

Institution: University of Nottingham
Unit of Assessment: 19 Business and Management Studies
Title of case study: The Centre for Management Buyout Research (CMBOR); Providing an evidence-based platform to inform private equity policy and practice.
<p>1. Summary of the impact</p> <p>The Centre for Management Buyout Research (CMBOR) pioneered a unique live platform that has informed and influenced the work of UK, European and International government agencies, industry, policy makers, practitioners and researchers. For the first time, CMBOR provided systematic research evidence on private-equity buyouts which is an area that is often misunderstood among policy makers and the wider public. The provision of extensive data on over 30,000 European private equity buy-out transactions and quarterly reports / analyses on buy-out activity has served to enhance government, industry and the wider public's understanding and inform the development of policies and practice on a strategic and operational level in the UK, Europe and US.</p>
<p>2. Underpinning research</p> <p>The underpinning research examines the social, economic and financial impact of private equity, focusing on: employee relations, productivity, employment, survival and profitability. Private equity buyouts involve the acquisition of a company by specialist financial investors using cash from equity funds and debt. Financial investors monitor senior management and are involved in strategy. Senior management acquire significant equity stakes. These arrangements are expected to improve performance in under-performing firms.</p> <p>For the first time, our research provides systematic evidence on a controversial debate in an area little understood amongst policy-makers and the wider public. The private equity industry claimed a positive impact and critics claimed private equity backing leads to adverse effects on employment and employee relations, short termism, increased risk of insolvency, weak growth and vulnerability during economic downturn. As CMBOR's primary data have been collected continually since 1986, involving the creation and real-time maintenance of the database of 30,000 private equity buyout transactions across Europe, we are uniquely placed to provide this breadth and depth of analysis.</p> <p>Additionally, the data form the basis of quarterly reviews of trends, enabling practitioners to enhance their sector knowledge and inform their decision-making. This database facilitates more in-depth research. For instance, a 2008 survey of buyout firms' directors across Europe leading to publications [1] and [3] in section 3, combination with government plant-level data leading to publication [6], and combination with firm-level data leading to publications [2] and [5] and a review paper [4]. The main insights are:</p> <p>Employment and wages: We found evidence on employment effects more nuanced than critics and proponents of buyouts were arguing. When buyouts are treated as a homogeneous group no employment effect is found; however, when separated into different types: management buyouts experienced positive employment growth but management buy-ins experienced employment reductions [5].</p> <p>Employee relations: Contrary to anecdotal evidence private equity backed buyouts in Europe are more likely to report increased use of high performance work systems. These companies did not result in changes to union recognition, membership density, or changes in management attitudes to labour union membership [1, 3].</p> <p>Additionally:</p> <p>Productivity: Comparing buyouts with the population of non-buyouts in over 100,000 plant-level-year observations, we found plants prior to buyout under-performed comparable non-buyout plants but post-buyout plants experienced increased productivity, which exceeded improvements in non-buyouts [6].</p>

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Survival and Profitability: Comparing matched private equity backed buyouts and non-buyout companies in the population comprising some 13 million company-years, private equity backed buyouts were more profitable, were less likely to become insolvent than comparable non-private equity backed buyouts and listed companies, and had a recovery rate in insolvency twice that of listed company insolvencies. [2].

Output was initially through reports to research sponsors followed by publication in academic journals listed below.

The research was carried out by:

- Mike Wright (Professor of Financial Studies, started NUBS 1/10/78, left 31/8/11 to Imperial College)
- Nick Bacon (Professor of Industrial Relations, started NUBS 01/01/96, appointed Professor 1/1/02, left 30/9/11 to Cass Business School)
- Kevin Amess (Associate Professor in Industrial Economics, started NUBS 1/1/05)
- Louise Scholes (Lecturer in Entrepreneurship, started NUBS 1/9/01, appointed Lecturer 1/2/10, left 31/8/12 to Durham Business School).

