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Management Buyouts and Human Resource Management

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Abstract

This paper reports the findings from a survey of the effects of management buyouts on human resource management (HRM). Buyouts resulted in increased employment, the adoption of new reward systems, and expanded employee involvement. These developments support the resource-based view that buyouts develop internal assets over agency theory predictions that managers will adopt a cost reduction approach. The type of buyout influences the subsequent development of HRM. Buyouts report more commitment-orientated employment policies where employees own shares, and where the buyout pursues a 'buy and build' corporate strategy and adopts a business strategy of enhancing customer service and developing markets.

1. Introduction

It is widely acknowledged that changes in ownership may have profound implications for human resource management (HRM). Changes in the approach of managers are most common in establishments that have experienced both a change of ownership and 'an amalgamation or split' (Millward *et al.* 2000: 24). Privatization alone has frequently involved new initiatives such as employee share ownership schemes (Cully *et al.* 1999: 70). Over the last two decades management buyouts have become an increasingly important mechanism for changing ownership and restructuring organizations, and we would expect considerable changes to ensue in the approach of managers to HRM after buyouts. There have been numerous studies of the economic and corporate governance implications of buyouts (Jensen 1993; Thompson and Wright 1995). However, apart from an analysis of the impact of buyouts on employment levels (Smith 1990) and some work on changes in industrial relations (Wright *et al.* 1984, 1990), the impact upon HRM has not been examined. The aim of this paper is to report the findings from a study into the effects of management buyouts on HRM.

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Although identifiable as far back as the nineteenth century, buyout activity began to develop significantly in the recession of the early 1980s as a mechanism for rescuing troubled businesses. Buyouts have become a strategic tool involving the restructuring of under-performing firms and the development of entrepreneurial opportunities that could not be exploited under the constraints of the former ownership regime, and as a mechanism for the privatization of public-sector activities (Wright *et al.* 2000b). An average of 306 buyouts per year in the 1980s increased to 610 in the 1990s, and the total market value of transactions rose from £0.03 billion in 1980 to £23.9 billion in 2000 (CMBOR, 2002). Since 1980 buyouts effectively doubled their importance in the overall takeover market, including all mergers and acquisitions, and by the first half of 2002 they accounted for 63.8 per cent of all company takeovers and 47.3 per cent of their value. Buyouts have also been considerably more numerous than stock market flotations as a means of privatizing public-sector activities. Since the early 1980s, 273 privatization buyouts, typically involving some element of employee ownership, have been completed (Wright *et al.* 2002: 305).

These remarkable changes in ownership structure have potentially major implications for HRM. Buyouts provide opportunities for entrepreneurial managers to change HRM or to continue with pre-existing policies. Outside investors may support buyouts to asset-strip a business and improve performance before seeking a quick onward sale. This would involve the imposition of management prerogative and 'hard' HRM to reduce employment costs and 'sweat' labour with few policies designed to train, involve or communicate with employees. However, in other cases investors may fund buyouts because managers have identified new opportunities to develop and grow a business over several years. In order to support the new business strategy, buyout managers may build and develop employee competences and invest profits in sophisticated HRM policies.

Our approach is to assess whether buyouts lead to harsher or more sophisticated HRM and to explore the factors that influence the policies adopted in buyouts. We begin by reviewing existing empirical evidence; we then proceed to theorize the underlying causes of the changes to HRM following buyouts before clarifying the key research questions.

2. Management buyouts and human resource management

Research in the 1980s highlighted important continuities and a 'soft' approach to HRM following buyouts, with little union derecognition, extensive communication, increases in employment during economic growth and the spread of employee share ownership, especially as part of privatization or employee buyouts (Bradley and Najed 1989; Pendleton *et al.* 1998; Robbie and Wright 1996; Wright *et al.* 1984, 1989, 1990). For example, Van Neerven *et al.* (1996) reported that buyouts adopted new employee involvement policies and increased training to develop employee awareness of customer and business requirements. However, other reported changes suggested a 'hard' approach to HRM with job losses during recessions and a shift from employing full-time to part-time workers (Wright *et al.* 1990; Wright and Coyne 1985). Some buyouts reduce the wages of employees to industry norms and increase labour flexibility by adjusting the numbers employed to meet changes in demand (Van Neerven *et al.* 1996). Given the few studies to date, and reported variation in the implications of buyouts for personnel practices, it is important to gather more data and to test the possible underlying causes of changes after buyouts. The existing theories of transformation in buyout companies provide an appropriate starting point.

A sharp contrast can be drawn between agency theory predicting that buyouts will pursue a cost reduction approach to HRM, and the resource-based view (RBV), implying the development of human assets. In the buyout literature (Wright *et al.* 2001) it tends to be argued that cost reduction predominates, as managers introduce efficiencies and reduce costs post-buyout. The agency theory perspective underpinning this claim proposes that managers are motivated to seek 'efficiencies' because tighter financial monitoring and control makes them more accountable to investors after the buyout (Jensen 1986; Long and Ravenscraft 1993; Phillips 1995). In addition, discretionary expenditure by managers is limited following a buyout, as cash flow is used to service interest payments (Jensen 1986). Remuneration arrangements in buyouts also narrow the corporate governance gap between investors and management, with managers motivated to maximize investor returns. Buyouts may therefore reduce employment, display subsequent below-industry employment growth (Kaplan 1989) and decrease expenditure on indirect management activities such as the personnel function (Wright and Coyne 1985).

