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Private Equity in Global Capital Markets: Redefining Corporate Ownership and Long-Term Value Creation

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Private equity has grown from a niche buyout technique into a structural feature of global capital markets and, in doing so, it has changed how corporate ownership is exercised rather than simply who exercises it. This article asks whether private equity represents a genuine transformation of corporate ownership and value creation or whether it repackages long-standing agency cost solutions inside a different institutional wrapper. Drawing on developments in the United States, the United Kingdom, the European Union, Singapore and Australia, the article argues that private equity's most significant contribution is not concentrated ownership as such but its emergence as something closer to a private regulator of corporate behaviour, substituting contractually negotiated governance for the public disclosure bargain that listed companies have traditionally accepted in exchange for access to public capital. The article examines board accountability under sponsor ownership, tests the financial engineering versus operational value creation debate against the empirical literature and asks whether disclosure and stewardship frameworks are keeping pace with private equity's growing footprint in markets that were once organised almost entirely around public ownership. It concludes that private equity has not erased the separation of ownership and control identified by Berle and Means. It has relocated that separation, and the regulatory architecture built around the industry has so far addressed the fund manager more thoroughly than the portfolio companies, workers, and markets that ultimately live with the consequences.

Keywords: *private equity, corporate governance, private ordering, concentrated ownership, leveraged buyouts.*

INTRODUCTION

Corporate law has organised itself for most of the last century around a single structural worry: the separation of ownership from control. Shareholders spread across a public register cannot individually monitor management, so they delegate effective authority to boards and executives whose incentives never quite line up with those of the people who actually bear the risk of the enterprise. Private equity did not solve this problem so much as build around it. It constructed an alternative ownership architecture in which the separation largely disappears at the level of the operating company only to resurface in a quieter and less examined form between the fund manager and the limited partners who supply its capital.

The question this article asks is not whether private equity looks different from public ownership, which is obvious, but whether that difference amounts to a structural transformation of corporate ownership or a more efficient use of governance tools that company law has always permitted in principle. Answering this requires setting aside, at least for a moment, the now familiar arguments about leverage and financial engineering and asking a more structural question instead. What happens to the public regulatory bargain when a company leaves the public perimeter but keeps operating at a scale and with a public interest footprint that public companies once had close to a monopoly on? This article's central argument is that private equity functions in an important and underappreciated sense as a private regulator of corporate conduct.[1] It supplies through contract and fund-level covenants much of the disciplinary work that securities law, listing rules and stewardship codes supply for public companies without being answerable to a comparable public accountability structure itself. That said, the strength of this private regulatory function varies enormously across the industry, and nothing in this argument should be read as suggesting that all private equity ownership looks or behaves alike.

The article proceeds in six further parts. Part II traces private equity's evolution from a leveraged buyout technique into a diversified capital markets institution. Part III asks whether concentrated private equity ownership is a genuinely new model of corporate control and develops the private regulator argument. Part IV examines board accountability under sponsor ownership. Part V returns to the debate between financial engineering and

[1] Adolf A Berle and Gardiner C Means, *The Modern Corporation and Private Property* (Macmillan 1932)

operational value creation, extending it into innovation, human capital and digital transformation since these are where the title's claim about long-term value creation has to be tested rather than asserted. Part VI compares regulatory responses across major capital markets. Part VII considers pressures likely to test the model going forward. Part VIII concludes.

THE EVOLUTION OF PRIVATE EQUITY IN GLOBAL CAPITAL MARKETS

The modern private equity industry traces its intellectual roots to Michael Jensen's 1989 argument that the public corporation, weighed down by the agency costs of free cash flow, would gradually give way to leveraged, privately held organisations in which debt and concentrated equity disciplined managers more effectively than dispersed public shareholding ever managed to.[2] Firms such as KKR, whose 1980s buyout practice effectively launched the modern industry, supplied the template Jensen has in mind: compensation tied to performance, heavy management equity stakes and debt covenants that left little room for waste.[3] Jensen's forecast of the public corporation's eclipse proved premature, at least in timing. The leveraged buyout wave of the 1980s collapsed under overleverage, and a wave of junk bond defaults followed. Brian Cheffins and John Armour, writing in 2008 near the peak of the second buyout boom, argue that private equity itself would be at least partly eclipsed by regulatory and market correction rather than continuing its expansion unchecked.[4] Neither eclipse turned out to be complete. What happened instead was consolidation. The industry that emerged from the 2008 financial crisis was larger, more institutionally embedded and considerably more operationally sophisticated than either its 1980s or its mid-two-thousand predecessor.

