PRIVATE EQUITY AS A TOOL FOR CORPORATE VALUE CREATION

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Abstract

This article examines private equity (PE) as a tool for corporate value creation rather than merely a source of financing. Drawing on the foundational definitions of Kaplan and Strömberg, Gompers, Metrick and Yasuda, Lerner and others, it argues that the distinctive feature of private equity lies in the combination of capital, significant ownership and active involvement in portfolio companies. The study demonstrates that once a PE investor acquires a controlling or substantial position, the central task shifts from purchasing the company to transforming it. Evidence on the sources of value creation shows that revenue growth and margin expansion—driven by operational improvement, stronger management, technology adoption and buy-and-build strategies—account for the majority of value generated, rather than ownership or financial engineering alone. The article further shows that corporate governance, alignment with international reporting standards and the integration of environmental, social and governance (ESG) considerations reinforce the same transformation process and improve a company's readiness for successful exit. Situating the analysis within Uzbekistan's evolving investment framework—including the Uzbekistan-2030 Strategy and recent capital-market reforms—the author concludes that private equity should be regarded as a mechanism of corporate transformation whose wider benefits extend to the acquired company, consumers, the state and the broader economy.

Keywords: private equity, corporate value creation, ownership, operational improvement, corporate governance, revenue growth, margin expansion, ESG, buy-and-build, investment readiness.

Private equity is a form of investment that differs from conventional financing because it combines capital with ownership and active involvement in the development of portfolio companies. Kaplan and Strömberg define private equity through the characteristics of its transactions, particularly the use of debt and concentration of ownership [1]. Gompers, Kaplan and Mukharlyamov emphasise the close relationship between ownership and managerial incentives [2], while Metrick and Yasuda describe private equity as a form of financial intermediation in which fund managers raise capital from investors and invest in private companies over a structured fund life [3]. Lerner, Strömberg and Sørensen emphasise the long-term nature of PE investment and its connection with operational transformation and innovation [4]. Ljungqvist further describes PE firms acquiring mature companies as active shareholders whose value-add is based on financial engineering, operational improvement and governance restructuring [5].

Although these definitions approach private equity from different perspectives, they lead to a common conclusion. PE is not simply a mechanism through which capital is transferred to a company. Its distinctive feature is the combination of capital, ownership and active involvement. This becomes particularly important when a private equity investor acquires a controlling or substantial ownership position, because the investor can then influence strategic decisions, management and the way the company operates. The ownership position therefore creates the basis for a process that continues after the acquisition: the company is expected to develop during the period of PE ownership, and the improvements achieved during that period contribute to the value ultimately realised by the investor.

This role of private equity is also relevant to the broader development of modern investment systems. The Law of the Republic of Uzbekistan "On Investments and Investment Activity" defines investment itself as the investment of property and intellectual values into objects of entrepreneurial activity with the intention of generating income or another beneficial effect [6]. The Uzbekistan–2030 Strategy places sustainable economic growth among the country's main priorities and includes the development of conditions supporting economic activity and investment [7]. This direction has become even more explicit in recent policy statements. At the Fifth Tashkent International Investment Forum in June 2026, President Shavkat Mirziyoyev identified the development of the capital market and alternative financial instruments as a priority and stated that laws on the Capital Market and Alternative Investment Funds would be adopted to strengthen the legal framework [8].

The relevance of these developments to private equity lies in the nature of the PE investment itself. Once an investor obtains a significant position in a company, the purpose is not merely to hold that position. The investor has an incentive to identify weaknesses and opportunities within the business and to use its ownership position to influence improvements. This is where private equity moves from being a source of capital to becoming a mechanism for corporate transformation.

Figure 1. Private Equity Ownership and Corporate Value Creation [9]

As Figure 1 illustrates, the PE value-creation process begins with the provision of capital and the acquisition of an ownership position, but the ownership itself is not the final source of value. It provides the investor with the ability to participate in the company's development. The next stage is therefore active involvement, through which changes in management, strategy, operations and governance can be introduced. These changes are intended to improve the underlying business, leading to stronger revenues, margins, efficiency and, ultimately, corporate value.

The importance of this process becomes clearer when considering what happens inside an acquired company. Private equity firms can establish or strengthen management teams, improve procurement, introduce information-technology systems and develop more systematic approaches to financial and operational management. The material on PE value creation shows that operating teams are increasingly used to implement these changes rather than relying primarily on financial engineering [10]. This means that the investor's role continues throughout the holding period, as the company is actively managed with the objective of improving its performance.

