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# **THE ROUTLEDGE COMPANION TO MANAGEMENT BUYOUTS**

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**Chapter: HRM practices**

**Nick Bacon and Kim Hoque**

## **Introduction**

Although management buyouts are often studied from a purely financial perspective, their impact on employees has attracted significant levels of interest among academics, policy-makers and the public in recent years. Indeed, debates around the implications of buyouts and private equity for employees have begun to appear relatively frequently in the mainstream and financial press, and there is now perhaps as much public interest in the impact of buyouts on employees as in the impact of other forms of corporate restructuring such as privatization, mergers and acquisitions. This is also reflective of the fact that management buyouts have become a global phenomenon, having risen to prominence first in the US during the early 1980s, thereafter becoming prevalent in the UK and then more recently in mainland Europe.

This chapter reviews what is currently known about the impact of buyouts on employees, focusing in particular on the implications for human resource management (HRM). We define HRM as the overall approach taken to employee management (in terms of whether the firm adopts an HRM strategy that seeks to develop workforce skills and loyalty, or seeks to minimize employment costs), and the implications of this overall approach for three broad interconnected policy areas: employment relations (which includes practices covering training, reward systems and managing employment change); work relations (which relates to the

organisation of labour such as team-based organisation, levels of task discretion and the management of health and safety); and industrial relations (which covers institutions for worker voice such as the role of trade unions and collective bargaining) (Gospel 2010).

The chapter draws on this framework to summarise what is currently known about the impact of buyouts on HRM. It then considers the influence of buyout heterogeneity on HRM, exploring: buyouts led by insiders as opposed to buy-ins led by outsiders; the role of private equity funds; short-hold buyouts; and levels of indebtedness incurred by the firm. Reflecting the emergence of buyouts as a global phenomenon, the international evidence is considered where available, focusing in particular on the investor's country of origin and the national institutional context in which the buyout is located. Finally, we outline an agenda for future research and consider some of the methodological challenges.

### **HRM Strategy**

This section considers whether buyouts are associated with an overall approach to HRM strategy that seeks to develop workforce skills and loyalty, or seeks to minimize employment costs. In doing so, it explores: the perceived importance of HRM issues; resources devoted to managing employees; and the extent of adoption of high performance work systems that indicate an investment orientation.

*The perceived importance of HR issues and resources devoted to managing employees in buyouts*

The impact of buyouts on HRM may be assessed by considering any subsequent changes to the overall approach or philosophy that managers in a firm adopt towards employee management and practices. One key issue here is the impact of buyouts on the perceived importance of HR issues within the firm, given that this may in turn affect the levels of expenditure and resources devoted to managing employees. With regard to this matter, a survey of managers in 148 UK buyouts completed in the period 1994–7 reported that in over half (54 per cent) of buyouts the approach or philosophy to managing employees was significantly different post buyout (Bacon et al. 2004: 334), with a majority reporting that the importance of HRM issues had increased (51 per cent) or stayed the same (46 per cent), and only 4 per cent reporting it had decreased. The implications appeared to be generally positive for employees, with 44 per cent of respondents indicating an increase in resources devoted to managing employees, 47 per cent indicating that resources had stayed the same, and only 9 per cent indicating a decrease. This new and significant emphasis on HRM involved an increase in employee involvement, flexibility and training. As such, HRM changes following buyouts appear reflective of an emphasis on investment and growth rather than on seeking efficiencies to improve the performance of the firm via restructuring and cost reduction.

Notable, however, is that an increased emphasis on HRM tends not to be the result of buyout investors becoming directly involved in HRM decision-making. For example, where private equity-backed buyouts are concerned, investors are mainly involved in the monitoring of financial and operating performance, and in developing the buyout's business strategy. Operational HRM issues remain the responsibility of the buyout's managers who work closely with investors to ensure that performance targets are met. Accordingly, managers report limited private equity investor involvement in decisions such as employment levels and payroll budgets, and only rare involvement in negotiations with trade unions (EVCA 2008: 3).

### *High performance work systems*

An alternative way of assessing the impact of buyouts on overall HRM strategy is to consider the adoption of high performance work systems (HPWS) aimed at improving firm performance by increasing employee abilities, motivation and opportunities to contribute (Appelbaum et al. 2000). Practices associated with such systems include selective hiring, extensive training, employee involvement and teamworking, with extensive research conducted over the past 20 years having identified a positive relationship between the adoption of an integrated set of such practices and firm performance (Combs et al. 2006). HPWS practices require a long-term approach to investing in employees and are unlikely to be adopted by firms with a short-term approach that seeks to minimize employment costs. Therefore, if such practices are abandoned or eschewed after buyout, this will provide a useful indicator of whether buyouts encourage a short-term cost minimization approach to HRM.

