

Internationalization Of Management Buyouts: Firm Strategies And Venture Capitalist Contribution

Mike Wright, Andy Lockett, Paul Westhead, Hans Bruining

| | |
|--|---|
| ERIM REPORT SERIES <i>RESEARCH IN MANAGEMENT</i> | |
| ERIM Report Series reference number | ERS-2002-58-ORG |
| Publication | 2002 |
| Number of pages | 19 |
| Email address corresponding author | bruining@few.eur.nl |
| Address | Erasmus Research Institute of Management (ERIM) Rotterdam School of Management / Faculteit Bedrijfskunde Rotterdam School of Economics / Faculteit Economische Wetenschappen Erasmus Universiteit Rotterdam P.O.Box 1738 3000 DR Rotterdam, The Netherlands Phone: +31 10 408 1182 Fax: +31 10 408 9640 Email: info@erim.eur.nl Internet: www.erim.eur.nl |

Bibliographic data and classifications of all the ERIM reports are also available on the ERIM website:
www.erim.eur.nl

ERASMUS RESEARCH INSTITUTE OF MANAGEMENT

REPORT SERIES *RESEARCH IN MANAGEMENT*

| BIBLIOGRAPHIC DATA AND CLASSIFICATIONS | | |
|---|--|--|
| Abstract | <p>Multivariate statistical analysis is utilized to explore the association between firm strategies, contributions made by venture capitalists and incentives for owners and employees and three exporting variables in a stratified random sample of 147 management buyouts and buyins. Firms focusing upon a diversified product/ service range and/or advertising were significantly more likely to be exporters. Firms focusing upon product/ service quality and financial efficiency and those with high proportions of employees receiving performance related pay were significantly less likely to be exporters. Manufacturing firms and firms focusing upon a diversified product/ service range and/or advertising were significantly more likely to report high percentages of sales exported. Variations in the proportion of sales exported over time were associated with strategies focused upon product/service quality and a diversified product/ service range.</p> | |
| Library of Congress Classification (LCC) | 5001-6182 | Business |
| | 5546-5548.6 | Office Organization and Management |
| | 5548.7-5548.85 | Industrial Psychology |
| | HD 30.28 | Strategic planning |
| Journal of Economic Literature (JEL) | M | Business Administration and Business Economics |
| | M 10 | Business Administration: general |
| | L 2 | Firm Objectives, Organization and Behaviour |
| European Business Schools Library Group (EBSLG) | D 21 | Firm behavior |
| | 85 A | Business General |
| | 100B | Organization Theory (general) |
| | 240 B | Information Systems Management |
| | 270 L | Management buy-outs |
| Gemeenschappelijke Onderwerpsontsluiting (GOO) | | |
| Classification GOO | 85.00 | Bedrijfskunde, Organisatiekunde: algemeen |
| | 85.05 | Management organisatie: algemeen |
| | 85.08 | Organisatiesociologie, organisatiepsychologie |
| | 85.10 | Strategisch beleid |
| Keywords GOO | Bedrijfskunde / Bedrijfseconomie | |
| | Organisatieleer, informatietechnologie, prestatiebeoordeling | |
| | Internationalisatie, prestatiebeoordeling, management buy-outs, durfkapitaal | |
| Free keywords | Economic performance, internationalization, strategy, buy-outs, venture capital | |

INTERNATIONALIZATION OF MANAGEMENT BUYOUTS: FIRM STRATEGIES AND VENTURE CAPITALIST CONTRIBUTION

Mike Wright, Andy Lockett, Paul Westhead, Nottingham University Business School
/Centre for Management Buy-out Research and Hans Bruining, Erasmus University

ABSTRACT

Multivariate statistical analysis is utilized to explore the association between firm strategies, contributions made by venture capitalists and incentives for owners and employees and three exporting variables in a stratified random sample of 147 management buyouts and buyins. Firms focusing upon a diversified product/ service range and/or advertising were significantly more likely to be exporters. Firms focusing upon product/ service quality and financial efficiency and those with high proportions of employees receiving performance related pay were significantly less likely to be exporters. Manufacturing firms and firms focusing upon a diversified product/ service range and/or advertising were significantly more likely to report high percentages of sales exported. Variations in the proportion of sales exported over time were associated with strategies focused upon product/service quality and a diversified product/ service range.

INTRODUCTION

Previous internationalization research has mainly focused on large firms (Leonidou and Katsikeas, 1996). Several recent studies have focused upon the internationalization of small and medium-sized enterprises (SMEs). Studies have explored the behaviour of firms that internationalize from start-up (i.e., born global firms) (Autio et al., 2000), as well as those associated with established firms that subsequently internationalize (Lu and Beamish, 2001; Westhead et al., 2001). While the role of effective corporate governance in enterprise performance (Hitt et., 1996) has been highlighted, previous internationalization studies have failed to specifically focus upon links between managerial incentives and corporate governance and firms' propensity / intensity of exporting (Filatotchev et al., 2001). This study draws uses a random sample of privately-owned management buy-out (MBO) and management buy-in (MBI) firms engaged in manufacturing and service activities to examine whether organizational characteristics (i.e., firm strategy and governance and incentive structures) are associated with a MBO/I's exporting behavior.

The paper is structured as follows. The next section, discusses theoretical perspectives associated with exporting and MBOs/Is. A firm's organizational characteristics (i.e., firm strategy, venture capitalist contribution and managerial incentives) are suggested to be associated with three export outcomes (export propensity, export intensity and changes in export intensity) reported by privately-owned firms. Testable hypotheses are then derived. The data collection and research methodology are detailed

followed by the presentation of the results from the multivariate regression models. In the final section, conclusions and implications are discussed.

