

# Politicking

Following the conflict between UK trade unions and private equity firms last year, and the subsequent negative media attention, came the recognition by the private equity community that it needed to engage with a wider stakeholder base. This should begin by engaging with politicians.

By Nathan Williams

The debate surrounding private equity in the UK last summer shocked the private equity community with its ferocity, aggression and, if their honest, ultimately its success. The trade union GMB ran a highly effective political and media campaign to discredit private equity firms as “asset-strippers” and the charge stuck. The trade union argument was simple: Private equity firms buy companies, sell the best parts of the business, slash costs and cut jobs. The money saved and raised they keep for themselves. And they don’t really “buy” the company anyway because most of the cash used to acquire it comes in the form of debt. Therefore they don’t even risk their own cash. It was a fantastically simplistic message that struck a chord across huge swaths of the mainstream media, from the tabloids to the broadsheets. Many were quick to buy into it because it confirmed what they already believed about UK plc. Namely that companies are run purely to enrich management at the expense of workers. For left-wing elements of the press, private equity became a symbol of all that was wrong about New Labour’s economic policy and the natural result of a cabal of politicians who were, in the words of Peter Mandelson, ‘intensely relaxed about people getting filthy rich.’ The end of this quote, often ignored by commentators was ‘as long as they pay their taxes.’

The campaign revealed a hitherto unrecognised flaw in the private equity model – they didn’t have a strategy for dealing with negative criticism. The flaw was unrecognised largely because the test was new. Permira had attracted the ire of the GMB by laying off workers at the AA and closing a Bird’s Eye factory in Hull. It also de-recognised the GMB at the AA. It wasn’t the first time a private equity firm had laid-off workers or downsized production facilities but it was the first time it had picked a fight with a union. A well-equipped and well-connected union at that. The treasury select committee hearings followed

and the capital gains tax regime changes were the direct result. The private equity response tended to fall back on what it knows best – statistics – failing to appreciate that not only do most people distrust statistics but that the success of the union campaign meant that this response was doomed to fail. A softer approach was needed. One focused on building up political trust and a better understanding of the potential public policy issues surrounding their investments. Enter Lord Browne.

Lord Browne joined Apax in April 2007 from BP and recognised that the firm could do with the help of someone who knew politics and, most importantly, knew people. This led him to James Connal, a former special adviser to Geoff Hoon during his time as defence secretary, leader of the Commons and European minister. Connal was recruited to advise Apax on public policy issues and “the potential pitfalls. Essentially my reports formed part of the diligence process on deals,” he says. With the title of Head of Public Affairs and a detailed brief, which according to Connal consisted of “get on with it,” he went about “roaming the corridors of power and meeting politicians, feeding back the public policy issues in the UK and Europe.” When Lord Browne left to join Riverstone just a few months later, Apax chief executive Martin Halusa and Stephen Grabiner, head of the London office, asked him to stay on in the role. Connal believes that Apax “understands how important it is to engage in the public policy process and be aware of the political factors” which can play into investment considerations. On the industry more broadly, Connal is adamant that they “need to be more transparent and cannot go back to the shadows as a result of the credit crunch. The focus hasn’t gone away. The treasury select committee has rolled the hearings on private equity into a broader one on financial stability and transparency, and there are two reports going through the European parliament relating to the regulation of private equity funds.” *Continues over...*