Much of the evidence suggests, however, that buyouts have a positive impact on the adoption of HPWS, with research based on the aforementioned study of 148 UK buyouts and also on 45 buyouts in the Netherlands suggesting increases in HPWS practices such as training, team-based working and shared decision-making (Bacon et al. 2004, 2008; Bruining et al. 2005). Although these studies lack a control group of non-buyouts and rely on data from management respondents alone, the findings are consistent with a global study that indicates private equity-owned buyouts are well-managed compared to other ownership forms in terms of using performance incentives to reward high-performing employees, and retraining or moving underperformers (Bloom et al. 2015).

Similar findings were also reported by EVCA's (2008) survey of 190 private equity-backed buyouts from across Europe between 2002 and 2006. Increases were reported in a range of HPWS practices after buyout, including: regular team briefings (which increased from 71 per cent to 90 per cent); internal promotion as the norm to fill vacancies (increased from 72 per cent to 81 per cent); work organized around team-working for the majority of staff (increased from 68 per cent to 78 per cent); and a formal grievance procedure allowing employees to raise problems with management (increased from 70 per cent to 79 per cent).

However, these studies also suggest that the impact of buyouts on HPWS adoption is affected by institutional context. In the UK/Netherlands surveys cited above, the increase in the rate of uptake of HPWS following buyout was greater in the UK (Bacon et al. 2004, 2008; Bruining et al. 2005). EVCA's (2008) pan-European survey found that seven of the HPWS practices assessed increased significantly following buyouts in liberal market economies (the UK and Ireland) and six increased in Mediterranean Europe (France, Italy, Portugal and Spain). This compared with increases in the use of only two HPWS practices in coordinated market economies (Austria, Belgium, Germany, the Netherlands and Switzerland) and no significant changes in Nordic countries (Denmark, Finland, Norway and Sweden). These findings suggest that buyouts may have the effect of addressing the underinvestment in HPWS practices in less regulated countries (liberal market economies) while maintaining such investments in more regulated countries (coordinated market economies) where such practices are often legally required or are more common practice.

Overall, therefore, the evidence suggests that buyouts, in their efforts to improve performance, encourage investments in HPWS rather than seeking to adopt a cost minimization approach. These findings are consistent with arguments that buyouts release firms from financial

constraints, thereby enabling them to grow and to modernize by adopting technological and operational upgrades (Boucly et al. 2011). The following sections consider whether these conclusions are also reflected in the research that has focused on the impact of buyouts on the three related HRM policy areas outlined above (employment relations, work relations and industrial relations).

## **Employment relations**

Turning first to the impact of buyouts on employment relations, we concentrate here on training provision, pay systems and the management of employment change.

### *Training provision*

Agency theory suggests that buyouts will reduce inefficient expenditure (Jensen 1989). Expenditure on workforce training may fall into this category if it is regarded as unlikely to add value for current owners or represents rent-seeking by employees. Similarly, wealth transfer arguments suggest that buyouts will seek to improve short-run financial performance by reducing training expenditure (Appelbaum et al. 2014: 58; Shleifer and Summers 1988: 33). From this perspective, buyouts are regarded as hostile takeovers in which new owners are willing to abrogate long-term contracts between managers and employees with regard to the expectation of continued training and development. This contrasts with the situation in public corporations, in which it is assumed that managers will seek to secure employee loyalty and discretionary effort by spending retained earnings on training and development, and promoting employees within internal labor markets. Buyouts are thus regarded by critics as a short-term approach to ownership, in contrast to the long-term horizon required by firms to invest in skilled employees and improve productivity (Haves, Vitols and Wilke 2014: 149).

Reflecting these theoretical arguments, reductions in training have been highlighted in a number of case studies of buyouts. For example, Ireland's largest telecommunications provider Eirecom is reported to have reduced training following a buyout in 2005 (ITUC 2007: 29-30). Consistent with these arguments, politicians and trade unions have expressed concerns about the implications of buyouts for workforce training (PSE 2007: 97). Trade unions have concluded that following buyouts new owners stop investing in training in order to divert cash out of the firm (IUF/UITA/IUL 2007: 16), while government regulators and accounting bodies have expressed concern over the potential impact of buyouts on long-term investments in training (House of Commons Treasury Committee 2007: 13-14).

The evidence on the impact of buyouts on training investment is, however, somewhat limited. Notwithstanding the case study accounts of reduced training investment following buyouts above, few studies to date have explored this matter systematically within the population of buyouts. Exceptions are the aforementioned studies of 148 UK and 45 Netherlands buyouts. These studies found managers reported increased training following buyouts alongside increases in other complementary HPWS practices such as team-based working and shared decision-making (Bacon et al. 2004, 2008; Bruining et al. 2005). Specifically, across both studies, 55 per cent of buyouts reported that the amount of training employees received had increased, 39 per cent that it had stayed the same, and only 6 per cent that it had decreased (Bacon et al. 2004: 335). Training provision increased in buyouts in both countries (Bruining et al. 2005) although it increased to a greater extent in UK buyouts than in Dutch buyouts, reflecting lower levels of training provision in the UK firms to begin with (Bacon et al. 2008). Broadly similar findings are reported by the aforementioned EVCA (2008) survey, which

found that 45 per cent of buyouts had increased expenditure on non-managerial employee training (adjusted for inflation) and just 3 per cent had reduced expenditure.

