Companies backed by private equity can have their shortcomings, but a new report has identified one area where they excel: making money.

Private equity is no stranger to controversy. The industry's practice of targeting a firm, turning it around and selling it on, often at a huge profit, has been attacked as at best short-termism and at worst vulture-like asset-stripping.

But a new report from McKinsey and MWM Consulting, the consultancy firms, and the London Business School (LBS) suggests that boards of public companies could learn valuable lessons from those that steer private equity-backed businesses. Professor Viral Acharya of the LBS, Conor Keeho of McKinsey and Michael Reynor of MWM, the authors of Private Equity vs PLC Boards: A Comparison of Practices and Effectiveness, looked at the differences between the structure, culture and priorities of boards in each type of business. They concluded, with 75 per cent of the chairmen and chief executives they interviewed, that the boards of private equity-backed companies are more effective and better at making money.

The report emphasised that public companies face the challenge of managing the competing interests of a diverse group of shareholders and, unlike private equity-owned companies, have to deliver regular performance updates to the stock market. The private group works to a clearly defined medium-term timeframe, typically of three to five years, and identifies key performance indicators within that. According to the research, this enables them to "play a much more active and positive role" in steering performance.

However, private equity's medium-term focus on performance comes at the cost of developing the potential of employees compared with the more consistent focus on staff in public companies.

"Private equity boards have a laser-like focus on the quality of the executive team," the report said. "They consciously back or recruit top teams they believe in..., and are quick to replace senior executives who they feel are underperforming."

When it came to the role of non-executives, the report said that those in private equity-backed companies devote far more time to their position than those on plc boards -- 54 days a year against 19.

They also spend more time with management on an informal basis.

With the inner circle of executives, they share the goal of generating as much profit as possible. While the report argued that non-executives of public companies should become more closely involved with the running of the business, it acknowledged that they could not replicate the profit incentive that drives private equity non-executives.

The Combined Code on Corporate Governance, which encourages good practice in UK-listed companies, stresses the importance of independent non-executives and discourages performance-related pay or share options for these directors.

Big corporate scandals, such as Enron, Tyco and Worldcom, have focused attention on governance and risk management at public companies, but the report found a sense of frustration with the conservatism that this has engendered. While private equity-backed companies were found to be less concerned with governance, they were more skilled in weighing up risks, the emphasis being on risk management, not risk avoidance.

The report highlighted that boards of public companies are more adept at dealing with stakeholders, including trade unions, the media and other pressure groups. Last year, a review of private equity led by Sir David Walker, the former Morgan Stanley banker, called for the industry to be more open to the public, but the latest report said that public companies are "more sophisticated and effective" in this respect.

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