In contrast, a resource-based view of the firm (Barney 1991) suggests that buyouts faced with a fluctuating business environment will refocus on their own internal resources to improve performance. The effective management and motivation of employees is one possible competence upon which to build the survival and success of buyouts (Van Neerven *et al.* 1996) especially where the specific skills of employees are crucial to firm performance (Wright *et al.* 2000a; 2001). In line with the RBV approach, as a direct contrast to agency theory, insider buyouts may also affect the distribution of returns from human capital investments. Compared with large conglomerates, managers of buyouts have greater control (albeit shared with financiers) over resources to allocate to human capital investments. The financial and strategic control thesis (Hitt *et al.* 1990) suggests that buyout managers re-establish strategic control over their business unit and escape the over-emphasis in large diversified firms on financial assessment (Phan and Hill 1995; Wright and Thompson 1987). Thus, buyouts may provide a new opportunity to link HRM to business strategy, one denied to the business units of diversified firms. In theory, 'offensive' buyouts involve investors or managers identifying parts of an existing business that can benefit from focused development and reverse the process of corporate diversification. Purcell (1995) has argued that diversification in large conglomerates involves the control of business units by financial metrics, thereby making it harder to maintain a deliberate link between corporate strategy and HRM (Marginson *et al.* 1993). Buyouts remove these organizational constraints, streamline processes, and reunite strategic and operational management. Such changes provide an opportunity to allocate resources to HRM in order to support the strategy of the buyout. Thus, an important contrast is between agency theory, which suggests that managers will be subject to greater external control, and the resource-based view, which implies that managers will be freed somewhat from the dead hand of corporate head office.

Whether buyouts engage in a cost reduction or investment approach towards their employees may depend upon the type of buyout. It is possible to identify at least five distinct types of buyout: management buyouts (MBOs); management-led employee buyouts (MEBOs); management buy-ins (MBIs); investor-led buyouts (IBOs); and hybrid buy-in management buyouts (BIMBOs). One distinction between agency theory and the resource-based view is that agency theory emphasizes the role and power of investors in controlling management decisions from outside an organization, whereas the focus of the RBV is on the role of empowered insiders in developing and building the core competences of a firm.

There are three key differences among types of buyout that explain the relative role and power of 'insiders' and 'outsiders': the degree of ownership by incumbent managers; the extent of employee ownership; and the level of control exerted by financiers. First, buyout types differ in the role of incumbent managers ('insiders') compared with external managers ('outsiders'). Whereas MBOs and MEBOs use financial backing for incumbent management teams to lead the buyout, in the case of MBIs, IBOs and BIMBOs 'outside' managers and investors take control of the buyout. We would expect incumbent managers in MBOs to continue with existing HRM policies, especially in 'defensive' buyouts, which have the explicit aim of saving jobs (CMBOR 2000). However, the financial mechanisms used to fund buyouts, such as leveraged managerial share ownership, reward incumbent managers for improved financial performance and may encourage them to cut the costs of labour. Second, buyouts also differ in the extent of employee involvement in ownership. Employees may be offered an equity stake as part of a broader attempt to elicit employee commitment, as in the case of the National Freight Corporation (Bradley and Najed 1989). In many employee buyouts, workers use their redundancy payments to purchase a workplace from a parent company in financial difficulty in order to save employment (Bradley and Gelb 1985; Hochner *et al.* 1988; Wright and Coyne 1985); the case of the Tower Colliery in the UK is a recent well-known example (Waddington *et al.* 1998). A high degree of employee share-ownership in MEBOs is likely to encourage an investment approach towards HRM. Although employee ownership has been said to discourage investment by financiers, in the case of buyouts the reinvestment of profits in training and developing skills is likely to be an important factor in employee support for buyouts by management teams.

The third critical factor that distinguishes buyouts is the level of financier involvement and control. In buyouts financiers may either grant managers a high degree of autonomy, or choose to exercise control over operational decisions by direct and indirect methods. They may intervene directly in personnel policies over such issues as payroll budgets, staffing levels and pay systems, or they may be involved indirectly in appointing, motivating and replacing members of the management team. We suggest that both direct and indirect involvement by financiers will restrict expenditure on HRM. If financial control factors in the management of buyouts exercise a significant influence and encourage a cost reduction approach to HRM, we would regard this as significant support for agency theory explanations of the popularity of buyouts among investors.

In addition to differences between buyout types, we hypothesize that the corporate and business strategies pursued by buyouts will have an important impact on HRM. Agency theory suggests that most buyouts are 'defensive' and pursue efficiency gains in existing businesses. An emphasis on cost efficiency in defensive buyouts may involve a reduction in labour costs as part of the survival strategy of established firms in mature markets that are seeking to turn around business performance. Alternatively, 'offensive' buyouts reflect RBV explanations, as managers build upon existing competences to innovate and develop products and services (Wright *et al.* 2001). An innovation strategy in offensive buyouts may develop human assets as managers pursue further acquisitions through a 'buy and build' strategy. In such cases buyouts emphasize growth synergies over efficiencies and strategic reorientation over retrenchment, and they provide opportunities to develop employees with an emphasis on knowledge transfer and mutual learning. If the strategy pursued is an important explanation for buyouts adopting sophisticated HRM policies, we would regard this as consistent with the RBV.

It is not clear, however, whether, in the turbulent financial environment surrounding buyouts, managers will prioritize rather than downgrade HRM. From the discussion thus far, we have identified a variety of factors leading to cost reduction and investment scenarios for human resource management. These theories provide the basis for our key research questions.

3. Research questions

The first research question is: *What impact do buyouts have on HRM?* The agency theory framework outlined above predicts that buyouts will embark upon a cost reduction approach, downgrading the importance of HRM issues, reducing employment, exerting downward pressure on pay and investing in few high-commitment management practices. By contrast, the resource-based view predicts that HRM will become more important following a buyout and that managers will pursue a commitment-enhancing approach. As a result of adopting a resource-based view, we would expect to find more resources devoted to managing employees and the adoption of a range of high-commitment management practices.

