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## MANAGEMENT BUYOUT ANNOUNCEMENTS AND SECURITIES RETURNS: A UK STUDY 1984–1989

R.J. BRISTON, B. SAADOUNI, C.A. MALLIN AND J.A. COUTTS\*

### INTRODUCTION

The response of security prices to the divestment decision of a firm has attracted a considerable amount of empirical research in the USA. Such divestment can take several forms, ranging from equity carve-out, spin-off and sell-off through to the management buyout (MBO). The general view is that the wealth of the parent company's shareholders increases following these events. Many empirical studies, most of which are based on American data, e.g. Hite and Owers (1983), Miles and Rosenfeld (1983), Schipper and Smith (1983 and 1986), Rosenfeld (1984), Klein (1985), Denning (1988) and Afshar et al. (1990) have examined cross-sectionally the relationship between the first three forms of restructuring (equity carve out, spin-off and sell-off) and security returns around the announcement dates. Their findings suggest that on balance the announcements have a positive effect on security returns. Boudreaux (1975) considered voluntary divestments, Hearth and Zaima (1984) concentrated on parent to parent sell-offs, Hite and Vetsuypens (1989), and Madden et al. (1990), focused on MBOs, all these studies reported positive excess returns. Alexander et al. (1984) and Denning and Shastri (1990), find statistically insignificant announcement period returns associated with divestment announcements.

The primary objective of this paper is to examine the fourth form of divestment, namely the management buyout, which has so far received little attention, especially in the UK context. In the 1980s the MBO became not just commonplace, but a major force in the restructuring of the United Kingdom private sector. For example, in 1989 there were over 500 MBOs to a total value of £7.5 billion. These transactions accounted for 22 per cent of all mergers and acquisitions by value (see Wright et al. 1991). Management buy-outs are generally concerned with voluntary divestment rather than with business failure. Although MBOs of extremely high value can and do take place, a very high

\* The first and second authors are from the Department of Accounting and Finance, University of Hull; the third author is from the School of Management and Finance, University of Nottingham; and the fourth author is from the School of Business and Economic Studies, University of Leeds. They wish to thank the organisers and participants of the first British Market Based Accounting Research Conference, University of Strathclyde, September 1989. Thanks are also due to Mike Wright at the Centre for Management Buyout Research at the University of Nottingham for access to their database and to Jennifer Roberts (University of Leeds) and Jean Upfield (University of Hull) for help with data manipulation. The authors also received valuable comments from the participants of the Market Based Accounting Research Conference, University of Manchester, July 1991. Any remaining errors are the authors' own.

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