Leveraged buyouts, private equity and jobs

Published: 01 April 2010
Volume 38, pages 419–430, (2012) Cite this article

Small Business Economics
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Abstract

Using a unique data set of 533 leveraged buyouts (LBOs) observed over the 1993–2004 period, covering all size ranges, the study conducts a systematic analysis to determine and quantify: (1) the effect of private equity (PE) and LBO governance on employment and (2) whether the size of the target firm impacts on post-buyout employment effects. After accounting for endogeneity, we find that LBOs, whether PE financed or not, do not have significantly different employment levels compared with a control sample of firms. Additionally, there are no employment effects contingent on the size of the target firm. The findings contrast with anecdotal claims of job destruction. The study therefore makes an important contribution to the debate on the impact of LBOs and PE.

Notes

1. In 1999 the proportion of PE-financed LBOs was 57%. Later, in the second wave, however, PE firms focussed on larger deals. Nevertheless, the proportion of PE-financed LBOs in 2004 was 38% (CMBOR 2006).

2. This arises as financiers are able to negotiate contractual conditions in the shareholders' agreement providing for such disclosure.

3. Note, if unobserved differences between buyouts and non-buyout firms are constant over time, they will be captured by the firm-specific fixed effects. We also adopt a more rigorous approach to differences between LBOs and non-LBOs by employing a generalised instrumental variable estimator.

4. Models with one-period lags of wages and output were estimated but were found not to be significant. In addition, autocorrelation tests revealed that they were not required in order to aid the removal of autocorrelation.

5. The number of contiguous years of data required is determined by the instrument set used, which is explained later.

6. The instruments used in each equation are n_{it}, w_{it}, y_{it} lagged $t-3$ to $t-5$ for the first-differenced equations, and Δn_{it-3}, Δw_{it-3}, Δy_{it-3} for the levels equations. Appropriate instrument sets were selected using Hansen and serial correlation tests.

7. In order to control for the endogeneity of the LBO dummy variables we run a multinomial logit model and use the predicted probabilities as additional instruments. Measures relative to the industry average of output, wage rates,

total assets and capital intensity are used as independent variables in the models.

8. The instruments used in each equation are n_{it}, w_{it}, y_{it} lagged $t-3$ to $t-5$. Appropriate instrument sets were selected using Hansen and serial correlation tests.

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Acknowledgement

The authors wish to thank Sourafel Girma and Wallace Mullin (discussant at the 6th Industrial Organization Society Conference, Washington) for helpful

comments.

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Cite this article

Amess, K., Wright, M. Leveraged buyouts, private equity and jobs. *Small Bus Econ* **38**, 419–430 (2012). https://doi.org/10.1007/s11187-010-9280-9

Accepted	Published	Issue Date
10 March 2010	01 April 2010	May 2012

DOI

https://doi.org/10.1007/s11187-010-9280-9

Keywords

Leveraged buyout Private equity Employment demand

JEL Classifications

G34 J23 L23