Strategic Changes in Family Firms Post-Management Buyout: Ownership and Governance Issues

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Abstract

When no suitable family successor can be identified, private family firm owners may select a management buyout (MBO) or a management buy-in (MBI) exit route. After a private equity backed MBO/I, new owners may select strategies that encourage superior firm performance. We explore the strategic orientation of former private family firms pre- and post-MBO/Is. Ownership and governance issues are considered. Following insights from agency and stewardship theory, several hypotheses are derived. We utilize a unique hand-collected representative sample of 104 MBO/Is located across Europe. Univariate analysis suggests greater scope for efficiency gains and growth in cases where the founder was present at time of buyout, where no managers with equity stakes or non-executive directors were employed pre-buyout, and where the private equity investor and management were involved in succession planning. Multinomial logistic regression suggests efficiency gains in firms with no equity holding non-family managers pre-buyout. Conclusions and implications are discussed.

Key Words: Family firm, succession, management buyout, private equity, ownership, governance, strategy.

Introduction

Private family firm survival and development is an important entrepreneurial sustainability issue (Westhead, et al., 2001: 369). The typical family firm has traditionally been assumed to be owned and managed by a concentrated group of family members with firm objectives closely linked to family objectives (Zahra et al., 2004: 363). Some family firms have diverse ownership and control structures (Westhead et al., 2001: 369). These latter issues can shape firm survival and development. The internal succession process within family firms is widely debated (Sharma and Irving, 2005: 13). When there is no suitable family successor, the family owners may select a management buyout (MBO) or buy-in (MBI) ownership succession option, henceforth termed a 'buyout'. New incentive and governance structures are generally introduced post-buyout, particularly when the buyout is private equity backed. To ensure competitive advantage, the buyout owners may change the strategic orientation of the former private family firm. A distinction has been made between efficiency and growth / expansion strategies (Wright et al., 2000: 591). Underperforming firms may select a strategy to improve firm performance (i.e., efficiency buyout) (Jensen, 1993: 831). In addition, new buyout owners may be forced to focus on profit maximization (i.e., cost reduction) post-buyout if large debts were incurred during the buyout process. Buyout owners not restrained by 'family agendas' and / or by family dominated ownership and governance structures may select growth / expansion strategies. Despite recent research (Scholes et al., 2007: 329), there is scant empirical evidence relating to strategic change in former private family firms post-buyout. In this study, insights from agency and stewardship theories are drawn upon to explore the following under-researched question:

Q1 Are the strategic changes of former private family firms reporting a buyout linked to the ownership and governance structure of the firm pre-buyout?

This question is explored using a novel hand-collected representative questionnaire survey of 104 private family firms located across Europe which underwent a buyout funded by private equity between 1994 and 2003. The strategic changes post-buyout are compared using univariate and multivariate analyses.

Theory and Hypotheses

Management Buyout as a Succession Option

There is a dearth of empirical evidence relating to how private firms move across ownership thresholds, defined as the transition from one phase of a firm's life-cycle to another (Filatotchev and Wright, 2005). If a suitable family successor is available, ownership and control can be transferred within the family (Sharma et al., 2003: 667). If owners perceive that there is no suitable family successor, an option is to transfer of family firm ownership to existing managers through an MBO or to external managers through an MBI (Bleackley et al., 1996: 37). Post-buyout there is a greater possibility that the firm's identity and ethos will remain the same, both of which are important for family firm owners (Westhead, 1997: 127). In both MBOs and MBIs, many incumbent managers remain in place and family members can continue to be involved. Buyouts are viewed, in principle, by owners of family firms as a good way to solve succession problems (Bygrave et al., 1994). Evidence suggests that around a fifth of all buyouts in Europe involve the take-over of private family firms (CMBOR, 2005).

As family firms progress from one generation to the next, the structural form of the firm may change (Lansberg, 1999). Family owners may have sold some of their company's shares to 'outsiders' to facilitate firm development. Ownership dilution may enable non-family managers to shape company objectives and development but may also lead to agency costs (Schulze et al., 2002: 247). In line with stewardship theory, stereotypical family firms that are closely held, family owned and family managed may focus on non-financial interests. Their prevailing culture may be organization (family) serving. Non-family managers may, however, pursue financial objectives to maximize personal gain (Donaldson and Davis, 1991: 49). The process of moving across ownership thresholds needs to be explored with regard to prevailing governance structures (Lynall et al., 2003: 416). The governance structure of the family firm pre-buyout can consist of executive directors, non-executive directors (NEDs), managers (family and non family) and representatives from private equity firms. Private equity firms may become involved in succession planning pre-buyout. Many family firms have small boards while larger boards of directors and more outside (non-family) directors may be associated with growing family firms and / or firms dealing with agency issues (Barach, 1984: 3).

