

Private Equity Council Says PE Is a Jobs-Creating Machine

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Companies bought by private-equity firms from 2002 through 2005 bulked up their staffing levels after being purchased, according to a new study from the Private Equity Council.

The council, an industry lobbying group, found that the number of jobs rose an average of 8.4% at 42 companies bought by private-equity firms in that time frame. That is higher than the 5.5% average payroll growth among all U.S. companies and 2.7% growth among large companies with 500 employees or more, the report says.

"These findings reflect the role that private-equity funds play in the economy: acquiring underperforming companies and reforming their operations," said Robert J. Shapiro, one of the study authors and former undersecretary of commerce. The second author is Nam D. Pham, founder of the economics consulting firm NDP Group.

The study is based on employment data supplied by eight of the largest private-equity firms, which are members of the Private Equity Council and bankroll its operations. The issue of whether private-equity firms increase or decrease jobs within their companies has come under heavy scrutiny in recent months, as PE firms have bought bigger companies that collectively employ millions of people worldwide.

The study precedes another, larger study, commissioned by the World Economic Forum, whose final results will be released Jan. 25. That study was conducted by two private-equity academics--Josh Lerner, professor at Harvard Business School, and Steven Davis, professor at the University of Chicago's Graduate School of Business, who analyzed 5,000 private-equity transactions from 1980 through 2005. Preliminary results unveiled last year showed that employment within private equity-backed companies didn't keep pace with competitors of similar sizes and ages.

The 42 transactions reviewed by the Private Equity Council were valued at \$250 million or more. The study measured job levels within the companies at the point of acquisition and compared that with levels at least one year later. The time period that the council measured -- the beginning and end dates -- varies between companies, based on data provided by the private-equity firms.

While the sample size is relatively small compared to the total number of buyout transactions typically conducted in a year-- a whopping 11,800 deals from 2000 to 2006 alone, according to the report-- Shapiro said he is confident the study shows that large PE firms are beneficial to job levels at large companies. "I am very comfortable with the conclusion with respect to the job effects of large purchases carried out by large private equity funds during this time period," he said.

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