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The Impact of Private Equity on Management Practices in European Buy-outs: Short-termism, Anglo-Saxon, or Host Country Effects?

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This article explores the impact of private equity (PE) firms on human resource management practices in buy-outs using data drawn from the first representative pan-European survey into this issue. The findings suggest the overall impact of PE on high-performance work practices (HPWP) is affected more by length of the investment relationship than the countries where PE is going to or is coming from. PE investment results in the increased use of HPWP in buy-outs the longer the anticipated time to exit. With respect to the PE firms' country of origin, buy-outs backed by Anglo-Saxon PE firms are as likely to introduce new HPWP (and are specifically more likely to extend performance-related pay schemes) as those backed by non-Anglo-Saxon PE firms, suggesting some adaptation to the local host country contexts of buy-outs.

Introduction

A BROAD POLITICAL ECONOMY DEBATE HAS RECENTLY DEVELOPED IN EUROPE AND THE UNITED STATES to understand the increasing prominence of financial market institutions, their impact on corporate governance, and the possible transition to a new stage of financial market capitalism or fund-driven capitalism (ITUC 2007; PSE 2007; TSC 2007). One particular area of interest concerns the impact of the activities of financial market institutions on the conduct and outcomes of employment relations (Blair and Kochan 2000; Pendleton and Gospel 2006). To understand this impact, recent work has expanded the range of institutions and actors traditionally regarded as comprising the industrial relations system with a specific focus developing on the role of private equity firms (Pendleton and Westcott 2009; Wood and Wright 2010).

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Private equity firms use investor funds to change corporate governance arrangements through buy-outs of firms (Gilligan and Wright 2010). In leveraged buy-outs (hereafter termed buy-outs), private equity investors and often a management team raise equity (together with debt finance) to buy shares in the buy-out company from its current owners and resell them after a certain period of time to distribute the divestment gains to their investors (Gilligan and Wright 2010). Buy-outs may involve an incumbent management team (a management buy-out or MBO) or their replacement by an external management team (a management buy-in or MBI).

From an agency theory perspective, in effecting buy-outs from often diffuse and distant owners of public-listed corporations or divisions of such firms, private equity firms reduce the gap between owners and managers (Jensen 1986). This involves using equity incentives to realign interests of owners and managers, encouraging managers to reduce unnecessary costs, and avoid investment in low-benefit or value-destroying activities. Tighter financial monitoring makes managers potentially more accountable to private equity investors. Commitments to service debt taken on at buy-out bring pressures to reduce expenditure, improve operational efficiencies, and eliminate unprofitable operations. Private equity funds are therefore active investors seeking to improve the performance of under-performing firms by refining the strategic focus of the firm and enhancing the quality of management decision making, often by recruiting more competent managers. Such changes often lead to firm-level restructuring with broader consequences for corporate competitiveness and employees' terms and conditions (Cumming, Siegel, and Wright 2007; Kaplan and Stromberg 2008).

Interest in private equity investors has increased because the buy-out market grew to such significant levels in 2005–2008 that this was likely to have macroeconomic implications (Lerner and Gurung 2008). Estimates suggest, for example, that 19 percent of UK employees worked in firms either currently or previously owned by private equity firms (TSC 2007).

The implications have been keenly debated in Europe from 2006 as large U.S. and UK private equity funds became more active and the private equity industry developed from an Anglo-Saxon phenomenon to become part of global developments in financial markets affecting mainland Europe (Kaplan and Stromberg 2008; Wright et al. 2007). Inquiries into the potentially negative effects of highly leveraged deals have subsequently been conducted by a number of organizations including the International Monetary Fund, the Organization for Economic Cooperation and Development, and the European Central Bank (2007). Debates on this issue have ranged from public hearings to proposed legislative reform in, among other places, the European Parliament, the German Bundestag, and UK House of Commons (Evans and Hubbard 2008; TSC 2007). One outcome of these debates is the EC Directive on Alternative

Investment Fund Managers passed by the European Parliament in 2010 and which comes into force in 2013.

This article contributes to the broader regulatory debate concerning the impact of private equity activity by reporting the first systematic pan-European study of the impact of private equity buy-outs on firm-level human resource management practices. The survey conducted in 2008 provided data on a representative sample of 190 European private equity-backed buy-outs. The article seeks to explain changes in firm-level human resource management practices as a result of private equity buy-outs, evaluating whether these changes vary according to: anticipated time to exit of private equity investors to assess the impact of short-term orientations; whether the lead private equity investor is Anglo-Saxon or foreign (country of origin effects); and whether these effects are tempered by the institutional environment of the buy-out in which private equity invests (host country effects). The article therefore uniquely combines a focus on the role of private equity firms as new financial actors, with institutional business systems effects, by comparing the impact of Anglo-Saxon private equity funds with private equity funds from mainland Europe, and considering the impact of private equity buy-outs in both liberal and coordinated market economies in Europe.

