Lead Left Interview – Josh Lerner (Part 2)

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This week we continue our conversation with Josh Lerner, the Chair of the Entrepreneurship Unit and the Jacob H. Schiff Professor at Harvard Business School. He has recently been named one of the 100 most influential people in private equity over the past decade by *Private Equity International* magazine. He currently serves as Vice Chair of the World Economic Forum's Global Agenda Council on the Future of Investing. *Second of two parts –* ***View part one***

The Lead Left: How do you think the PE industry is doing when it comes to creating jobs?

Josh Lerner: There's certainly a big differential between the public-to-private deals, where job losses have been common, and the typical PE investment where job expansion comes with growth. It really depends on the deal.

TLL: It seems like the VC community has done a better job in selling the job creation proposition.

JL: It's complicated. Venture capital has done a great job of presenting itself. While VC has created firms that create jobs, it has destroyed them in other areas where disruptive technology occurs. For example, companies that run classified ads on-line vs. newspapers. To really do the social calculus is very complex.

TLL: Improved productivity comes at a cost.

JL: Yes, what gets lost with the focus on jobs is that productivity gains sometimes come from opening factories as well as closing them. It's very complicated.

TLL: Do you think the pure-play PE firm is losing ground to the multi-product asset management model?

JL: It's clear that institutional investors want fewer relationships and the ability to write larger checks. It's not surprising that firms are responding in rational ways by offering those options. In some cases, there are synergies being created by working together across product teams, while in others, the new teams are simply being tacked on.

TLL: What's your view of the opportunity in Europe for PE?

JL: Europe had a strong run for the first few years of the last decade, for instance, during the 2001-03 period. The major European firms showed very high returns relative to the US. But that fell off the cliff: it has been a difficult environment in much of Europe coming out of the recession. PE performance has been depressed in the sector.

TLL: What will the next five years bring?

JL: I think there will be a bit of swing back. There are certainly many opportunities for rationalizing firms across Europe. But it is important to note that the EU experiment is far from done. For example, in the area of intellectual property, there's a very interesting discussion around the question of can we make a common platform?

TLL: Where do you think GP returns are headed?

JL: There's been a gradual decline of returns, both in absolute terms, and relative to public markets. That won't change. Does that represent a maturation of the industry? It's certainly a much more crowded space in the U.S. and Europe compared to the emerging markets.

TLL: Lastly, Josh, what's been your biggest surprise this year?

JL: I would say it's been the robust interest in "unicorns." Maybe the music will stop soon, but it's been surprising how strong these investments have behaved, despite all the predictions that the venture bubble would burst in 2015 (and in 2014 and 2013 for that matter!).

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