These studies have some limitations, given that they rely on managers' rather than employees' reports of training levels following buyouts, and they do not contain a control group of non-buyouts. However, in a recent study that drew on non-employer data and included a useful comparison between buyouts and a non-buyout control group, Bernstein and Sheen (2016) identified 118 private equity buyouts affecting 3,342 individual restaurants in Florida between 2002 and 2012. Drawing on longitudinal health inspection data from the Florida Department of Business and Professional Regulation, the study identified increased store-level training in buyouts compared to non-buyouts.

As such, there is no evidence within the more representative quantitative studies to suggest that, overall, buyouts result in reductions in workforce training. One possible explanation is that buyouts seek to improve performance in part by reducing hierarchical layers and removing tiers of middle management (Lichtenberg and Siegel 1990). In such cases, increased training and ongoing development is required to enable shop-floor employees to take on duties previously performed by supervisors, and also to increase employees' awareness of customer and business requirements (Van Neerven et al. 1996). Commensurately, shop-floor employees in buyouts report less supervision and increased discretion over work tasks (Amess et al. 2007). A further potential explanation relates to technological change. Agrawal and Tambe (2016) find that buyouts help address underinvestment in information technologies. This in turn is likely to require employee training in the use of such technologies. Either way, the increase in workforce skills training in buyouts identified in the research outlined above appears to be in

stark contrast to the lack of skills development in listed public companies traditionally attributed to short-term stock market fluctuations and quarterly reporting requirements.

### *Pay systems*

The research on the impact of management buyouts on wage levels is reviewed in detail by Kevin Amess in this volume. Summarizing the main findings here, prior studies that draw on wage data from annual reports indicate a relative reduction in wages and lower average wages in private equity-backed buy-ins (Amess and Wright 2007). This might be viewed as commensurate with the adoption of a cost minimization HRM approach. However, a focus on the impact of buyouts on average wage levels obscures other important features of pay systems, such as the distribution of pay and benefits between employees at different grades and pay award criteria (Storrie 2014: vi). There is a paucity of studies exploring these broader issues.

Lichtenberg and Siegel's (1990) study is, however, an important exception. This study considers changes in wage levels for different occupational subgroups. Drawing on the U.S. Census Bureau's Longitudinal Research Database containing annual data for over 20,000 manufacturing establishments in the years 1972-1986, the analysis shows that wages for non-production employees fell by 5.4 percent compared to a 3.6 percent increase in wages for production employees following buyouts. They attribute these changes to technological and operational upgrades that increase shop-floor participation in decision-making and facilitate the removal of bureaucratic layers. Similarly, Antoni et al.'s (2015) study of all employees in Germany linked to data on buyout deals to identify 190,000 employees affected by buyouts in the years 2002-2008 suggests that the negative wage effects of buyouts is concentrated in managerial grades (particularly among middle managers)- buyouts may address managerial

rent-seeking. It would be of greater concern if reductions in wages disproportionately affected less-skilled workers. However, the two studies described above suggest that this is not the case. More studies are nevertheless required before firm conclusions on the impact of buyouts on non-managerial and lower paid employees can be reached.

As well as affecting pay rates, buyouts may also impact on pay systems within firms (Gospel and Pendleton 2014: 42). However, little is known about this matter. Arguably, buyouts will prefer performance-based incentive pay systems (Thornton 2007: 4) to help address underperformance by ensuring competent employees are rewarded properly (Cuny and Talmor 2007: 631) and to avoid general wage increases that raise future labor costs. In line with this argument, prior studies have found an emphasis on performance monitoring and performance-related pay in buyouts (Bacon et al. 2004; Malone 1989). For example, the aforementioned survey of 148 UK buyouts indicated that: the number of staff whose performance was appraised increased in over four in ten buyouts; a similar proportion reported an increase in the number of staff receiving merit pay; and one quarter of respondents (those in management-led employee buyouts) reported increases in the proportion of non-management employees owning shares (Bacon et al. 2004: 335). Similarly, the pan-European EVCA (2008) survey of 190 private equity-backed buyouts identified the widespread introduction of incentive pay schemes including payment by results and profit-related pay, especially in buyouts in liberal market economies (the UK and Ireland). These findings are broadly consistent with those of Bloom et al. (2009: 9) that indicate private equity-backed buyouts focus on performance incentives to reward high-performing employees.