Ownership and governance change following a buyout may facilitate strategic orientation change (Wright et al., 2000: 591). Most buyout studies adopt an agency-based explanation to explore efficiency buyouts associated with limited managerial freedom to reduce debts incurred during the buyout process. Yet, lifting investment restrictions imposed by former owners (Wright et al., 2001: 239) and stimulating entrepreneurial activities (Zahra, 1995: 225) may promote innovation and increased R&D expenditure.

Ownership Issues

To grow and survive, some private family firms may no longer have aligned ownership and management in the same 'family' hands, raising potential agency issues between separated family owners and non-family managers. Ownership complexity can vary from the founding family to more than one family group (Westhead et al., 2001: 369). Founders present pre-buyout can shape strategic orientation but may be unable or unwilling to adjust their decision-making style even when the market, technological and regulatory environments suggest a need to change strategy (Wright et al., 2001: 239). Non-family managers with good networks with customers and suppliers (Howorth et al., 2004: 509) may have a better market understanding than the owners. However, non-family managers with minority or no equity stakes who perceive a need for strategic change may only be able to effect change once the buyout has taken place. Hence:

H1: Strategic change is expected post-buyout if the family firm's founder was present pre-buyout.

H2: Strategic change is expected post-buyout if the family firm had no non-family managers with equity stakes pre-buyout.

Governance Issues

Owners seeking to minimize risks when focusing on financial objectives may introduce agency control mechanisms such as NEDs (Schulze, et al., 2002: 247). Many family firm owners are reluctant to employ individuals outside their kinship group with authority to monitor owners' performance. NEDs can exert pressure on to perform more effectively and leverage their knowledge and networks to facilitate a strategic focus on efficiency as well as growth. Relatively few smaller private companies, however, employ NEDs (Westhead, et al., 2001: 369). Hence:

H3: Strategic change is expected post-buyout if the family firm had no non-executive director pre-buyout.

Many family firms fail to plan for succession (Cliffe, 1998: 16). If non-family managers are involved in the process they can provide information and expertise not held by family owners (Howorth et al., 2004: 509). Family managers may, however, be reluctant to engage non-family managers in the succession process. Private equity investors can be another source of information and expertise which can be drawn upon by family firm owners (CMBOR, 2005). If non-family managers and private equity investors are involved in succession planning they may shape the future strategic direction of the firm, which may involve growth/expansion and efficiency gains (Wright et al., 2000: 591). Hence:

H4: Strategic change is expected post-buyout if the management was involved in succession planning pre-buyout.

H5: Strategic change is expected post-buyout if private equity firms were involved in succession planning pre-buyout.

Data and Methods

Sample, Data Collection and Respondents

The sample was derived from the Centre for Management Buyout Research (CMBOR) database that effectively comprises the population of MBOs and MBIs across Europe. A twice-yearly survey of private equity firms, intermediaries and banks is conducted to obtain new deals. Press and annual Corporation reports are used to gather additional data. We focus on private family firms receiving private equity between 1994 and 2003. A broad definition was adopted (Westhead and Cowling, 1998: 31), with a family firm defined as having more than 50 per cent of the ordinary voting shares owned or controlled by a single family group related by blood or marriage, and the firm is perceived to be a family business.

The postal questionnaire was administered between June and September 2004. Senior management involved in negotiating the buyouts possessed the detailed information requested, and were regarded as key informants (Kumar et al., 1993: 1633). The questionnaire was mailed to the chief executive officers (CEOs) of 1,645 private family firms reporting succession through a private equity-backed buyout. Information was gathered from 104 MBO/Is, a 6% response rate and in line with similar surveys in Europe (Bygrave et al., 1994). Data was gathered from 47 MBIs and 57 MBOs. Respondents were in senior positions: CEOs/Presidents (83%), Directors including deputy CEO (15%), and senior management (2%).

Country and industry distributions of surveyed firms do not markedly differ from national population distributions of private formerly family-owned buyouts (Tables 1 and 2). Respondents in construction activities were slightly over-represented, whilst respondents in computing / electronics were slightly under-represented.

