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Assessing the impact of private equity on industrial relations in Europe

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Abstract

Private equity firms are accused by trade unions of changing industrial relations in buyouts by demonstrating an unwillingness to recognize and work with trade unions, and by downgrading information and consultation. To explore these important policy issues, this article reports the first representative pan-European survey of managers' perceptions of the impact of private equity on industrial relations. Managers report that private equity investment does not result in changes to union recognition, membership density or changes in management attitudes to trade union membership. Furthermore, managers in firms recognizing unions after private equity buyouts do not report reductions in the terms and conditions subject to joint regulation. Under private equity ownership more firms report consultative committees, managers regard these as more influential on their decisions, and indicate increased consultation over firm performance and future plans. Comparing industrial relations changes in different social models in Europe, the results suggest private equity firms adapt to national systems and traditional national industrial relations differences persist after buyout.

Keywords

buyouts, human resource management, industrial relations, private equity, trade unions

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Introduction

Considerable debate has emerged over the past few years concerning the implications of private equity buyouts, where private equity investors and often a management team pool their own money (together with debt finance) to buy shares in that company from its current owners, and re-sell them after a certain time to distribute the divestment gains to their investors (Gilligan and Wright, 2008). Private equity has attracted increased attention because the European buyout market has grown significantly over the previous two decades to €171 billion in 2007, and 96 percent of buyouts by value in 2007 had private equity investment (CMBOR, 2008). We use the term 'buyout' throughout this article as a generic term covering both insider driven management buyouts and outsider driven management buy-ins, but excluding early stage venture capital investments. Reflecting the increased importance of private equity, inquiries into the potentially negative effects of highly leveraged deals have been conducted by the International Monetary Fund, the Organization for Economic Cooperation and Development (OECD, 2007), the European Central Bank (2007) and the UK Financial Services Authority (FSA, 2006). International trade union leaders have also criticized private equity, regarding it as an important factor extending the shareholder value model of corporate governance, notably through extending this model from listed to private companies (Evans and Habbard, 2008). As such, private equity is not just an Anglo-American phenomenon but part of global developments in financial markets (Kaplan and Stromberg, 2008; Wright et al., 2007).

In exporting Anglo-American financial practices into Continental Europe, the industrial relations implications of private equity ownership have attracted specific interest, with private equity regarded as a direct threat to the European social model of worker participation (Vitols, 2008). Debates have ranged from public hearings to proposed legislative reform in the European Parliament, the German Bundestag and UK House of Commons (Evans and Habbard, 2008). In these debates private equity firms are accused of delivering improved performance at the expense of workers' terms and conditions; seeking to reduce employment costs, downgrading working conditions and threatening jobs (IUF, 2007; PSE Group in European Parliament, 2007; TUC, 2007). Trade unions argue that private equity firms seek to withdraw from joint regulation in order to reduce workers' terms and conditions. For example, managers derecognizing the GMB trade union in 2005 following the UK's AA buyout, is cited as a typical case of private equity investor behaviour to raise profits.

Private equity is regarded as part of the Anglo-American model of shareholder value opposed by socialists in Europe (Hans-Bockler-Stiftung, 2007). The International Trade Union Confederation (ITUC, 2007) accuses private equity firms of a similar 'refusal to engage in collective bargaining and outright harassment of workers who organise in trade unions'.

For these reasons unions made a coordinated attempt to press the Group of Eight in 2007 for action on private equity involving regulatory reforms to cover 'workers' rights to collective bargaining, information, consultation and representation within the firm' (TUAC, 2007). European trade union leaders continue to press for increased EU regulation providing for enhanced information, consultation and dialogue with workers and unions in private equity buyouts. Following the European Parliament's endorsement of Rasmussen's critical report into private equity and hedge funds, and the European Commission's (EC) high level consultation on the issue in February 2009, the EC proposed a Directive on Alternative Investment Fund Managers in April 2009, to be discussed in the European Parliament and Council with a view to implementing the directive by 2011. The Directive has been criticized by the Party of European Socialists (PES) as inadequate and the private equity industry as imposing unnecessary costs and red tape. It is therefore essential to ensure the proposed Directive is assessed in the light of the best available evidence, especially given the costs it would impose on portfolio companies, reducing the funds available for the private equity industry to acquire and help turnaround troubled firms in the recession, and advantaging other firms who may seek to acquire failing competitors yet may be less effective at turning around troubled companies.

Much of this debate is based on frequently mentioned isolated examples. At least some of these firms would have closed or experienced job losses without private equity involvement, and following buyouts some have increased employee ownership (Work Foundation, 2007) and employment (Milne, 2008). Recent arguments of critics also contrast with previous evidence that the first wave of UK buyouts made few changes to trade union representation (Bacon et al., 2004; Wright et al., 1984, 1990, 2009). It is also evident that many private equity backed buyouts exploit growth and entrepreneurial opportunities rather than concentrating only on reducing costs (Meuleman et al., 2009; Wright and Coyne, 1985; Wright et al., 2000). More is required than the limited evidence available on recent developments before greater regulation could be justified and assumed to have any significant impact (Watt, 2008).

There is now extensive evidence on the impact of private equity buyouts on employment and wages based on archival data, showing that an initial decline in employment is followed by subsequent increases (Cressy et al., 2007; Davis et al., 2008), especially in insider driven management buyouts (MBOs) (Amess and Wright, 2007a). Traditional corporate acquisitions have a significantly greater negative impact on employment than private equity backed deals (Amess et al., 2008), and increasing the regulative burden to disadvantage private equity firms may have negative unintended consequences for employment in troubled firms undergoing traditional corporate acquisition.

This article extends previous work by providing the first systematic study of managers' perceptions of the impact of private equity on industrial relations across Europe. We focus on evidence relating to claims that private equity has 'negative impacts on workers' representation at the workplace, on information and consultation rights and collective bargaining more generally' (Watt, 2008: 557). The specific aims of the article are therefore twofold: first, to provide an analysis of the impact of private equity and buyouts on industrial relations in Europe; and second, to evaluate whether any industrial relations changes vary according to different social models in Europe. The article reports the findings from a pan-European survey of managers' perceptions conducted in 2008 and which involved a representative sample of 190 European private equity backed buyouts.

Private equity buyouts and industrial relations

From an agency theory perspective, private equity backed buyouts use incentives to realign the interests of owners and managers, encouraging managers to reduce all unnecessary costs, and avoid investment in wasteful low-benefit or value-destroying activities. Tighter financial monitoring makes managers potentially more accountable to private equity investors. The commitment to service the debt taken on at the time of the buyout pressurizes managers to reduce expenditure, improve operational efficiencies and eliminate unprofitable operations, while managerial equity ownership provides incentives to reduce costs (Jensen, 1986). Employees are thought to benefit from more secure jobs and possibly increased employment resulting from reduced agency costs, improved strategic and operational capabilities, and hence more viable businesses. Indeed, many buyouts involve business growth (Meuleman et al., 2009) and the average length of investment is around five years and increasing (Stromberg, 2008; Wright et al., 2007).

