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ROTTERDAM SCHOOL OF MANAGEMENT, ERASMUS UNIVERSITY

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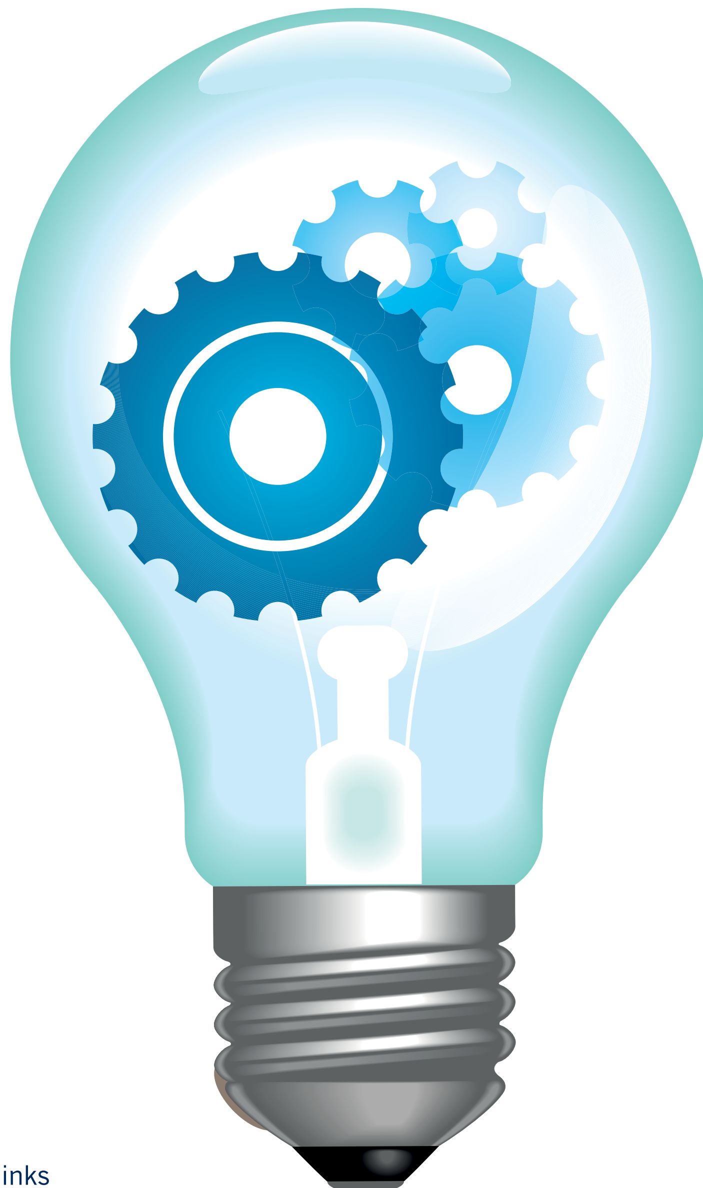

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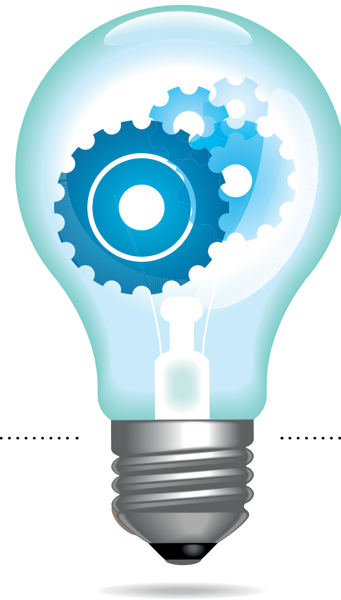

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by Hans van Oosterhout, Pursey Heugens and Marc van Essen

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by Peter Roosenboom

What considerations lie behind the decision to mount a management buy-out of a publicly listed firm, and should third party investors be involved? Indeed, does the involvement of private equity investors actually aid company performance after a deal is done?

Introduction

Re-educating management

Management seems to be under pressure these days. Excesses within firms, such as self-enrichment through bonuses, over-reliance on rules and procedures, dysfunctional stress on the work floor, and the cry for more professional autonomy, are just some of the emerging signals that show the need for a new generation of managers.