Private Equity Buy-Outs and Management Practices

The broader impact of private equity on national ownership and corporate governance has caused significant concern because U.S. and UK private equity funds are regarded as extending the market for corporate control beyond liberal market economies and promoting a short-term view of ownership associated with the Anglo-Saxon shareholder value model of corporate governance (Evans and Hubbard 2008). International trade union organizations (Monks 2006; Rasmussen 2009) and European socialists in particular have expressed concern about “the shorter time horizon and changed behaviors of these financial actors” (PSE 2007:16). In these debates, private equity firms such as KKR, Blackstone, and Permira are accused of restructuring buy-outs to increase short-term financial performance for a quick sale and thereby “making short-term returns at the expense of workers” (ITUC 2007:21), rather than investing in management practices that will build long-term value (IUF 2007; PSE 2007:17). According to critics, this undermines longer-term links between shareholders and firms in coordinated market economies (PSE 2007: 19), where “patient capital ... had a longer investment horizon in terms of their commitment to the firm” (Watt and Galgoczi 2009:195). In exporting Anglo-Saxon financial practices into Continental Europe, private equity is therefore

regarded as a direct threat to the European social model (Vitols 2008:29) and the broader aims of the Lisbon Treaty to develop long-term increases in efficiency, productivity, and growth (PSE 2007:19).

Specific concerns have been expressed about the “worrying implications” of short-term ownership for “companies’ investments in training and education of the labour force” (PSE 2007:97). According to this view, private equity investors have little interest in developing high skills and extensive training, sharing gains with employees, or promoting fairness at work. In addition, trade unions also argue that operational efficiencies are achieved at workers’ expense with the drive to reduce employment costs involving reductions in employment, wages, and an intensification of working conditions (Monks 2006; PSE 2007:19–20). Given such claims, detailed studies of changes in a variety of management practices following private equity-backed buy-outs are required.

Existing systematic research based on the data drawn from corporations’ annual reports or government plant-level surveys indicates that, in contrast to the claims above, employees in buy-outs benefit from more secure jobs and possibly increased employment resulting from reduced agency costs, improved strategic and operational capabilities, and hence more viable businesses. Generally, these studies mainly conducted in liberal market economies report an initial decline in employment in private equity-backed buy-outs followed by subsequent increases in employment (Amess and Wright 2007; Boucly, Thesmar, and Sraer 2009; Cressy, Munari, and Malipiero 2007; Davis et al. 2008).

The first wave of UK buy-outs also introduced new high-performance work practices (HPWP; Bacon, Wright, and Demina 2004; Bacon et al. 2008; Wright, Bacon, and Amess 2009; Wright, Coyne, and Lockley 1984; Wright et al. 1990). HPWP may be introduced to increase productivity because many private equity-backed buy-outs exploit growth and entrepreneurial opportunities rather than concentrating only on reducing costs (Meuleman et al. 2009; Wright and Coyne 1985; Wright et al. 2000). For example, UK and the Netherlands buy-outs introduced new incentive pay schemes, greater team-based working and functional flexibility, and increased levels of employee training (Bacon et al. 2008; Bruining et al. 2005; Wright, Bacon, and Amess 2009). Other studies also report expansion of financial incentive schemes (Ernst & Young 2008:7).

As the debate has matured, critics of private equity have acknowledged more evidence is required (Clark 2009b; Watt 2008) and recognized that private equity generates gains from managing financial assets rather than through labor management (Folkman, Froud, and Williams 2009). It is thus difficult to classify all private equity companies as good or bad because they pursue a range of strategies including growth-orientated and longer-term investment strategies (Muller 2006). It is also unlikely that firms had made extensive

investments in human capital prior to the buy-out that could be reversed afterward given the limited adoption of such practices by publicly traded corporations in liberal market economies (Morgan 2009:224).

It is unclear, however, whether the positive effects of private equity reported in the United States and the UK are European-wide or limited to liberal market economies where private equity firms can enhance the performance of buy-outs by improving on the traditional under-investment in HPWP by listed firms. To shed more light on this issue and consider the impact of PE across Europe and in coordinated market economies, this article analyzes the impact of private equity on HPWP in buy-outs across Europe by comparing practices prior to and following a private equity buy-out in different national contexts.

Time to Exit, Anglo-Saxon Investors and Foreign Investors

The extent to which management practices change as a result of private equity investments in buy-outs may vary according to at least four issues that are the focus of this article: the anticipated time to exit of private equity investors; whether private equity investors are Anglo-Saxon; whether the lead investor is a foreign PE firm; and host country differences in capital and labor market regulatory regimes in which private equity invests. This section explores these issues.

As active investors, private equity firms are accused of seeking a quicker return on investment than diffuse shareholders, and combined with the debt incurred on buy-outs, they are accused of imposing a short-term orientation which “narrows the range of possible management decisions” (Watt and Galgoczi 2009:197). European socialist parties argue that short-term financial ownership, estimated at 3–4 years (PSE 2007:18), does not provide the long-term investments required to make firms competitive, as “private equity funds are based on investment strategies with a much shorter time horizon than is needed” (PSE 2007:15). These short-term aims for buy-outs “generally includes pressure on wages, benefits and working conditions” (ITUC 2007:5), “... thereby strengthening firms’ financial objectives to the detriment of investment, employment and industrial strategy” (Bonnard and Mermet 2009:303). Concentrating on short-term goals may reduce expenditure to develop employee skills and competencies (Watt 2008:557). Watt and Galgoczi (2009:203), however, acknowledge that the impact of anticipated time to exit has received little systematic study.