The second main question is: *Does the extent of control exerted by 'insiders' compared to 'outsiders' in different types of buyouts influence the approach taken to HRM?* This question has three sub-components. First, the role of incumbent managers in 'insider' buyouts leads us to expect a continuation of the approach to HRM established prior to the buyout in both management buyouts and management-led employee buyouts. Second, in management-led employee buyouts, the only cases where employees hold significant numbers of shares, employee support for management is critical for the future success of the new company, and we would expect managers to implement 'soft' HRM practices such as teamwork and to develop employee involvement. Third, financial monitoring, which is strongest in 'outsider' buyouts, will encourage short-term efficiencies rather than longer-term asset development, because managers are motivated to maximize shareholder returns. Thus, agency theory explanations of buyout performance predict that stricter financial monitoring will prevent investments in human capital and encourage 'hard' HRM. Furthermore, where financial backers directly intervene in management issues, we would expect attempts to reduce employment costs.

The third question is: *To what extent are corporate and business strategies the key determinants of changes in HRM in buyouts?* The financial and strategic control theory of buyouts suggests that the break from the larger organization provides an opportunity for managers to review existing practices. Subsequently HRM policies may be redesigned to support the corporate and business strategies of buyouts. We therefore expect that buyouts pursuing a high-quality customer-orientated path or developing new markets will also invest in HRM. In contrast, we predict that buyouts seeking to compete on the basis of price will adopt a cost-reduction approach to labour. The strategic choice of HRM policies to match the requirements of a firm is more consistent with the RBV, whereas agency theory suggests that financial controls will restrict managers to a cost-reduction approach to HRM.

4. Methodology

In order to examine the HRM issues relating to buyouts a questionnaire was designed, based on existing literature and discussions with practitioners. The survey instrument was piloted among academics, financiers, advisers and buyout management. The final version of the questionnaire was mailed to all buyouts and buy-ins identified by the Centre for Management Buyouts (CMBOR) database[1] with a transaction value of at least £5 million that had been completed in the period 1994–7. The CMBOR has collected data on buyouts since the late 1970s and currently has records of over 10,000 buyouts — effectively, the population of buyouts in the UK. The minimum size cut-off of £5 million was taken on the basis that enterprises above this size are likely to employ a significant number of employees and thereby to have more formal HRM procedures to deal with the complex task of management (Sisson and Marginson 1995). The initial mailing took place in November 1998, with first and second reminder mailings sent in January 1999 and March 1999. Following this procedure, a total of 148 usable questionnaires were returned, representing a response rate of 18.5 per cent. Comparisons of the distribution of the responses with the CMBOR data base showed that the sample was generally representative of the population of buyouts in terms of size, source of transaction and industry.[2] The questionnaire included the following independent variables.

- *Buyout type*. Respondents self-selected one of five categories that described the buyout. This sample included responses from 68 management buyouts (46 per cent of the total sample), 10 management-led employee buyouts (7 per cent), 32 management buy-ins (22 per cent), 12 investor-led buyouts (8 per cent) and 23 hybrid buy-in management buyouts (16 per cent). The remainder did not specify type and therefore were excluded from further analysis.
- *Financier involvement* was assessed by asking respondents to indicate the level of participation of the main financiers (on a seven-point scale ranging from 'no participation by main financiers' to 'all by main financiers') in five issues relating to the personnel management of the senior management team: searching for members of the management team; interviewing and selecting the management team; negotiating terms with candidates for the management team; motivating senior personnel; and replacing management personnel. In addition, we asked respondents to indicate the level of financier involvement on the same scale in ten personnel management issues of a more operational nature: management development; payroll budgets; individual performance pay; profit-related pay; employee share ownership schemes; the use of temporary staff; training issues; communicating with employees; the overall number of employees; and relations with trade unions.

We asked respondents to indicate the participation of financiers in seven further management activities. Examples of questions include 'formulating the initial business strategy' and 'serving as a sounding board to the management team'. In order to assess an emphasis upon financial control, we asked five questions to detect, for example, the role of financiers in 'monitoring financial performance' and 'obtaining alternative/additional sources of debt financing'. A reliability analysis of the questions on financier involvement reduced the analysis down to 12 questions. A further factor analysis produced three main factors accounting for 61 per cent of the total variance. The first factor accounted for 33 per cent of the variance (alpha = 0.76, eigenvalue = 5.03) and grouped five issues on involvement in recruiting and selecting the management team with involvement in business strategy. Sample items include 'interviewing and selecting the management team' and involvement in 'formulating the initial business strategy'. A second factor accounted for 16 per cent of the variance (alpha = 0.76, eigenvalue = 1.91) and grouped four pay issues. Sample items include financier involvement in the payroll budget and profit-related pay. The third factor grouped three monitoring issues (alpha = 0.73, eigenvalue = 1.53), accounting for 12 per cent of the variance; items included 'monitoring operating performance' and 'monitoring financial performance'.

- *Corporate strategy* was assessed to distinguish between defensive and offensive buyouts. We asked respondents to indicate whether the buyout had been involved in a range of subsequent activities taken from the Company Level Industrial Relations Survey (Marginson *et al.* 1993), for example merger or acquisition, joint ventures and increases in the range of products or markets. These activities indicate a 'buy and build' approach after the buyout consistent with the RBV. Another question asked whether the buyout had a formal strategic plan and if so what were the areas covered in that plan, for example product or service development, employee development, improving the quality of products or services, forecasting for staffing requirements or developing new markets.
- *Business strategy* was controlled for by assessing responses to 21 questions from a pre-existing scale devised to assess generic business strategies (Dess and Davis 1984; Kotha and Vadlamani 1995; Robinson and Pearce 1988). Respondents indicated on a five-point Likert scale (ranging from 'very low' to 'very high') the importance of each issue within the business strategy of the buyout. Several questions were slightly modified from the scale reported in Kotha and Vadlamani (1995) to apply to both manufacturing and service organizations. Reliability analysis of the scale reduced this to 12 questions, and a factor analysis converged on three factors explaining 58 per cent of the variance. The first factor explained 29 per cent of the variance (alpha = 0.77, eigenvalue = 3.31) and grouped five issues relating to an emphasis on marketing; sample items included 'promotion and advertising above the industry average' and 'innovations in marketing techniques and methods'. The second factor explained 18 per cent of the variance (alpha = 0.67, eigenvalue = 2.07) and grouped four issues relating to an emphasis on price versus quality; sample items included rating the importance of 'quality of product/services' and a 'continuing overriding concern for cost reduction'. The third factor explained 11 per cent of the variance (alpha = 0.68, eigenvalue = 1.21), and grouped three questions relating to the importance of customer service and highly trained personnel; sample items included a 'specific attempt to ensure a pool of highly trained experienced personnel' and developing 'extensive customer service capabilities'.