Kaplan and Stromberg's widely cited survey shows that private equity value creation since the 2000s has drawn increasingly on operational and governance-based intervention, active board participation, redesigned management incentives, and strategic repositioning after

[2] Elisabeth de Fontenay, 'The Deregulation of Private Capital and the Decline of the Public Company' (2017) 68 Hastings Law Journal 445, 448 <https://scholarship.law.duke.edu/faculty_scholarship/3741/> accessed 13 June 2026

[3] Michael C Jensen, 'Eclipse of the Public Corporation' (1989) 67(5) Harvard Business Review 61 <https://hbr.org/1989/09/eclipse-of-the-public-corporation> accessed 13 June 2026

[4] Brian R Cheffins and John Armour, THE ECLIPSE OF PRIVATE EQUITY (2008) 33 Delaware Journal of Corporate Law 1, 9 <https://ora.ox.ac.uk/objects/uuid:2c1e24ad-ae68-43af-b68b-863d5a25650b/files/m4010ecf888da842e38431bc2f4aaf413> accessed 13 June 2026

acquisition rather than on leverage and multiple arbitrage alone.[5] This matters because it reframes private equity as a managerial philosophy applied through a particular ownership structure, not simply as a financing technique. The scale involved is considerable. Institutional investors, a category in which private equity's limited partner base sits, now hold close to half of all listed global equity, a share that has risen steadily over the past decade.[6] At the same time, several of the largest sponsors, Blackstone, KKR, Apollo and Carlyle among them, have themselves become listed public companies, a development that sits somewhat awkwardly alongside the industry's own critique of public market short-termism and illustrates just how porous the boundary between public and private has become.[7]

PRIVATE EQUITY AS A NEW MODEL OF CORPORATE OWNERSHIP AND AS A PRIVATE REGULATOR

Is concentrated private equity ownership genuinely new or is it simply a return to the block holder model that predates the managerial corporation Berle and Means described? The honest answer is that it is both, though neither half of that answer is the most interesting thing that can be said about it. What private equity adds is not concentration itself but a particular institutional discipline layered on top of it: a finite fund life, a contractual return hurdle owed to limited partners and an exit horizon that forces the sponsor to realise value within a bounded period, recently measured in UK data at just under five years for companies still under ownership and a little over six years for those already exited.[8]

The more original point concerns what private equity ownership displaces. Elisabeth de Fontenay has traced how the securities law bargain that once tied large-scale capital raising to public disclosure has steadily come apart: companies can now raise very large sums privately without ever taking on the reporting obligations that public listing used to make unavoidable.[9] Private equity is the principal institutional beneficiary of that unravelling, and this article suggests it is also, in a meaningful sense, its institutional successor. A company

[5] *Ibid* 55
[6] Steven N Kaplan and Per Strömberg, 'Leveraged Buyouts and Private Equity' (2009) 23(1) Journal of Economic Perspectives 121, 124 <https://www.aeaweb.org/articles?id=10.1257/jep.23.1.121> accessed 13 June 2026
[7] *OECD Corporate Governance Factbook 2025* (OECD Publishing 2025)
[8] *OECD Corporate Governance Factbook 2023* (OECD Publishing 2023)
[9] Nick Land et al., *Eighteen Annual Public Report* (Private Equity Reporting Group 2025)

taken private by a sponsor does not become ungoverned. It becomes governed by a different, privately negotiated instrument instead: the limited partnership agreement, the shareholders' agreement, reserved matters list at board level and the covenant packages attached to acquisition debt. These instruments do work that looks strikingly similar to listing rules and stewardship codes. They constrain related party transactions, require reporting to capital providers and attach consequences to underperformance. But they are enforced through contract and fund economics rather than through public enforcement or market discipline. On this reading, private equity has not simply bought companies. It has built something closer to a parallel regulatory order that substitutes for, rather than merely escapes, public company regulation.