Although private equity investors are often considered short-term investors, the average length of private equity investment is in fact around 5 years and increasing (Strömberg 2008; Wright et al. 2007). This is longer than the

average investment in listed company stocks by institutional investors (Acharya, Kehoe, and Reyner 2009; Gottschalg 2007). Studies have found little evidence of short-termism as a result of private equity ownership when measuring R&D, investment, and sustainability (Cumming, Siegel, and Wright 2007; Watt and Galgoczi 2009:203). Arguably, this is because private equity firms release managers from the short-term expectations of diffuse investors in a listed corporation. Alternatively, the lack of longer-term investments by the buy-out may reduce its subsequent sale price (Watt and Galgoczi 2009:203). Another plausible explanation is that the anticipated timescale to exit depends on the business plan to create value from the investment. A longer timescale to exit is likely to involve a buy-and-build strategy to create value, and investment in human capital is likely to be part of such plans. In addition, timescale to exit is likely to affect the financial value of investments in HR practices, with greater returns anticipated where investors plan to hold the buy-out firm for longer, and thereby expect to be able to realize value from human capital investments. This article therefore assesses the impact of private equity short-term orientations by evaluating whether changes to HPWP vary according to the anticipated time to exit of the private equity investors.

It is widely recognized that transfer of business practices across borders often reflects both the business system of the country of origin of the parent company and host country effects (Clark 2009a; Ferner 2009). The importance of institutional context for the debate over the impact of private equity may usefully be explored by assessing whether Anglo-Saxon private equity investors export employment practices found in liberal market economies when investing in coordinated market economies. The activity of U.S. private equity funds such as Blackstone and KKR (PSE 2007:14–15), and larger European private equity funds like Permira and CVC, has caused particular concern in mainland Europe. During 1999–2007, 21 percent of UK deal value was accounted for by private equity investors of U.S. origin; the corresponding percentage in Continental Europe was 14 percent (CMBOR 2008). Despite portraying U.S. and UK private equity investors as “barbarians at the gate” (Boselie and Koene 2010), no research has assessed whether they have a different impact on management practices than non-Anglo-Saxon private equity investors. Thus, we focus on whether management practices change as a result of investment by Anglo-Saxon private equity investors compared to non-Anglo-Saxon counterparts and whether the private equity investor was foreign to the context where it invested.

Host country institutional effects where private equity invests may also temper the extent to which changes are made to employment relations. Institutional host country constraints affect HR issues in the subsidiaries of multinational companies (MNCs; Almond et al. 2005; Ferner et al. 2004). Similar effects may be more pronounced in private equity buy-outs because private

equity firms are more decentralized than public corporations and rely on financial incentives rather than direct monitoring and bureaucratic oversight of management practices (Jensen 1989). This article therefore considers the impact of host country differences in capital and labor market regulatory regimes on employment relations changes in private equity-backed buy-outs.

Method

Data. Our analysis is based on a novel dataset that combines both questionnaire survey and archival data. The Centre for Management Buy-out Research (CMBOR) database provided the basis for the archival data and the questionnaire survey. The CMBOR database contains details of the population of European buy-outs since the late 1970s. To identify deals, a twice-yearly survey of all private equity firms, intermediaries, and banks active in the buy-out market is conducted obtaining a full response rate; these respondents receive a free report analyzing market trends. Press, annual corporate reports, and stock exchange circulars are used to gather additional data. The dataset has no upper or lower size limit and includes both publicly declared buy-outs as well as confidential deals. The CMBOR database was used as an archival source for variables relating to the private equity firm's prior experience and for variables relating to the buy-out's characteristics concerning location, size, profits, type, and timing of buy-out. To identify additional private equity firm characteristics such as the home country of the lead PE investor, we relied on the Thomson Venture Economics database.

Representative industrial relations data were gathered through a survey and the CMBOR database was used to provide the population of firms to be surveyed. The survey focused on private equity-backed buy-outs completed during 2002–2006, which allowed time for post-buy-out changes to take place, to not be too far in the past to avoid recall bias, and to cover the period of the recent wave of private equity buy-outs. The survey was undertaken in the first half of 2008 and comprised responses from 190 private equity-backed buy-outs across Europe.

The questionnaire was translated into French, Spanish, German, and Italian and sent to companies with more than fifty employees identified using the CMBOR database. This size cut-off was used because these firms are more likely to have formal management practices. The CEO, or HR Director, was contacted either by email (when possible) or by post. Reminders were sent after 2 weeks. Out of 2597 contacted, 190 companies replied; a response rate of 7.3 percent. Response rates to mail questionnaire surveys are falling. This response is in line with other pan-European studies of managers' perceptions. Scholes et al. (2007) find a 7 percent response rate in a sample of European

family firm buy-outs; Lockett et al. (2008) obtain a 10 percent response rate for a sample of venture capital-backed exporters in Europe.

Most respondents were at least at director level (88 percent), the remainder being senior managers, indicating a close familiarity with the issues covered by the survey. Although using multiple respondents from the same firm may reduce response error, using scarce research resources on finding multiple informed raters reduces sample size, and we therefore concentrated resources on key informants and a larger sample size (Kumar, Stern, and Anderson 1993). Trade union representatives or employees may have different views of events. It should be noted, however, that many private equity-backed deals are not unionized, and independent employees' representatives would be difficult to locate. The findings are thus limited by dependence upon managerial perceptions, although such views are of intrinsic interest. Nevertheless, we do incorporate a measure of whether or not trade unions were recognized.

