

**Maryann P. Feldman and Martin F. Kenney. *Private Equity and the Demise of the Local: The Loss of Community Economic Power and Autonomy*. Cambridge University Press, 2024. 98 pp. \$22, e-book.**

Private equity (PE) firms are increasingly investing in a wide range of firms, including late-stage startups, small businesses, and large-scale conglomerates. They are also increasingly becoming a go-to financing choice for a wide range of sectors, such as manufacturing, health care, and other essential services. Should we welcome these trends? What are their implications for our social, economic, and political systems?

In *Private Equity and the Demise of the Local*, Feldman and Kenney make the case that we should not welcome these trends. The initial legitimization of PE firms as a financial vehicle for the breakup and rehabilitation of large-scale conglomerates has been stretched to allow PE firms to extract value from other facets of society beyond this original mandate. Through a rich historical analysis that weaves policy analyses with detailed industry, community, and firm-level cases, Feldman and Kenney argue that private equity has hollowed out local communities through systematic targeting of their economic activities for short-term extraction. This hollowing out is made possible by distorted incentives in the broader economic system, whereby short-term returns are prioritized above all, and organizations such as the American Investment Council lobby to ensure greater PE access to such communities. As this PE involvement scaled across several sectors, it undermined the social fabric of local communities. Rather than injecting long-term value into local communities, PE firms systematically siphon returns away from them, often on the backs of businesses that were the key lifeblood of these small towns. The book documents the emergence and scaling of a PE financial vehicle that has wrought significant community harms and of the political and economic systems that made it possible.

Through lucid and compelling prose, Feldman and Kenney make a case not just for researchers to expand the evidentiary base of PE impacts on communities but also for policymakers and other civil servants to enact stronger PE regulation and oversight. The book litigates the case through four chapters. In Chapter 1, the authors set the case within historical events and policy trends that enabled a thriving private equity industry. At the federal level was a confluence of weakening anti-trust legislation, changes in tax regime, and other policy mechanisms such as NAFTA that reduced the return of offshored jobs. Further supporting these federal changes were continued economic stagnation that motivated deregulation from the 1970s onward, the promotion of rate of return as the key performance metric, and a strong lobbying arm. As federal policy created fertile regulatory and financing ground, state and local government regulation of entry was undermined, also furthering PE growth. This confluence of political and economic changes allowed PE firms to be a low-tax financing alternative that could scale with increasingly less regulatory friction. As of 2023, the five-year fundraising totals of the top 20 private equity firms was over \$1.1 trillion.

In Chapter 2, Feldman and Kenney explore the private equity business model in detail to show how these contextual factors lead to distorted incentives that undermine rather than support local community growth. The authors note several key factors that underpin private equity's prioritization of extracting returns. We highlight here two particularly key financial innovations made possible by changes in the tax regime for PE firms: carried interest and leveraged buyouts. Carried interest is the ability to hold a share of capital gains allocated to general partners that is paid out to them only upon achieving a minimum (hurdle) rate from an exit (p. 12). As long as the investment is owned for more than three years, carried interest is treated as long-term capital gains and is therefore taxed less than ordinary income. Because this is paid out for any form of exit, from initial public offering to liquidation, the motivation

is purely to achieve returns beyond the hurdle rate. When gains are achieved, the limited partners receive disbursements and also pay the taxes. In a loss, the general partners have no financial responsibility to return invested capital to limited partners. Recent studies have noted that PE firms have avoided income taxes on over \$1 trillion in such carried interest pay since 2000 (Gara, 2024; Phalippou, 2024).

The second innovation is PE firms' ability to engage in leveraged buyouts, whereby the firms can take out loans on the acquired company's assets to debt-finance the acquisition. This move delegates the financing risk almost entirely to the acquired company and disincentivizes the PE firms from investing in the growth of the local asset. Feldman and Kenney argue that with these financial innovations and others, a "subtractor effect" is at play rather than a "multiplier effect" (p. 29). Instead of incentives to invest in local communities, thereby increasing local hiring and local spending, the opposite is occurring. Local capital is extracted to achieve short-term capital gains as much as possible, even if that means selling off these local assets. This siphoning away of community profit, disruption of local supplier relationships, and loss of local business ownership reduces local leadership, civic engagement, community cohesion, and cultural activities, thereby undermining overall quality of local life.

In Chapter 3, Feldman and Kenney show how this process has progressed across several industries, from the original target of large-scale manufacturing conglomerates, to essential services from "cradle to grave" (p. 31, 52–53) such as daycare, health care, and funeral services. An extensive amount of this chapter is devoted to health care. Gradually since the 1970s, health care systems that were formerly owned by local religious groups, governments, nonprofits, and even universities were transferred to PE firm-run health care systems. The

authors argue that the result of this transfer, and the accompanying shift in focus from community well-being to cost efficiency, has led to declining health outcomes, exacerbated health care labor shortages, and increased consumer costs. The authors describe the potential mechanisms underlying these negative impacts on the health care sector, such as the unbundling of hospital functions and consolidation of medical practices. Ultimately, this habit of consolidation (i.e., private equity's exploitation of anti-trust regulatory gaps) seems to undercut community well-being across each sector. Consolidation leads to more monopolistic market conditions and, thus, widespread reduction in community-run services, increased costs and reduced quality of services, and greater income inequality. Overall, through a range of rich industry and firm case studies, this section reveals the deleterious link between private equity and community well-being.