These reframing changes the question worth asking about the industry. It is not enough to ask whether private equity ownership improves governance relative to a dispersed public shareholder base, which is the question the agency cost literature has traditionally posed. The more pressing question is whether privately enforced regulation delivers accountability equivalent to publicly enforced regulation, given that the direct beneficiaries of the former, limited partners, creditors, and the sponsor itself, form a considerably narrower group than the investors, employees and counterparties that public disclosure regimes exist to protect. It is worth resisting, too, the temptation to treat private equity ownership as one thing. A minority stake growth equity investment structured through Singapore's Variable Capital Company framework has little in common, governance-wise, with a full public-to-private buyout of a listed industrial group by a sponsor such as EQT or CVC. The private regulator function operates with very different intensity across that spectrum, and the discussion that follows should be read with that variation in mind rather than as a claim that applies uniformly to every transaction described as private equity.

BOARD ACCOUNTABILITY UNDER PRIVATE EQUITY OWNERSHIP

The standard agency account of public company governance identifies two central conflicts: between dispersed shareholders and managers and, wherever ownership is concentrated, between controlling and minority shareholders.[10] Private equity ownership largely resolves the first conflict by collapsing the distance between the ultimate capital provider and

[10] Variable Capital Companies Act 2018 (Singapore)

whoever exercises monitoring authority. The sponsor typically controls board composition, resets executive incentives on renegotiated terms and receives information rights considerably more detailed than anything available to a dispersed public shareholder base.

None of this removes agency costs. It relocates them, this time to the relationship between the general partner and the limited partners who bear the economic exposure without holding direct governance authority. Institutional limited partners have responded by demanding better reporting, clearer valuation practices and increasingly direct co-investment rights that restore something like a monitoring function.[11] The United Kingdom's regulatory response is instructive here precisely because it targets the portfolio company rather than the fund. Sir David Walker's 2007 review, prompted by political concern about opacity in large private equity-backed businesses, led to a comply-or-explain regime under which large UK portfolio companies publish governance and financial information broadly comparable to that of listed peers.[12] Recent compliance figures show that most companies within scope now comply, at least in part, though a persistent minority still does not.[13] That is a useful illustration of the private regulator dynamic operating out in the open by design rather than by accident.

Board composition under sponsor ownership also looks different from the public company model. Non-executive directors on portfolio company boards are often operating partners affiliated with the sponsor rather than independent directors of the kind envisaged by codes such as the UK Corporate Governance Code, and board meetings tend to function as active strategic and operational forums rather than the more supervisory, compliance-oriented meetings typical of listed boards. Whether that amounts to better oversight or simply a different form of insider control is not something that can be settled in the abstract. It depends on the sophistication of the sponsor, the leverage employed and the competitive dynamics of the industry the target company sits in, and generalisations across the asset class should be treated with some caution.

[11] Andrei Shleifer and Robert W Vishny, 'A Survey of Corporate Governance' (1997) 52(2) Journal of Finance 737, 758 <https://www.jstor.org/stable/2329497> accessed 13 June 2026
[12] *G20/OECD Principles of Corporate Governance* (OECD Publishing 2023)
[13] Sir David Walker, *Guidelines for Disclosure and Transparency in Private Equity* (British Private Equity and Venture Capital Association 2007)

LONG TERM VALUE CREATION: FINANCIAL ENGINEERING OR OPERATIONAL TRANSFORMATION?