THEORETICAL INSIGHTS

Exporting activity by firms can be viewed as a strategy choice that is influenced by a firm's resources and capabilities (Autio et al., 2000; Westhead et al., 2001). Resource-based theorists (Barney, 1991) suggest that owners and managers of organizations can create competitive advantages for their firms when they accumulate and manage resources that are rare, valuable and hard to duplicate. Corporate governance and entrepreneurship are two potentially important dimensions of resources. While corporate governance mechanisms to deal with agency costs, by themselves, may not be a source of competitive advantage, there is heterogeneity in the way in which the skills to implement otherwise common governance devices are distributed among firms (Barney, et al., 2001). Failure to implement the correct governance in a situation can lead firms to not fully realize the benefits of the resources they control. Castanias and Helfat (2001) emphasize the importance of idiosyncratic human capital arguments vis-à-vis more traditional agency theory arguments concerning corporate governance. Alvarez and Busenitz (2001) argue that entrepreneurial alertness and knowledge as well as the ability to coordinate resources need to be seen as resources. From the firm's viewpoint, they suggest that the entrepreneur fulfils a crucial role in recognising the value and opportunities presented by specialist knowledge, and integrating it to create rents.

Internal and external opportunities and threats encourage entrepreneurs to make strategic choices that encourage business development. Strategies focusing upon identifying and exploiting opportunities in foreign markets are more risky than those focusing upon domestic markets and improving internal efficiency. Expansion into foreign markets presents opportunities for growth and value creation. It requires that the organization has accumulated resources and selected strategies to enter new markets and represents a fundamental departure from existing domestic practices (Lu and Beamish, 2001). The ability to identify and exploit opportunities in foreign markets can thus be seen as an entrepreneurial act. Managers/entrepreneurs risk attitudes and changes in corporate governance and incentives can shape the resources accumulated by organizations, and the strategies adopted to identify and exploit foreign market opportunities.

Numerous organizations gain a new lease of life (i.e., an entrepreneurial release) after an ownership transition such as a management buyout (MBO) or management buyin (MBI) (Robbie and Wright, 1996). Managers in an organization can purchase the majority of its equity in order to create a newly independent firm in which the (former) managers are significant equity owners. Where incumbent managers become equity owners, the term MBO is used. When external managers, not previously employed in the purchased organization purchase a business, a management buy-in (MBI) is created. Venture capital firms typically provide various forms of equity finance to effect the purchase and also

actively monitor their investments and assist managers of MBO/Is with regard to their governance, and sometimes their strategic orientation (Bruining and Wright, 2002). MBO/Is may be funded with substantial amounts of debt, placing pressure on management to perform to service interest and repay capital (Thompson and Wright, 1995).

In line with an agency cost perspective (Jensen, 1993), it can be reasonably assumed that managers of MBO/Is responding to incentive and control mechanisms will seek out profit-maximizing opportunities. In particular, managers will actively aim to enhance the internal efficiency of the MBO/I. For example, they will seek to reduce costs and engage in some degree of catch-up innovation or revitalization of the business. From an entrepreneurial perspective, MBO/Is can facilitate the release of entrepreneurial behavior, with former managers being released from the frustrations and constraints associated with the previous ownership and control regime (Wright, et al., 2000, 2001). Members of the management team may have identified new market opportunities and considered strategies to exploit new market opportunities. The former owners of the business, however, may have prevented these entrepreneurial initiatives because they were not central to the former owners' objectives and strategy. They may also have been rejected (or put on hold), if the subjective nature of the information relating to the identified opportunity did not fit into corporate decision-making processes. This perspective suggests that strategic choices by managers in MBO/Is may be influenced by their mindset and idiosyncratic skills, not just their incentives and the accompanying governance structure. More entrepreneurial strategies require managers who are able to make riskier strategic choices. This mindset enhances proactive behavior in seeking opportunities, innovative and marketing practices and organisation of skills to implement entrepreneurial strategies, which may be independent of the nature of incentives (Lumpkin and Dess, 1996). Managers without this entrepreneurial mindset may focus on less risky strategic choices even when high-powered equity incentives have been introduced.

DERIVATION OF HYPOTHESES

Firm Strategies

Kaynak and Kothari (1984) noted that exporters reported a better utilization of internal resources. Owners of private SMEs seeking to maximize profits from their activities may, however, focus upon cost reduction and operations efficiency issues (McDougall et al., 1994) rather than expansion into new markets. The more traditional agency perspective on buy-outs and buy-ins suggests that managers respond to the introduction of significant equity-based incentives by focusing on enhancing financial control and improving efficiency. Hence:

H₁ Firms emphasizing the importance of improving finances are less likely to be exporters / will report a lower intensity of exporting / and reductions in exporting intensity.

Strategies that involve growth through acquisition may be perceived to be less risky than those focusing upon new product development. The latter are generally perceived to be associated with a lower probability of success (Hitt et al. 1996). Acquisitions are generally undertaken in established markets and are associated with assets that can be sold if the acquired business under-performs. On the downside, acquisitions can absorb substantial amounts of managerial time and involve asymmetric information risk. The traditional agency theory perspective suggests that managers in MBOs/Is are more likely to pursue growth through acquisition than through the riskier exporting route. Hence:

H₂ Firms emphasizing the importance of acquisitions are less likely to be exporters / will report a lower intensity of exporting / and reductions in exporting intensity.