It must be kept in mind, however, that the introduction of incentive pay systems may go hand-in-hand with a reduction in the overall wage bill, given that such systems can be used to reward

a small number of high performing employees while keeping across-the-board wage increases to a minimum. For example, Appelbaum et al. (2013: 505) report reduced discretion for managers in buyouts to reward employees in performance evaluation systems as a result of downward pressure on the payroll. Little research has been conducted on this matter, however. More studies of performance-related pay in buyouts are thus required that focus not just on the adoption of incentive pay schemes but also on whether such systems are used to control wage costs.

Finally, EVCA's (2008) survey provides some notable observations on pension provision, showing that buyouts do not have negative implications for occupational pension schemes. Indeed, the proportion of LBOs offering such schemes increased from 76 per cent pre-buyout to 81 per cent post-buyout. Although pension schemes post-buyout have evolved more towards open defined-contribution money purchase schemes and away from defined-benefit salary-related schemes, this reflects the trend across all firms. EVCA's (2008) survey also found that the terms of occupational pension schemes did not generally deteriorate following buyouts, with only 1.4 per cent of LBOs reporting a material reduction of the security of pensions in the event of hypothetical insolvency.

### *Managing employment change*

While the impact of buyouts on employment levels is considered elsewhere in this volume, less attention has been paid to how changes in employment levels are managed. Employers are generally encouraged to avoid compulsory redundancies when adjusting staffing levels and to provide help to employees if such redundancies are necessary. There is little evidence to date to suggest that buyouts deviate from this approach. Almost three-quarters of the 190 European

private equity-backed buyouts surveyed by EVCA (2008: 4) had made no redundancies. Where redundancies had been made, 65 per cent of buyouts offered enhanced severance packages, 46 per cent provided counselling and 46 per cent offered outplacement assistance (ibid.). The research conducted to date on redundancies does not therefore suggest the existence of an overt cost minimization approach within buyouts.

However, a number of further factors might also be important in assessing the management of employment change in buyouts. These include: the use and impact of redundancy consultation; the replacement of permanent with non-permanent employment contracts; outsourcing; and dismissal rates. No prior research has been conducted on these matters. Relatedly, prior studies have also not sought to assess employee perceptions of job insecurity in buyouts. Future studies may usefully address such matters to enhance current understanding of the management of employment change in buyouts.

Overall therefore, where employment relations practices are concerned, there is no evidence to suggest that buyouts have negative implications for employee training, and no consistent evidence of negative implications for pay systems and the management of employment change. Although more research is needed on these latter two issues (particularly in terms of whether the use of incentive pay systems in buyouts is aimed at controlling wage costs, and on whether the manner in which redundancies and workforce change is handled) there is nothing within the existing research on employment relations practices in LBOs to suggest the adoption of a cost minimization approach to HRM.

## **Work relations**

The second of the three broad HRM policy areas outlined above on which buyouts might have an influence is work relations (the organization of labor such as team-based organization, levels of task discretion and the management of health and safety, for example). As suggested earlier, buyouts appear to result in shop-floor reorganization (Lichtenberg and Siegel 1990) with HPWS practices such as team-based working and shared decision-making being increasingly adopted post buyout (Bacon et al. 2004; Bruining et al. 2005). EVCA's (2008) pan-European survey reported increased use of regular team briefings, team-working for the majority of staff, flexible job descriptions and flexible working time arrangements for most employees to balance work and family life. As noted earlier, these changes were particularly evident in liberal market countries and Mediterranean Europe where such practices are less commonly adopted in the economy overall.

In terms of the implications of the greater adoption of such practices in buyouts for employees, there has been considerable debate in the broader HRM literature over whether these practices result in improved job quality or an increase in work intensity and stress (Ramsay et al. 2000). It is similarly open to debate whether an increased adoption of such practices in buyouts is reflective of a cost minimization approach to HRM which might be expected to have negative employee outcomes.

However, as critics of buyouts themselves acknowledge (Appelbaum and Batt 2014: 194) there is a paucity of representative quantitative data on this matter. Critics have instead relied on selected case studies to argue that where buyouts divest from less profitable operations, this results in the adoption of work relations practices that breach long-term contracts between managers and employees with regard to the conditions of work (Appelbaum et al. 2013). As such, employees, fearful for their jobs, might be expected to accept changes that result in work

intensification and a deterioration of working conditions (Appelbaum et al. 2014: 61; Clark 2016; Gospel and Pendleton 2014: 26; ITUC 2007: 28; Thornton 2007; Watt 2008: 557). According to the ITUC (2007: 29) this may involve accepting extra shifts and the forfeit or postponement of annual leave (ITUC 2007: 29). Workers at the Kion buyout, for example, reportedly worked extra shifts each week to increase the utilization of production lines (PSE 2007: 111). Changes to work relations practices in buyouts may therefore be suggestive of a calculative, cost minimization HRM approach in buyouts. To explore this matter further, in the following discussion we consider four different work relations practices in buyouts: task discretion; control over the pace of work; participation in decision-making; and health and safety.