The main characteristics of the surveyed companies were compared with the features of the population of European buy-outs in the CMBOR database to assess representativeness. The representative nature of the sample was assessed on the basis of several criteria: country of location, industrial sector, deal size, and whether the business had been profitable or loss making at the time of the buy-out. The sample has a good fit with the population across countries with two exceptions: French companies are underrepresented, while British companies are, to a lesser extent, overrepresented. This reflects well-known differences in response rates to survey instruments across Europe (Bygrave, Hay, and Peeters 1994). The sample is fairly representative of the population in terms of industrial sectors: Industrial products and consumer related are slightly overrepresented, while services are a little underrepresented. In terms of deal size (as measured by transaction value in € million), the sample comprised a higher proportion of large buy-outs and a lower share of the smallest buy-outs compared with the population. Comparison of the average number of employees in the sample with the population of buy-out firms on the CMBOR database showed that the sample contained slightly more large firms and slightly fewer medium-sized firms. The sample compared with the population showed a slight underrepresentation of poor performers. The distribution of MBOs and MBIs in the sample and population is very similar.

Variable Definition. The variables used in the analysis are defined in Table 1.

Dependent variables: High performance work practices were measured using a count variable constructed from responses indicating the presence or absence of a range of practices commonly included in the previous studies of HPWP and performance (reviewed in Combs et al. 2006). The precise items

TABLE 1
A SUMMARY OF VARIABLES USED IN THE REGRESSIONS

Variables	Definition
Dependent variables	
Change high performance work practices	The number of HPWP (see footnote 1 for items) present after buy-out at time of the survey less the number of HPWP present before the buy-out
Change work organization and functional flexibility	The number of work organization and functional flexibility practices (see footnote 2 for items) present after buy-out at time of the survey less the number of work organization and functional flexibility present before the buy-out
Change fairness practices	The number of fairness practices (see footnote 3 for items) present after buy-out at time of the survey less the number of fairness practices present before the buy-out
Change performance-related pay schemes	The average of the difference between the percentage of employees covered by different performance-related pay schemes (see footnote 4 for items) before buy-out less the total percentage of employees covered by performance-related pay schemes after buy-out. The percentages are measured on a scale from 1 to 6 (1 = None, 2 = 1–19%, 3 = 20–39%, 4 = 40–59%, 5 = 60–79%, 6 = 80–99%, and 7 = all).
Independent variables	
Timescale to exit	Response to the following question: At the time of the buy-out, how long did the financiers expect it would be until they sold their interest in the firm? (1 ≤ 2 years to exit, 2 = 2–3 years to exit, 3 = 4–5 years to exit, 4 = 6–7 years to exit, 5 ≥ 7 years to exit, and 6 = none envisaged)
Anglo-Saxon PE firm	Dummy variable where 1 equals Anglo-Saxon private equity investor involvement, and 0 otherwise
Foreign PE firm	Dummy variable where 1 equals foreign private equity investor involvement, and 0 otherwise
Liberal Europe region	Dummy indicating whether the buy-out is located in Anglo-Saxon country (UK or Ireland), 0 otherwise
Northern Europe	Dummy indicating whether the buy-out is located in Denmark, Finland, Norway, or Sweden, 0 otherwise
Central Europe	Dummy indicating whether the buy-out is located in Austria, Belgium, Germany, the Netherlands, or Switzerland, 0 otherwise
Mediterranean	Dummy indicating whether the buy-out is located in France, Greece, Italy, Portugal, or Spain, 0 otherwise
Control variables	
Experience PE firm	Logarithm cumulative number of previous investment a PE firm was involved in
Time since buy-out	Number of years since the buy-out has happened (date of survey minus date of buy-out)
Profitable on buy-out	Dummy indicating whether buy-out firm was profitable at the time of the buy-out, 0 otherwise
Size of the buy-out	Logarithm of the number of employees immediately before the buy-out
Type of buy-out	Dummy indicating whether buy-out is a management buy-out, 0 otherwise
Trade union recognition	Dummy indicating whether trade union is recognized for negotiating pay and conditions at the time of the buy-out, 0 otherwise

1. HPWP are defined to include the following three sets of items: 2. Work organization and functional flexibility: Flexible job descriptions; Team working for majority of staff; Regular team briefings; Internal promotion norm; Required annual formal training; Flexible work time. 3. Fairness practices: Harmonized terms and conditions; Security of employment; Formal grievance procedures. 4. Pay schemes: Payment by results; Merit-based pay; Profit-related pay; Employee share ownership scheme.

used are taken from the previous studies as described in Guest et al. (2003) and cover HR practices to ensure employees possess the necessary skills, have the opportunity to contribute discretionary effort, are treated fairly to elicit employee commitment, and are motivated to contribute. As factor analysis did not reveal coherent bundles of practices, a count variable is used. The questions concentrate on practices rather than policies to reduce measurement error, and the rating scales vary given no consensus exists as to the most reliable rating scales (Huselid and Becker 2000). It is not possible to assess measurement error because of item reliability, and this is an important restriction when interpreting the results. We utilized four dependent variables: *Change in HPWP*; *Change in work organization*, and *functional flexibility* reflecting skills and the opportunity to contribute (such as formal training, flexible job descriptions and work time, and team working, etc.); *Change in fairness practices* that provide fairness of treatment to enhance employee commitment (such as harmonized terms and conditions, security of employment, and formal grievance procedures); and *Change in performance-related pay schemes* intended to motivate employees to perform (such as profit-related pay) (see the definitions in Table 1 for full details). The last three were the subsets of the first and were derived from the questionnaire.