However, unions argue that operational efficiencies are achieved at workers' expense, expressing concerns about the industrial relations implications and the process of private equity buyouts. The first concern relates to union fears that private equity ownership results in their reduced role in consultation and negotiation. According to the ITUC, private equity firms have short-term aims for buyouts with 'no need for employer-employee partnerships' (ITUC, 2007: 8), and private equity ownership 'generally includes pressure on wages, benefits and working conditions; refusal to engage in collective bargaining; and outright harassment of workers who organise in trade unions' (p. 5). Even in Germany, with an extensive system of co-determination, works councils report 'frostier' relations with management under private equity ownership (PSE, 2007: 10). In extremis, this may involve 'grand-scale union busting' as part of a general management antagonism towards unions (ITUC, 2007). To support these claims, the ITUC (2007) points to evidence from the Centre for Management Buy-out Research (CMBOR) of slight declines in union recognition in UK and Dutch buyouts (Bruining et al., 2005), managers in buyouts with negative views towards unions (Bacon et al., 2004), and after reviewing this evidence the Work Foundation concludes 'the combination of a pre-existing hostility to trade unions and the fall in recognition of a union after a buyout would imply that derecognition was . . . one motive for going down the private equity route' (Work Foundation, 2007: 26).

Further, John Monks, General Secretary of the European Trade Union Confederation claims that 'established companies (with consensual industrial relations systems) are destroyed' by private equity firms who take them over, because these firms 'are much readier to challenge existing norms, procedures and structures, especially those relating to workers, unions and works councils' (Monks, 2006). Where negotiations occur trade unions feel that private equity investors will be less willing to be influenced. The PES has therefore called for 'workers rights to collective bargaining, information and consultation to be guaranteed by private equities before a take over' (PES Council Adopted Resolution, 2007). However, closer reading behind public statements shows trade unions recognize that classifying all private equity companies as good or bad is not easy because they pursue a range of strategies including growth-orientated and longer-term investment strategies (Muller, 2006). The EC's proposed Directive on Alternative Investment Fund

Managers (2009) nevertheless requires annual disclosure of information on fund investment strategy and objectives to employee representatives in portfolio companies.

The second issue raised by unions concerns the process of private equity buyouts. In effecting buyouts from often diffuse and distant owners of publicly listed corporations or divisions of such firms, private equity firms reduce the gap between owners and managers and are more active investors (Jensen, 1986). Nevertheless, unions argue that financial investors do not inform employee representatives before a takeover and as a result 'it is very difficult for works councillors and trade unionists to assess the strategy of a potential buyer' (Muller, 2006: 2). The EC's proposed Directive on Alternative Investment Fund Managers (2009) therefore requires the disclosure of information on fund investment strategy and objectives to employee representatives when acquiring control of portfolio companies. Unions also claim that private equity buyouts leave workers 'to face invisible employers that show no interest in dealing with their trade union representatives or informing them of what is happening to their workplaces' (ITUC, 2007: 8). They express specific concerns over this 'vanishing employer' (Watt, 2008: 561), whereby unions only deal with managers rather than private equity investors during the buyout, and unions assume investors make the most significant decisions. As a result, unions have demanded stronger participation rights for employee representatives during takeovers and acquisitions (ITUC, 2007).

The ITUC calls for greater regulation giving union representatives rights to information on the business plans of private equity bidders and involvement in the buyout (ITUC, 2007). It also calls for private equity investors not to change terms and conditions without collective agreements, respect worker's rights to organize, and ensure that these assurances continue after future sale of the business. In adopting Rasmussen's report on private equity and hedge funds, the European Parliament backed the proposal to extend the Directive obliging employees to be informed and consulted during takeovers to include leveraged buyouts. It is further suggested in the event of the sale of company assets 'connected to a repayment of the acquisition debt, the employees of the target company should be informed and consulted, through the workers' council when there is one' (Rasmussen, 2009: 9). To shed more light on this issue, we first evaluate further the extent of consultation and negotiation that occurs with employee representatives before buyout announcements.

Although unions in different countries report that private equity buyouts result in the downgrading of worker representation and social dialogue (Böttger, 2006; Watt, 2008), national differences in employment legislation across Europe may produce different outcomes from changes in ownership. The impact of private equity on industrial relations may therefore be path dependent in line with the varieties of capitalism (VoC) perspective (Hall and Soskice, 2001). More recent VoC literature allows for firms to experiment and adjust within institutional contexts. Hall and Thelen (2008) note that reforms of corporate governance often labelled liberalization do not necessarily 'dictate changes in labour relations' (p. 17), although 'more dramatic changes' in corporate governance and finance may undermine coordinated market economies (p. 18). Unless private equity firms are part of this dramatic change, they may be expected to work with unions in European countries with stronger codetermination legislation, whereas they may operate relatively free of union constraints in countries with more permissive worker representation legislation. However, research on buyouts in both the UK and The Netherlands, the latter having a higher degree of employment protection, reported the positive effects of buyouts on employment practices are surprisingly greater in the less regulated UK context than in The Netherlands (Bruining et al., 2005). Watt (2008: 562) suggests private equity is probably '"unideological", if unsentimental, in its approach to issues such as collective bargaining and worker participation', unless urgent restructuring is required and opposed by unions. It is therefore important to understand more about the industrial relations impact of private equity buyouts in different social models across Europe. Watt (2008) suggests three possible scenarios: private equity may have more negative effects in European countries with stronger codetermination as it is necessary to overcome union representatives in order to reduce employment costs; private equity firms may force convergence towards Anglo-American industrial relations; or private equity firms may adapt to national systems and traditional national industrial relations differences persist. The second aim is therefore to evaluate whether the private equity impact on industrial relations varies according to different social models in Europe.

Research method

The findings are based on a questionnaire survey conducted in the first half of 2008 comprising responses from 190 private equity backed buyouts across Europe completed between 2002 and 2006, and face-to-face interviews with 16 managers of buyout companies. Unlike employment and wage data that are reported in firms' accounts, representative industrial relations data need to be gathered through surveys. Our sample was derived from the Centre for Management Buy-out Research (CMBOR) database, which contains details of the entire population of European buyouts. To identify deals, a twice-yearly survey of all private equity firms, intermediaries and banks active in the buyout market is conducted; respondents receive a free report analysing market trends. Press, annual corporate reports, and stock exchange circulars are used to gather additional data. The dataset has no upper or lower size limit and includes both publicly declared buyouts as well as confidential deals. The time frame of 2002–6 was selected to allow time for post-buyout changes to take place, to be not too distant in the past, to avoid recall bias and to cover the period of the recent wave of private equity buyouts. The time period elapsed since the buyouts and the survey allowed for changes in industrial relations to emerge.

