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Harvesting and the Longevity of Management Buy-outs and Buy-ins: A Four-Country Study

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The last decade has seen the development of a buy-out market in Europe, both building on techniques used initially in the US and developing new ones specific to individual countries (Wright, Thompson, & Robbie, 1992). The backgrounds to improvements arising from buy-outs can be seen in consideration of both agency cost theory and entrepreneurship theory (Bull, 1989). The latter may have particular relevance to smaller buy-outs where management teams typically have majority equity stakes. While much attention has focused on large transactions, many US and especially European buy-outs are relatively small. Indeed, in the UK, the second most developed

European buy-outs are relatively small. Indeed, in the UK, the second most developed buy-out market after the US, some 92% of transactions are completed for purchase prices of less than the approximate equivalent of \$20 million.

As buy-out markets have developed, both in Europe and the US, key attention has focused upon the longevity of such structures and the means and timing of harvesting investments by the parties concerned. Considerable debate has arisen concerning the length of time over which buy-outs retain their initial structure, with there being conflicting views as to whether buy-outs are long-term or short-term phenomena (Jensen, 1989; Rappaport, 1990). Recent evidence from the US (Kaplan, 1991) and from Europe (reviewed and extended below) shows that the short term–long term debate is somewhat simplistic since buy-outs are very much heterogeneous organizations.

Buy-outs and buy-ins involve a fusion of the different objectives of managers, financiers, and the companies themselves. In essence, a buy-out involves incumbent managers in acquiring a significant equity stake whilst a buy-in involves external managers, as individuals with institutional support, acquiring control of the company. A



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