Leveraged buyouts can be beneficial for employees, study finds

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There has been much research linking the rising levels of influence that financial market institutions exert over firms with the negative trends in human resource management (HRM), such as employment insecurity, wage dispersion, trade union decline, and lower job quality.

One strand of research has looked at the consequences for HRM of leveraged buyouts (LBOs). LBOs involve the acquisition of firms by specialist equity and debt providers (such as Private Equity funds), using debt secured against the acquired firm's assets and/or future cash flows, with a view to improving performance and then selling the business for profit at a later date.

Prominent LBOs in the last 20 years include Alliance Boots, Burger King, Hertz, Hilton Hotels, and Yell Group. It's a significant business. Private Equity-backed firms now account for more than 10% of private sector employment in the U.K. and the U.S.

A common starting point for assessing the impact LBOs might have on job quality is to apply wealth transfer theory. This argues that following a buyout, the new owners will extract rents from the workforce by increasing the demands of their jobs and allowing the workforce lower job discretion and participation in decision-making. The wealth transfer theory anticipates that poorer employee well-being would result from higher job demands and lower job resources.

In addition, some argue that outsider purchasers (such as Private Equity) are motivated solely by personal financial gain, and will therefore seek to restrict investment in the newly acquired workforce. Some case studies have indeed identified significant lay-offs and wage reductions in certain instances.

However, a study entitled "Financialisation and the management of people: Are leveraged buyouts bad for intrinsic job quality?", which was co-authored by Professor Nick Bacon of Bayes Business School with Kim Hoque, Muhammad Umar Boodoo, and Mike Wright, and published in *Human Resource Management Journal*, questions the wealth transfer theory prediction that LBOs extract rents from the workforce at the cost of poorer intrinsic job quality.

It develops a "work re-contracting" perspective that hypothesizes that while LBOs do impose higher job demands on employees, they also provide higher job resources, meaning that levels of employee well-being and affective outcomes would be expected to be no different.

The study draws on the management and employee surveys within the nationally representative British Workplace Employment Relations Survey 2011, into which are merged unique variables on the buyout status of the workplace from the comprehensive dataset of LBOs contained in the Center for Management Buyout Research database.

Using this data, the paper tests a number of hypotheses comparing intrinsic job quality in LBOs to that in non-LBOs. In the comparisons, different types of LBO, such as Private Equity LBO, Management Buy-Ins and Buy-Outs, short and long-hold LBOs, and high and low-debt LBOs, are considered.

It finds LBO employees do report partially higher job demands but also increased discretion and participation, and also equivalent job-related mental health, job satisfaction, and commitment.

Other findings include:

- Partial evidence of higher job demands and evidence of higher job resources in long-hold LBOs than in non-LBOs
- Partial evidence of both higher job demands and higher job resources in low-debt LBOs
- In outsider LBOs (Private Equity LBOs and management buy-ins) we see higher job resources but not higher job demands than

in non-LBOs
- Job-related mental health, job satisfaction, and commitment were no lower in any of the LBO types, with the exception of poorer job-related mental health in non-Private Equity LBOs

These results would seem to contradict wealth transfer arguments that in LBOs new owners from outside the firm will abrogate implicit contracts to extract workforce rents. The findings are generally more consistent with the workforce re-contracting perspective that both job demands (work intensity) and resources (job discretion and participation in decision-making) will be higher in LBOs, and that employee well-being will not suffer.

Professor Nick Bacon said, "To some, LBOs are emblematic of 'predatory capitalism' and can only be considered as deleterious for workers' intrinsic job quality, inevitably leading to poorer working conditions, increased stress, weakened morale, and declining job satisfaction.

"The findings of our study dispute such assertions, and our analysis suggests that rather than disrupting labor-management relations, LBOs (particularly PE LBOs, MBIs, long-hold and low-debt LBOs) can lead to greater employee discretion and participation in decision-making to improve firm performance.

"LBO activity might even prove preferable to the short-term investment thinking in publicly-traded companies, which can stifle more positive employment relations. It would certainly appear that LBOs may be less of a threat to intrinsic job quality than has been suggested."

More information: Kim Hoque et al, Financialisation and the management of people: Are leveraged buyouts bad for intrinsic job quality?, *Human Resource Management Journal* (2023). DOI:

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