Details were collected on a wide range of employment policies as dependent variables. Reductions in employment and pay were measured to detect the labour efficiencies predicted by agency theory. Questions on HR strategy and high-commitment management were included to assess whether buyouts pursued an investment approach as predicted by the resource-based view.

- *Changes to employment* were assessed to detect a cost reduction approach. We asked whether the total number of employees had increased, stayed the same or decreased in comparison to before the buyout.
- *Changes in pay* could also detect a cost reduction emphasis, and respondents were asked to estimate the changes in real earnings for four different groups of employees (directors, middle managers, line managers and non-managerial employees) on a three-point scale, from increased to decreased. Whereas increases in earnings for directors could be compatible with either agency theory (incentives) or RBV (returns on human capital investment), restraining wage costs for other groups in order to increase returns for shareholders is compatible only with the search for efficiencies predicted by agency theory.
- *HR strategy* was assessed through four questions. Respondents were asked: (i) 'Is management's approach or philosophy to managing employees significantly different from what it was like before the buyout?' (ii) Does the buyout have a formal written human resource management strategy? (Guest and Hoque 1994: 2) (iii) Has the importance of HRM issues increased or decreased after the buyout? (iv) Have the resources devoted to managing employees increased or decreased after the buyout? Agency theory suggests that after a buyout we would record a change in approach; that a written strategy would be unlikely and regarded as a waste of time, that HRM issues would decline in importance, and that fewer resources would be devoted to managing employees.
- *High-commitment management practices* would indicate a resource-based approach following the buyout in the areas of remuneration, employee involvement and work organization (taken from Cully *et al.* 1999; Guest and Hoque 1994; Wood and Albanese 1995). We asked respondents to indicate the percentage of non-managerial employees: (i) appraised on an annual or biannual basis; (ii) receiving profit-related pay in the previous 12 months; (iii) receiving merit payments based on assessments of individual or workgroup performance; and (iv) owning shares in the company under share-ownership or share option schemes. In order to assess the degree of harmonization of terms and conditions, we asked whether most non-management employees were entitled to any of the following non-pay terms and conditions: employer pension scheme; company car or car allowance; private health insurance; four weeks' or more paid annual leave; and sick pay in excess of the statutory minimum. The internal reliability (Cronbach's alpha = 0.47) of this scale was low; hence these findings need to be treated with caution. Employee involvement was assessed through the presence or absence of nine different methods using the wording of the 1998 Workplace Employee Relations Survey (Cully *et al.* 1999: 65). Sample items included 'regular newsletters/staff bulletins distributed to all employees' and 'information given to all employees on market position

and company performance'. The scale displayed internal reliability (Cronbach's alpha = 0.76). Work organization and functional flexibility were assessed through three questions covering the percentage of non-management employees involved in teams, quality circles and trained to perform jobs other than their own.

5. Cost control or employee development?

Over half (54 per cent) of responding buyouts reported that the approach or philosophy of management to employees was significantly different post-buyout, while 46 per cent suggested that a significant change had not occurred. This figure is very similar to the 50 per cent of respondents reported by Millward *et al*. (2000: 24) indicating a change in management's approach following a change in ownership and amalgamation or split from another organization. The main changes in human resource management directly attributed to the buyout are reported in Table 1 and generally show that most firms experienced a greater emphasis on HRM. A majority reported that the importance of HRM issues had increased and 44 per cent identified an increase in resources devoted to managing employees. Two-thirds of responding buyouts reported an increase in employee involvement, over one-half indicated increases in the flexibility shown by employees, and over one-half recorded an increase in the amount of training that employees received. A majority also indicated an increase in the total number of employees compared with pre-buyout, while post-buyout real earnings increased for a majority of employees at four different grades (Table 1). Over four in ten pointed to an increase in the number of staff whose performance was appraised, and a similar proportion reported an increase in the number of staff receiving merit pay. Buyouts also led to an increase in the number of staff owning shares in the company.

These findings indicate a new and significant emphasis on HRM as a direct result of the buyout. Thus, the answer to our first question is that the overall importance of HRM issues had increased as a direct result of the buyout, with only a small proportion of buyout managers identifying a reduction in resources devoted to managing employees. These findings support the RBV explanation that buyouts lead to investment in HRM rather than the labour cost reductions and efficiency savings predicted by agency theory. Although on the whole buyouts appear to have a positive effect on HRM, there is variation, with some buyouts indicating that policies stayed the same, and this may reflect differences in buyout types and the business strategies adopted.

6. Buyout type and business strategy

In order to explore this variation in HRM, we conducted multivariate regression analysis to assess the impact of the type of buyout alongside strategic

TABLE 1
The Main Changes in HRM Directly Attributed to Buyouts (%)

	Increased	*Stayed the same*	*Decreased*[a]
Importance of HRM issues	51	46	3
Resources devoted to managing employees	44	47	9
Degree of employee involvement	66	32	2
Number of staff whose performance is appraised on an annual or biannual basis	41	58	1
Number of staff receiving merit pay	43	55	2
Percentage of non-managerial employees owning shares in the company	25	69	6
Total number of employees working in teams	46	52	2
Flexibility shown by employees	57	41	2
Amount of training employees receive	55	39	6
Employment			
Total number of employees	60	19	21
Changes in real earnings of:			
Directors	59	30	11
Middle managers	70	29	1
Line managers	57	42	1
Non-managerial employees	55	43	2

[a] Collapsed from a 5-point scale from 'increased a lot' to 'decreased a lot'. Row percentages based on sample size = 145.