Turning first to task discretion, Rodrigues and Child (2010: 1331) predict that buyouts may result in ‘an intensification of work and moves towards low-discretion work roles’ for non-management employees. In support of this, where managerial grades are concerned, buyout critics highlight cases in which task discretion has reduced for managers, such as more limited discretion for line managers to reward exceptional contribution in performance evaluations systems at Mervyns, and reduced discretion for repertoire managers and artists at EMI (Appelbaum et al. 2013: 505 and 508).

There is, however, limited evidence that this has occurred for non-management employees. For example, drawing on UK matched data from 1,959 firms and 27,263 employees, Amess et al. (2007) examined the impact of buyouts on task discretion and supervision. Task discretion was defined as the amount of influence an employee perceives they have over their range of tasks, pace of work and how they do their work. Employees in buyouts reported higher task discretion than their counterparts in non-buyouts (although this was limited to workplaces with a higher

proportion of craft and skilled service workers). These findings may be explained by an increase (as outlined above) in decision-making responsibility being devolved to employees as a result of reductions in the number of supervisory staff (Lichtenberg and Siegel, 1990).

Turning to employees' control over the pace of work, this might be expected to reduce in buyouts given that workforce reductions are likely to require the remaining employees to take on extra job tasks (Rodrigues and Child 2010: 1327). Following the buyout at the Automobile Association, for example, it is reported that workloads and unpaid overtime increased, the time for toilet trips and meal breaks was restricted, and last job working time was extended for roadside rescuers (Clark 2016: 249; Rodrigues and Child 2010: 1328). However, these findings do not concur with research undertaken on the broader population of buyouts, with Amess et al. (2007), as reported above, showing that employee control over their pace of work appears greater in buyouts than non-buyouts, at least for craft and skilled service workers.

Participation in decision-making might also be expected to change following buyouts. Critics of buyouts suggest that new owners often make key decisions without discussion with the affected employees (Appelbaum et al. 2013: 515). However, at the shop-floor level this is not easily reconciled with the evidence outlined above that employees in buyouts perceive themselves to have greater influence (Amess et al. 2007). It is possible, therefore, that employee participation increases in relation to decisions affecting their job tasks on the shop-floor, but decreases in relation to decisions concerning the future of the firm made at higher levels.

Employee health and safety and wellbeing may also suffer as a result of the uncertainty and stress generated by ownership change and restructuring. For example, the buyouts of Telemig

in Brazil, and Debenhams and the Automobile Association in the UK are described as having resulted in ‘unbearable stress for some employees’ (Rodrigues and Child 2010: 1327). However, no systematic nationally representative studies have been conducted to assess whether employees in buyouts report lower levels of work-related well-being. With regard to health and safety, the only available nationally representative study does not support the arguments within the case studies reported above as it reports that workplace injury rates decline following buyouts of publicly-traded firms (Cohn et al. 2016). Furthermore, studies based on nationally-representative US data (Cohn et al. 2016: 14) suggest that buyouts do not result in longer working hours that may have negative implications for stress or workplace health and safety.

It is evident from the above discussion that greater research on the impact of buyouts on work relations is needed in a number of areas. For example, there is little explanation currently for why buyouts appear to engender greater task discretion for non-managerial employees but lower task discretion for managers/ professionals. Similarly, only limited research has been conducted on employees’ control over the pace of work (and the implications of this for work intensification and time pressure), and the research that has been undertaken reveals inconsistent results. Additional studies are also required on employee participation (exploring in particular employee participation in decisions taken at different organizational levels following buyouts) and on employee wellbeing. However, beyond the conclusions drawn from selective case studies, and notwithstanding this need for further research, there is little evidence within the research conducted to date to suggest that changes in work relations in buyouts reflect a cost minimization approach to HRM or have negative overall effects for employees.

## **Industrial relations**

The third HRM policy area under exploration here on which buyouts might have an impact is industrial relations. With regard to this issue, trade unions are among the most vocal critics of buyouts, and they have suggested that buyouts seek to marginalize their influence by downgrading arrangements for joint consultation and collective bargaining (Gospel and Pendleton 2014: 26; IUF/UITA/IUL 2007: 5; Watt 2008: 557), thereby threatening the European social model of worker participation (Vitols 2008). Union derecognition is even considered by some critics to be an important motivation for private equity buyouts (ITUC 2007; Work Foundation 2007: 26). Frequently cited examples of derecognition following buyouts include the withdrawal from collective bargaining and union recognition disputes at the Automobile Association, National Car Parks and Kettle Chips (Clark 2009a,b, 2016; Evans and Hubbard 2008; ITUC 2007; TUC 2007).