Operational improvement can take different forms depending on the company. Revenue can be increased through expansion into new markets, improved sales processes, pricing, new products or better customer management. At the same time, margins can be improved through procurement, cost control, productivity, technology and more efficient use of resources. These measures are connected: higher revenues increase the scale of the business, while greater efficiency allows a larger share of those revenues to be converted into operating earnings.

The relative contribution of these mechanisms is particularly important for understanding the modern PE value-creation model.

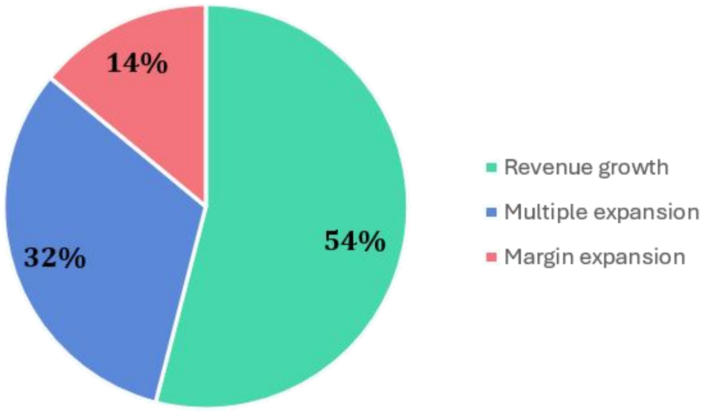

Figure 2. Sources of Value Creation in U.S./Global Private Equity Deals (% of value generated) [11]

As Figure 2 demonstrates, in global Private Equity revenue growth accounts for 54% of the value generated, while margin expansion accounts for 14% and multiple expansion for 32% [12,13]. The significance of these figures is not simply the relative size of each component. They indicate that the performance of the underlying company is central to the value-creation process. Revenue growth and margin improvement depend on what happens within the portfolio company, which means that the investor's ability to influence operations can have a direct effect on the value of the investment.

This also explains the growing importance of operating teams within private equity. When acquisition prices are high, relying solely on financial engineering becomes less sufficient as a source of value. The material shows that U.S. buyout firms increasingly rely on operational changes within acquired companies, including changes to management, procurement and information technology [10]. Buy-and-build strategies provide another route through which the same objective can be pursued: acquiring additional companies can increase scale, expand market presence and create operational synergies. Add-on acquisitions accounted for approximately 40% of the value of U.S. buyout deals in 2024 [10].

The value created through operational improvement is also connected with corporate governance. Concentrated ownership gives PE investors greater ability to monitor management and influence strategic decisions [1,2]. Stronger governance can involve clearer management responsibilities, performance-based incentives, improved financial controls and more effective reporting. These measures matter because operational improvements require an organisational structure capable of implementing and monitoring them. Governance therefore supports the same value-creation process rather than representing a separate objective.

The process can also involve bringing portfolio companies closer to international standards of reporting, governance and operations. This is particularly relevant where companies previously lacked the systems required by institutional investors. The material identifies weaknesses such as accounting information not being audited in line with international standards, weak corporate governance and insufficient operational systems as barriers to investment readiness. It also identifies implementation of international reporting standards, governance frameworks, modern operating systems and digitalisation as measures capable of improving investment readiness.

These improvements can change the quality of the company itself. Better financial reporting provides investors and management with more reliable information; stronger governance creates clearer accountability; and modern operating systems can improve the efficiency with which the company uses its resources. As a result, the PE investor is not merely attempting to increase the financial results of the company for one reporting period. The objective is to create a stronger business that can continue operating effectively after the investment has been realised.

This process increasingly includes environmental, social and governance considerations. The role of ESG in private equity has expanded as institutional investors and regulatory frameworks have placed greater emphasis on responsible investment. The material identifies ESG as an important component of private enterprise investment and notes that poor ESG factors can affect the exit value of portfolio companies [14].