Measures

Dependent Variables

Respondents were asked to rank six statements relating to strategies aimed at improving efficiency (i.e., net profit from operations, cash flow from operations, return on shareholder equity, short-term profitability, long-term profitability and capital restructuring), and three statements relating to growth and expansion (i.e., sales growth, market value increment and market share expansion). Respondents ranked statements pre- and post-buyout on a five-point Likert scale ranging from 1 = very low importance to 5 = very high importance. Respondents indicating a strategy was 'more important post-buyout' were allocated a value of '1', 'no change in importance' respondents were allocated a value of '0', and 'less important post-buyout' respondents were allocated a value of '-1'.

Independent Variables

Respondents reporting the firm was founded and not bought or inherited were allocated a value of '1', and '0' otherwise (FOUNDED). Respondents reporting non-family management with equity stakes pre-MBO/I were allocated a value of '1', and '0' otherwise (NFM). Firms that employed a non-family non-executive director pre-MBO/I were allocated a value of '1', and '0' otherwise (NED). Respondents reporting management were involved in succession planning pre-MBO/I were allocated a value of '1', and '0' otherwise (MANSP). Respondents reporting private equity firm involved in succession planning pre-MBO/I were allocated a value of '1', and '0' otherwise (PESP).

Control Variables

Firm age (years) on MBO/I was ascertained (AGE). Further, the number of employees in the year before the MBO/I was ascertained (SIZE). Respondents reporting the family firm was headquartered in the UK pre-MBO/I were allocated a value of '1', and '0' otherwise (UK). Respondents reporting an MBO transaction were allocated a value of '1', whilst those reporting an MBI transaction were allocated a value of '0' (MBO). Finally, respondents reporting the percentage equity owned by the private equity firm post-MBO/I was greater than 50% were allocated a value of '1', and '0' otherwise (PESHARE).

Data Analysis

Table 3 provides means and standard deviations for the continuous variables, whilst the frequencies for the dichotomous variables are reported in Table 4. Univariate and multivariate statistical analyses were conducted. The univariate analysis relates to marginal homogeneity test (MHT) statistics. This test is used in repeated measures situations and explores whether combinations of values between two paired ordinal variables are equally likely. The test was used to determine any significant difference in responses pre- and post-buyout regarding the nine strategy statements.

Multinomial logistic regression (MLR) models were computed for the nine strategy statements relating to the 'more important post-buyout' ('1'), 'no change in importance' ('0'), and 'less important post-buyout' ('-1') responses. The 'no change in importance' ('0') response was selected as the reference category. Base models relating to the control variables and full models relating to the independent and control variables were computed. The MLR calculation takes by default the value 0 (rather than 1) for each dichotomous variable (variable (0)) and then calculates the likelihood of variable (0) being 'more important' or 'less important' relative to the 'no change' category. Only three strategy statements, all relating to efficiency improvements rather than growth/expansion, had full models that were significant at the 0.1 level or lower. The latter models relating to the return on shareholder equity, capital restructuring, and short-term profitability dependent variables are discussed below. Two goodness-of-fit measures relating to multinomial logistic regression analysis are commonly reported (Cohen et al., 2003). Deviance as indicated by the *log likelihood* coefficient is a 'badness-of-fit' measure, and weak 'explanatory' models generally report higher deviance coefficients. The *pseudo* R^2 coefficient provides an indication of the 'explanatory' power of the model. While similar in principle to the adjusted R^2 reported in ordinary least squares (OLS) regression models, non-OLS regression models generally report lower pseudo R^2 coefficients (Hosmer and Lemeshow, 2000). The *log likelihood* coefficients and the *pseudo* R^2 coefficients are reported.

Results

Univariate Analysis: *Ownership and Governance Structure*

Respondents in founded firms (FOUNDED) were more likely to cite higher importance scores post-buyout regarding all six statements relating to improving efficiency, and all three statements relating to future growth and expansion (Table 5). Respondents reporting no non-family management with equity stakes (NFM) pre buyout were also more likely cite higher importance scores post-buyout with regard to all six statements relating to improving efficiency, and all three relating to growth and expansion.

Respondents reporting that a non-executive director (NED) had not been employed pre-buyout (Table 6) were more likely cite higher importance scores post-buyout with regard to all six statements relating to improving efficiency, and all three relating to growth and expansion. Respondents reporting management involved in succession planning (MANSP) were more likely to cite higher importance scores post-buyout regarding five statements relating to improving efficiency (i.e., net profit from operations, cash flow from operations, return on shareholder equity, long-term profitability and capital restructuring), and two statements relating to future growth and expansion (i.e., market value increment and sales growth). Respondents reporting private equity firm involved in succession planning (PESP) were more likely to cite higher importance scores post-buyout regarding all six statements relating to improving efficiency, and all three statements relating to future growth and expansion.