An entrepreneurial perspective on buy-outs (Wright, et al., 2000, 2001) suggests that management released from the frustrations imposed by large groups are able to choose more entrepreneurial strategies. These entrepreneurial strategies are generally more likely to be associated with more exporting. Their specific dimensions are developed below.

Wright, et al. (1992) and Zahra (1995) have noted that extensive new product enhancement often follows buy-outs. Product development has been identified as important in developing an effective exporting strategy (Luo, 2000). Firms may need to diversify their product range and to introduce speciality products in order to appeal to the tastes of broader array of customers, particularly customers located in foreign markets. Hence:

H₃ Firms emphasizing the importance of product diversification are more likely to be exporters / will report a higher intensity of exporting / and increases in exporting intensity.

Firms may develop a business image which is associated with products / services of superior quality. Bloodgood et al., (1996) detected that firms selecting product differentiation as a source of competitive advantage reported higher levels of internationalization. In addition, Koh (1989) detected that exporting firms cited the unique qualities of their products. Hence:

H₄ Firms emphasizing the importance of providing quality products or services are more likely to be exporters / will report a higher intensity of exporting / and increases in exporting intensity.

By monitoring and predicting customer requirements / tastes, new customer and market opportunities can be identified. Weaver and Pak (1990) noted that the decision to export was motivated by the availability of export-related information. A focus upon marketing issues may enhance a firm's creativity and development (Cavusgil and Naor, 1987). Exporting can be perceived as a risky entrepreneurial action, to ensure the success of their activities, firms may need to build brands that are recognizable in overseas

markets. They may also need to be innovative by developing new products and refining existing ones to appeal to purchasers in foreign markets. Hence:

H₅ Firms emphasizing the importance of a marketing and product development are more likely to be exporters / will report a higher intensity of exporting / and increases in exporting intensity.

Bloodgood et al., (1996) detected that firms reporting they had selected market differentiation as a source of competitive advantage reported lower levels of internationalization. Covin et al., (1990) have suggested that smaller firms could seek a competitive advantage by aggressive advertising. Hence:

H₆ Firms emphasizing the importance of advertising are more likely to be exporters / will report a higher intensity of exporting / and increases in exporting intensity.

Contribution Made by a Venture Capitalist

As intimated above, the links between the corporate governance of private firms and their exporting behavior has been neglected. Private equity and venture capital firms funding MBO/Is can play a key role as active investors that replace previous passive investors (Jensen, 1993). Besides providing finance, these investors can enable a firm to address operational and strategic barriers to business development with regard to its internal and external environments (Bruining and Wright, 2002) Debate exists surrounding the contribution of venture capital firm monitoring to the performance of early stage investees (Wright and Robbie, 1998). In traditional MBOs, where gains are expected through efficiency improvements, there is a need for private equity firms and venture capitalists with financial control skills (Jensen, 1993). In contrast, MBO/Is with more entrepreneurial managers seeking to identify and exploit market opportunities in foreign markets may actively seek to utilize and lever the capabilities of board members representing the interests of venture capital investors (Wright, et al., 2000). Hence:

H_{7a} Firms with venture capitalists' contribution focusing primarily upon finance related issues are less likely to be exporters / will report a higher intensity of exporting / and increases in exporting intensity.

H_{7b} Firms with venture capitalists' contribution focusing primarily upon non-finance related issues are more likely to be exporters / will report a higher intensity of exporting / and increases in exporting intensity.

Incentives for Management and Employees

A central feature of MBO/Is is that management becomes significant equity owners, hence reducing agency cost problems. Prior to the MBO/I there is a misaligned reward structure. Risk averse managers in subsidiaries bear the uncertainty of entrepreneurial activities but are only rewarded on the basis of a risk-normal salary (Jones and Butler, 1992). After the

MBO/I, managers have both the monetary incentive and the responsibility for implementing entrepreneurial strategy. Studies consistently show that performance improvements following a MBO/I are driven mainly by the size of management's equity stakes (Thompson and Wright, 1995). Owner-managers of MBO/Is aware of saturated domestic markets for their products or services may, therefore, seek to increase their personal wealth by exploiting opportunities in foreign markets. Hence:

H₈ Firms with a high proportion of equity owned by management are more likely to be exporters / will report a higher intensity of exporting / and increases in exporting intensity.

The introduction of performance related pay (PRP) has also generally been viewed as a mechanism to focus attention on enhancing profitability. However, PRP may be tied to relatively short term performance targets. As such, managers and employees may focus on actions with less risky short term pay-offs than riskier strategies such as exporting where the pay-off may take longer to emerge.

H₉ Firms with a high proportion of employees receiving performance related pay are less likely to be exporters / will report a lower intensity of exporting / and reductions in exporting intensity.

MBO/Is are a heterogeneous phenomenon (Wright et al., 2001). As intimated above, a distinction can be made between incumbent managers who become substantial equity owners as in a MBO, and external managers who become substantial equity owners as in a MBI. MBIs may occur where incumbent management, while quite possibly being good line managers, do not have the strategic skills to lead an independent firm. Evidence indicates that external managers leading an MBI display significantly greater entrepreneurial characteristics and behavior than internal managers leading a MBO (Robbie and Wright, 1996). Hence:

H₁₀ MBIs are more likely to be exporters than MBOs.

