in: Kaukasischer Kreidekreis; cf. P+P, Unternehmensfortführung durch Nachfolge oder Verkauf, 2007, p. 34, footnote 36.

²Rudyard Kipling, *If*. I owe the reference to this poem to my son.