The questionnaire was translated into French, Spanish, German and Italian and sent to companies with more than 50 employees identified using the CMBOR database. The CEO, or HR Director, was contacted either by email (when possible) or by post. Reminders were sent after two weeks. Some 190 companies replied out of 2597 contacted; a response rate of 7.3 percent. Response rates to mail questionnaire surveys are generally falling. This response is in line with others involving pan-European studies of managers' perceptions (Scholes et al., 2007, find a 7% response rate in a sample of European family firm buyouts; Lockett et al., 2008, obtain a 10% response rate for a sample of venture capital backed exporters in Europe).

Most respondents were at least at director level (88%), with the remainder senior managers, indicating a close familiarity with the issues covered by the survey. Although using multiple respondents from the same firm may reduce response error, using scarce research resources on finding multiple informed raters reduces sample size and we therefore concentrated on key informants and a larger sample size (Kumar et al., 1993). Union representatives may have different views of events and we do not know whether they would report an increased or decreased bargaining role. However, many private equity backed deals are not unionized and independent employee representatives would be difficult to locate. The findings are therefore limited by dependence upon the perceptions of managers involved in these activities, although such views are of intrinsic interest.

The main characteristics of the surveyed companies were compared with the population of European buyouts in the CMBOR database to assess the validity of the results. The representative nature of the sample was assessed on the basis of several criteria: country of location, industrial sector, deal size, and whether the business had been profitable or loss making at the time of the buyout. The sample has a good fit with the population across countries with two exceptions: French companies are under-represented, while British companies are, to a lesser extent, over-represented (Table 1). This reflects well-known differences in response rates to survey instruments across Europe (Bygrave et al., 1994). The sample is representative with the population in terms of industrial sectors. Industrial products and consumer related are slightly over-represented in the sample, while services are a little under-represented. In terms of deal transaction value, the sample comprised a higher proportion of large buyouts and a lower share of the smallest buyouts compared with the population. When comparing the average number of sample employees with the population of buyout firms on the CMBOR database, the sample contained slightly more large firms and slightly fewer medium-sized firms. The sample also showed a slight under representation of poor performers. The distribution of buyouts and buy-ins in the sample and population are very similar.

Table 1 Questionnaire responses by country

Country	Population No.	Population %	Sample No.	Sample %
Austria	25	1.0	3	1.6
Belgium	58	2.2	5	2.6
Denmark	55	2.1	3	1.6
Finland	64	2.5	2	1.1
France	471	18.1	17	8.9
Germany	312	12.0	20	10.5
Greece	1	0.0	0	0.0
Ireland	17	0.7	2	1.1
Italy	144	5.5	14	7.4
Netherlands	167	6.4	14	7.4
Norway	43	1.7	5	2.6
Portugal	11	0.4	1	0.5
Spain	123	4.7	6	3.2
Sweden	104	4.0	11	5.8
Switzerland	42	1.6	3	1.6
UK	960	37.0	84	44.2
Total	2597	100	190	100

Results

The results show that private equity investment leads to relatively few changes to industrial relations, and traditional differences between industrial relations systems across Europe persist in private equity buyouts. We compare union representation and joint regulation in firms before and after the buyout, and report perceptions of the buyout process. We address industrial relations issues with respect to union recognition and membership; joint regulation of terms and conditions of employment; consultative committees; and the buyout process.

Trade unions

Private equity buyouts report no significant overall decline in the extent of union recognition compared with before the buyout (Table 2). Just over four-tenths (41%) of responding firms recognized unions for negotiating pay and conditions of employment before the buyout and slightly fewer report this remains the case afterwards (39%), although the difference is insignificant (Wilcoxon test). To evaluate whether the private equity impact on industrial relations varies according to different social models (Hall and Soskice, 2001), we group countries as recommended by Hamann and Kelly (2008). Classifying industrial relations systems into different groups is difficult but reflects differences in union density and structure, collective bargaining coverage and structure, and employment protection. Liberal Market countries are the UK and Ireland; the group of Northern Europe countries is Denmark, Finland, Norway and Sweden; Central Europe is Austria, Belgium, Germany, Netherlands and Switzerland; and Mediterranean Europe is France, Greece, Italy, Portugal and Spain. Table 2 shows no changes in the extent of union recognition in private equity buyouts in both Northern Europe and Mediterranean Europe social model contexts; the minor changes in union recognition in liberal markets and Central Europe are insignificant. Kruskal-Wallis tests found that the significant differences in union recognition between social models before buyouts ($x^2 = 31.56$, $p = 0.000$) were present afterwards ($x^2 = 35.27$, $p = 0.000$).

Managers were asked about attitudes towards union membership before and after the buyout, and these were found to change little (Table 2). The majority stated that managerial attitudes were neutral towards union membership (58% both before and after), a small minority were in favour (8%), with one-third (34%) not in favour. Expected differences in attitudes towards unions across social models before buyouts ($x^2 = 26.60$, $p = 0.000$) persist after private equity involvement ($x^2 = 17.32$, $p = 0.001$). Managers in Northern European buyouts remain more in favour of union membership than any other social model; firms in liberal markets remain much less in favour. In the liberal markets, buyout managers became slightly less in favour of union membership under private equity ownership; those in Northern and Central Europe became slightly more in favour (Table 2).

The proportion of employees who are union members, approximately one-fifth of employees, did not change under private equity ownership compared with the situation before the buyout (Table 2). Some 11.4 percent of firms report a decline in union membership density compared with before the private equity buyout and 10.8 percent

Table 2 Trade union recognition, management attitudes to unions, and union membership across social models

	All		Liberal markets		Northern Europe		Central Europe		Mediterranean Europe	
	Pre-buyout	Post-buyout	Pre-buyout	Post-buyout	Pre-buyout	Post-buyout	Pre-buyout	Post-buyout	Pre-buyout	Post-buyout
Trade union recognition	77 (41.4)	73 (39.2)	17 (20.7)	15 (18.3)	15 (71.4)	15 (71.4)	20 (44.4)	18 (40.0)	25 (65.8)	25 (65.8)
Management attitudes towards union membership:										
Not in favour	62 (34.1)	62 (34.1)	39 (48.8)	43 (52.8)	4 (19.0)	3 (14.3)	9 (20.5)	8 (18.2)	10 (27.0)	8 (21.6)
Neutral	106 (58.2)	105 (57.7)	38 (47.5)	36 (45.0)	7 (33.3)	9 (42.9)	35 (79.5)	34 (77.3)	26 (70.3)	26 (70.3)
In favour	14 (7.7)	15 (8.2)	3 (3.8)	1 (1.3)	10 (47.6)	9 (42.9)	0 (0)	2 (4.5)	1 (2.7)	3 (8.1)
Trade union membership density %	21.5	21.5	9.7	8.6	57.8	56.9	22.4	25.0	22.4	22.2

Notes: Trade union membership density based on 167 responses, with 70 in Liberal Markets, 21 in Northern Europe, 40 in Central Europe and 36 in Mediterranean Europe.
The first row in each cell is the number of respondents and the second row in parentheses is the sample %.
Only firms providing information before and after the buyout are included in all tables unless otherwise stated.