DATA COLLECTED

The sample was derived from the Centre for Management Buy-out Research (CMBOR) database that effectively comprises the population of MBO/Is in Europe. This database is compiled from twice yearly surveys of financiers and advisers to MBO/Is, together with detailed examination of the financial press, companies annual reports and accounts, press releases by financiers, Stock Exchange circulars and other financial information sources. The twice-yearly surveys of practitioners yield approximately a 100 per cent response rate.

The initial questionnaire was designed based on existing literature and in discussions with members of the European Venture Capital Association (EVCA)

Management Buy-out Committee comprising buyout financiers from across Europe. This initial questionnaire was piloted in March 2000 by sending it to 20 management MBO/Is across Europe to check for consistency, relevance, clarity and understanding. The final questionnaire was translated into French, German, Italian and Spanish and mailed to all venture-backed MBO/Is identified by CMBOR as having been completed in 1992-1997 during April 2000. A reminder was sent after a month. Companies that failed to respond to the reminder were contacted by telephone. A total of 300 usable questionnaires were received from a total of 2,359 sent out, a response rate of 12.7 per cent.

The proportion of questionnaires returned from individual countries was generally in line with the relative size of the MBO/I markets across the European countries surveyed (Table 1), apart from France. The 195 questionnaires returned by UK companies represented 65 per cent of the total, almost the same as the 66 per cent share of the total European MBO/I market during the years covered by this study. The proportion of questionnaires returned also reflected the relative size of the MBO/I market in the various industrial sectors surveyed. From the overall sample, 147 MBO/Is provided complete responses to enable us to undertake the analysis reported here. This produced some modest changes in the country distribution of responses. We acknowledge that the valid sample is relatively small but it is comparable in size, and in many instances larger than several data sets that have been used to monitor the internationalization of SMEs (Coviello and McAuley, 1999). Following the precedent of previous exploratory studies, the 0.1 level of significance was selected to test for differences (Hair et al., 1995).

RESEARCH METHODOLOGY

Firm Strategy Variables

Twenty two statements covering routines or actions reported by firms to achieve competitive advantages were data reduced by an R-mode principal components analysis to highlight groups of interrelated variables (PCA). All the assumptions of the PCA model (Hair et al., 1995) were satisfied. A varimax rotation was undertaken. Six components with eigenvalues greater than unity were identified by the PCA. The six components accounted for 57% of the total variance. The components were given the following descriptive labels: Component 1: Improving finances strategy (FINANCE); Component 2: Product and / or service quality strategy (QUALITY); Component 3: Marketing and product development strategy (MARKET); Component 4: Advertising strategy (ADVERT); Component 5: Diversifying product and / or service range strategy (PRODUCT); Component 6: Expansion through acquisition (AQUISITION). The Cronbach's alphas for components 1 to 4 ranged from 0.81 to 0.65. The Cronbach's alpha for component 5 (PRODUCT) was 0.44, but following Diamantopolus and Hart (1993) was deemed acceptable in the context of exploratory research. A Cronbach's alpha could not be calculated for component 6 and hence hypothesis H₂ could not be tested.

Venture Capitalist Contribution Variables

Eleven statements covering a variety of contributions venture capitalists can make to enhance the development of supported firms were data reduced by an R-mode PCA. All the assumptions of the PCA model were satisfied. Two components with eigenvalues greater than unity were identified by the varimax rotated PCA, and they accounted for 70% of the total variance. Each of the venture capitalist contribution variables had component loadings greater than 0.70 on either of the two components. The two components were given the following descriptive labels: Component 1: VCs mostly focusing upon financial issues (VCF); Component 2: VCs mostly focusing on non-financial issues (VCNF). Both components had a Cronbach's alpha of 0.82.

Incentives and Management Variables

The incentives for insiders were operationalized as follows: EQUITY - The percentage of equity owned by management in 1999 (or final year of MBO/MBI before exit otherwise); PAY - The percentage of employees with performance related pay in 1999 (or final year before exit). A distinction was made between MBOs and MBIs (MBO = 0; MBI = 1).

Control Variables

A distinction was made between firms principally engaged in manufacturing activities and those not principally engaged in manufacturing activities (0 = non-manufacturing and 1 = manufacturing) (MANU). Total employment size of the business in 1999 (or final year of MBO/I before exit) (natural log) was included as a control variable (EMPSIZE) as previous studies have found a positive association with exporting (Bloodgood et al., 1996).

Multivariate Methods

Logistic regression analysis was used to detect the combination of independent and control variables associated with whether a firm exported sales outside the domestic country in the final year of the MBO/I in 1999 (or final year of MBO/I before exit) (1 = yes; 0 = no) (EXPORT1). Forced entry multiple regression analysis was used to identify the combination of variables associated with the percentage of sales exported by a firm outside the domestic country in the final year of the MBO/I in 1999 (or final year of MBO/I before exit) plus a constant log transformed (natural log) (EXPORT2), and the change in the percentage of sales exported outside domestic country in the final year of the MBO/I in 1999 (or final year of MBO/I before exit) plus a constant log transformed (natural log) (EXPORT3). Table 2 provides means, standard deviations and correlation coefficients for the independent and control variables included in the regression models. Only four of the correlation coefficients in the matrix exceed an absolute level of 0.20. Variance inflation factor (VIP) and tolerance values suggested inconsequential collinearity among the independent and control variables. Hence, multicollinearity is not a problem in this study.