Independent variables: Timescale to exit was derived from the questionnaire survey and was defined as the intended time to exit at the time of the buy-out on the basis that expected timescale for holding the investment will likely influence the strategy that is put in place. Whether the investor was an *Anglo-Saxon PE firm* was obtained from the Thomson Venture Economics database. Our dataset includes Anglo-Saxon private equity investors from the UK (65 deals), the United States (30 deals), Australia (4 deals), and Ireland (1 deal).¹ We also included a variable, *Foreign PE firm*, which identified whether the lead investor's head office or main activity lay outside the buy-out's home location. Evidence strongly shows that syndicate leads play the key role in interactions with buy-out companies (Wright and Lockett 2003). Many private equity funds cover several countries rather than one country. Although there is some limited autonomy for PE firms in local environments, the head office investment committee likely sets overall investment policy and approves investment decisions (Pruthi, Wright, and Lockett 2003). As national differences in employment legislation across Europe may lead to different outcomes from changes in ownership (Böttger 2006; Watt 2008), we included the loca-

¹ We tested whether there were different effects for these different Anglo-Saxon countries but except for the effect on change in performance-related pay schemes, we found no differences. Separate results indicated that the effect of Anglo-Saxon PE firms on changes in performance-related pay schemes was only observed for UK PE firms. The effect of U.S. PE firms on changes in performance-related pay schemes was positive but not significant.

tion of the private equity buy-out as a control variable using the CMBOR database. We distinguish between four regions: *Anglo-Saxon region*, *Northern European region*, *Central European region*, and *Mediterranean region*.

Control variables: We controlled for a number of factors. The experience of the private equity investor may be related to the extent to which they are involved in making changes in the companies in which they invest (Cressy, Munari, and Malipiero 2007). Accordingly, we control for the general investment experience of the private equity firm; this variable was obtained from the CMBOR database. As the extent to which changes in management practices have been changed may be influenced by the length of time that the firm has had a buy-out structure, we control for *Time since buy-out*, and this variable was derived from the CMBOR database. We controlled for *Type of buy-out* using data from the CMBOR database as there is evidence of different approaches by insider (MBO) and outsider (MBI) driven buy-outs (Bacon, Wright, and Demina 2004; Bacon et al. 2008). As management practices may be influenced by firm size, we controlled for this using data from the questionnaire survey (*Size of buy-out*). As the nature of management practices may also be influenced by whether the firm recognizes trade unions for negotiating pay and conditions, we controlled for *Trade union recognition* using the questionnaire survey. *Profitable on buy-out* was derived from the CMBOR database and also included.

Results

Descriptives. Table 2 provides a description of the variables used in the analyses. The change in the HPWP variable shows that the median firm does not introduce any new practices. The mean firm introduces one new practice with a maximum of ten new practices and a minimum of -3 practices, that is, a reduction of three practices. The same results are reflected in the change in work organization and functional flexibility, the change in fairness practices, and the change in performance-related pay schemes. However, the standard deviations indicate considerable variation in the sample. The mean and median expected timescale to exit is 4–5 years. In total, 57 percent of the deals involve an Anglo-Saxon PE firm, and 45 percent of the lead private equity investors are foreign. The control variables indicate considerable variation among the buy-outs and the PE firms. Table 2 shows that 42 percent of firms have trade union recognition. The correlations between all the independent and control variables used in the regression analyses are equal to or below 0.49 (Table 3).

Bivariate Analysis. In Table 4, we present bivariate statistics combining our general measure of HPWP and our main independent variables to compare

TABLE 2
SAMPLE DESCRIPTION

Variables	N	Mean	Median	SD	Min	Max
Dependent variables						
Change HPWP	158	1.41	0	2.48	-3	10
Change work organization and functional flexibility	158	0.69	0	1.35	-3	6
Change fairness practices	158	0.30	0	0.83	-1	3
Change performance-related pay schemes	158	0.86	0	3.38	-11	17
Independent variables						
Timescale to exit	158	3.17	3	1.05	1	6
Foreign PE firm	158	0.45	0	0.49	0	1
Anglo-Saxon PE firm	158	0.57	1	0.50	0	1
Liberal Europe	158	0.45	0	0.50	0	1
Northern Europe	158	0.12	0	0.32	0	1
Central Europe	158	0.24	0	0.43	0	1
Mediterranean	158	0.19	0		0	1
Control variables						
Experience PE firm	158	115.17	15	357.79	0	1748
Time since buy-out	158	3.27	3	1.30	2	7
Profitable on buy-out	158	0.96	1	0.20	0	1
Size of the buy-out	158	4273.34	360	22507.26	50	280000
Type of buy-out (1/0)	158	0.35	0	0.48	0	1
Trade union recognition	158	0.42	0	0.49	0	1
Mediterranean region	158	0.20	0	0.40	0	1

HPWP before and after the buy-out. Panel A of Table 4 shows that in each of the institutional contexts there is a significant increase in the use of HPWP with the exception of Northern Europe where this change is only marginally significant. The chi-square statistics indicate that there are significant differences in the use of HPWP between the different institutional contexts before but not after the buy-out. Panel B indicates that the largest and most significant changes occur in buy-outs where private equity investors have a longer timescale to exit. The difference between these groups is only marginally significant after the buy-out. Panel C illustrates that both Anglo-Saxon investors and other investors significantly increase the use of HPWP after the buy-out. The chi-square statistics show that Anglo-Saxon investors use HPWP more than other investors both before the buy-out and after the buy-out. Last, panel D shows that both local and foreign investors significantly implement more HPWP after the buy-out. There is no significant difference between these two groups.