Table 3 Average number of issues over which managers would normally negotiate, consult, inform or not inform unions

	All (n = 57)		Liberal markets (n = 13)		Northern Europe (n = 14)		Central Europe (n = 14)		Mediterranean Europe (n = 16)	
	Pre-buyout	Post-buyout	Pre-buyout	Post-buyout	Pre-buyout	Post-buyout	Pre-buyout	Post-buyout	Pre-buyout	Post-buyout
Number of issues where managers negotiate with unions	2.46	2.58	1.92	2.15	2.93	3.07	3.14	3.21	1.88	1.94
Number of issues where managers consult unions	2.23	2.05	3.0	2.92	2.64	2.50	1.36	1.36	2.0	1.56
Number of issues where managers inform unions	3.11	3.32	3.23	3.46	2.07	2.36	3.57	3.50	3.50	3.88
Number of issues where managers do not inform unions	1.21	1.05	0.85	0.46	1.36	1.07	0.93	0.93	1.63	1.63

Note: Average number of issues out of the nine issues in Table 4.

report increased union membership density. Union presence indicated by whether or not a firm had any union members did not change, remaining at 49 percent. The main effect of private equity ownership is a slight increase in union density in Central Europe. Differences in union membership density reported between social models in these firms before buyouts ($x^2 = 42.28$, $p = 0.000$) persisted after buyouts ($x^2 = 44.68$, $p = 0.000$).

Joint regulation

Managers in buyouts recognizing unions reported whether they normally negotiate, consult, inform or do not inform unions over nine terms and conditions of employment, currently under private equity ownership, and whether this occurred before the buyout. This comparison indicates whether private equity investment changes the terms and conditions subject to joint regulation in unionized buyouts.

Private equity investment has not changed significantly the number of issues subject to joint regulation in unionized firms according to managers (Table 3). On average, in firms recognizing unions, both pre- and post-buyout, managers report negotiating over two to three issues, consulting unions on two issues, informing unions on three issues, and not informing unions on one of the issues asked about. Managers perceive few reductions in the number of issues subject to joint regulation in each social model after private equity investment. ANOVA tests found the differences between social models in the number of issues where managers consult unions ($F_{(3,62)} = 3.205$, $p =.029$) had disappeared after buyouts ($F_{(3,58)} = 2.141$, $p = .105$).

The types of issues subject to joint regulation and the scope of negotiations between managers and unions also change little (Table 4). Both before and under private equity ownership, in most buyouts recognizing unions, managers report consulting or negotiating over rates of pay, hours of work, holiday entitlements, grievance and disciplinary procedures, and health and safety. Managers usually inform unions about the remaining issues; training of employees, staffing plans, pension schemes, and equal opportunities. Both union representation and joint regulation continue much as before private equity investment according to buyout managers.

Under private equity ownership managers report withdrawing from any ongoing collective agreements in only 4 percent of firms and 10 percent of firms renegotiated any ongoing collective agreements before they had expired. Changes to collective agreements were more common in Mediterranean Europe and there was a significant effect of social models on renegotiating any ongoing collective agreements before they had expired ($x^2 = 10.11$, $p = 0.018$). Four of the six cases involving withdrawal from a collective agreement, and eight of the 15 cases concerning renegotiation of a collective agreement before it expired, were in Mediterranean Europe model countries.

Consultative committees

Managers were asked if their firm had any committees in which managers consulted employees about general issues (Table 5). The proportion of firms in the whole sample reporting consultative committees increased significantly from one half (51%) of the

Table 4 Joint regulation of terms and conditions in unionized private equity buyouts (%)

	Rates of pay (n = 67)		Hours of work (n = 68)		Holiday entitlements (n = 66)		Training of employees (n = 67)	
	Pre-buyout	Post-buyout	Pre-buyout	Post-buyout	Pre-buyout	Post-buyout	Pre-buyout	Post-buyout
Not inform	5 (7.5)	5 (7.5)	4 (6.0)	5 (7.4)	10 (15.6)	9 (13.6)	11 (16.4)	7 (10.4)
Inform	11 (16.4)	10 (14.9)	12 (17.9)	10 (20.6)	17 (26.6)	17 (25.8)	27 (40.3)	32 (47.8)
Consult	5 (7.5)	4 (6.0)	12 (17.9)	4 (13.2)	9 (14.1)	10 (15.2)	25 (37.3)	22 (32.8)
Negotiate	46 (68.7)	48 (71.6)	39 (58.2)	48 (58.8)	28 (43.8)	30 (45.5)	4 (6.0)	6 (9.0)

	Grievance & disciplinary procedures (n = 67)		Staffing plans (n = 65)		Pension schemes (n = 64)		Equal opportunities (n = 65)		Health and safety (n = 67)	
	Pre-buyout	Post-buyout	Pre-buyout	Post-buyout	Pre-buyout	Post-buyout	Pre-buyout	Post-buyout	Pre-buyout	Post-buyout
Not inform	7 (10.9)	5 (7.5)	13 (20.0)	8 (12.3)	15 (23.8)	15 (23.4)	14 (21.2)	12 (18.5)	3 (4.5)	2 (3.0)
Inform	22 (34.4)	26 (38.8)	30 (46.2)	34 (52.3)	27 (42.9)	26 (40.6)	24 (36.4)	26 (40.0)	21 (31.3)	22 (32.8)
Consult	15 (23.4)	17 (25.4)	17 (26.2)	18 (27.7)	11 (17.5)	11 (17.2)	22 (33.3)	17 (26.2)	33 (49.3)	35 (52.2)
Negotiate	20 (31.3)	19 (28.4)	5 (7.7)	5 (7.7)	10 (15.9)	12 (18.8)	6 (9.1)	10 (15.4)	10 (14.9)	8 (11.9)

Note: The first row in each cell is the number of respondents and the second row in parentheses is the sample %.

sample before private equity ownership to 63 percent after the buyout (Wilcoxon z = 4.00, p = .000). Private equity purchase did not result in a perceived decline in consultation committees in any social model, with increases reported in liberal markets (Wilcoxon z = 3.30, p = .001), Central (n.s.) and Mediterranean Europe (n.s.). Kruskal-Wallis tests found that the significant differences in the presence of any consultation committee between social models before buyouts (x^2 = 10.38, p = 0.016) disappeared after buyouts. A works council at establishment level was most common both before (32%) and after (34%) the buyout. The proportion of firms with joint consultative committees at establishment level increased after the buyout and the proportion with European Works Councils (EWC) fell as three firms in Central Europe did not continue with a pre-existing EWC after the buyout. This probably reflects some buyouts from large multinational companies no longer operating in different countries and no longer requiring a European Works Council. None of the changes in joint consultative committees, establishment works councils, or European Works Councils are statistically significant. The significant effect of social models on reports of a works council at establishment level before the buyout (x^2 = 10.62, p = 0.014) remained after the buyout (x^2 = 15.03, p = 0.002).