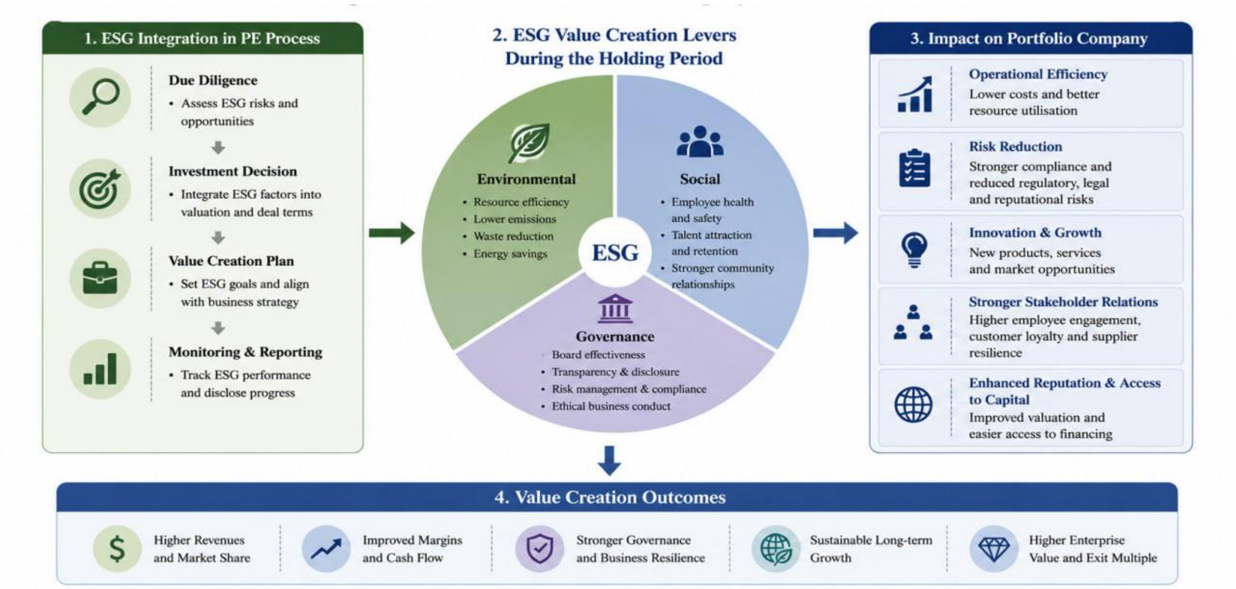

Figure 3. ESG as Part of Private Equity Value Creation [15]

As Figure 3 illustrates, ESG can be incorporated into the same process through which a PE investor seeks to improve the portfolio company. Environmental measures can support more efficient use of resources, social measures can contribute to employee and organisational performance, while governance measures can improve transparency, accountability and decision-making. ESG therefore becomes relevant to value creation when it produces changes that strengthen the company's operations, reduce weaknesses or improve its long-term attractiveness to investors and potential buyers [16].

The connection between ESG and value creation is particularly important at the end of the investment period. A company that has improved its operations but has weak governance, inadequate reporting or significant ESG weaknesses may face difficulties when seeking a buyer or preparing for an IPO. Conversely, stronger governance, recognised reporting practices and appropriate ESG systems can improve the credibility and institutional quality of the business. ESG is therefore connected not only with how the company operates during the holding period but also with how the company is positioned for future investment and exit.

The different elements of the PE model consequently reinforce one another. Capital makes the acquisition possible, but ownership gives the investor influence over the company. That influence allows operational and governance changes to be implemented. Better operations can increase revenues and margins, while stronger governance, international standards and ESG practices can improve the quality and resilience of the business. The resulting improvement can then contribute to the value realised when the investment is exited.

The wider benefits of this process are not necessarily limited to the investor. The material shows that when a business becomes more competitive and profitable, benefits can extend to the acquired company, consumers, the wider economy and the state through higher productivity, employment and tax revenues. This is why the economic significance of PE can extend beyond the financial return generated for the fund.

Private equity can therefore be understood as a process of using ownership to improve the company that has been acquired. The investment provides the financial capacity for the transaction, while the holding period provides the opportunity to transform the business. The quality of this transformation determines whether the investment produces a stronger company and creates a basis for successful realisation.

Private equity should consequently be viewed not simply as a source of financing but as a tool for corporate value creation. Its distinctive characteristic is the combination of capital, significant ownership and active management. Once a PE investor acquires a substantial position, the central task shifts from purchasing the company to improving it.

The evidence presented in Figure 2 demonstrates why this distinction matters. A substantial share of value creation is associated with revenue growth, margin expansion and the improvement of the underlying business rather than with ownership alone. Operational changes, stronger management and better use of technology can therefore translate the investor's ownership position into measurable improvements in corporate performance.

At the same time, governance, international standards and ESG increasingly form part of the same transformation. They can improve transparency, accountability, operational efficiency and the long-term quality of the company. Consequently, the acquisition of a significant portion of a company should be regarded as the starting point rather than the end of the PE value-creation process.

The central contribution of private equity is therefore the ability to combine patient capital with active ownership and corporate transformation. By using its ownership position to improve operations, strengthen governance, introduce appropriate standards and integrate ESG considerations, a private equity investor can seek to leave the portfolio company stronger than it was at the time of acquisition. It is this transformation of the underlying business that makes private equity an important tool for corporate value creation.

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