These examples contrast, however, with other cases where private equity has worked closely with union representatives in US and Australian buyouts (Beeferman 2009; Westcott 2009) and to rescue British firms in distress during the 1970s/80s (Wright 1984). They also contrast with survey evidence suggesting that buyouts do not typically have negative implications for union representation, with few changes to representation being reported in the first wave of UK buyouts (Bacon et al. 2004; Wright et al. 1990, 2009). EVCA's (2008) pan-European survey also reports little change regarding union recognition, membership density, management attitudes to trade union membership, the terms and conditions subject to joint regulation and the frequency of consultation. For example, two-thirds of managerial respondents stated that they were either in favor or neutral towards union membership, and on average, the terms and conditions subject to joint regulation increased following private equity-backed buyouts, specifically with regard to distributive issues such as rates of pay, hours of work and staffing

plans (ibid.). Additionally, use of consultative committees increased from 50 per cent before the buyout to 63 per cent after the buyout. Managers also reported an increase in the influence of consultative committees following buyouts.

There are, therefore, considerable differences in the conclusions drawn from the case study and survey evidence regarding the impact of buyouts on industrial relations. While the case study evidence suggests that the changes that have occurred in industrial relations might be viewed as commensurate with a cost minimization approach to HRM, this is not the case where the survey evidence is concerned. This suggests that more nationally representative studies are required that include a non-buyout control group to help distinguish between the impact of buyouts and the broader decline of union influence in many countries.

Summarizing the chapter thus far, the representative evidence gathered to date does not, on balance, indicate that buyouts result in a cost minimizing HRM approach. Although individual cases may highlight some negative changes to certain aspects of employment relations, work relations and industrial relations, these do not appear to be the case for the average firm subject to a buyout in the broader population of firms. It is possible, however, that the implications for employees may differ between types of buyouts, according to the investor's country of origin, or in specific institutional contexts. The following section explores this possibility.

### **Different types of buyouts, investor country of origin and institutional context**

#### *Buyout Types*

Turning first to buyout heterogeneity, while buyouts overall may not be associated with a cost minimizing approach to HRM, buyouts with specific features may have particularly negative implications. Sources of buyout heterogeneity include whether the buyout is: investor or non-investor led; private equity-backed; short or long-term; and has a high or low debt ratio.

The most frequently considered aspect of the impact of buyout heterogeneity on HRM relates to the contrast between insider and outsider buyouts. Insider buyouts include management buyouts, management-employee buyouts and employee buyouts. Outsider buyouts include investor-buyouts and management buy-ins. These different forms of buyouts may vary considerably in terms of their implications for HRM. From a theoretical point of view, the wealth transfer perspective suggests that outsiders will lack an established relationship with employees and will therefore be more likely to abrogate long-term contracts between managers and employees (Shleifer and Summers 1988). By contrast, incumbent managers in insider buyouts appear to be more inclined to continue established relationships with employees, and hence the approach they take to employee management is less likely to change post buyout. Supporting this argument, Bacon et al. (2004: 336) demonstrate that management buyouts are indeed less likely to make changes in their approach to managing employees than outsider buyouts. In addition, employment reductions are more marked in outsider than insider buyouts (Amess and Wright 2007).

However, not all the evidence suggests that outsider buyouts have more negative HRM implications than insider buyouts. For example, Bacon et al. (2008: 1423) show that outsider buyouts are more likely than insider buyouts (management buyouts and management-employee buyouts) to adopt new HPWS practices. Thus, the conclusions drawn from the research on the implications of insider and outsider buyouts on HRM remain inconsistent.

Turning to a second feature of buyout heterogeneity, buyouts conducted by private equity firms have attracted particular attention in recent debates, with several studies having sought to compare the effects of private equity-backed and non-private equity-backed buyouts. These studies are particularly helpful given that much of the recent policy debate has concerned the regulation of private equity funds rather than buyouts *per se*.

In theorizing why the effects of private equity-backed and non-private equity-backed buyouts on HRM may differ, private equity funds are often portrayed as active investors who are involved in developing strategic plans, taking seats on the board and monitoring strategy implementation. Investor activism is central to explaining how buyouts may address agency problems in public corporations and help improve firm performance. Such activism might take at least three forms, all of which have potential consequences for HRM. The first relates to direct investor involvement in financial control (e.g. monitoring financial performance and restructuring debt financing). The second relates to involvement in talent management to improve leadership (e.g. firing underperforming managers and hiring serial entrepreneurs known to the private equity firm). The third relates to investor involvement in operational HR issues (e.g. payroll budgets and the implementation of incentive pay systems).

