WORKING FOR DIVERGENT PRINCIPALS: EFFECTS OF PRIVATE EQUITY ON EMPLOYMENT LEVELS AND EMPLOYMENT TERMS IN FAMILY FIRMS (SUMMARY)

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SUMMARY

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Principal Topic

Corporate governance research generally rests on the assumption that ownership constituencies have homogeneous preferences. More recent research on public firms highlighted that owners may also have varying interests (e.g. Connelly et al., 2010; Hoskisson et al., 2002). Interestingly, this issue of heterogeneous ownership preferences may also be applicable to an increasingly prevalent form of private business, namely private equity (PE)-backed family firms. Whereas PE investors focus on medium-term value maximization, family owners generally have long-term objectives, which are not always economic in nature.

In this study, by adopting a principal-side perspective, we examined how the potentially conflicting interests of PE investors and family owners impact employment decisions in PE-backed family firms. While family members are concerned about maintaining long-term employee relationships in order to preserve socioemotional wealth, PE firms have been criticized for creating shareholder value at the expense of employees.

Methods

Our empirical analyses are based on a sample of Belgian PE-backed family firms and several control groups comprising both family firms without PE backing and non-family firms (PE-backed and non PE-backed). The Belgian setting offers access to unique and detailed employment and employment term data at firm level that typically can only be accessed through surveys. We used propensity score matching with difference-in-differences as a modelling strategy.

Results and Implications

Results suggest that employment related decisions in PE-backed family firms are strongly related to ownership structures. While PE firms unleash unexploited growth potential when taking full control of family firms, employment growth remains unchanged when PE investors only acquire a minority shareholding. Furthermore, in contrast to expectations, PE control does not worsen employment security and wage levels in family firms.

Our results imply that, to understand decision making in private firms, one must consider that shareholders may have divergent abilities and goals. While several studies explored how varying preferences of shareholders impact executive decision making in public firms, there is a need to acknowledge that also in private firms, principals may have divergent interests influencing decision making. Further, our results inform policy makers, family firm owners and employees about the impact of PE on employment practices.

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