Managers were asked about the influence of consultative committees on managerial decisions before and with private equity involvement. Comparing the same firms, managers regard their consultative committees as significantly more influential on management decisions under private equity ownership (t = 2.90, p = .005). Over one half of managers (56%) rated their committees as not very or not at all influential before the buyout, whereas after the buyout 59 percent rate their committees as fairly or very influential (Table 6). Managers perceive their consultative committees as more influential in buyouts in liberal markets (t = 2.03, p = .051) and Central Europe (t = 1.80, p = 0.83). ANOVA tests show social models had no significant effect on managers' perceived influence of their consultative committees either before ($F_{(3,89)}$ = .922, p = .434) or after buyout ($F_{(3,110)}$ = .923, p = .432).

Private equity investment did not change the average number of issues managers report discussing in their consultative committees (seven issues on average before and after the buyout). However, comparing the issues more likely to be discussed before and after private equity investment, managers note a shift under private equity ownership in the focus of the issues discussed in consultative committees. More managers report significant increases in discussions in their consultative committees after the private equity investment only in respect of future plans (Wilcoxon z = 3.61, p = .000), production issues (Wilcoxon z = 2.32, p = .020), financial issues (Wilcoxon z = 2.31, p = .021) and employment issues (Wilcoxon z = 2.12, p = .034). This does not appear to occur at the cost of consultation over employee terms and conditions, which managers claim is just as likely to be discussed as before the buyout. Overall, managers feel consultative committees under private equity investment have more influence on managerial decisions and are more likely to discuss issues directly affecting firm performance. Consultation significantly increases only in liberal markets in respect of future plans (Wilcoxon z = 3.16, p = .002) and employment issues (Wilcoxon z = 2.45, p = .014).

Table 5 Consultation committees pre- and post-buyout (%)

	All ($n = 187$)		Liberal markets ($n = 85$)		Northern Europe ($n = 21$)		Central Europe ($n = 44$)		Mediterranean Europe ($n = 37$)	
	Pre-buyout	Post-buyout	Pre-buyout	Post-buyout	Pre-buyout	Post-buyout	Pre-buyout	Post-buyout	Pre-buyout	Post-buyout
Any consultation committee	94 (50.3)	117 (62.6)***	36 (42.4)	50 (58.8)**	15 (71.4)	15 (71.4)	28 (63.6)	32 (72.7)	15 (40.5)	20 (54.1)
A joint consultative committee	35 (18.4)	40 (21.1)	16 (18.6)	18 (20.9)	6 (28.6)	8 (38.1)	8 (17.8)	7 (15.6)	5 (13.2)	7 (18.4)
A works council at establishment level	61 (32.1)	64 (33.7)	16 (18.6)	17 (19.8)	12 (57.1)	13 (61.9)	23 (51.1)	25 (55.6)	10 (26.3)	9 (23.7)
European Works Council	22 (11.6)	19 (10.0)	5 (5.8)	5 (5.8)	4 (19)	4 (19)	10 (22.2)	7 (15.6)	3 (7.9)	3 (7.9)

Notes: Respondents could select more than one option therefore the columns add up to more than 100%.
Significance levels: *** $p < .001$; ** $p < .01$.
The first row in each cell is the number of respondents and the second row in parentheses is the sample %.

Table 6 The influence of consultation committees pre- and post-buyout

	All (n = 86)		Liberal markets (n = 32)		Northern Europe (n = 13)		Central Europe (n = 27)		Mediterranean Europe (n = 14)	
	Pre-buyout	Post-buyout	Pre-buyout	Post-buyout	Pre-buyout	Post-buyout	Pre-buyout	Post-buyout	Pre-buyout	Post-buyout
Very influential	4 (4.7)	2 (2.3)	3 (9.4)	1 (3.1)	1 (7.7)	0 (0)	0 (0)	1 (3.7)	0 (0)	0 (0)
Fairly influential	34 (39.5)	49 (57.0)	9 (28.1)	18 (56.3)	5 (38.5)	7 (53.8)	15 (55.6)	18 (66.7)	5 (35.7)	6 (42.9)
Not very influential	40 (46.5)	31 (36.0)	16 (50.0)	11 (34.4)	7 (53.8)	6 (46.2)	10 (37.0)	7 (25.9)	7 (50.0)	7 (50.0)
Not at all influential	8 (9.3)	4 (4.7)	4 (12.5)	2 (6.3)	0 (0)	0 (0)	2 (7.4)	1 (3.7)	2 (14.3)	1 (7.1)

Note: The first row in each cell is the number of respondents and the second row in parentheses is the sample %.

The buyout process

To assess PES calls for 'trade unions and workers to be consulted and given information before a buyout' (PES Council Adopted Resolution, 2007), we asked whether employee representatives were involved in discussions before decisions were taken about a buyout or a public announcement made. Some 42 percent of managers report employee representatives had been informed but only 9 percent felt representatives had been consulted and fewer still (2%) felt representatives had been involved in negotiations (Table 7). In the remaining cases (47%), managers did not think employee representatives had been informed. Social models had a significant effect on consultation with employee representatives before buyout ($x^2 = 14.62$, $p = 0.002$) as employee representatives had not been informed about the buyout in the majority of firms in liberal markets.

Where managers claimed to have informed employee representatives, almost half had been in firms recognizing unions for negotiating pay and conditions before the buyout. Where employee representatives had not been informed, just under a third had been in firms recognizing unions for negotiating pay and conditions before the buyout. The majority of firms where managers report employee representatives had been consulted or involved in negotiations had been unionized before the buyout.

In 65 percent of surveyed companies with union members, managers report unions were neutral towards the buyout. In 27 percent of cases, unions were supportive of the buyout, while only 8 percent were opposed. In interviews managers explained that unions supported private equity investors over rival bids from trade competitors in cases where acquisition by competitors threatened to create overlapping capacity and increased the threat to jobs, and public ownership in the past had not resulted in the required investments to build a sustainable business (Table 8).

Across different social models, managers report trade unions were mainly neutral or supportive towards private equity buyouts, although more union opposition was reported in Mediterranean countries. There was a significant effect of social models on union support for private equity buyouts ($x^2 = 19.12$, $p = 0.000$).