Multivariate Analysis: Ownership and Governance Structure

Control variables relating to the propensity to cite the return on shareholder equity strategy was 'more important post-buyout' were included in Model 1 in Table 7. The model has a *pseudo* R^2 of 0.23 and is significant at the 0.1 level. Independent and control variables relating to the propensity to cite the return on shareholder equity strategy was 'more important post-buyout' were included in Model 2. The model has a *pseudo* R^2 of 0.36 and is significant at the 0.1 level. Only one independent variable was significant. Respondents reporting no non-family management with equity stakes (i.e. NFM (0)) pre-buyout were significantly more likely to cite the 'more important post-buyout' response at the 0.05 level.

Control variables relating to the propensity to cite the capital restructuring strategy was 'more important post-buyout' were included in Model 3. The model has a *pseudo* R^2 of 0.25 and is significant at the 0.05 level. Independent and control variables relating to the propensity to cite the capital restructuring strategy was 'more important post-buyout' were included in Model 4. The model has a *pseudo* R^2 of 0.41 and is significant at the 0.05 level. No independent variables were significant. Three control variables were significant. Respondents reporting the percentage equity owned by the private equity firm post-MBO/I was 50% or less (i.e. PESHARE (0)) were significantly more likely to cite the 'more important post-buyout' response at the 0.05 level. Management buy-in firms (i.e. MBO (0)) were weakly significantly more likely to cite the 'more important post-buyout' response at the 0.1 level. Non-UK firms (i.e. UK (0)) were weakly significantly more likely to cite the 'more important post-buyout' response at the 0.1 level.

Control variables relating to propensity to cite the short-term profitability strategy was 'more important post-buyout' were included in Model 5. The model has a *pseudo* R^2 of 0.28 and is significant at the 0.05 level. Independent and control variables relating to propensity to cite the short-term profitability strategy was 'more important post-buyout' were included in Model 6. The model has a *pseudo* R^2 of 0.34 and is significant at the 0.1 level. One independent variable was weakly significant at the 0.1 level. Respondents reporting no non-family management with equity stakes (i.e. NFM (0)) were significantly more likely to cite the 'more important post-buyout' response. Two control variables were significant. Management buy-in firms (i.e. MBO (0)) were significantly more likely to cite the 'more important post-buyout' response at the 0.01 level. Respondents reporting the percentage equity owned by the private equity firm post-MBO/I was 50% or less (i.e. PESHARE (0)) were weakly significantly more likely to cite the 'more important post-buyout' response at the 0.1 level.

Conclusions and Implications

Key Findings

This study extends understanding of the succession process relating to private family-owned firms (Sharma, et al., 2003) by exploring the neglected topic of strategic change post-buyout of a private family firm. Five hypotheses relating to ownership and governance structures were derived and supported with reference to univariate analyses (Table 8). Family firms with founder's present pre-buyout were more likely to cite strategies relating to improving efficiency and future growth/expansion (H1). Family firms that did not employ non-family managers with equity stakes pre-buyout were more likely to cite strategies relating to improving efficiency and future growth/expansion (H2). Family firms that had not employed an NED pre-buyout were more likely to cite strategies relating to improving efficiency and growth/expansion (H3). Family firms with management involved in succession planning pre-buyout were more likely to cite future growth/expansion strategies, as well as improving efficiency (H4). Family firm reporting private equity firm involvement in succession planning pre-buyout were more likely to cite future growth/expansion strategies, as well as improving efficiency (H5). The relationships detected within the univariate analysis were not consistently detected using multivariate analysis. Supporting the univariate analysis, family firms that did not employ non-family managers with equity stakes pre-buyout were more likely to cite the importance of a return on equity strategy, and weakly a short-term profitability strategy. The multivariate analysis, therefore, only supported hypothesis H2.

With respect to control variables, respondents reporting the percentage equity owned by the private equity firm post-MBO/I was 50% or less were more likely to cite the importance of a capital restructuring strategy, and weakly the importance of short-term profitability**.** MBIs were more likely to cite the importance of a short-term profitability strategy, and weakly the capital restructuring strategy. Firms located outside the UK were also weakly more likely to cite the importance of a capital restructuring strategy.

Implications for vendors, management and practitioners

Our evidence raises important implications for practitioners relating to ownership and governance pre-buyout. Family firms that had been founded were more likely to focus on strategies that improve efficiency and future growth/expansion post-buyout. Practitioners and management interested in buying private family firms should be aware that acquired first generation family firms rather than multi-generation family firms may have greater untapped growth potential, and greater scope for efficiency improvements. Firms not employing non-family managers with equity stakes pre-buyout were associated with strategies improving efficiency as well as future growth and expansion. Family owners seeking to improve efficiency prior to a succession route should consider involving non-family managers who can increase firm value pre-buyout, as well as ensuring an appropriate strategic direction post-buyout.