and other factors. Logistic regressions were used to study binary indicators of changes in HRM such as reported changes in HR strategy, employment and earnings. Further linear multiple regression analysis (OLS) explored findings relating to high-commitment management such as employee involvement, the harmonization of terms and conditions, pay systems and task-flexible working. The HRM policies are not grouped together for analysis, as the data include both continuous and binary variables, and factor and cluster analysis did not suggest policies combined into integrated packages. In both logistic and linear models, the set of regressors included management-led employee buyouts and management buyout dummies (the group of 'outsider' buyouts, including investor-led buyouts, management buy-ins and hybrid buy-in-management buyouts, were used as controls), along with variables for corporate and business strategy and financier involvement constructed as described above. To control for possible size effects on HRM, we included the natural logarithm of the total number of employees reported in the questionnaire. Industry effects were controlled for by including dummy variables for the manufacturing, financial and trading sectors (the service sector was used as a control) from information held on the CMBOR database.

Regressions were tested for homoscedasticity of disturbance with Cook–Weisberg and Breusch-Pagan tests. High values of the test statistics indicated the presence of heteroscedasticity in the regressions. To address this problem, we used robust White/Huber estimators of variance in place of the traditional calculation.

The second question posed in this paper concerned whether the control exerted by 'insiders' compared with 'outsiders' in different types of buyout influenced the approach taken to HRM. The results (see Tables 2 and 3) indicate that the type of buyout does influence the approach taken. Employee ownership in management-led employee buyouts is associated with a high-commitment management approach. Management-led employee buyouts were more likely to report: a written HR strategy; a greater number of policies to communicate with employees; harmonized terms and conditions; annual appraisals alongside merit pay and employee share-ownership; and employee involvement in quality circles and teamworking. 'Outsider' buyouts were relatively less likely to report high-commitment management policies.

Management buyouts (MBOs), where ownership is more narrowly held, were also positively associated with aspects of high-commitment management, indicating that incumbent managers may have been more likely to continue with 'soft' HRM policies compared with 'outsider' buyouts. However, the association was statistically significant only in the regression involving performance appraisals. We did find that MBOs were statistically less likely to report a change in approach to managing employees after the buyout, and were less likely to indicate an increase in the importance of HRM issues after the buyout. This implies that incumbent managers in MBOs continue with existing HRM policies rather than radically changing their approach. However, there is also evidence that 'outsiders' involved in buyouts encourage a change of approach towards greater investment in HRM rather than reducing employment costs. 'Outsiders' were more likely than management-led employee buyouts to report an increase in total employment since the buyout. One interpretation of this last finding is that employees are often invited to join incumbent managers in a buyout in difficult trading circumstances. When business conditions lead to job losses, employment is more likely to be reduced by consensus if employees own a stake in the future of the business. In contrast, when 'outsider' buyouts grow and increase employment they are also prepared to increase investment in HRM.

Financial monitoring of buyouts did appear to encourage cost reduction and restrict the development of HRM, but the effect was limited to isolated 'soft' HRM policies rather than affecting all HR policies (Tables 2 and 3). Involvement of financiers in the recruitment and selection of management was negatively associated with increases in earnings for line managers and non-managerial employees, the number of employee involvement policies and the presence of profit-related pay for non-managerial staff. Involvement of financiers in payroll and reward systems was associated positively with a written HRM strategy and employment reduction post-buyout. However, in buyouts where managers reported that financiers were involved in

TABLE 2
Factors Influencing HRM in Buyouts: Logistic Regressions[a]

	Change in approach to HRM after buyout	*Written HRM strategy*	*Importance of HRM issues increased after buyout*	*Resources devoted to managing employees increased after buyout*	*Total employment gone up after buyout*	*Total employment gone down after buyout*	*Earnings of directors increased after buyout*	*Earnings of line managers increased after buyout*	*Earnings of non–managerial employees increased after buyout*
MEBO	–0.98	1.42	0.90	0.26	–1.66	3.07	1.71	–0.19	0.73
	(1.07)	(1.96)*	(0.89)	(0.26)	(1.82)$^{+}$	(2.82)**	(1.76)$^{+}$	(0.18)	(0.67)
MBO	–1.43	0.05	–0.85	–0.67	–0.05	0.79	0.72	–0.79	–0.74
	(3.05)**	(0.10)	(1.96)*	(1.51)	(0.11)	(1.20)	(1.63)	(1.72)$^{+}$	(1.65)$^{+}$
Corporate strategy									
Merger or acquisition	0.03	–0.73	0.66	0.07	0.59	–0.66	0.43	0.02	–0.51
	(0.06)	(1.38)	(1.51)	(0.16)	(1.39)	(1.28)	(1.01)	(0.04)	(1.13)
Entered a joint venture	–0.23	–0.88	0.29	0.61	1.19	–0.60	–0.24	1.69	1.21
	(0.42)	(1.66)$^{+}$	(0.54)	(1.10)	(1.84)$^{+}$	(0.86)	(0.48)	(2.49)**	(1.95)*
Increase in range of products/markets	0.81	0.36	0.09	0.79	0.68	–1.50	1.13	0.13	0.12
	(1.68)$^{+}$	(0.68)	(0.20)	(1.66)$^{+}$	(1.34)	(2.41)**	(2.44)**	(0.28)	(0.23)
Employee development plan	–0.18	1.24	0.65	0.41	1.08	–0.56	0.50	0.32	0.50
	(0.40)	(2.19)*	(1.65)$^{+}$	(0.96)	(2.45)**	(0.98)	(1.14)	(0.75)	(1.11)
Priority of business strategy									
Marketing	0.28	–0.20	0.06	–0.21	–0.26	0.12	0.25	0.09	0.32
	(1.28)	(0.78)	(0.27)	(0.96)	(1.16)	(0.36)	(1.02)	(0.40)	(1.31)
Price/quality	–0.02	0.03	0.23	0.22	–0.30	0.09	–0.18	0.00	0.01
	(0.10)	(0.12)	(1.05)	(1.01)	(1.26)	(0.34)	(0.89)	(0.00)	(0.04)
Customer service & highly trained experienced personnel	0.36	0.39	0.37	0.54	0.17	0.04	0.30	0.80	0.78
	(1.66)$^{+}$	(1.51)	(1.72)$^{+}$	(2.41)**	(0.67)	(0.15)	(1.32)	(3.71)**	(3.60)**