RESULTS

Propensity to Export Goods or Services Abroad

In total, 24 firms (16%) were non-exporters and 123 firms (84%) were exporters. The proportion of exporting firms detected is markedly higher than that reported in studies focusing upon smaller independent SMEs (Westhead, 1995). Moreover, the mean proportion of sales exported outside a domestic market was 28.3% (median 13.0%). The large standard deviation of 31.9 percentage points suggests a skewed pattern. In fact, approximately 50% of firms reported international sales of 13% or less, with approximately only 20% of firms exporting 60% or more of their sales abroad.

Model 1 in Table 3 identifies the combination of independent and control variables associated with whether a firm exported sales outside their domestic country (EXPORT1). Firms focusing upon a strategy of financial control (FINANCE) were weakly significantly less likely to be exporters. Hypothesis H₁ is thus tentatively supported. Contrary to expectation, firms focusing upon the product or service quality strategy (QUALITY) were significantly less likely to be exporters. Hypothesis H₄ is, therefore, not supported. Firms diversifying their product or service range (PRODUCT) were significantly more likely to be exporters. Consequently, hypothesis H₅ is confirmed. Firms focusing upon advertising (ADVERT) were weakly significantly more likely to be exporters. Hypothesis H₆ is, therefore, only tentatively supported. As expected (H₉), firms with high proportions of employees receiving performance related pay were significantly less likely to be exporters. Manufacturing firms (MANU), a control, were significantly more likely to be exporters.

An insignificant positive relationship was detected between a firm's marketing and product development strategy (MARKET) and the propensity to export. As a result, hypothesis H₃ cannot be supported. Both the venture capitalist contribution variables (VCF and VCNF) were found to be negatively, although not significantly associated with EXPORT1. Consequently, hypotheses H_{7a} and H_{7b} cannot be supported. The proportion of equity held by management was found to be negatively rather than positively associated with EXPORT1, but the coefficient was not statistically significant. Hypothesis H₈, therefore, is not confirmed. In line with expectation (H₁₀), MBIs were found to be positively, although not significantly associated with EXPORT1.

Proportion of Sales Exported Abroad

Model 2 identifies the combination of variables associated with the percentage of sales exported by a firm (EXPORT2). Supporting the results relating to the propensity to export, the PRODUCT and ADVERT variables were positively and weakly significantly associated with higher export intensities. These results provide tentative support for hypotheses H₅ and H₆. The other hypotheses are not supported with regard to the intensity of exporting activity. Manufacturing firms (MANU), however, reported weakly significantly higher levels of exporting intensity.

Variations in the Proportion of Goods or Services Exported Over Time

Model 3 identifies the combination of variables associated with the change in the percentage of sales exported outside domestic country in the final year of the MBO/I (EXPORT3). QUALITY and PRODUCT were both positively and significantly associated with the dependent variable. This evidence supports hypotheses H₄ and H₅. It is noteworthy that QUALITY is positively associated with EXPORT3 whilst it is negatively associated with EXPORT1 and EXPORT2. None of the other hypotheses was supported.

CONCLUSIONS AND IMPLICATIONS

The novel contribution of this paper has been to explore the links between exporting outcome variables and firm strategies, financial and non-financial contributions made by venture capitalists to firm development, and changes in incentives for management and employees (i.e., equity stakes and performance related pay) exhibited by organizations that had been purchased by internal or external managers (i.e., MBOs and MBIs)). A striking finding from the study was that markedly more private MBO/Is rather than independent firms in general exported a proportion of their goods or services abroad.

The general absence of significant relationships between the independent variables relating to the nature of venture capital firm's contributions, and the incentives for managers, as represented by the size of their equity stakes is interesting, given that all firms in the sample are venture-backed and are MBO/Is in which management have some substantial equity stake. As all firms in the sample are venture-backed we are not able to say that venture capital firms do not make a contribution to the firms they support. Our results indicate only that we are unable to differentiate between the contribution of their financial and non-financial inputs. The mean equity stake of 44.9 per cent with a standard deviation of 25.1 suggests that managers are substantially incentivized in all cases. The significance of several strategy variables lends support to the notion that MBO/Is create the conditions for managers to exercise strategic choice, the nature of this choice reflecting the mindset of the managers. An implication of this finding for practitioners is that considerable care may be needed in selecting management to be supported in a management buy-out/buy-in who have the appropriate skills and mindset to select more entrepreneurial strategies if exporting is to be a major part of growth objectives.

For researchers, the study provides initial empirical evidence on the relative importance of entrepreneurial versus governance and incentive features of MBOs/Is. Additional quantitative and qualitative studies are required focusing upon 'how' and 'why' MBO/Is develop certain strategies. Longitudinal research designs might also provide more illuminating confirmatory evidence relating to the links between firm strategies, venture capitalist contributions and incentives for owners and employees and the ability of firms to become exporters as well as report superior levels of business performance.