Table 7 Consultation with employee representatives during the buyout (%)

Employee representatives	All (n = 183)	Liberal markets (n = 81)	Northern Europe (n = 21)	Central Europe (n = 43)	Mediterranean Europe (n = 38)
Not informed	86 (47)	48 (59.3)	10 (47.6)	12 (27.9)	16 (42.1)
Informed	76 (41.5)	30 (37.0)	18 (38.1)	22 (51.2)	16 (42.0)
Consulted	17 (9.3)	3 (3.7)	1 (4.8)	8 (18.6)	5 (13.2)
Involved in negotiations	4 (2.2)	0 (0)	2 (9.5)	1 (2.3)	1 (2.6)

Note: The first row in each cell is the number of respondents and the second row in parentheses is the sample %.

Table 8 Trade union support for private equity buyouts and different social models

	All (n = 181)	Liberal markets (n = 81)	Northern Europe (n = 21)	Central Europe (n = 42)	Mediterranean Europe (n = 37)
Strongly supported buyout	2 (1.1)	1 (1.2)	0 (0)	0 (0)	1 (2.7)
Supported buyout	15 (8.3)	2 (2.5)	5 (23.8)	5 (11.9)	3 (8.1)
Neither supported nor opposed buyout	40 (22.1)	10 (12.4)	6 (28.6)	13 (31.0)	11 (29.7)
Opposed buyout	4 (2.2)	0 (0)	0 (0)	1 (2.4)	3 (8.1)
Strongly opposed buyout	1 (0.6)	1 (1.2)	0 (0)	0 (0)	0 (0)
No trade union involved	119 (65.7)	67 (82.7)	10 (47.6)	23 (54.8)	19 (51.4)

Note: The first row in each cell is the number of respondents and the second row in parentheses is the sample %.

Insider versus outsider buyouts

Although we fail to find a negative impact of buyouts on industrial relations overall, it is possible that outsider buyouts pose a more significant challenge to unions than insider buyouts (Bacon et al., 2008). We analysed the subset of 124 outsider buyouts (66%) in the sample. Union recognition in outsider buyouts before the change of ownership (49% of cases) did not change significantly (47% at the time of the survey), with only two cases of derecognition by outsider buyouts and two cases by insider buyouts. Outsider buyouts were more likely to recognize unions than insider buyouts, both before and after ownership change, with only 29 percent of insider buyouts recognizing unions before the buyout and 26 percent recognizing unions afterwards. Management attitudes towards union membership did not change in outsider buyouts, with 11 percent in favour, 57 percent neutral and 32 percent not in favour both before and after buyout.

Outsider buyouts recognizing unions also report an overall increase in the average number of issues where they negotiate (to 2.9 from 2.6 before the buyout), consult (2.06 from 1.98), and inform unions (2.84 from 2.77), and a reduction in the average number of issues where managers do not inform unions (1.2 from 1.64). Joint regulation in outsider buyouts that recognize unions increases overall on each of the terms and conditions listed in Table 4. More outsider buyouts report a consultation committee after the buyout (67%) than before (56%), with more reporting a joint consultation committee (47% from 40%), and proportionately fewer reporting a works council (70% from 74%) or European Works Council (23% from 29%). Insider buyouts report an increase in the proportion with a consultation committee (56% from 40%), no change in the 42 percent reporting a joint consultation committee, 58 percent reporting a works council and little change in the proportion reporting a European Works Council (8% before and 9% after buyout). The overall influence of consultation committees in outsider buyouts before the buyout (5% rating it very influential, 43% fairly influential, 42% not very influential and 11% not at all influential) changes little after buyout (none rating it very influential, 54% fairly influential, 41% not very influential and 5% not at all influential).

Fewer insider buyouts (18%) dealt with unions on buyout, with 13 percent reporting unions neither supported nor opposed the buyout, and in 5 percent of cases unions supported or strongly supported the buyout. More outsider buyouts involved unions, with only 4 percent reporting unions opposed or strongly opposed the buyout, with 27 percent reporting unions neither supported nor opposed the buyout, and in 12 percent of cases unions supported the buyout. We therefore find little evidence that outsider buyouts seek to withdraw from joint regulation where it existed before the buyout.

Buyout size

To assess whether industrial relations changes are reported by larger buyouts, we analysed the 19 buyouts with more than 5000 employees on buyout and 39 buyouts employing 1001–5000 on buyout. This analysis shows only a single case of union derecognition in a firm with more than 5000 employees. Management attitudes towards union membership changed only marginally in buyouts with more than 5000 employees, with three in favour, 12 neutral and four not in favour before the buyout, and two in favour, 10 neutral and six not in favour after buyout. The 1001–5000 category showed very few changes. Union membership density changed little in firms with 1001–5000 employees (24.95% before and 24.06% after buyout) and changed little in firms with more than 5000 employees (16.10% before and 16.50% after buyout).

Buyouts recognizing unions with 1001–5000 employees also report an increase in the average number of issues where they negotiate (2.94 from 2.53 pre-buyout), and a reduction in the average number of issues where managers consult (1.64 from 1.82), inform (3.47 from 3.65), and do not inform unions (0.94 from 1.0). The same pattern is reported in buyouts recognizing unions with more than 5000 employees, with an increase in the average number of issues where managers negotiate (4.09 from 3.75 pre-buyout), and a reduction in the average number of issues where managers consult (1.73 from 1.83), inform (1.64 from 1.67), and do not inform unions (1.55 from 1.75).

More buyouts with 1001–5000 employees report a consultation committee after the buyout (27) than before (20), with more reporting a joint consultation committee (11 from 8), a works council (20 from 17), and fewer report a European Works Council (3 from 4). Buyouts employing more than 5000 employees reported no changes in the presence of committees for consulting employees other than more reporting a European Works Council after buyouts (12 from 9). The overall influence of consultation committees in buyouts employing more than 5000 employees does not change compared with before the buyout (10 rating it fairly influential, 5 not very influential and 2 not at all influential both before and after buyout). The influence of consultation committees increases in buyouts employing 1001–5000 employees, with one case rating it very influential, eight fairly influential, seven not very influential and three not at all influential before the buyout, and after buyout no cases rated it very influential, 16 fairly influential, eight not very influential and two not at all influential.

Few larger buyouts negotiated with employee representatives prior to a decision being taken or the public announcement of the buyout. Buyouts employing more than 5000 employees consulted employee representatives in five cases, informed them in seven cases and did not inform them in six cases. Unions supported the buyout in four cases, neither supported nor opposed the buyout in nine cases, and in two cases opposed the buyout. Among buyouts employing 1001–5000, employee representatives were consulted in three cases, informed in 20 cases, and not informed in 13 cases. Unions supported the buyout in four cases, neither supported nor opposed the buyout in 12 cases, in one case opposed the buyout, and strongly opposed it in one case. We therefore find little evidence that larger buyouts seek to withdraw from joint regulation where it existed before the buyout.