Table 2 (*cont'd*)

	Change in approach to HRM after buyout	*Written HRM strategy*	*Importance of HRM issues increased after buyout*	*Resources devoted to managing employees increased after buyout*	*Total employment gone up after buyout*	*Total employment gone down after buyout*	*Earnings of directors increased after buyout*	*Earnings of line managers increased after buyout*	*Earnings of non–managerial employees increased after buyout*
Financier involvement									
Recruitment, selection & development of management team	–0.03	0.16	–0.09	–0.08	–0.13	0.34	0.21	–0.60	–0.58
	(0.12)	(0.71)	(0.42)	(0.36)	(0.63)	(1.50)	(0.90)	(2.32)*	(2.01)*
Payroll & reward systems	0.29	0.62	–0.15	0.07	–0.66	0.53	0.20	0.03	–0.03
	(1.32)	(2.34)**	(0.70)	(0.31)	(3.28)**	(2.18)*	(0.80)	(0.12)	(0.10)
Monitoring of performance	0.32	–0.29	0.44	0.23	0.29	–0.62	–0.03	–0.02	0.03
	(1.49)	(1.18)	(2.09)*	(1.12)	(1.46)	(2.09)*	(0.14)	(0.12)	(0.18)
Controls									
Size	–0.11	0.35	–0.17	–0.41	–0.09	0.16	0.14	–0.26	–0.61
	(0.60)	(1.39)	(0.93)	(2.22)*	(0.42)	(0.59)	(0.72)	(1.39)	(2.92)**
Industry									
Manufacturing	–0.34	0.32	0.38	–0.75	–1.28	1.72	0.91	–0.14	0.07
	(0.71)	(0.64)	(0.84)	(1.66)+	(2.58)**	(2.63)**	(1.86)+	(0.28)	(0.13)
Trading	0.07	–1.50	0.13	–0.06	0.08	0.06	0.60	0.76	0.68
	(0.11)	(1.72)+	(0.22)	(0.09)	(0.13)	(0.08)	(0.99)	(1.32)	(1.16)
Financial	–1.14	0.41	–2.46	–2.32	0.21	–0.69	0.84	–1.24	–0.27
	(1.06)	(0.42)	(1.86)*	(1.77)+	(0.16)	(0.44)	(0.88)	(1.10)	(0.25)
Constant	1.44	–3.67	0.41	1.80	–0.05	–2.13	–2.68	1.62	3.46
	(1.26)	(2.30)*	(0.38)	(1.67)+	(0.04)	(1.20)	(2.10)*	(1.41)	(2.68)**
Pseudo R	0.19	0.20	0.14	0.16	0.20	0.25	0.16	0.18	0.23
No. of observations	128	132	133	133	131	131	131	130	132

[a] Robust *t*–statistics in parentheses; + significant at 10% level; * significant at 5% level; ** significant at 1% level.

TABLE 3

Factors Influencing HRM in Buyouts: Multiple Regressions[a]

	Methods of communication with employees	*Number of non–pay benefits available for employees*	*Percentage of employees:*						
			Appraised on annual basis	*Receiving profit–related pay*	*Receiving merit pay*	*Owning shares*	*Come together to solve or discuss problems*	*Working in formally designated teams*	*Trained for different job*
MEBO	0.32	0.24	0.31	0.13	0.25	0.47	0.18	0.34	–0.01
	(2.03)*	(3.11)**	(4.14)**	(0.98)	(2.62)*	(3.67)**	(2.00)*	(3.64)**	(0.11)
MBO	0.06	0.09	0.26	0.12	0.06	0.10	0.15	0.08	–0.03
	(0.71)	(1.01)	(2.92)**	(1.21)	(0.66)	(1.10)	(1.52)	(0.83)	(0.31)
Corporate strategy									
Merger or acquisition	0.04	0.20	–0.02	0.07	–0.06	0.00	–0.05	–0.02	–0.16
	(0.38)	(2.23)*	(0.20)	(0.70)	(0.63)	(0.01)	(0.50)	(0.19)	(1.72)$^{+}$
Entered a joint venture	0.13	0.12	0.21	0.04	0.15	0.01	0.04	–0.02	0.16
	(2.05)*	(1.35)	(2.60)*	(0.40)	(1.55)	(0.14)	(0.44)	(0.20)	(1.80)$^{+}$
Increase in range of products/	0.06	–0.19	0.04	0.07	–0.11	0.06	0.09	–0.08	0.01
markets	(0.70)	(2.07)*	(0.44)	(0.67)	(1.15)	(0.73)	(0.84)	(0.75)	(0.12)
Employee development plan	0.27	0.11	0.04	0.03	–0.06	–0.01	0.11	–0.01	0.10
	(3.89)**	(1.16)	(0.44)	(0.30)	(0.63)	(0.10)	(1.27)	(0.11)	(1.12)
Priority of business strategy									
Marketing	0.19	0.23	0.23	0.20	0.17	–0.02	0.07	0.04	–0.07
	(2.57)**	(2.55)*	(3.13)**	(2.16)*	(1.76)$^{+}$	(0.20)	(0.78)	(0.42)	(0.83)
Price/quality	–0.05	–0.15	–0.07	0.04	–0.11	–0.12	–0.13	–0.05	0.17
	(0.67)	(1.47)	(0.82)	(0.44)	(1.15)	(1.28)	(1.25)	(0.45)	(1.87)$^{+}$
Customer service & highly	0.20	0.29	0.24	0.09	0.23	0.04	0.11	–0.05	0.22
trained experienced personnel	(2.98)**	(3.59)**	(3.32)**	(1.01)	(2.71)**	(0.42)	(1.30)	(0.59)	(2.46)*