Multivariate Analysis. We conducted ordinary least squares (OLS) regressions to analyze the impact of our independent variables on the change in HPWP after the buy-out. As investments in the same country may not be treated as independent given common institutional arrangements and norms, we

TABLE 3
PEARSON CORRELATIONS (N = 158)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. Change HPWP	1															
2. Change work organization and functional flexibility	0.87*	1														
3. Change fairness practices	0.79*	0.64*	1													
4. Change performance-related pay schemes	0.54*	0.32*	0.30*	1												
5. Timescale to exit	0.26*	0.23*	0.23*	0.13	1											
6. Anglo-Saxon PE firm	-0.12	-0.14	-0.08	0.06	-0.06	1										
7. Liberal region	-0.00	-0.00	0.04	0.04	-0.05	0.38*	1									
8. Northern Europe	-0.12	-0.10	-0.11	-0.05	0.12	-0.19*	-0.32*	1								
9. Central European	-0.03	-0.05	0.00	-0.02	0.06	-0.03	-0.49*	-0.20*	1							
10. Mediterranean	0.12	0.14	0.03	0.01	-0.09	-0.28*	-0.45*	-0.18*	-0.28*	1						
11. Experience PE firm	0.15*	0.18*	0.03	0.22*	0.15*	0.24*	0.05	0.08	-0.13	0.01	1					
12. Time since buy-out	0.02	0.05	-0.02	0.10	-0.04	-0.00	0.14	-0.06	-0.05	-0.07	0.09	1				
13. Profitable on buy-out	-0.09	-0.06	-0.04	-0.07	-0.02	-0.00	0.00	0.07	-0.02	-0.04	0.05	-0.09	1			
14. Size of the buy-out	-0.06	-0.02	-0.00	-0.09	0.12	-0.01	-0.08	0.18*	0.00	-0.04	0.00	-0.02	-0.00	1		
15. Type of buy-out dummy	0.12	0.16*	0.14	0.11	0.08	0.05	0.33*	-0.22*	-0.12	-0.10	0.07	0.25*	0.09	-0.09	1	
16. Trade union recognition	-0.15*	-0.07	-0.12	-0.09	0.06	-0.08	-0.40*	0.20*	0.05	0.27*	-0.02	-0.02	-0.00	0.14	-0.20*	1

* $p \leq 0.05$.

TABLE 4
HIGH-PERFORMANCE WORK PRACTICES BEFORE AND AFTER THE BUY-OUT

	<i>N</i>	High-Performance Work Practices Before Buy-out	High-Performance Work Practices After Buy-out ^b
Panel A: Institutional context			
Liberal Europe	82	7.57	8.98***
Northern Europe	19	8.38	9.11†
Central Europe	41	7.70	8.88***
Mediterranean Europe	34	5.74	7.79***
Average	176	7.34	8.73***
Chi-square ^a		13.68**	4.74
Panel B: Timescale to exit			
<3 years	34	7.62	7.97†
4–5 years	111	7.34	8.77***
6+ years	36	6.92	9.27***
Chi-square ^a		1.06	5.11†
Panel C: Anglo-Saxon versus other investors			
Other investor	74	6.47	8.18***
Anglo-Saxon	101	7.97	9.15***
Chi-square ^a		11.75***	5.21*
Panel D: Local versus foreign investors			
Local investor	94	10.21	11.59**
Foreign investor	81	10.47	10.93**
Chi-square ^a		0.01	0.65

^aBased on Kruskal–Wallis test for differences in means.

^bBased on Wilcoxon signed rank sum test for differences in matched means.

† $p < 0.10$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

correct the standard errors using the clustering option in Stata. This method gives efficient estimates of the coefficients and improved standard errors (Froot 1989). In each regression, we controlled for the use of HPWP as reflected in the dependent variable in the year before the buy-out.

All models presented in Table 5 are highly significant and have reasonable *r*-squares. Models 1 and 2 indicate that a longer timescale to exit is positively related to a change in HPWP after the buy-out. The coefficient is positive and highly significant. Anglo-Saxon and foreign PE involvement is not significantly related to a change in HPWP after the buy-out. In model 2, the interaction between foreign PE firm and Anglo-Saxon PE firm is introduced to test whether Anglo-Saxon PE firms behave similarly when operating abroad. This interaction effect is not significant, however. The control variables indicate that trade union recognition is only weakly negatively related to a change in HPWP as a whole but not to any of the three constituent elements. Further, the more the HPWP is in use before the buy-out, the lower the change in HPWP after the buy-out. Similar results are obtained when looking separately at the change in work organization and functional flexibility and the change in