Back in the late seventies, Alfred Chandler, a well-known professor of business history at Harvard, introduced the "visible hand of management". This "hand" created a rapidly expanding managerial elite within large firms whose sole focus was – management. These managers were highly mobile and demanded strong financial incentives to remain tied to any one firm. Over time, they became scarce resources.

At the same time, business schools emerged to educate this managerial elite, and to further develop their professional managerial skills. Full-time managers were introduced not only in large firms, but also in smaller firms and in hospitals, universities and other non-for-profit businesses.

Today, the managerial elite seems to have lost its dominant position. In some cases, managers are no longer considered as the source of innovation and renewal in the firm. With their focus on exploitation, efficiency and short-term profits, managers are in fact the main barriers of innovation.

The challenge of RSM is therefore to revitalise management; not only through our teaching, but also in our research. In this issue, Ferdinand Jaspers and Jan van de Ende describe how management can create new business models by facilitating cross-industry innovation, while Marius van Dijke highlights the challenge faced by top management in boosting employee co-operation. Han van Oosterhout, Pursey Heugens and Marc van Essen show in their article that this revitalisation not only relates to management, but also to corporate governance.

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A broader scope of influence

by Lesa Sawahata

The SCOPE Centre of Expertise for International Business and Sustainable Development leads the way in research into the internationalisation strategies of the world's largest and most 'global' companies, and has a strong focus on ESG – environmental, social and (corporate) governance issues that are concurrent with multinational business development.

SCOPE Scientific Director and ERIM Fellow Professor Rob van Tulder was the founder of the centre, which was established in 1995. At that time he was a member of RSM's Department of Strategy, and together with other faculty members organised in the first really multi-departmental research group, had been engaged in large research projects examining the burgeoning world of international business.

"We were facing the first breakthroughs in a process called 'globalisation'," he says. Contextually, foreign direct investment had been accelerating since the 1980s, overtaking even the growth of national economies and trade (normally used as an indication of globalisation) since the 1990s. The growth of the multinational firm not only signalled a fundamental change in the world economy; "by the 90s," says Prof. van Tulder, "we recognised that the maturing multinational enterprise has importance to society, and was impacting the health and ecology and social structures of the world."

Only through research focused on the internationalisation strategies of so-called 'core companies' – the largest and most global in the world – over time, could corresponding changes in the international economic and societal environment be understood, reasoned Prof. van Tulder and his co-researchers. Thus SCOPE and its flagship project, the SCOPE database, were born.

Top 100 data

The SCOPE database is now a mature source of collected data that documents the international presence of the world's 'core' companies (which include for instance oil & gas, automotive, and electronics companies familiar to every consumer) since 1990. The database currently includes over 9,000 entries covering more than 500 companies, including annual figures on assets, sales and employees and how this information is broken down by geographic area.

The SCOPE database is distinguished by the quality of its data; young researchers working within the centre painstakingly compiled this information on the basis of annual

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reports. Surveys don't work, argues Professor Van Tulder. "Even the CEO of a company doesn't know the exact data," he says, "so there is this laborious and very intense process of compiling primary data exclusively from annual reports for a large sample of firms."

> *"…we recognised that the maturing multinational enterprise has importance to society, and was impacting the health and ecology and social structures of the world."*

A minimum of 400 firms are examined each year; this large sampling, and rigorous research methodologies ensuring the most accurate possible data, helped to facilitate SCOPE's long-term collaboration with the United Nations Conference on Trade Aid and Development (UNCTAD). Every year since 1995, SCOPE data has provided the substance for the list *The world's top 100 Trans National Companies (TNCs) ranked by foreign assets*, part of UNCTAD's annual *World Investment Report*. This annual list is widely referenced in the international media each year.

SCOPE's family tree

Before the launch of SCOPE, Professor van Tulder had already worked on collaborative projects with the UN and the European Union on multinational enterprises. The confluence of his relationship with UNCTAD (which resulted in SCOPE and its prestigious Top 100 TNC list), the realisation of 'globalisation' as a new and important phenomenon in business, and Professor van Tulder's own drive to examine the interface between business and society at an international level, were precipitating factors in the formation of the Business-Society Management Department at RSM in 1997. An MSc in Business-Society Management – later rebranded into the present MSc in Global Business and Stakeholder Management (GBSM) – was launched a few years later, and represented a unique offering in the world of international business schools.