Table 3 (*cont'd*)

	Methods of communication with employees	*Number of non–pay benefits available for employees*	*Percentage of employees:*						
			Appraised on annual basis	*Receiving profit–related pay*	*Receiving merit pay*	*Owning shares*	*Come together to solve or discuss problems*	*Working in formally designated teams*	*Trained for different job*
Financier involvement									
Recruitment, selection & development of management team	–0.16	0.05	–0.04	–0.23	–0.01	–0.08	0.08	0.18	0.03
	(3.29)**	(0.74)	(0.04)	(2.56)*	(0.08)	(1.07)	(0.89)	(1.97)*	(0.32)
Payroll & reward systems	0.05	–0.01	0.09	0.08	–0.03	0.11	0.05	0.02	0.04
	(1.10)	(0.07)	(0.98)	(0.78)	(0.30)	(1.00)	(0.59)	(0.21)	(0.40)
Monitoring of performance	–0.09	0.01	–0.13	0.01	0.02	–0.17	0.00	–0.00	–0.07
	(0.93)	(0.06)	(1.84)$^{+}$	(0.05)	(0.20)	(1.85)$^{+}$	(0.00)	(0.01)	(0.85)
Controls									
Size	0.04	–0.04	–0.26	–0.12	–0.05	–0.14	–0.17	–0.11	–0.03
	(0.52)	(0.50)	(3.42)**	(1.31)	(0.55)	(1.30)	(1.83)$^{+}$	(1.17)	(0.31)
Industry:									
Manufacturing	–0.01	0.25	–0.02	0.13	–0.04	–0.09	–0.20	–0.01	5.65
	(0.12)	(2.48)*	(0.23)	(1.27)	(0.38)	(1.20)	(2.09)*	(0.08)	(1.00)
Trading	–0.01	0.06	0.04	0.01	0.15	0.17	–0.08	0.05	–5.39
	(0.06)	(0.67)	(0.43)	(0.12)	(1.48)	(1.35)	(0.75)	(0.49)	(0.86)
Financial	–0.15	–0.05	–0.02	0.01	–0.09	–0.04	–0.15	–0.19	–2.98
	(1.51)	(0.54)	(0.23)	(0.14)	(0.82)	(0.41)	(1.49)	(2.12)*	(0.32)
R-squared	0.35	0.30	0.35	0.16	0.18	0.31	0.18	0.15	0.21
No. of observations	130	126	129	127	128	132	129	128	128

[a] Standardized regressions coefficients; robust *t*–statistics in parentheses; $^{+}$ significant at 10% level; * significant at 5% level; ** significant at 1% level.

monitoring performance, these managers were also more likely to report an increase in the importance of HRM issues, and were less likely to report reductions in employment and non-managerial share ownership.

The third question related to whether corporate and business strategies are key determinants of changes in HRM after a buyout. Both corporate and business strategies were more important than financier involvement in explaining HRM in buyouts (Tables 2 and 3). Our evidence suggests buyouts pursuing a 'buy and build' corporate strategy were more likely to report an investment approach towards employees. Entering a joint venture was positively associated with increases in employment and in the earnings of managers and employees; annual or biannual performance appraisals; more employee involvement methods; and more training in wider job tasks. The reduced likelihood of a written HRM strategy for buyouts involved in joint ventures indicates a centralized approach may be inappropriate for all the business units within the joint venture.

Businesses that increased the range of products or sought new markets were also more likely to report a change in approach towards employees and increased resources devoted to HRM. They were less likely to report decreases in employment and more likely to report increased earnings for directors, although they reported fewer non-pay benefits for employees. However, buyouts that embarked upon further mergers or acquisitions reported few statistical differences from other buyouts. Businesses that developed a formal strategic plan indicating a long-term commitment to developing the business were more likely to have a written HRM strategy; increase the importance of HR issues; add to employment numbers; and have a greater number of employee involvement policies. Overall, the corporate strategy pursued by buyouts did help to explain developments in HRM. The pursuit of joint ventures, increases in product range and formal strategic planning are features of a 'buy and build' approach among buyouts which encourage an investment approach to employees rather than the pursuit of efficiencies by reducing labour costs. These findings suggest that it is important to distinguish between buyouts that pursue an innovation strategy, requiring investments in 'soft' HRM policies, and buyouts that concentrate on efficiency gains, which are more likely to adopt a 'hard' HRM approach (Wright *et al.* 2001).

The evidence from the survey also suggests that business strategy has an important impact on HRM developments. Employee ownership aside, business strategy was more important than buyout type in shaping HRM. Companies that reported customer service as an important part of their business strategy were also more likely to have changed their approach to managing employees, with an increase in the importance of HRM issues and resources devoted to such management. Furthermore, this strategy was also associated with increased earnings for managers and employees; a greater number of employee involvement policies and non-pay benefits for employees; annual or biannual appraisals; merit pay for staff; and the training of employees to perform a wider range of jobs. These findings suggest that buyouts seeking to develop markets also develop employee commitment to meet customer needs. An emphasis on marketing issues within the business strategy was positively associated with more employee involvement policies; more non-pay benefits for employees; and the presence of annual or biannual appraisals, profit-related pay and merit pay.

7. Conclusion

The above findings suggest that buyouts encourage investment in HRM. A majority of buyouts reported an increase in employment, innovations in reward systems, and an increase in employee involvement methods. This investment by buyout managers in 'soft' HRM policies supports a resource-based interpretation over agency theory predictions that managers will adopt a cost reduction approach and 'hard' HRM following buyouts. Evidence of investment in employees suggests that managers in buyouts seek to overcome a turbulent environment by refocusing on their core human assets, and that they become more dependent on effectively managing human resources for competitive success. As the performance of buyouts may well depend upon successfully managing employee commitment to the new enterprise, it is consistent that new management strategies to develop employees are adopted following changes in ownership and an amalgamation or split in organizational form (Millward *et al.* 2000: 24).