REFERENCES

- Autio, E., Sapienza, H., and Almeida, J. (2000). Effects of Age at Entry, Knowledge Intensity and Imitability on International Growth. Academy of Management Journal, 43:909-924.
- Barney, J. B. (1991). Firm Resources and Sustained Competitive Advantage. Journal of Management, 17: 99-120.
- Barney, J. B., Wright, M., and Ketchen, D. (2001). The Resource Based View of the Firm: Ten Years After 1991. Journal of Management, 26(4), pp..
- Bloodgood, J. M., Sapienza, H. J., and Almeida, J. G. (1996). The Internationalization of New High-Potential U.S. Ventures: Antecedents and Outcomes. Entrepreneurship Theory and Practice, 20: 61-76.
- Bruining, J. and Wright, M. (2002). Entrepreneurial orientation in management buy-outs and the contribution of venture capital. Venture capital: an international journal of entrepreneurial finance, (4)2: 1-22
- Castanias, R. and Helfat, C. (2001). The Managerial Rents Model: Theory and Empirical Analysis. Journal of Management, 26(4),
- Cavusgil, S. T., and Naor, J. (1987). Firm and Management Characteristics as Discriminators of Export Marketing Activity. Journal of Business Research, 16: 221-235.
- Coviello, N. E., and McAuley, A. (1999). Internationalisation and the Smaller Firm: A Review of Contemporary Empirical Research. Management International Review, 39: 223-256
- Covin, J. G., Slevin, D. P., and Covin, T. J. (1990). Content and Performance of Growth-Seeking Strategies: A Comparison of Small Firms in High- and Low-Technology Industries. Journal of Business Venturing, 5:391-412.
- Diamantopolus, A., and Hart. S. (1993). Linking Marketing Orientation and Company Performance: Preliminary Evidence from Kohli and Jaworski's Framework. Journal of Strategic Marketing, 1: 93-121.
- Hair, J. F. Jr., Anderson, R. E., Tatham, R. L., and Black, W. C. (1995). Multivariate Data Analysis with Readings. Fourth Edition. Englewood Cliffs, New Jersey: Prentice Hall International.
- Hitt, M., Hoskisson, R. and Kim, H. (1996). International Diversification: Effects of Innovation and Firm Performance in Product Diversified Firm. Academy of Management Journal, 40(4): 767-798.
- Jensen, M. C. (1993). The Modern Industrial Revolution: Exit and the Failure of Internal Control Systems. Journal of Finance, 48:831-80.
- Jones, G. and Butler, J. (1992). Managing Internal Corporate Entrepreneurship: An Agency Theory Perspective. Journal of Management, 18(4): 733-749.
- Kaynak, E., and Kothari, V. (1984). Export Behavior of Small- and Medium-Sized Manufacturers: Some Policy Guidelines for International Marketers. Management International Review, 24:61-69

- Koh, A. C. (1989). An Evaluation of the Current Marketing Practices of United States Firms. Developments in Marketing Science, 12:198-203.
- Leonidou, L. and Katsikeas, C. (1996). The Export Development Process: An Integrative Review of Empirical Models. Journal of International Business Studies, 27(3): 517-552.
- Lu, J. and Beamish, P. (2001). The Internationalization and Performance of SMEs. Strategic Management Journal, 22:565-586.
- Lumpkin, G., and Dess, G. (1996). Clarifying the Entrepreneurial Orientation Construct and Linking it to Performance. Academy of Management Review, 22:135-172.
- Luo, Y. (2000). Dynamic Capabilities in International Expansion. Journal of World Business, 35:355-378.
- McDougall, P. P., Shane, S., and Oviatt, B. M. (1994). Explaining the Formation of International New Ventures: The Limits of Theories from International Business Research. Journal of Business Venturing, 9:469-487.
- Robbie, K. and Wright, M. (1996). Management Buy-ins: Entrepreneurship, Restructuring and Active Investors. MUP: Manchester.
- Thompson, S., and Wright, M. (1995). Corporate Governance: the Role of Restructuring Structuring Transactions. Economic Journal, 105:691-703.
- Weaver, K. M., and Pak, J. (1990). Export Behaviour and Attitudes of Small- and Medium-Sized Korean Manufacturing Firms. International Small Business Journal, 8: 59-70.
- Westhead, P. (1995). Exporting and Non-Exporting Small Firms in Great Britain. International Journal of Entrepreneurial Behaviour & Research, 1:6-36.
- Westhead, P., Wright, M., and Ucbasaran, D. (2001). The Internationalization of New and Small Firms: A Resource-Based View. Journal of Business Venturing, 16:333-358.
- Wright, M., Thompson, S. and Robbie, K. (1992). Venture Capital and Management-led Leveraged Buy-outs. Journal of Business Venturing, 7(1):45-71.
- Wright, M., and Robbie, K. (1998). Venture Capital and Private Equity: A Review and Synthesis. Journal of Business Finance and Accounting, 25:521-570.
- Wright, M., Hoskisson, R., Busenitz, L. And Dial, J. (2000). Entrepreneurial Growth Through Privatization: The Upside of Management Buy-outs. Academy of Management Review, 25:591-601.
- Wright, M., Hoskisson, R., and Busenitz, L. (2001). Firm Rebirth: Management Buy-outs and Wealth Creation. Academy of Management Executive, pp.
- Zahra, S. (1995). Corporate Entrepreneurship and Financial Performance: The Case of Management Leveraged Buy-outs. Journal of Business Venturing, 10, pp.225-247.