TABLE 5
REGRESSION USING ROBUST STANDARD ERRORS

Dependent variable	1		2		3		4		5		6	
	Estimate	SD	Estimate	SD	Estimate	SD	Estimate	SD	Estimate	SD	Estimate	SD
Independent variables												
Timescale to exit	0.47**	0.13	0.47**	0.13	0.26***	0.04	0.26***	0.04	0.15***	0.04	0.15***	0.04
Anglo-Saxon PE firm	0.14	0.25	0.16	0.50	-0.16	0.23	-0.22	0.27	0.05	0.05	0.14	0.16
Foreign PE firm	0.15	0.26	0.17	0.60	0.14	0.13	0.09	0.36	0.11	0.08	0.19	0.20
Foreign PE firm x Anglo-Saxon PE firm			-0.04	0.74			0.10	0.51			-0.16	0.24
Region (reference category <i>Liberal Europe</i>)												
Northern Europe	0.06	0.24	0.07	0.36	0.08	0.15	0.05	0.18	-0.29*	0.12	-0.24†	0.13
Central Europe	0.11	0.37	0.12	0.37	0.13	0.14	0.09	0.24	-0.09	0.17	-0.03	0.15
Mediterranean	0.20	0.30	0.22	0.52	0.23	0.22	0.19	0.29	-0.21	0.15	-0.15	0.18
<i>Control variables</i>												
Experience PE firm	0.14†	0.07	0.14†	0.07	0.11†	0.06	0.11†	0.06	0.03	0.02	0.03	0.02
Time since buy-out	0.06	0.08	0.06	0.08	0.06	0.05	0.06	0.05	-0.02	0.03	-0.02	0.03
Profitable on buy-out	-1.01	0.82	-1.00	0.86	-0.37	0.38	-0.38	0.39	-0.01	0.43	0.00	0.44
Size of the buy-out	-0.06	0.14	-0.06	0.14	0.04	0.05	0.04	0.05	-0.03	0.06	-0.03	0.06
Type of buy-out dummy	0.29	0.42	0.29	0.43	0.24	0.21	0.24	0.21	0.19	0.11	0.18	0.11
Trade union recognition	-0.67†	0.32	-0.67*	0.31	-0.36	0.26	-0.36	0.25	-0.01	0.09	-0.01	0.09
High performance work practices before buy-out	-0.53***	0.08	-0.53**	0.08					-0.43	0.12		
Work organization and functional flexibility before buy-out					-0.47***	0.07	-0.47***	0.07				
Fairness practice before buy-out									-0.43**	0.12	-0.43**	0.11
Number of observations	158		158		158		158		158		158	
p-Value of log likelihood test	<.0001		<.0001		<.0001		<.0001		<.0001		<.0001	
Pseudo R-Square	0.46		0.46		0.44		0.44		0.36		0.36	

TABLE 5
(Cont.)

Dependent variable	7		8	
	Estimate	DS	Estimate	SD
Independent variables				
Timescale to exit	0.34*	0.15	0.34*	0.15
Anglo-Saxon PE firm	0.64*	0.27	2.38*	0.86
Foreign PE firm	-0.18	0.42	1.16	0.96
Foreign PE firm x Anglo-Saxon PE firm			-2.81†	1.43
Region (reference category <i>Liberal Europe</i>)				
Northern Europe	-0.22	0.29	0.77	0.58
Central Europe	-0.19	0.35	0.90	0.65
Mediterranean	0.11	0.77	1.42	1.09
<i>Control variables</i>				
Experience PE firm	0.22\$	0.12	0.19	0.13
Time since buy-out	0.21	0.17	0.22	0.17
Profitability buy-out	-0.98	0.74	-0.80	0.75
Size of the buy-out	-0.28	0.17	-0.26	0.17
Type of buy-out dummy	0.50	0.41	0.41	0.42
Trade union recognition	-0.48	0.42	-0.46	0.39
Performance-related pay schemes before buy-out	-0.31**	0.04	-0.29***	0.04
Number of observations	158		158	
p-Value of log likelihood test	<.0001		<.0001	
Pseudo R-Square	0.24		0.26	

†p < 0.10; *p < 0.05; **p < 0.01; ***p < 0.001.

fairness practices as shown in models 3–6. In each model, timescale to exit is positively related to change in HPWP. The coefficients are positive and highly significant. None of the interaction effects is significant.

In models 7 and 8, we introduce change in performance-related pay schemes after the buy-out as the dependent variable. The coefficients of timescale to exit and the involvement of an Anglo-Saxon PE firm are both positive and significant. Further, the coefficient of the interaction effect between foreign PE firm and Anglo-Saxon PE firm involvement is negative and marginally significant, meaning that Anglo-Saxon PE firms are less likely to implement these practices when operating abroad.

Discussion and Conclusions

This article reported the results of the first representative pan-European survey of managers' perceptions of the impact of private equity as new financial actors on HPWP in buy-outs. In contrast to critics' claims, often based on isolated examples, buy-out managers report private equity investments result in more HPWP. The findings provide little evidence that private equity involvement prevents investment in HPWP that may damage long-term viability.

The article also evaluated whether changes to HPWP vary according to the anticipated time to exit of the private equity investors, whether the private equity investors are Anglo-Saxon, and whether they were foreign to the local institutional context. Fewer HPWP are reported where private equity firms anticipate a shorter time to exit. The evidence helps inform the policy debate regarding whether the short-term orientation of private equity-backed buy-outs prevent investment in HR practices that may deliver increased levels of productivity and efficiency over the longer term (PSE 2007). Anglo-Saxon private equity buy-outs are just as likely to introduce new HPWP as non-Anglo-Saxon private equity-backed buy-outs. However, Anglo-Saxon private equity buy-outs are more likely to extend financial incentives to a greater proportion of employees.