Firms that did not employ NEDs pre-buyout were more likely to focus on improving efficiency as well as future growth and expansion post-buyout. There is, therefore, partial support for the view that more family firms should recruit NEDs to reduce agency problems, as well as to gain access to additional pools of resources to exploit future growth and expansion opportunities. Firms involving management in succession planning were associated with strategies improving efficiency as well as future growth and expansion. Family firm vendors should consider incorporating the views of internal managers to raise the 'attractiveness' of their firms for purchase. Firms involving private equity firms in succession planning were associated with strategies for improving efficiency as well as future growth and expansion. Private equity practitioners, therefore, appreciate that some private family firms have untapped potential which could be realized with new financial and managerial injections.

Limitations and Further Research

A small representative sample of buyouts was explored. Presented results do not appear distorted by the predominance of UK respondents. We acknowledge that some potentially significant relationships may not have detected with regard to the relatively small sample analyzed. To reduce the potential problem of Type II error (i.e., the probability of failing to reject the null hypothesis when it is false) (Hair et al., 1995), there is a need for future quantitative private family firm buyout studies to explore larger samples of respondents. Qualitative studies will also provide insights into important ‘what’, ‘how’, ‘why’ and ‘so what’ questions. More informed insights may be ascertained through information gathered from the range of actors involved in the succession process and compared with our insights from senior managers involved in the buyout. Additional studies could explore the resources, strategies and capabilities leveraged by firms pre- and post-buyout regarding a broader array of strategy statements. Future studies could provide insights into the role of private equity providers in shaping the development of family firms, some of which may realize value by selecting a buyout rather than an internal succession option.

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Table 1 Survey Responses by Country

Country	Total number of private equity backed buyouts of former private family firms	Per cent private equity backed buyouts of former private family firms	Total number of questionnaires sent out	Total number of questionnaire returns	Per cent of all returns
Austria	6	0.30%	5	0	0.00%
Belgium	28	1.40%	25	0	0.00%
Denmark	15	0.75%	15	3	2.88%
Eire	5	0.25%	5	0	0.00%
Finland	20	1.00%	19	2	1.92%
France	282	14.11%	193	9	8.65%
Germany	110	5.51%	88	7	6.73%
Italy	87	4.35%	71	7	6.73%
Lithuania	1	0.05%	0	0	0.00%
Netherlands	58	2.90%	43	1	0.96%
Norway	8	0.40%	7	1	0.96%
Poland	2	0.10%	1	0	0.00%
Portugal	5	0.25%	2	0	0.00%
Romania	2	0.10%	2	0	0.00%
Slovenia	1	0.05%	0	0	0.00%
Spain	68	3.40%	60	3	2.88%
Sweden	30	1.50%	28	2	1.92%
Switzerland	28	1.40%	25	3	2.88%
UK	1242	62.16%	1056	66	63.46%
Total	1998	100%	1645	104	100%

Table 2 Survey Responses by Industrial Distribution

Industrial Sector	**CMBOR Database (%)**	**Survey Responses (%)**
Biotechnology	0.1	0.0
Computing/electronics	12.5	6.7
Consumer related	23.1	22.1
Construction	3.1	10.6
Energy	0.4	0.0
Industrial products/services	13.4	10.6
Manufacturing	19.9	21.2
Medical/Health related	3.6	5.8
Services	13.4	12.5
Transportation	2.5	1.0
Other	8.1	9.6
Total	**100.0**	**100.0**

Notes: The classification is CMBORs own and is derived from sic codes and EVCAs classification.

Table 3 Descriptive Statistics of Continuous Variables

Variable	n	Minimum	Maximum	Mean	Std. Dev.
AGE	103	3.0	216.0	33.9	33.2
SIZE	101	6	6100	271	688

Notes: AGE (age of the firm (years) at the time of the MBO/I);
SIZE (number of employees in the year before the MBO/I).