3. References to the research

- [1] Bacon N, Wright M, Meuleman M, et al, The Impact of Private Equity on Management Practices in European Buy-outs: Short-termism, Anglo-Saxon, or Host Country Effects?, INDUSTRIAL RELATIONS, 2012, 51:605-626. [ABS 4*] [impact factor 1.477]. DOI: 10.1111/j.1468-232X.2012.00692.x <http://onlinelibrary.wiley.com/doi/10.1111/j.1468-232X.2012.00692.x/pdf>
- [2] Wilson N, Wright M, Siegel DS, et al, Private equity portfolio company performance during the global recession, JOURNAL OF CORPORATE FINANCE, 2012, 18:193-205 [ABS 3*] [Impact factor 1.447]. <http://dx.doi.org/10.1016/j.jcorpfin.2011.11.008>
- [3] Bacon N, Wright M, Scholes L, et al, Assessing the impact of private equity on industrial relations in Europe, HUMAN RELATIONS, 2010, 63:1343-1370. [ABS 4*] [Impact factor 1.729]. DOI: 10.1177/0018726709350087 <http://hum.sagepub.com/content/63/9/1343.full.pdf+html>
- [4] Cumming D, Siegel DS, Wright M, Private equity, leveraged buyouts and governance, JOURNAL OF CORPORATE FINANCE, 2007, 13:439-460. [ABS 3*] [Impact factor 1.447]. <http://www.sciencedirect.com/science/article/pii/S0929119907000272> [accessed 8/10/13].
- [5] Amess, K.; Wright, M, "The Wage and Employment effects of leveraged buyouts in the UK" International Journal of the Economics of Business, 2007, 14 (2):179-195. [ABS 3*] [no impact factor]. http://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=8&cad=rja&ved=0CFkQFiAH&url=http%3A%2F%2Fwww.researchgate.net%2Fpublication%2F227345816_The_Wage_and_Employment_Effects_of_Leveraged_Buyouts_in_the_UK%2Ffile%2F79e415134931a9f1a6.pdf&ei=rNTUoXMBuKW0AXixIGIDA&usq=AFQjCNHJXD-w53Mw69mtfJ6nGMilyWszAQ&bvm=bv.53537100,d.d2k [accessed 8/10/13].
- [6] Harris R, Siegel DS, Wright M, Assessing the Impact of Management Buyouts on Economic Efficiency: Plant-Level Evidence from the United Kingdom, Review of Economics and Statistics, 2005, 87:148-153. [ABS 4*] [Impact factor 2.664]. <http://www.mitpressjournals.org/doi/pdf/10.1162/0034653053327540>

The grants/services rendered on which the research was based are:

- To Professor Mike Wright, grants for joint "sponsorship of CMBOR" from Barclays Private Equity [1986-2011], Deloitte [1986-2008] and Ernst and Young [2010-2011] totalling £1.98 million [approx.] covering the period from 1993 to 2011.
- To Professors Mike Wright and Nick Bacon from the European Venture Capital Association for survey of employee relations in European private equity firms [2007-2008] of Euros 95,000.
- To Professors Mike Wright and Nick Wilson [Leeds University] from the British Venture Capital Association for studies of survival of PE backed portfolio companies and for the performance of PE backed portfolio companies through the economic cycle [2008-2011]. Totalling £50,000 [approx.]

4. Details of the impact

4.1 Process of dissemination

The strategy to maximize impact of CMBOR output and to continually enhance the database platform is discussed formally at quarterly meetings with senior level sponsors and through regular informal meetings. From 1/1/2008, CMBOR logged 992 items of media coverage, 152 items appearing in 'world quality' media (Financial Times, Wall Street Journal, Economist) [Evidence G in section 5]. Our employment effects study was disseminated in, e.g., FT, Guardian and BBC2 Newsnight from 2008 onwards, and citations in reports and direct responses to enquiries, e.g., in the US Government Accountability Office report "Private Equity: Recent Growth in Leveraged Buyouts Exposed Risks That Warrant Continued Attention" [C] and the Bank of England Quarterly Bulletin (BEQB), 2013 [H].

4.2 Beneficiaries

The database was developed as the industry partners recognized the potential impact on their marketing and strategy of sponsoring *the* leading edge source of information in this area, following an initial initiative by Wright that they picked up on. Our research had an impact through its depth and reach (UK, Europe, International –practitioner bodies/associations, policy-makers) and had a significant transformative effect [reducing 'harm' (effect on Alternative Investment Fund Managers Directive, AIFMD), improved industry understanding and practice (delivered through Equistone Equity Partners, Ernst & Young, Institute for Chartered Accountants in England and Wales, British Venture Capital Association), and to Government and regulators (Vince Cable, US Government Accountability Office (GAO), Bank of England).

4.3 Impact

Impact on government and regulators:

Our employee relations study [1,2], initially commissioned and published by European Venture Capital Association (EVCA) and disseminated to members, the press and policy-makers, played an important role in the European Commission debate concerning the AIFMD especially during 2008-2010. The impact for EVCA is conveyed by their former head of research:

"... The evidence ... by CMBOR played a crucial role in helping us achieve our main objective ... the proponents of ... AIFMD were aiming to distort the level playing field between buyout funds and trade buyers ... that ... would have reduced significantly the activity of the former. Based on ... evidence produced by CMBOR, EVCA managed to prevent such an outcome." [B].