There was little evidence that changes in HPWP were significantly related to differences in the social models of the countries where buy-outs were located. Among the control variables, the level of pre-buy-out HPWP in the company was significant and negatively related to changes in HPWP. Similarly, controlling for employee voice in terms of the presence of trade union recognition, we find only a weakly significant negative relationship between trade union recognition and changes to HPWP only in respect to changes to HPWP as a whole, not to its three constituent elements. But even after controlling for trade union recognition, our results hold.

Policy Implications. Although European Socialist groups and trade unions have argued that private equity buy-outs “reduces the capacity to invest and manage long-term efficiency, productivity and innovation,” the findings indicate the opposite as buy-outs report more HPWP than prior to the buy-out. Given such practices may result in higher skill levels, increased job satisfaction, and commitment (Appelbaum et al. 2000), employees may benefit from these changes. As labor process studies suggest such practices may also be associated with increased stress levels (Handel and Levine 2004), future work could explore how these changes affect employee attitudes and work experiences.

It was beyond the scope of this study to examine whether private equity buy-outs adopting more HPWP also report greater increases in labor productivity. Further analysis is needed to examine whether the benefits of these practices in improving employee skills, attitudes, and behaviors outweigh the costs. Where the perceived timescale to exit is longer, the anticipated benefits may be greater and the investments more likely.

Although perceived time to exit is associated with introducing new HPWP, note that few buy-outs with a shorter perceived timescale to exit remove such practices which were already in place prior to the buy-out. Critics of private equity suggest this will not be the case because capital markets do not efficiently assess the value of such investments—as a result, longer-term investments in human capital will not be reflected in the increased sale price of the buy-out. However, HR executives in private equity buy-outs report that PE investors and potential purchasing companies conduct extensive assessments of human capital and HR investments when procuring firms (Bacon et al. 2008). It is not logical to assume that whether PE firms routinely underinvest in human capital other PE firms (who are their frequent partners in other deals) will not take this into account when conducting a secondary buy-out or that other experienced investment funds will not take this into account when they are frequent purchasers of shares during IPOs of private equity buy-outs or that industry purchasers cannot assess the required human capital investments.

The continuing debate on financial market capitalism has created strange bedfellows, with European socialists defending managerial capitalism and the separation of management and ownership in the public limited company, and seeking to protect incumbent managers of under-performing firms (PSE 2007:75, 97). As the most significant uplift in HPWP with the potential to improve firm productivity occurs in UK buy-outs, most likely from public limited companies with the clearest separation of ownership and control, it appears that the employees in the UK may benefit the most from private equity buy-outs.

Limitations. This article has a number of limitations that provide opportunities for further research. First, our study was restricted to single responses from key HR directors and CEOs. As noted, there are trade-offs to be made between accessing key respondents who are more likely to be aware of the specialist issues involved in management practices and the potential loss of respondents through attempting to obtain multiple responses from the same firm in what is a quite sensitive area (Kumar, Stern, and Anderson 1993). Further studies, however, could attempt to incorporate the perspectives of private equity firm executives, trade union representatives, and employees. Second, it might be argued that the study suffers from response bias in that our respondents, as part of the management, may present their management practices in a positive light. Our visits to twenty firms confirmed the general pattern of survey findings and did not give any particular reasons to be concerned about response bias. Third, although we allowed sufficient time after the buy-out for changes to management practices to have occurred, further longitudinal research is needed to chart the process of changes over time. Future research might also examine the impact of the credit crisis and recession on management practices. Fourth, our study was confined to private equity-backed buy-outs and did not include a matched non-buy-out control group. A problem when selecting such a group is in establishing the counterfactual because firms that experience ownership change are not randomly selected from the population (Amess, Girma, and Wright 2008). For instance, firms might be subject to buy-out because they over-employ and/or make extra-marginal wage payments that are identified as sources of organizational inefficiency. Fifth, even though we acknowledge important differences between practices in different Anglo-Saxon countries, we did not explore this issue in detail given the limited sample size. It would be useful to explore the differences in more detail in future research. Finally, critics might suggest a need for caution in interpreting our results on the grounds that the study was partly funded by the private equity industry (e.g., Froud et al. 2007). However, the CMBOR database on which we draw was established to study buy-outs in a comprehensive and objective way, and output from it has been used by parties from different perspectives to inform the debate (see Bacon et al. [2010] for details). Our findings are also consistent with previous government research council-funded studies of management practices in buy-outs and buy-ins going back some 25 years (Wright, Bacon, and Amess 2009; Wright, Coyne, and Lockley 1984; Wright et al. 1990).

These limitations notwithstanding, these findings from across Europe uniquely combined a focus on the role of private equity firms as new financial actors, with institutional business systems effects, notably the timescale to exit, the country of origin of private equity funds, and host country of the buy-out.

As new financial actors, private equity firms are heterogeneous, in that the extent to which HPWP are reported depends upon their anticipated timescale to exit. With respect to institutional differences in the origin of private equity firms, our finding that buy-outs backed by Anglo-Saxon firms are just as likely to introduce new HPWP as those backed by non-Anglo-Saxon private equity firms suggests some adaptation to local institutional contexts. However, institutional origin of the private equity backer does seem to matter with respect to extending financial incentives to cover a greater proportion of employees. Overall, the impact of private equity on HPWP is positive, and it is affected more by the length of the relationship, rather than the country where private equity is going to, or the country where private equity is coming from.

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