"When we launched the B-SM Department we decided that, unlike other departments that focused on functional areas of business, we would focus on that interface between firms and society. In terms of the GBSM programme, SCOPE provided part of the empirical foundation for studying this interface," he says. In particular, international firms are confronted with the sticky issues that arise at this interface in a way that domestic firms do much less.

Crossing borders to do business – even between such apparently similar countries as the Netherlands and Belgium - triggers issues around considerable regulatory, structural and cultural differences. The complexities faced by larger organisations, such as Shell, Deutsche Telekom, Walmart or China Petroleum, provide insights into what Van Tulder calls the "most wicked problems" of our time – problems that, it is hoped, the graduates of the GBSM are prepared to address.

"Looked at from the perspective of the international firm, some issues – like pollution, human rights problems, corruption, poverty – just don't go away. As an oil company for instance you are seriously contributing to pollution, period. Your business model and its related 'windfall profits' can bring out the worst in people and administrators," he says.

The GBSM programme teaches the leaders of future business to address these issues from the firm's perspective. "If you're a big oil company like Shell, for example, the challenge then becomes how to develop a future business model in which you might not pollute at all, or in which you receive a licence to operate from the communities you function in despite your particular industry. This is what we stimulate students to examine," he says. Participants in the programme write Issue Papers touching on a wide variety of topics that arise at the interface of business and society, ranging from labour rights to water rights, from bribery to obesity to human trafficking. Upon graduation they take their insights out into the world of international business, governance or civil society.

Of the current 650 alumni of the GBSM programme, some have become social entrepreneurs, but others have started a career in government – where their knowledge of internationally operating firms, as well as the corporate perspective of "wicked problems", is highly appreciated. Other graduates have entered multinational business itself or work for international governmental or NGOs, like the UN or the FAO – multinational organisations in their own rights. Professor van Tulder has found that these graduates "bring an awareness of the fact that if companies don't work on sustainability, in the longer run they won't have any business."

"Looked at from the perspective of the international firm, some issues – like pollution, human rights problems, corruption, poverty – just don't go away."

Competitive Advantage

Firms in his view should strive for a "sustainable sustainable competitive advantage" or S^2 competitive advantage – a more sophisticated strategy than management guru Michael Porter's famous "sustainable competitive advantage". While Porter was discussing companies whose

A broader scope of influence (continued)

by Lesa Sawahata

strategies would enable them to maintain a robust profit over time vis-à-vis their direct competitors in the same industry, S^2 competitive advantage adds the crucial layer of society-as-stakeholder. "This links the long term competition in an industry to the creation of value, products and services that are sustainable in the societal view of the world."

Even the breadth and depth of SCOPE research is not enough to solve the world's most wicked problems, as Professor van Tulder has discovered over the past decade of working with international business and with NGOs and governmental agencies. These organisations traditionally have tried to 'go it alone' in addressing these complex issues. "At SCOPE, we realised about seven years ago that if these issues could be solved by firms, they would have been solved already. Unfortunately they haven't been." Collaboration, through formalised alliances with a variety of NGO, governmental and business 'actors' is the only way to effect positive change, he says. So-called cross-sector partnerships create new institutions – new rules of the game – that facilitate more effective venues to address wicked problems - hence the formation of the Partnerships Resource Centre (PrC) four years ago.

The PRC, for which Professor Van Tulder acts as Academic Director, brings together academics, practitioners, students, governmental organisations and NGOs to share knowledge across sectors. Its mission statement: "We create, retrieve and share knowledge on partnerships for sustainable development."

"At SCOPE, we realised about seven years ago that if these issues could be solved by firms, they would have been solved already."

"The PrC has been supported from the beginning by a number of big corporations, some of the largest NGOs in the world, and a big initial grant from the Dutch Ministry of Foreign Affairs," says Professor van Tulder. "We actively collaborate with other knowledge institutes, such as the Universities of Maastricht, Wageningen and Amsterdam – next to a large number of organisations in developing countries – but the PrC can be considered a logical extension of SCOPE, while RSM remains the lead partner, the backbone of the PrC."