CMBOR research and our Gilligan & Wright ICAEW commissioned publication had the impact of allowing the Bank of England's Stability Unit to better understand leverage in private equity deals and inform policy discussions at the Bank and was extensively referred to in the subsequent BEQB report, widely read by policymakers and practitioners as representing the Bank's view on this topic. Our work [especially 5] had the impact of the US GAO being able to explain to the US Congress the efficiency gains associated with a free market for corporate control and the impact on employment during 2008/9 [C].

Our productivity study [6] had the impact of providing hard systematic evidence informing a House of Commons debate on private equity in 2008 as cited in Hansard [F]. The survival and performance results were published by BVCA, and in Journal of Corporate Finance 2012, with impact during 2008-2012 seen in the following BVCA comment:

"... This study helped address some ... misconceptions around the PE industry ... and was highly influential when meeting with policymakers, setting fears to rest about the ... need for tighter controls or regulation ... The findings that PE-backed buyouts ... were less likely to enter insolvency, were highly significant and influential in our discussions with external stakeholders ... who had assumed that PE-backed firms would struggle during the downturn." [A].

These benefits impacted government. BIS Secretary of State Vince Cable commented when launching the AcSS booklet "Making the Case for the Social Sciences: No.6 Management" [J] our

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research therein showing private equity buyouts performed more strongly [publication 2]: "This is quite an interesting conclusion that goes against ... accepted wisdom but is quite relevant in terms of the work of this department in promoting non-bank finances."

Within the industry:

Our analyses have a novel impact on understanding and practice within the industry throughout the REF period:

"... CMBOR has become one of the most important contributors to private equity research ... Its pioneering comprehensive analysis over [a] quarter of a century has made a major difference in enhancing ... objective understanding of private equity ... Led by the peerless Mike Wright,... his team have worked tirelessly to provide invaluable insight ... their work is more valuable now than ever." [testimonial A in section 5]

For sponsors, the research had the impact of enabling them to develop strategy based on the market trends we identified and as a result being " a major factor in causing Deloitte to be perceived as an authoritative commentator on the market and as an experienced adviser on PE transactions" [D] in 2008-9 (for example, Deloitte was ranked No.1 Big4 Financial Adviser to European Mid-Market M&A (by volume) [MergerMarket, 2009]) and helped Equistone Equity Partners (sponsors since 1986) make "informed and quantifiable decisions" about their positioning in the private equity market throughout the REF period[E].

The private equity debate showed that many commentators [e.g. Treasury Select Committee] had poor understanding and were unaware of the systematic evidence available. Tables in paper [4] were developed in our ICAEW commissioned monograph "Private Equity Demystified", co-written with John Gilligan a former MBA student of Wright and partner in PKF Corporate Finance (Evidence [I]). Now with the fourth edition in preparation, this has been sent to the 6,000 Corporate Finance members and policymakers in 2008, 2010 and 2012 and is the "definitive guide to buy-out transactions" and had the impact that ICAEW were able to inform UK MPs and civil servants on private equity, to interest European Commission officials, and to develop policy positions on private equity-type investments [D]. A practical impact was that Gilligan used it in his training of practitioners at PKF and the BVCA recommended it to its 7,000 members (<http://bvca-research-library.wikispaces.com/>).

5. Sources to corroborate the impact

Corporate corroboration (individual testimonial letters):

- [A] Colin Ellis, formerly of The British Private Equity & Venture Capital Association (BVCA) (23/1/12)
- [B] Didier Guennoc, formerly of The European Private Equity & Venture Capital Association (EVCA) (11/10/12)
- [C] Mike Hoffman, Senior Economist, Center for Economics, U.S. Government Accountability Office, USA. (9/11/12)
- [D] Chris Ward, former head of private equity, Deloitte and head of Corporate Finance Faculty, ICAEW (17/10/12)
- [E] Christiian Marriott, Investor Relations Director, Equistone European Partners (25/10/12)

Additional support material:

- [F] Report in Hansard March 2008 of Private Members Bill Debate on Private Equity and TUPE
- [G] CMBOR Press Packs 2008-2012 [to be provided].
- [H] Gregory, D. 2013. Private equity and financial stability. Bank of England Quarterly Bulletin 53(1), 38-47.
- [I] Link to Private Equity Demystified 2012 pdf at ICAEW:
<http://www.icaew.com/~media/Files/Technical/Corporate-finance/Financing%20change/privateequity-updated-2012-final.pdf>
- [J] AcSS. 2012. "Making the Case for the Social Sciences: No.6 Management"