Table 1 Valid Response by Country of Origin (1992-1997 Management Buy-outs/Buy-ins)

| Country | Total No. of Buy-outs/ins | Total no. of VC-backed Buy-outs/ins | Share of VC-backed Buy-outs/ins (%) | Total No. Sent | Total No. of Returns | Share of all Returns (%) | Sample for Exporting (%) |
|-------------|---------------------------|-------------------------------------|-------------------------------------|----------------|----------------------|--------------------------|--------------------------|
| Austria | 39 | 8 | 0.28 | 8 | 1 | 0.33 | 0.00 |
| Belgium | 49 | 17 | 0.58 | 10 | 2 | 0.67 | 1.40 |
| Denmark | 62 | 21 | 0.72 | 11 | 0 | 0.00 | 0.00 |
| Eire | 48 | 20 | 0.69 | 17 | 2 | 0.67 | 0.00 |
| Finland | 188 | 28 | 0.96 | 25 | 8 | 2.67 | 3.40 |
| France | 675 | 362 | 12.46 | 225 | 20 | 6.67 | 5.40 |
| Germany | 521 | 153 | 5.26 | 109 | 22 | 7.33 | 8.80 |
| Italy | 125 | 88 | 3.03 | 69 | 9 | 3.00 | 0.00 |
| Netherlands | 327 | 135 | 4.65 | 112 | 23 | 7.67 | 4.80 |
| Norway | 38 | 6 | 0.21 | 3 | 0 | 0.00 | 0.00 |
| Portugal | 29 | 17 | 0.58 | 10 | 0 | 0.00 | 0.00 |
| Spain | 96 | 55 | 1.89 | 33 | 6 | 2.00 | 1.40 |
| Sweden | 144 | 51 | 1.75 | 34 | 9 | 3.00 | 2.00 |
| Switzerland | 271 | 23 | 0.79 | 16 | 3 | 1.00 | 1.40 |
| UK | 3574 | 1922 | 66.14 | 1677 | 195 | 65.00 | 71.40 |
| Total | 6186 | 2906 | 100 | 2359 | 300 | 100 | 100 |

Sources: CMBOR / EVCA.

Table 2 Independent and Control Variables Correlation Coefficients (n = 147)

| | Mean | S.D | PRODUCT | QUALITY | FINANCE | MARKET | ADVERT | VCF | VCNF | EQUITY | PAY | MANU | EMPSIZE | MBO/I |
|---------|--------|-------|---------|---------|---------|--------|--------|-------------|-------|-------------|-------|-------|---------|-------|
| PRODUCT | 0.043 | 1.018 | 1.000 | | | | | | | | | | | |
| QUALITY | 0.003 | 0.995 | -.045 | 1.000 | | | | | | | | | | |
| FINANCE | 0.023 | 0.974 | -.061 | -.128 | 1.000 | | | | | | | | | |
| MARKET | 0.108 | 0.965 | -.010 | -.113 | -.034 | 1.000 | | | | | | | | |
| ADVERT | -0.004 | 0.992 | .071 | .095 | .028 | -.077 | 1.000 | | | | | | | |
| VCF | 0.016 | 0.980 | -.062 | -.036 | -.162 | .068 | .186 | 1.000 | | | | | | |
| VCNF | -0.025 | 1.015 | -.026 | -.138 | .007 | .060 | .051 | -.196 | 1.000 | | | | | |
| EQUITY | 44.93 | 25.06 | -.098 | .141 | .029 | .059 | -.075 | -.364 ** | -.015 | 1.000 | | | | |
| PAY | 41.63 | 43.02 | .057 | -.035 | .088 | .069 | .053 | .147 | -.046 | .019 | 1.000 | | | |
| MANU | 0.605 | 0.490 | .119 | -.056 | .106 | -.025 | .081 | .018 | .047 | -.084 | -.020 | 1.000 | | |
| EMPSIZE | 5.117 | 1.387 | -.067 | -.180 | .154 | -.016 | .006 | .153 | .151 | -.473 ** | -.078 | -.024 | 1.000 | |
| MBO/I | 0.238 | 0.427 | -.207 | .206 | -.003 | -.021 | .071 | -.029 | .070 | .107 | -.060 | -.072 | -.099 | 1.000 |

Notes: *. Significant at the 0.01 level of significance (two-tailed test), ** Significant at the 0.001 level of significance (two-tailed test).

Table 3 Logistic Regression and Multiple Correlation and Regression of Exporting, Export Intensity and Change in Export Intensity

| Explanatory and control variables | EXPORT1 MODEL 1 β | EXPORT2 MODEL 2 Unstandardized slope coefficients | EXPORT3 MODEL 3 Unstandardized slope coefficients |
|-----------------------------------|-------------------------------|---|---|
| FINANCE | -0.63 * | -0.08 | -0.23 |
| MARKET QUALITY | 0.13 -0.76 ** | 0.03 -0.20 | 0.19 2.49 *** |
| PRODUCT | 1.04 **** | 0.23 * | 1.64 ** |
| ADVERT | 0.55 * | 0.23 * | -0.40 |
| VCF | -0.14 | 0.04 | 1.19 |
| VCNF | -0.33 | 0.08 | 0.09 |
| EQUITY | -0.02 | -0.00 | 0.05 |
| PAY | -0.02 ** | -0.00 | -0.03 |
| MBO/I | 0.93 | -0.25 | 0.42 |
| MANU | 1.38 ** | 0.52 * | -0.48 |
| EMPSIZE | -0.16 | -0.00 | -0.54 |
| Constant | 3.66 * | 2.35 *** | 5.34 |
| Pseudo R ² | 0.26 | | |
| Model χ^2 | 24.44 | | |
| Model χ^2 significance | 0.002 | | |
| -2 log likelihood | 86.12 | | |
| Overall predictive accuracy (%) | 91 | | |
| Press's Q | 99.60 | | |
| Press's Q significance level | 0.001 | | |
| Number of businesses in the model | 147 | 147 | 147 |
| Multiple R | | 0.14 | 0.13 |
| Adjusted R ² | | 0.06 | 0.06 |
| 'F' value | | 1.78 | 1.74 |
| Significance of 'F' | | 0.058 | 0.066 |
| Standard error of the estimate | | 1.52 | 9.49 |