Table 4 Frequencies of Dichotomous Variables

Variable	Return on Equity					Capital Restructuring					Short-term Profit				
	Less important	No change	More important	n	% changed	Less important	No change	More important	n	% changed	Less important	No change	More important	n	% changed
FOUNDED (1)	8	27	33	68	60.3	17	20	31	68	70.6	16	28	25	69	59.4
FOUNDED (0)	4	9	15	28	67.9	4	11	13	28	60.7	7	9	12	28	67.9
NFM (1)	1	17	10	28	39.3	4	10	14	28	64.3	9	11	8	28	60.7
NFM (0)	11	19	38	68	72.1	17	21	30	68	69.1	14	26	29	69	62.3
NED (1)	2	7	10	19	63.2	4	8	8	20	60.0	4	7	9	20	65.0
NED (0)	10	29	38	77	62.3	17	23	36	76	69.7	18	30	28	77	59.7
MANSP (1)	6	22	32	60	63.3	10	23	27	60	61.7	16	22	22	60	63.3
MANSP (0)	6	12	14	32	62.5	11	7	15	33	78.8	7	13	13	33	60.6
PESP (1)	4	19	32	55	65.5	10	18	27	55	67.3	13	22	20	55	60.0
PESP (0)	8	16	13	37	56.8	11	13	14	38	65.8	10	13	15	38	65.8
MANUF (1)	4	20	25	49	59.2	11	16	21	48	66.7	7	21	21	49	57.1
MANUF (0)	8	16	23	47	66.0	10	15	23	48	68.8	16	16	16	48	66.7
MBO (1)	6	18	30	54	66.7	12	14	28	54	74.1	11	26	17	54	51.9
MBO (0)	6	18	18	42	57.1	9	17	16	42	59.5	12	11	20	43	74.4
PESHARE (1)	4	16	27	47	66.0	5	22	20	47	53.2	12	20	16	48	58.3
PESHARE (0)	6	19	20	45	57.8	15	8	22	45	82.2	11	14	20	45	68.9

Notes: FOUNDED (firm was founded and not bought or inherited (yes = 1, no = 0)); NFM (non-family management with equity stakes pre-MBO/I (yes = 1, no = 0)); NED (non-family non-executive director pre-MBO/I (yes = 1, no = 0)); MANSP (management involved in succession planning pre-MBO/I(yes = 1, no = 0)); PESP (private equity firm involved in succession planning pre-MBO/I (yes = 1, no = 0)); MANUF (manufacturing firm (yes = 1, no = 0)); MBO (MBO transaction (yes = 1, no = 0)); PESHARE (percentage equity owned by the private equity firm post-MBO/I (1 = greater than 50%, 0 = 50% or less)).

Table 5 Ownership Structure and the Importance of Strategy Pre- and Post-Buyout

Business Strategy (a)	FOUNDED (b)				NFM (b)			
	1 (Yes)		0 (No)		1 (Yes)		0 (No)	
	B n=68-71	A n=68-73	B n=26-28	A n=27-29	B n=27-29	A n=27-29	B n=67-70	A n=67-72
Improving efficiency								
Net profit from operations	5.0 (4.5)	5.0** (4.7)	4.0 (4.1)	5.0** (4.5)	5.0 (4.5)	5.0 (4.7)	5.0 (4.3)	5.0** (4.6)
Cash flow from operations	4.0 (4.2)	5.0** (4.7)	4.0 (4.0)	5.0** (4.8)	5.0 (4.3)	5.0# (4.6)	4.0 (4.1)	5.0** (4.8)
Return on shareholder equity	3.0 (3.5)	5.0** (4.2)	3.5 (3.3)	4.0** (3.9)	4.0 (3.9)	5.0** (4.2)	3.0 (3.3)	4.0** (4.1)
Short-term profitability	3.0 (3.1)	4.0* (3.5)	3.0 (2.9)	4.0 (3.4)	3.0 (3.5)	3.5 (3.5)	3.0 (2.9)	4.0** (3.5)
Long-term profitability	5.0 (4.2)	5.0** (4.6)	4.0 (4.0)	4.0 (4.2)	5.0 (4.4)	5.0* (4.6)	4.0 (4.0)	5.0* (4.4)
Capital restructuring	2.0 (2.3)	3.0** (2.9)	2.0 (2.2)	3.0** (2.9)	2.0 (2.4)	3.0* (2.9)	2.0 (2.2)	3.0** (2.9)
Future Growth and Expansion								
Sales growth	4.0 (4.2)	5.0** (4.5)	4.0 (4.0)	4.0 (4.1)	4.0 (4.2)	5.0 (4.5)	4.0 (4.1)	4.5* (4.3)
Market value increment	4.0 (3.6)	5.0** (4.1)	3.0 (2.9)	4.0** (3.7)	4.0 (4.0)	4.0 (3.9)	3.0 (3.2)	5.0** (4.1)
Market share expansion	3.0 (3.3)	4.0** (3.7)	3.5 (3.2)	4.0 (3.6)	3.0 (3.4)	3.0 (3.5)	3.5 (3.3)	4.0** (3.8)

Notes (a) Each statement was measured on a five point Likert scale ranging from 1 (very low importance) to 5 (very high importance); (b) Median responses reported before (B) and after (A) the MBO/I (mean responses in parentheses). The significance of each difference with regard to a marginal homogeneity test is reported in column A; FOUNDED (firm was founded and not bought or inherited (yes = 1, no = 0)); NFM (non-family management with equity stakes pre-MBO/I (yes = 1, no = 0)); Significance # p<0.1 * p<0.05; ** p<0.01.