The claim that private equity creates long-term value, rather than simply extracting it through leverage and fee structures, is the industry's central and most contested proposition, and it is the claim this article's title puts squarely at issue. Kaplan and Stromberg's review of the evidence finds that private equity transactions are on average associated with genuine productivity gains and that patents filed by portfolio companies after a buyout are measured by later citation as more economically significant than those filed beforehand, consistent with more focused innovation strategies rather than plain cost cutting.[14] That finding sits awkwardly with a purely extractive account of private equity. It is also consistent with how the industry has evolved since: as leverage-driven returns have become harder to sustain in a higher interest rate environment, sponsors have shifted resources toward dedicated operating teams, digital transformation programmes and shared procurement and technology platforms designed to lift productivity across several portfolio companies at once rather than within a single asset.

Human capital management has become a similarly important, if less studied, lever of value creation. Because private equity ownership compresses the time available to generate a return, sponsors have a strong incentive to bring in experienced operating executives quickly and rebuild incentive compensation around measurable milestones, ideally investing in workforce capability rather than simply cutting headcount. Whether this produces durable organisational capacity or a form of carefully managed churn timed to the sponsor's exit varies by sector and sponsor, and the evidence does not point cleanly in either direction. Digital transformation follows a similar pattern. Portfolio companies acquired by sponsors with dedicated technology practices tend to modernise legacy systems faster than comparable public companies constrained by quarterly earnings pressure, though the same compressed time horizon can also produce underinvestment in capability that only pays off beyond the fund's likely exit date.

ESG considerations belong in this discussion without being allowed to dominate it. Because private equity's principal disclosure audience is a defined set of institutional limited

[14] *UK Corporate Governance Code* (Financial Reporting Council 2024)

partners, many of them pension funds and insurers already subject to their own stewardship expectations, sustainability integration in private equity has developed less as a signal to dispersed retail shareholders and more as a covenant-style requirement flowing down the investment chain. That reinforces rather than sits apart from the private regulator argument developed in Part III.

The harder question is whether value created within the finite life of a private equity fund counts as long-term value creation in any meaningful sense or whether it is value creation compressed into a defined window and then handed on, at exit, to whichever owner, a strategic acquirer, the public market or another sponsor by way of a secondary buyout or continuation vehicle takes the asset next. Average UK holding periods are roughly five to six years;[15] they are considerably shorter than the horizons typical of family- or state-controlled enterprises, even if they are longer than the horizons often, if imperfectly, associated with public market trading. Long-termism on this account turns out to be a comparative rather than an absolute claim. Private equity is not a permanent capital model, but it is frequently a more patient one than the quarterly earnings discipline public markets are usually accused of imposing, and the honest answer to the title's question is that private equity redefines long-term value creation more than it guarantees it.

COMPARATIVE PERSPECTIVES: REGULATORY RESPONSES ACROSS MAJOR CAPITAL MARKETS

Regulatory responses to private equity's growing footprint have diverged considerably, reflecting different views on where the line should sit between contractual private ordering and mandatory public regulation. In the European Union, the Alternative Investment Fund Managers Directive imposes authorisation, disclosure, leverage reporting and remuneration requirements directly on private equity fund managers, a legislative judgement formed largely in the aftermath of the global financial crisis, that systemic risk and investor protection concerns justify regulating the manager rather than relying on portfolio company disclosure alone. The Sustainable Finance Disclosure Regulation reinforces this by requiring EU-domiciled managers to classify funds according to sustainability characteristics and disclose principal adverse impacts, extending listed company ESG disclosure logic into the

[15] Regulation (EU) 2019/2088 on sustainability related disclosures in the financial services sector [2019] OJ L317/1, arts 6-8

private fund context.[16] Both instruments regulate at the level of the fund manager, leaving the portfolio company level private regulatory order described in Part III largely untouched.

