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AGENCY VERSUS ENTREPRENEURIAL PERSPECTIVES ON THE BUYOUT CYCLE: AN EMPIRICAL STUDY ON VENTURE CAPITAL BACKED BUYOUT TRANSACTIONS IN THE UK (SUMMARY)

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SUMMARY

AGENCY VERSUS ENTREPRENEURIAL PERSPECTIVES ON THE BUYOUT CYCLE: AN EMPIRICAL STUDY ON VENTURE CAPITAL BACKED BUYOUT TRANSACTIONS IN THE UK

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Principal Topic

Buyouts have been perceived historically as an organizational efficiency tool to streamline organizational processes, reduce workforces and decrease unit costs (e.g. Jensen, 1986). In contrast to this efficiency perspective, an entrepreneurial view of buyouts incorporates upside incentives for growth and improvements not associated with pure efficiency gains. (Wright, Hoskisson & Busenitz, 2001). Venture capital (VC) firms are increasingly investing in buyouts to realize entrepreneurial growth opportunities. This entrepreneurial perspective, however, has been largely neglected in empirical studies looking at buyouts.

The main research question in this study is how the use of debt instruments, managerial ownership and VC involvement are related to the entrepreneurial versus efficiency orientation of the buyout firm. Debt arrangements, managerial ownership and VC monitoring are the major mechanisms used to reduce agency costs in buy-out transaction (Cotter & Peck, 2001). To date, however, no studies have examined whether these incentive mechanisms have an impact on the entrepreneurial orientation of the firm.

Method

We combine three different data sources to analyze our research question. First of all, data on individual deal characteristics for this study are drawn from a unique, hand collected dataset maintained by the Centre for Management Buy-out Research (CMBOR). Second, we collected annual account information for each buyout firm through Fame. Third, these data are then combined with characteristics of VC firms collected through directories issued by the British Venture Capital Association (BVCA) and the European Venture Capital Association (EVCA).

Results and Implications

Our results indicate that managerial ownership increases the efficiency orientation of the firm. Further, debt instruments do not have an impact on the total efficiency of the buyout firms included in our study. Our results show that debt instruments reduce the entrepreneurial orientation of the firm as evidenced by lower levels of growth. Our results also indicate that more experienced VC investors both increase the efficiency and entrepreneurial orientation of the firm. Moreover, the more partners a VC firm has to manage its portfolio companies, the more likely its portfolio companies will behave entrepreneurially and hence realize higher levels of growth.

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