In the final section, Feldman and Kenney offer policy recommendations to curtail these trends. These include but are not limited to structural policies to both reduce the incentives for PE firms to expand their model beyond their original intent in large-scale manufacturing and to cut their source of funds, namely, investment in PE firms from pension plans and charitable endowments. Other recommendations include reshaping policy institutions to have a longer-term interest (p. 61–68); reducing pre-emption, or states' ability to restrict actions of smaller jurisdictions that allow for greater multi-level policy experimentation and controls on private equity firm entry; reducing preferential tax treatment of carried interest and leveraged buyouts; increasing PE fund manager oversight, as was advanced but shelved in the Dodd-Frank Act and subsequently proposed through the Federal Trade Commission and Securities and Exchange Commission; and limiting contributions to PE firms from pension funds and charitable endowments. To motivate the case for change, they highlight Nordic countries that have integrated community protections into their capitalist systems. They also highlight other

community-centered and employee cooperative-based forms of financing that can create value in a way that nurtures rather than deprives local communities.

Overall, this book is a sharp arrow in a growing quiver that is drawing attention to the wider institutional and societal implications of business (Eberhart, Lounsbury, and Aldrich, 2022; Mazzucato and Collington, 2023; Weiss et al., 2023). Firms shape not only returns to stakeholders but also the very regulatory environment meant to protect (or not) the firms' broader stakeholders, as well as whether stakeholders share in the benefits of business or assymmetrically bear the harms. In particular, the call from Feldman and Kenney and others is to fundamentally reconsider and reconfigure how businesses impact one very important but often neglected set of stakeholders—local communities.

Through a richly historical though anecdotal and descriptive set of cases, the fundamental question naturally inspired by this book is, how can we do business in a way that respects and returns value to local communities? The answer will be a complex one, requiring scholars to identify interdependent organizational and institutional arrangements that balance private (firm) returns and social (community) returns (Easterly, 2001).

We believe that finding arrangements that strike a balance between (private equity) firm and community inspires three directions of research. The first focuses on understanding the micro dimension—the drivers of individual interactions between firms and local community, akin to the microfoundations turn in institutional theory (Barley, 2008; Powell and Colyvas, 2008). The second direction focuses on understanding the macro dimension—the interactions between different components of our political economy (e.g., regulatory frameworks, societal values) that enable or hinder firm-community relations. The third direction focuses on

understanding the interaction between the micro and macro dimensions—how the organizational, community, and systemic aspects come together. Only with these three building blocks in place can our scholarly community recommend more targeted and compelling interventions that answer Feldman and Kenney’s call for a more sustainable and nurturing balance between private equity and local community interests.

With respect to the micro dimension, Feldman and Kenney’s observations regarding the community impacts of private equity can inspire future research that unpacks the processes by which firms (private equity and beyond) and communities interact with each other to balance their respective interests. For instance, scholars might ask, what approaches to community involvement, local hiring, local training, and profit-sharing promote a balance between community and firm interests? Even more fundamental, how can firms communicate their initiatives in ways that are comprehensible to communities and therefore allow for true informed consent (Kleeman, Fischhoff, and Armanios, 2023)? Much of the prior literature does the reverse—it focuses on the impacts of community mobilization and not the factors that drove the mobilization in the first place. Feldman and Kenney are pushing us to do the latter rather than the former in the context of private equity. If we can answer this call, we could enhance our understanding of the processes through which firm and communities can interact to reinforce mutual interest and shared value.

With respect to the macro dimension, Feldman and Kenney’s capture of the current private equity financing terrain inspires future research to unpack the system configurations and rationales that can undergird and scaffold more-balanced firm–community interaction. For instance, scholars might ask, what systems-level financing standards could promote greater balance in firm and community interests (Flammer, 2024)? What state capabilities allow for

the protection of community interests? How could labor policies motivate firms to encourage more localized, community-enhancing employment?

With respect to the interaction between the macro and micro dimensions, Feldman and Kenney's description of private equity firms' actions as shaping and being shaped by the broader system inspires future research on the dynamics between system-level features and firm and community interactions. Perhaps by recognizing the multi-institutional (polycentric) arrangements that can govern such dynamics, we can better understand these pathways (Ostrom, 1990). For instance, scholars might ask, what reporting requirements foster more productive dialogue between organizations and local communities? How do local communities perceive policies, and how does that perception influence their willingness to engage with firms? How do grassroots initiatives influence policy?

If we can progressively rethink how business relates to local communities across the levels of analysis described above, perhaps we can bring Feldman and Kenney's community-enhancing ambitions to life. In so doing, we can better ensure that value from private equity and other business activities is returned to rather than extracted from local communities.

**Daniel Armanios and Hanzelle Kleeman**

Saïd Business School  
University of Oxford  
Oxford, UK OX1 1HP  
Daniel.Armanios@sbs.ox.ac.uk  
Hanzelle.Kleeman.dphil@said.oxford.edu

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