Notes: EXPORT1 - Sales exported outside the domestic country in the final year of the MBO/I in 1999 (or final year of MBO/I before exit) (1 = yes; 0 = no); EXPORT2 - Percentage of sales exported outside the domestic country in 1999 (or final year of MBO/I before exit) plus a constant log transformed (natural log); EXPORT3 - Change in the percentage of sales exported outside the domestic country from the year before the MBO/I to 1999 (or final year of MBO/MBI before exit) plus a constant log transformed (natural log); PRODUCT - Diversifying product and / or service range strategy; QUALITY - Product and / or service quality strategy; FINANCE - Improving finances strategy; MARKET - Marketing and product development strategy; ADVERT - Advertising strategy; VCI - Venture capitalists mostly focusing upon internal environmental issues; VCE - Venture capitalists mostly focusing upon the external environmental issues; EQUITY - Percentage of equity owned by management in 1999 (or final year of MBO/I before exit); PAY - Percentage of employees with performance related pay in 1999 (or final year of MBO/I before exit); MANU - Business principally engaged in manufacturing in 1999 (or final year of MBO/I before exit) (1 = manufacturing; 0 = non-manufacturing); EMPSIZE - Total employment size of the business in 1999 (or final year of MBO/I before exit) (natural log); MBO/I - Type of business ownership transfer (0 = MBO; 1 = MBI); * Significant at the 0.1 level of significance; ** Significant at the 0.05 level of significance; *** Significant at the 0.01 level of significance; **** Significant at the 0.001 level of significance.

Publications in the ERIM Report Series Research* in Management

ERIM Research Program: "Organizing for Performance"

2002

Trust and Formal Control in Interorganizational Relationships
Rosalinde Klein Woolthuis, Bas Hillebrand & Bart Nooteboom
ERS-2002-13-ORG

Entrepreneurship in China: institutions, organisational identity and survival. Empirical results from two provinces.
Barbara Krug & Hans Hendrichske
ERS-2002-14-ORG

Managing Interactions between Technological and Stylistic Innovation in the Media Industries. Insights from the Introduction of eBook Technology in the Publishing Industry
Tanja S. Schweizer
ERS-2002-16-ORG

Investment Appraisal Process in the Banking & Finance Industry
Mehari Mekonnen Akalu & Rodney Turner
ERS-2002-17-ORG

A Balanced Theory of Sourcing, Collaboration and Networks
Bart Nooteboom
ERS-2002-24-ORG

Governance and Competence: How can they be combined?
Bart Nooteboom
ERS-2002-25-ORG

ISO 9000 series certification over time: What have we learnt?
Ton van der Wiele & Alan Brown
ERS-2002-30-ORG

Measures of Pleasures: Cross-Cultural Studies and the European Integration
Slawomir Magala
ERS-2002-32-ORG

Adding Shareholders Value through Project Performance Measurement, Monitoring & Control: A critical review
Mehari Mekonnen Akalu & Rodney Turner
ERS-2002-38-ORG

Web based organizing and the management of human resources
Jaap Paauwe, Rolf Visser & Roger Williams
ERS-2002-39-ORG

* A complete overview of the ERIM Report Series Research in Management:
<http://www.ers.irim.eur.nl>

ERIM Research Programs:
LIS Business Processes, Logistics and Information Systems
ORG Organizing for Performance
MKT Marketing
F&A Finance and Accounting
STR Strategy and Entrepreneurship

Challenging (Strategic) Human Resource Management Theory: Integration of Resource-based Approaches and New Institutionalism

Jaap Paauwe & Paul Boselie

ERS-2002-40-ORG

Human Resource Management, Institutionalisation and Organisational Performance: a Comparison of Hospitals, Hotels and Local Government

Paul Boselie, Jaap Paauwe & Ray Richardson

ERS-2002-41-ORG

The added value of corporate brands: when do organizational associations affect product evaluations?

Guido Berens, Cees B.M. van Riel & Gerrit H. van Bruggen

ERS-2002-43-ORG

High Performance Work Systems: "Research on Research" and the Stability of Factors over Time

Paul Boselie & Ton van der Wiele

ERS-2002-44-ORG

Diversification and Corporate Governance

George W. Hendrikse & Aswin A..C..J. Van Oijen

ERS-2002-48-ORG

Governance Structure, Product Diversification, and Performance

Aswin A. Van Oijen & George W. Hendrikse

ERS-2002-51-ORG

Global Sourcing: Fad or Fact?

Michael J. Mol, Rob J.M. van Tulder, Paul R. Beije

ERS-2002-55-ORG

Internationalization Of Management Buyouts: Firm Strategies And Venture Capitalist Contribution

Mike Wright, Andy Lockett, Paul Westhead, Hans Bruining

ERS-2002-58-ORG

The Importance Of Customer Satisfaction In Organisational Transformation: A Case Of A Dutch Temporary Employment Agency

Martijn Hesselink, Ton van der Wiele and Paul Boselie

ERS-2002-60-ORG

A Study On The Applicability Of SERVQUAL Dimensions For Web Sites

Jos van Iwaarden, Ton van der Wiele

ERS-2002-61-ORG