Table 6 Governance Structure and the Importance of Strategy Pre- and Post-Buyout

Business Strategy (a)	NED (b)				MANSP (b)				PESP (b)			
	1 (Yes)		0 (No)		1 (Yes)		0 (No)		1 (Yes)		0 (No)	
	B n=18-20	A n=19-20	B n=75-79	A n=75-81	B n=59-60	A n=60-61	B n=33-35	A n=32-36	B n=53-55	A n=56.57	B n=38-40	A n=36-40
Improving efficiency												
Net profit from operations	4.5 (4.2)	5.0# (4.7)	5.0 (4.4)	5.0* (4.6)	4.0 (4.2)	5.0** (4.5)	5.0 (4.7)	5.0 (4.8)	4.0 (4.2)	5.0** (4.6)	5.0 (4.6)	5.0 (4.7)
Cash flow from operations	4.5 (4.3)	5.0* (4.8)	4.0 (4.1)	5.0** (4.7)	4.0 (4.1)	5.0** (4.7)	5.0 (4.4)	5.0** (4.8)	4.0 (4.1)	5.0** (4.8)	5.0 (4.4)	5.0* (4.7)
Return on shareholder equity	3.0 (3.2)	4.0* (3.9)	3.0 (3.5)	4.0** (4.1)	3.5 (3.4)	4.0** (4.1)	3.0 (3.4)	4.0* (3.9)	3.0 (3.4)	5.0** (4.2)	3.5 (3.5)	4.0 (3.8)
Short-term profitability	3.0 (3.2)	4.0 (3.8)	3.0 (3.0)	3.0# (3.4)	3.0 (3.0)	3.0 (3.4)	3.0 (3.2)	4.0 (3.6)	3.0 (2.9)	3.0# (3.3)	3.0 (3.3)	4.0 (3.7)
Long-term profitability	4.0 (3.8)	5.0 (4.3)	4.0 (4.2)	5.0** (4.5)	4.0 (4.1)	5.0** (4.5)	5.0 (4.2)	5.0 (4.4)	4.0 (4.2)	5.0* (4.5)	4.0 (4.2)	5.0# (4.5)
Capital restructuring	2.0 (2.3)	3.0 (2.8)	2.0 (2.3)	3.0** (2.9)	2.0 (2.2)	3.0** (2.7)	2.0 (2.4)	3.0* (3.0)	2.0 (2.3)	3.0** (2.9)	2.0 (2.3)	2.5 (2.6)
Future Growth and Expansion												
Sales growth	4.0 (3.8)	4.0 (4.2)	4.0 (4.2)	5.0# (4.4)	4.0 (4.1)	5.0* (4.4)	4.0 (4.1)	4.0 (4.2)	4.0 (4.0)	5.0# (4.4)	4.0 (4.2)	4.0 (4.3)
Market value increment	3.5 (3.2)	4.0* (3.9)	4.0 (3.5)	5.0** (4.1)	4.0 (3.4)	4.0** (4.0)	4.0 (3.5)	5.0* (4.0)	4.0 (3.3)	5.0** (4.1)	3.5 (3.5)	4.0 (3.8)
Market share expansion	4.0 (3.4)	4.0 (3.7)	3.0 (3.3)	4.0** (3.7)	4.0 (3.4)	4.0 (3.6)	3.0 (3.1)	4.0* (3.6)	4.0 (3.5)	4.0* (3.8)	3.0 (3.0)	3.0# (3.4)

Notes (a) Each statement was measured on a five point Likert scale ranging from 1 (very low importance) to 5 (very high importance); (b) Median responses reported before (B) and after (A) the MBO/I (mean responses in parentheses). The significance of each difference with regard to a marginal homogeneity test is reported in column A; NED (non-family non-executive director pre-MBO/I (yes = 1, no = 0)); MANSP (management involved in succession planning pre-MBO/I (yes = 1, no = 0)); PESP (private equity firm involved in succession planning pre-MBO/I (yes = 1, no = 0)); Significance # p<0.1 * p<0.05; ** p<0.01.