The effects of leverage

To assess whether changes in industrial relations are reported by buyouts with higher leverage, we analysed the subset of 61 UK buyouts with leverage data available. Calculating leverage = (Short Term Loans & Overdrafts + Long Term Liabilities)/ Shareholders funds) × 100; we then divide to create two groups (30 with lower leverage and 31 with higher leverage) split at the median to account for the small number of deals with very high leverage. Higher leveraged buyouts report no changes in union recognition (nine out of 27) or management attitudes towards union membership (15 neutral and 12 not in favour) both before and after the buyout, with a slight decline in union membership density from 15.77 percent to 13.32 percent. High leverage buyouts recognizing unions also report an increase in the average number of issues where managers negotiate (2.00 from 1.89 before the buyout), consult (3.22 from 3.0), and inform (3.47 from 3.65), and a reduction in the average number of issues where managers do not inform unions (0.67 from 1.22). More high leverage buyouts report a consultation committee after the buyout (20) than before (17), and consider the committee very or fairly influential after the buyout (12) than before (six). Higher leveraged buyouts also do not display exceptional aversion to informing employee representatives before the public announcement of the buyout (one consulting, 13 informing and 13 not informing employee representatives), and where recognizing unions, in one case unions strongly supported the buyout, in one case they strongly opposed the buyout, and in five cases neither supported nor opposed the buyout.

Discussion

To inform the debate on the impact of private equity backed buyouts on industrial relations in European we have presented the first large-scale survey of managers' perceptions. In relation to the article's first aim, managers indicate that overall, far from having a detrimental effect on union representation (ITUC, 2007; PSE, 2007), private equity investment does not result in significant changes to either union recognition, management attitudes to union membership, or membership density. Furthermore, managers in firms recognizing unions report that the range of issues subject to joint regulation has not altered. Under private equity ownership more firms report consultation committees, managers regard their consultative committees as more influential on managerial decisions, and more managers report discussing firm performance and future plans. Managers in portfolio companies therefore do not perceive the withdrawal from social dialogue and collective representation that unions at national and international levels have claimed

(Monks, 2007a, 2007b; PSE, 2007). Joint regulation appears to continue with unions voicing employee interests to influence management decisions. Given this, it is not surprising that few managers report union opposition to private equity buyouts. These findings suggest that recent criticisms of private equity buyouts drawing on individual cases are not representative of the broader experience of buyout managers, and the findings across Europe are consistent with previous research findings as the first (Wright et al., 1984, 1990) and second waves of UK buyouts reported making few changes to industrial relations (Bacon et al., 2004; Wright et al., 2009). We also find no evidence that managers in outsider buyouts or large buyouts seek to withdraw from joint regulation where it existed before the buyout.

Our findings, albeit relying on managers' accounts, reflect several features of private equity buyouts that are overlooked by critics of the sector. Unions suggest private equity firms are engaged in asset stripping because they are more directly interested in industrial relations than diversified shareholders of public companies, hold firms for only a short period, and focus on cost reduction business strategies and firm restructuring rather than growth. These assumptions are incorrect in most cases. First, private equity investors have limited involvement in industrial relations issues according to managers in portfolio companies (European Private Equity and Venture Capital Association, 2001). HR directors we interviewed reported private equity investor involvement as board members approving the business strategy, with investors then 'generally happy to let the business run itself' as investors 'will not get involved in details'. This is consistent with the fundamental basis of the private equity model being to invest in managers who are able to run the business (Gilligan and Wright, 2008).

Second, many private equity firms increase the value of their investments by focusing on customer service and developing highly trained and experienced personnel, rather than concentrating only on cost reduction. As private equity investors support appropriate investments to build employee skills and commitment (Bacon et al., 2008) we see no particular reasons why managers in private equity owned firms cannot work closely on these issues with unions. Third, most private equity buyouts are growth cases rather than restructuring cases (Meuleman et al., 2009), few involve asset disposals and the mean period for holding investments is increasing and around five years (Stromberg, 2008; Wright et al., 2007). Most private equity buyouts create jobs, providing scope for positive industrial relations arrangements to develop (Amess and Wright, 2007). Fourth, private equity buyouts may be preferable to the alternative of closure or unwelcome sale to a competitor who may have a non-union culture. It was reported to us in a buyout of the European division of a manufacturing multinational corporation that the unions preferred acquisition by private equity investors that offered a good strategy to develop and invest in the business, which had been frustrated under the previous owner, over purchase by an American competitor with a strong non-union culture that would have involved further downsizing. Relationships with unions were described as 'very good on the EWC, it was good before the buyout and it remains good after the buyout. We are agreed on the way forward and remain loyal to each other. We have done as we said.'

Managers in private equity buyouts report increased consultation with employee representatives rather than less, and this may reflect attempts to improve firm performance by generating employee commitment to the future of the firm. Managers report enhanced consultation with employees on these matters rather than seeking to downgrade consultation, or reduce the scope of consultation over other terms and conditions of employment. This may reflect a closer alignment between the interests of employee representatives and managers as a result of an improved business focus and smaller scale of operations. Managers in private equity buyouts may seek to align the goals of employee representatives and employees with business aims, develop a closer relationship between private equity investors and the firm including its employees, attempt to reduce feelings of insecurity arising from a change in ownership, or to build a coalition to improve firm performance. The general lack of perceived union opposition to private equity investment in portfolio companies may have encouraged greater information disclosure from managers.

Notice however, that in 47 percent of cases, managers report that employee representatives had not been informed before the announcement of the buyout decision. Although the private equity model is for the running of the business to be the responsibility of executives, there may be opportunities for private equity firms to signal their intentions more clearly during the buyout, given PES calls for extending to leveraged buyouts the Directive obliging employees to be informed and consulted during takeovers. For example, in one buyout we interviewed, a divestment from a multinational corporation, private equity investors gave a presentation to the different works councils to explain what would happen immediately after the buyout. It was reported to us that 'even though there were a lot of tough and critical questions, this created a certain level of trust'. An important issue was the length of the investment period and employee representatives were assured the investors' average time to exit was seven years. Investors and the works councils met annually after the buyout. In another case, the private equity investors presented plans to the EWC and to the French works council at the start of the sale 'to illustrate that here is the guy, they are not hiding and they are willing to answer questions'.

In terms of the second aim of the study, comparing industrial relations changes in different social models across Europe, of Watt's (2008) three possible scenarios, the results suggest private equity firms adapt to national systems and traditional national industrial relations differences persist. Private equity investments thus appear to represent only a limited adaptation of the European social model as suggested by other surveys (Bacon et al., 2008). Managers do not perceive private equity as eroding the different approaches to labour management across Europe. The persistence of employee voice, indicated by continued union representation and joint regulation across social models, suggests that private equity investors and managers may not be able to avoid union representatives as important channels of communication with employees in unionized firms. Although European trade unions fear private equity will spread Anglo-American practices across mainland Europe undermining the European social model, buyout managers indicate this has not generally occurred. The impact of private equity on industrial relations in Europe is shaped by different social models and more appropriately understood through a VoC framework (Hall and Thelen, 2008) not as a direct threat to the European social model of worker participation (Evans and Habbard, 2008; Vitols, 2008).