The findings also highlight differences between buyouts, and clarify the important factors that explain developments in HRM following a buyout. We have demonstrated that managers implement different types of HRM policy according to the type of buyout, and that the extent of employee ownership in the buyout was particularly important. MEBOs were more likely to report high-commitment management strategies emphasizing employee involvement and task flexibility. MBOs also differ from 'outsider' buyouts, suggesting that incumbency is a factor. However, the differences between MBO and 'outsider' buyouts were less than those between MEBOs and 'outsider' buyouts. Although incumbent managers continued with their pre-buyout approach to managing employees, they were also less likely than outsider buyouts to increase the resources devoted to HRM. This probably reflects the new incentive framework imposed by financiers. Managers in MBOs who are rewarded with stock options linked to financial performance targets may be prepared to forgo plans to invest in developing their employees. Our conclusion is that developing a 'soft' HRM approach is more likely if employees have an ownership stake in buyouts. On the basis of this evidence, employee ownership in the buyout is a more important factor than whether the buyout is led by an incumbent management team or 'outside' managers and investors.

Although the contrast between MBOs and outsider buyouts suggests that the latter may encourage investment in HRM, the direct involvement of financiers in human resource issues was also associated with downward pressure on pay and employment. These findings support the agency view whereby the closer monitoring of management by financiers leads to a search for efficiencies in buyouts. However, the direct involvement of financiers was low overall, indicating that management teams in most buyouts had a reasonable degree of latitude to develop human resource policies to support their business strategy. As a result, many were able to develop employee commitment and skills to support 'buy and build' strategies. Although unusual, in certain cases financiers were involved directly in operational management issues. We conjecture that this is consistent with the notion that financiers intervene only when they feel that management is not delivering improvements to meet the performance levels expected from the buyout, possibly because of crisis conditions.

Overall, the business strategy pursued by the buyout was more important than incumbent managers and financial control. This suggests that we can explain HRM developments by distinguishing between offensive and defensive buyouts. Offensive buyouts emphasizing customer service and developing markets were more likely to invest in developing employee skills and commitment. This supports the financial and strategic control theory, which predicts that executives are empowered to re-establish strategic control after the buyout. The business strategies pursued following a buyout had important consequences for HRM. The buyouts seeking to develop markets and enhance customer service were more likely to report a coherent attempt to increase employee commitment through 'soft' HRM policies. Whereas the company-level industrial relations surveys demonstrated that the boards of large diversified corporations rarely considered HRM issues as part of corporate strategy (Purcell 1995; Sisson 1995), buyouts appear to involve a reconnection between the strategic direction of the buyout and HRM. Although we can only speculate on the precise process, the reconnection between strategy and HRM may occur because managers refocus on the importance of internal assets for future buyout performance and develop 'soft' HRM policies. Buyouts appear to reunite strategic with operational management and to encourage a strategic style of 'issue-driven', rather than purely 'numbers-driven', planning (Sisson and Marginson 1995: 104–5). As a consequence, the trend in corporate governance towards buyouts provides new opportunities for managers to develop 'soft' HRM policies to address people management issues and support business strategy, rather than 'hard' HRM policies devised after strategic planning dominated by financial objectives. Buyouts appear to flourish because they enable managers to develop new business strategies and implement the necessary investment in human resource management.

A key message that comes out of the findings is that strategy is more important than control in explaining the adoption of sophisticated HRM in buyouts. This emphasis on a resource-based view rather than an agency theory explanation has important implications for the literature, which has traditionally tended to emphasize control factors in the management of buyouts. It also suggests that the restraint of financial controls on HRM in large conglomerates may be overcome to create businesses capable of competing through developing human assets. There is a need for further conceptual development concerning the factors that impede or promote the changes to HRM policies following buyout. For example, there may be strong path dependence in the evolution of HRM policies in firms, such that inherited competences and routines influence the nature of changes post-buyout (Baron *et al.* 1999). An RBV perspective also suggests that managers' idiosyncratic skills in buyouts may be as important as, if not more important than, the effect of changed incentives (Castanias and Helfat 2001; Barney *et al.* 2001). Further analysis is needed of the links between these skills, the strategies that management adopt and the implications for HRM policies.

Our findings add to growing recognition of the need to examine the heterogeneity of buyouts beyond the highly leveraged buyouts of large listed companies in stable, mature sectors with few investment opportunities, which has been the focus of much research in the United States. These transactions were always a small part of the market, even in the USA, and are even less important elsewhere. Our analysis is consistent with recent market developments suggesting that investors in buyouts now need to seek gains from growth, rather than relying on cost cutting and downsizing as in the past. The development of human assets is an important component in achieving these gains.

There is also a need for further empirical analysis of HRM development following buyout. Is there a once-for-all shift, or are the changes part of a dynamic search over time for an appropriate set of HRM policies? In addition, since there is a clear life-cycle of buyouts (Wright *et al.* 1994), how does the mix of HRM policies influence the longevity of the buyout, and to what extent does this mix change when the buyout is subsequently sold or floated on a stock market? This in turn links to the need to assess the relationship between the development of HRM policies and changes in firm performance. Future research may establish whether developing HRM is essential for the subsequent performance of all buyouts, or whether HR investments are more critical for buyouts that adopt business strategies of enhancing customer service and developing markets.

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Notes

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2. With respect to industry categories and transaction values, chi-squared tests for differences between the sample and population were insignificant. Pairwise *t*-tests

of differences between the sample and population proportions revealed statistically significant differences (at 5 per cent level) in only five out of 27 sectors. In terms of sources of buyouts (e.g. MBO, MEBO or 'outsider' buyouts), using a chi-squared test, no significant difference was detected between the sample and population shares. Further details are available from the authors.

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