Table 7 Ownership and Governance Variables Associated with the Importance of Strategy Post-Buyout: Multinomial Logistic Regression (MLR) Estimations with 'No Change' as the Reference Category

	Return on Shareholder Equity (a) (b) (c)		**Capital Restructuring (a) (b) (c)**		**Short-term Profitability (a) (b) (c)**	
	Model 1	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**
	More important (+1) Relative to reference category (Beta coefficients)		More important (+1) Relative to reference category (Beta coefficients)		More important (+1) Relative to reference category (Beta coefficients)	
Independent Variables						
FOUNDED (0)		0.193		-0.819		-0.468
NFM (0) **(d)**		1.338*		-0.556		1.418#
NED (0)		0.055		0.878		-0.481
MANSP (0)		0.101		0.986		0.481
PESP (0)		0.370		0.856		-0.069
Control Variables						
AGE	-0.009	-0.013	0.001	0.008	0.016	0.017
SIZE	0.000	0.001	0.000	0.000	0.000	0.000
UK (0)	1.301*	0.604	1.242#	1.528#	0.378	0.127
MANUF (0)	0.651	0.869	-0.18	0.986	0.072	-0.097
MBO (0)	-0.664	-0.735	-0.615	-1.038#	1.312*	1.923**
PESHARE (0)	0.140	0.039	1.784**	1.982*	1.170	1.303#
n	90	86	90	87	91	87
Model Diagnostics						
-2 Log Likelihood (intercept only)	171.231	165.280	190.320	184.877	197.100	188.971
-2 Log Likelihood (final)	151.278	133.821	168.206	146.331	171. 532	157.338
Chi Square	19.953	31.459	22.115	38.547	25.567	31.633
Significance	0.068	0.087	0.036	0.016	0.012	0.084
Pseudo R-Square						
Nagelkerke	0.234	0.359	0.248	0.406	0.277	0.344

Notes: (a) Each statement was measured on a five-point Likert scale ranging from 1 (very low importance) to 5 (very high importance); (b) Responses pre and post MBO/I were monitored; a distinction was made between respondents suggesting the strategy was less important (-1) or more important (+1) after the MBO/I; Only the models with significance of 0.1 or less are shown above. FOUNDED (firm was founded and not bought or inherited (yes = 1, no = 0)); NFM (non-family management with equity stakes pre-MBO/I (yes = 1, no = 0)); NED (non-family non-executive director pre-MBO/I (yes = 1, no = 0)); MANSP (management involved in succession planning pre-MBO/I (yes = 1, no = 0)); PESP (private equity firm involved in succession planning pre-MBO/I (yes = 1, no = 0)); AGE (age of the firm (years) at the time of the MBO/I); SIZE (number of employees in the year before the MBO/I); UK (firm was headquartered in UK pre-MBO/I (yes = 1, no = 0)); MANUF (manufacturing firm pre-MBO/I (yes = 1, no = 0)); MBO (MBO transaction (yes = 1, no = 0)); PESHARE (percentage equity owned by the private equity firm post-MBO/I (1 = greater than 50%, 0 = 50% or less). (c) Standardized beta coefficients that allow for a direct comparison between coefficients as their relative 'explanatory power of the dependent variable (Hair et al., 1995). (d) A positive beta coefficient indicates that the strategy has become 'more important after the buyout', whilst a negative beta coefficient suggests 'no change in importance'. For example, firms with no non-family managers with equity stakes (NFM (0)) were significantly more likely to view the return on shareholder equity as more important post-buyout. Significance; # p<0.1, * p<0.05, ** p<0.01 (p-values in table relate to Wald test statistics).

Table 8 Summary of Strategic Changes Post-MBO/I

Hypothesis Strategic changes expected when:	MHT			MLR		
	Significant change in strategy post-MBO/I	Strategic direction Post-MBO/I	Support for Hypotheses	Significant change in strategy post-MBO/I	Strategic direction Post-MBO/I	Support for Hypotheses
H1 Founder (yes)	Yes	E and G	Yes	No	Not applicable	No
H2 NFM pre-MBO/I (no)	Yes	E and G	Yes	Yes	E	Yes
H3 NED pre-MBO/I (no)	Yes	E and G	Yes	No	Not applicable	No
H4 MANSP (yes)	Yes	E and G	Yes	No	Not applicable	No
H5 PESP (yes)	Yes	E and G	Yes	No	Not applicable	No

Notes: MHT = univariate marginal homogeneity test; MLR = multivariate multinomial logistic regression analysis; E = efficiency; G = growth.