The United Kingdom, by contrast, has stuck with the industry-led, comply or explain model established by the Walker Guidelines, resisting calls for statutory portfolio company disclosure obligations even as the scope of the voluntary regime has been periodically refreshed.[17] The United States has gone narrower still, concentrating on adviser-level registration and disclosure under securities law rather than portfolio company governance, consistent with de Fontenay's account of a regime that has steadily deregulated private capital raising while leaving public company disclosure largely where it was. Singapore's Variable Capital Companies Act 2018 illustrates a different strategy again. Rather than regulating private equity governance directly, it created a bespoke vehicle designed to make Singapore an attractive fund domicile, competing for capital formation through structural flexibility instead of governance mandate. Australia has taken something of a middle path, relying on general takeover and disclosure rules to capture the largest public-to-private transactions without a regime comparable to the Walker Guidelines. No jurisdiction has yet settled on a widely accepted answer to how far governance regulation built for dispersed public shareholding should extend to the private regulatory order that concentrated private equity ownership has built in its place.

EMERGING CHALLENGES AND FUTURE DIRECTIONS

Three developments are likely to test how durable the private equity governance model turns out to be. First, the growing weight of institutional investors in public equity markets has produced a parallel stewardship infrastructure of voting disclosure and engagement obligations that private equity limited partners increasingly expect to see mirrored in their own fund relationships, narrowing the transparency gap between public and private ownership.[18] Second, the retailisation of private markets through evergreen and semi-liquid vehicles marketed to non-institutional investors raises investor protection concerns that the limited partnership model, built for sophisticated institutional counterparties, was never designed to handle. The private regulator model depends for its legitimacy on a narrow,

[16] Council Directive 2011/61/EU on Alternative Investment Fund Managers [2011] OJ L174/1
[17] Regulation (EU) 2019/2088 on sustainability related disclosures in the financial services sector [2019] OJ L317/1, arts 6-8
[18] Variable Capital Companies Act 2018 (Singapore)

well-resourced constituency of limited partners, and that premise weakens as the investor base widens. Third, the growth of continuation funds and general partner-led secondary transactions where a sponsor sells a portfolio company from one of its own funds to another vehicle it also controls raises real conflict of interest questions that existing fiduciary and disclosure frameworks address only partially.

None of this is fatal to the private equity model, but each development suggests that the regulatory architecture built around the industry was designed for an earlier and narrower version of it than the one that exists now. Ronald Gilson and Jeffrey Gordon's account of agency capitalism, which describes the rise of activist and institutional intermediaries as a response to the passivity of diversified index investors, offers a useful frame here. Private equity can be understood as a further stage in the same evolution, substituting active ownership for passive diversification, but in doing so it creates its own second-order agency problems between general and limited partners and between the sponsor and the wider public interest in large, economically significant enterprises that regulation has not yet fully caught up with.

CONCLUSION

Private equity has not abolished the separation of ownership and control that Berle and Means identified as the defining feature of the modern corporation.[19] It has moved it. Concentrated equity, active board control and a contractually bounded investment horizon narrow the separation at the level of the operating company, while a new and less visible separation opens up between the general partner exercising control and the limited partners who carry the ultimate economic risk. Seen this way, private equity is not simply a more efficient ownership structure. It is a parallel regulatory order built from contract rather than statute that has grown precisely where public disclosure regulation retreated.

That order has already survived two premature obituaries, Jensen's 1989 forecast of the public corporation's eclipse and Cheffins and Armour's 2008 forecast of private equity's own eclipse, and it now sits close enough to the centre of global capital markets that its governance can no longer be treated as a private matter between consenting sophisticated parties. The

[19] Ronald J Gilson and Jeffrey N Gordon, 'The Agency Costs of Agency Capitalism: Activist Investors and the Revaluation of Governance Rights' (2013) 113(4) Columbia Law Review 863, 875 <https://scholarship.law.columbia.edu/faculty_scholarship/54/> accessed 13 June 2026

frameworks currently governing the industry are variously manager-focused, disclosure-based or largely voluntary, and each address only part of the structure this article has described. The more enduring question for corporate law is not whether private equity will eventually displace the public company or the public company reassert itself over private equity but whether a capital markets system can keep sustaining two parallel governance orders indefinitely, one public and mandatory, the other private and contractual, governing enterprises of comparable scale and consequence under fundamentally different standards of accountability, If it cannot, the next real reform in corporate governance is unlikely to come from public company law or private equity regulation considered on its own. It is more likely to come from the still underdeveloped law of the boundary between them.