However, it is less clear whether these forms of investor activism that characterize private equity-backed buyouts will result in a cost minimization approach to HRM or a more developmental approach. The empirical evidence on this is mixed, with some research suggesting that the effect is largely neutral. For example, Bacon et al. (2008) report that private equity-backed buyouts are less likely than non-private equity-backed buyouts to report increased use of HPWS practices. However, they do not on average reduce the usage of these

practices, and they do adopt additional HPWS practices in instances where investors are more heavily involved in HRM issues. Furthermore, financial monitoring of buyouts is positively associated with increases in the perceived importance of HRM issues after the buyout. This finding could be considered surprising given that financial monitoring might be expected to result in downward pressure on employment costs. Where investor involvement in talent management is concerned, this may have both positive and negative effects. Hiring serial entrepreneurs may have positive knowledge transfer effects as new managers may introduce more sophisticated HRM practices. In line with this argument, investor involvement in talent management is positively associated with the percentage of employees working in formally designated teams (*ibid.*). In contrast, negative effects may follow from hiring managers that have less loyalty to employees, with evidence that investor involvement in talent management is negatively associated with employee involvement practices and the percentage of employees receiving profit-related pay (Bacon et al. 2004: 337-40).

As such, the HRM implications of the investor activism typical to private equity buyouts appear somewhat mixed. While some of the evidence suggests that active private equity investors provide buyouts with managerial skills and expertise on HRM issues beyond the provision of financial acumen (and this may result in a more developmental HRM approach being taken), not all of the research supports this argument.

Turning to the HRM implications of short-term ownership, less research has been conducted on this matter. However, critics have argued that buyouts are a short-term form of ownership with a corresponding ‘disinclination to invest in longer-term, intangible assets such as human resources’ (Gospel and Pendleton 2014: 27). This might particularly be the case for short-hold ‘quick flip’ buyouts in which investors seek to exit from the buyout within a short time period.

In accordance with this argument, Bacon et al. (2012) found that a longer intended time to exit at the time of the buyout deal is positively associated with the adoption of HPWS practices. No further studies have, however, addressed this issue.

Finally in terms of aspects of buyout heterogeneity, buyout critics have highlighted the negative effects of high debt levels incurred on buyout. High leverage encourages an emphasis on efficiencies rather than investment and growth (Kaplan and Strömberg 2008), given that debt repayment limits free cash flow for investment (Jensen 1989). As such, high debt levels commit reserves that may otherwise 'be used for investment in the sustainable development of the enterprise and innovation or human resource management and training' (PSE 2007: 20). However, although debt is frequently highlighted as a key aspect of buyouts, no prior studies have considered the implications of buyout debt levels for HRM.

Overall, therefore, there is no consistent evidence that the forms of buyouts that critics argue have particularly deleterious effects (investor-led buyouts; private equity--backed buyouts; short-term buyouts; and high debt ratio buyouts) are associated with a cost minimization approach to HRM. The research is limited, however, suggesting further studies are needed before firmer conclusions can be reached.

#### *Country of origin and institutional context*

As buyouts have become a global phenomenon many investors now operate beyond their country of origin and acquire firms in a wide range of national institutional contexts. However, only rare assessments have been conducted of whether the impact of buyouts on HRM varies depending on the investors' country of origin. Foreign investors may be more likely than

domestic investors to introduce changes in buyouts for a range of reasons, including: different frames of reference with regard to management ideas; greater distance from employees and hence potentially less identification with them; and reduced susceptibility to host country norms or established practice. In addition, investors from specific countries may carry greater threat to employees. For example, Anglo-Saxon investors (e.g. from the US or UK) might be expected to threaten the established practices of the firms they acquire in coordinated market economies in mainland Europe. Current evidence suggests, however, that Anglo-Saxon and foreign investor involvement are not significantly related to a change in HPWS practices after buy-out (Bacon et al. 2012). Although the involvement of Anglo-Saxon investors is positively associated with the extension of performance-related pay schemes to cover more employees, this is less likely when the buyout occurs in non-Anglo-Saxon countries (ibid.: 621).

Also with regard to institutional context, as mentioned earlier, the main increases in the uptake of HPWS practices post buyout appear to be in liberal-market countries (EVCA 2008) in which stock market pressure may have deterred the widespread adoption of such practices, and a more permissive set of labor laws have not required firms to adopt them (Bacon et al. 2008, 2012; Bruining et al. 2005). In countries where HPWS practices are more commonly adopted there is no evidence that buyouts lead to a reduction in their use (EVCA, 2008).

A recent study of the impact of private equity on employment in France reached different conclusions (Guery et al. 2017). Drawing on data from the nationally representative Enquete Relations Professionnelles et Négociations d'Entreprise (REPONSE), the analysis revealed that establishments owned by foreign private equity investors were more likely to report employment decline in the previous three years, specifically declines in non-production workers, when compared to establishments owned by French private equity investors and non-

private equity owned establishments. These findings are attributed to the role of state involvement in French private equity firms, with public investment groups adopting social as well as financial objectives. It is also possible, however, that the findings reflect selection effects whereby foreign investors may be more likely to acquire firms that needed turning around.