Our evidence is consistent with other studies showing that private equity firms adapt their use of information in deal assessment across different countries (Wright et al., 2005). Further, it also suggests that private equity firms may have learnt the importance of understanding different institutional contexts following some of their less than successful forays into continental European markets during the first buyout wave of the late 1980s (Wright et al., 1991, 2006).

We suggest our findings provide important insights to inform the policy debate. The findings emphasize the importance of having systematic large-scale evidence rather than a small number of atypical cases. The debate has also tended to portray the private equity market as focusing on large buy-ins, yet these comprise a very small share of the number of deals and tend to be prominent only at market peaks. Our study demonstrates the importance of including the full range of buyouts and buy-ins. Policy towards private equity continues to evolve. As the European Parliament and European Council discuss the proposed Directive on Alternative Investment Fund Managers with a view to implementing the directive by 2011, our study suggests negative perceptions of private equity is at variance with the systematic evidence. Based on our evidence, there does not appear to be a case for specific legislation to protect workers' information and consultation rights in private equity buyouts. There appears to be a potential danger that increasing compliance costs could delay or reduce private equity investments that would have beneficial effects on enterprises. Our findings do suggest a possible need, bearing in mind issues of commercial confidentiality, to introduce a requirement for the provision of greater information to employee representatives prior to a buyout. However, this issue also seems to apply to other forms of ownership change, not just private equity buyouts. More generally, while the Rasmussen proposals have provided a critique of voluntary regulation of private equity in the EU, in the light of the credit crisis, claims for greater regulation of private equity would appear to be more appropriately part of a general approach to regulation across all financial markets (Woolfe, 2009).

As with all studies, this research has a number of limitations that give rise to opportunities for further research. First, our study was restricted to a quantitative approach using responses from key HR directors and CEOs. While this provided for empirical generalizability, further research could also seek responses from private equity firm executives and union representatives. For example, while Clark (2009) has undertaken a study of the AA buyout from trade union/employee perspectives, there remains a need for rich theory building case studies that encompass all parties to the private equity buyout, which could juxtapose management's rationales for employee relations changes with these views. There is a need for quantitative studies of employees' and union perspectives, given the problems in generalizing empirically from single cases. Second, we oversampled large firms as these are relatively small in number. Industrial relations procedures are generally more stable in such firms and it may be that our study overemphasizes stability. However, these firms have been the main focus of attention regarding changes to industrial relations following private equity investment and we found little evidence that larger buyouts seek to withdraw from existing joint regulation.

Third, our respondents, who are part of the new management team in buy-in cases, may be more likely to present their industrial relations procedures and processes in a positive light. Yet, existing managers in buyout cases may also present changes in a positive light in order to justify their rationale for the buyout. We are unable to distinguish specifically respondents who were present in the enterprises pre-buyout from those introduced on the change in ownership, but we were able to distinguish between insider driven buyouts and outsider driven buy-ins where management change is likely in the latter. As our results showed, there was little significant difference between the two and little evidence that outsider buyouts seek to withdraw from joint regulation where it existed before the buyout.

We visited a selection of firms and our interviews confirmed our pattern of survey findings and did not give any particular reasons to be concerned about response bias. Our findings are also consistent with previous studies of HR changes in buyouts and buy-ins going back some 25 years (Wright et al., 1984).

Fourth, our study was cross-sectional. Although it was designed to allow sufficient time after buyout for changes to industrial relations to have occurred, we were unable to chart the process of these changes over time. Future research might usefully adopt a more longitudinal approach. Although our study was conducted quite recently, it was too soon to incorporate the impact of the credit crisis and recession on industrial relations in private equity backed buyouts.

Fifth, along with many recent studies of managerial perceptions using mailed questionnaire surveys, the response rate in this study was quite low. Nevertheless, we were able to establish that on a number of criteria, the sample was representative of the population of private equity backed buyouts and that the respondents covered a range of differences in firm performance and changes in employment relations practices.

Finally, critics might suggest a need for caution in interpreting our results as the study was funded directly and indirectly by the private equity industry. We would note that CMBOR was established in 1986 at Nottingham University Business School as a not-for-profit centre to study buyouts in a comprehensive and objective way. That this is indeed the case is reflected in CMBOR data, reports and refereed academic papers being used by all parties to inform the debate and to support their different perspectives. Besides the private equity industry these include, for example: the OECD (Wright et al., 2007), European Commission (Wright and Bacon, 2009a), Work Foundation (2007),[1] FSA (2006),[2] ITUC (Watt, 2008; Wright and Bacon, 2009b), Bank of England, HM Treasury, Poul Nyrup Rasmussen (2008), Unite – The Union (Hall, 2007), European Federation of Food, Agriculture and Tourism Trade Unions, and sections of the media that are either critical (*The Guardian*, 2007)[3] or supportive (Kaletsky, 2007) in respect of private equity. The findings presented here are also consistent with early studies funded by the UK Economic and Social Research Council (Wright et al., 1984) and studies on employment effects (Amess and Wright, 2007a, 2007b) and productivity (Harris et al., 2005) are consistent with World Economic Forum studies (Davis et al., 2008, 2009).

Conclusions

We have reported the results of the first representative pan-European survey of managers' perceptions of the impact of private equity on industrial relations. Our evidence helps provide a more informed understanding of the policy debate regarding industrial relations following private equity backed buyouts that has hitherto been missing. In marked contrast to critics' claims, often based on isolated examples, managers report that private equity investment overall does not result in changes to union recognition, membership density or changes in management attitudes to union membership. Managers in firms recognizing unions after private equity buyouts also do not report reductions in the terms and conditions subject to joint regulation. Rather, under private equity ownership more firms report consultative committees and managers regard these as more influential on their decisions, as well as indicating increased consultation over firm performance and future plans. Recent debate has tended to imply that the activities of private equity firms represent an important new departure in industrial relations. Yet this evidence from the second wave of private equity buyouts is highly consistent with that from the first wave some two decades ago: management recognize the continued importance of having formal structures of joint regulation and consultation.

Comparing industrial relations changes in different social models in Europe, we suggest private equity firms adapt to national systems and traditional national industrial relations differences persist. Our systematic evidence thus calls into question the arguments that private equity buyouts pose a threat to the European Social Model. Overall, it is difficult to escape the conclusion that at least some of the demands for significantly enhanced regulation are being driven more by a wider political debate than by the specifics of the private equity context.

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Notes

1 Note that the quantitative data in Work Foundation (2007) and referred to in Treasury Select Committee (2007) was provided by CMBOR.
2 Note that deal structuring data in Treasury Select Committee (2007) sourced as FSA is CMBOR data.
3 Note that *The Guardian* leader cites the Work Foundation, which in turn is using CMBOR data, and the figure relating to wages is from Amess and Wright (2007a).

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