### **Future research**

As the above discussion suggests, considerable additional research is needed in several areas to further understanding of the implications of buyouts for HRM. Turning to the first of the three HRM policy areas (employment relations) few studies have, as outlined above, systematically evaluated the implications of buyouts for training provision. Further studies on this issue would provide a useful test of the willingness of buyouts to make long-term investments. Any reductions to training provision may be particularly concerning from a public policy perspective given the goal of most governments to increase skill levels in the labor market. To enhance the validity of the findings, studies should also assess training provision reported by employees rather than just employers to guard against potential response bias.

Additional studies are also required with regard to pay systems. These studies need to compare the adoption of incentive pay systems in buyouts and non-buyouts, given that the adoption of incentive pay following buyouts identified in the extant research may merely reflect increased usage of such practices among firms as a whole. Further research is also needed to identify whether incentive pay systems are being used in buyouts to control overall wage levels. Incentive pay systems potentially also allow management to exercise control over wage costs by shifting risk onto employees. During the good times bonuses are paid out, while during bad

times bonuses are not paid out. The other side of the argument is that lower wage costs during bad times means there is less pressure on management to shed jobs. The impacts on incentive pay on employees therefore needs careful assessment.

There also remains a paucity of research on the management of employment change in buyouts. While studies to date have focused on the implications of buyouts for employment levels, future studies also need to assess the manner in which workforce reductions in buyouts are handled (whether via redundancy and dismissal as opposed to natural wastage, for example), and also whether buyouts increase the use of non-permanent employment contracts and outsourcing.

With regard to the second of the HRM policy areas outlined above (work relations), as demonstrated above, additional research is required to extend knowledge on the impact of buyouts on task discretion, the pace of work, participation in decision-making, and health and safety. An assessment of these matters would facilitate greater understanding of the broader impact of buyouts on employee job quality.

With regard to the third HRM policy area (industrial relations), future studies might explore whether there are changes in the issues on which management normally negotiate, consult or inform worker representatives. These studies should ideally combine data collected from employers and worker representatives in order to verify whether the perceptions of increased consultation reported by managers in prior studies are shared by worker representatives. Studies should also include a non-buyout control group to help distinguish between the impact of buyouts and broader secular changes (the decline of union influence, for example).

Across many of the issues outlined above on which further research is required, greater consideration is needed of whether managers and non-managerial employees are equally affected by changes in HRM following buyouts. Any negative changes that disproportionately affect less-skilled and low wage workers would be concerning as their prospects for future employment and earnings are lower (Appelbaum and Batt 2014: 199). Important issues from this perspective include: whether buyouts have differential effects on training provision for managerial and non-managerial employees; whether a greater proportion of non-managerial than managerial pay is at risk under incentive schemes; and whether non-managerial as opposed to managerial employees are particularly at risk of job insecurity and reductions to intrinsic job quality.

In addition, little is known about the impact of buyouts on employee attitudes. This is surprising given the wealth transfer perspective highlights the potential for breaches of both explicit and implicit long-term contracts (Shleifer and Summers 1988). Future studies on employee attitudes might therefore include consideration of whether employees perceive sufficient opportunities for training and development; whether they are satisfied with their pay; whether they feel adequately represented at work; and their satisfaction with levels of job security, job quality, and opportunities to influence decisions.

Future studies should also consider these effects in different types of buyouts. While a number of studies have sought to provide comparisons between insider and outsider buyouts, the findings reached by these studies on the impact of such buyouts on HRM is inconclusive, suggesting further research is warranted. The more limited research on private equity-backed buyouts and short- versus long-hold buyouts is similarly inconclusive, thus suggesting a need for further research. Also, no prior research has explored the implications of buyout debt ratios

for HRM, suggesting this would be a fruitful avenue for future studies. In addition, future studies should also continue to explore country of origin effects and the role of institutional context.

Many of these issues pose significant challenges in terms of the collection and analysis of available data. Whereas it is possible to draw on existing datasets to consider overall employment and pay data, most HRM issues are not consistently or routinely included in annual reports. Prior studies have therefore relied on surveys of buyouts completed by a management respondent. However, low response rates and response bias may affect the findings, while case studies appear a poor substitute given their lack of representativeness. One way forward would be to make greater use of government surveys that cover HRM issues and include matched employer-employee data. Examples include the British Workplace Employment Relations Survey and the French REPOSE. Buyouts may be identified by linking these data to existing buyout datasets. As these buyout datasets also include data on buyout characteristics, they also provide the potential to explore HRM issues in different types of buyouts.

The impact of buyouts on the HRM outcomes covered in this chapter such as training, pay, job security and job quality is likely to remain of interest given the importance of these outcomes from economic and social perspectives. It is to be hoped that future studies as called for here will provide an increasingly reliable basis on which to inform public policy debates on the impact of buyouts on these outcomes.

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