Business impact

A notable recent collaboration between 'actors' is the seminal book *Doing Business in Africa: A strategic guide for entrepreneurs*. It is a joint production of the Partnerships Resource Centre, the Netherlands African Business Council, and management consultancy Berenschot. Professor van Tulder, together with two Berenschot consultants and research support from PrC associates, provided the first ever systematic management book on Dutch entrepreneurship in Africa. It received an official launch in January 2013. The book argues in favour of so-called 'inclusive business' strategies that Dutch firms should adopt in order to reap a S^2 competitive advantage in Africa.

Just three months earlier, the Dutch-language book *Duurzaam ondernemen waarmaken* (*Sustainable Entrepreneurship in Actual Practice*), authored by Professor van Tulder and Andrea da Rosa of the PrC together with two consultants from Royal HaskoningDHV was released.

Commissioned by the Management Studies Foundation, one of the first copies was presented to Bernard Wientjes, Chairman of the Confederation of Netherlands Industry and Employers (VNO-NCW) on 28 September 2012. The book, which will be translated into English this year, has already been nominated for *Management Book of the Year 2013*.

"Both books have already had an impact on firms," says Professor van Tulder. *Doing Business in Africa* has received endorsements from top executives at such international companies as Unilever and Philips, as well as from the new Minister of International Trade and Development Cooperation, the chairmen of VNO-NCW and Partos, the branch organisation of Dutch development NGOs. Both books have received recognition not only for their practical applications but – surprising for an academic publication – for reading enjoyment. These books thus fulfil the ambition of RSM to actively engage in valorisation of the faculty's research. The African book will likely be followed up by a similar offering on doing business in Latin America and Asia.

This fits into Professor van Tulder's new initiative, which he calls 'sustainable diplomacy'. "I am speaking with foreign ambassadors from the Netherlands, because they bring new challenges for our diplomats around the world. The point is that they need to be able to get firms, NGOs and governments together in new coalitions in order to create the preconditions for reaping S^2 competitive advantage," he says. This can be considered a continuation of the typical Dutch model on a global scale, but "without the bureaucracy and the relative 'decision sclerosis' that is hampering local decision making at the moment" argues Van Tulder.

Looking to the future

The momentum achieved by SCOPE through its various projects, partnerships and programmes will accelerate in 2013 and beyond. New papers, new publications, and – as every year - a new 100 Top TNC list will be published. October 2013 will mark the 6th Annual Max Havelaar Lecture, as well as the 25th anniversary of the Max Havelaar Foundation, which has been the first label aimed at fair trade and poverty alleviation; this prestigious annual event is a co-operation between the Foundation, the RSM Business-Society Management Department, ERIM, and the PrC. It forms a platform for the latest scholarly insights in the field.

Significantly, a new Chair in International Business and Human Rights sponsored in part by Amnesty International, will also be inaugurated this year; the idea is to "bring international business and human rights organisations together to develop new business models for conflict-ridden regions around the world," says Professor van Tulder. ■

Professor Rob van Tulder has published, lectured, and consulted extensively on the topics of European business, multinationals, high-tech industries, corporate social responsibility, issues management, skills, network strategies, smaller industrial countries (welfare states) and European Community/Union policies.
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Making business sense
of cross-industry innovation

by Ferdinand Jaspers and Jan van den Ende

Schumpeter, the renowned economist, defined innovation as 'new combinations' of existing elements. Today's business environment provides valuable opportunities for such innovation, in which existing technologies, products and services from various industries are creatively adapted and then launched successfully into new, unconnected business areas. But there are rules to be followed.

With television broadcasters streaming their programmes on their own websites, consumers are increasingly using their tablets to view their favourite shows while on the move. Not long ago, this would have been an activity reserved for the television set in the living room, and certainly not for an information and communications technology device on the train. This is just one example of how barriers are coming down as technologies, products and services innovatively shift between industries.

And there is a lot more happening in mobile communications. The ubiquitous mobile phone – especially the smart variety – is a prime target for entrepreneurs looking for new applications and markets to exploit popular technologies in order to widen their business and increase sales. Of course, Apple started this particular trend in mobile communications when it positioned its iPhone as a communications and entertainment device by allowing users to also purchase (from Apple's online iTunes Music Store), download and play music – also a great example of cross-industry innovation.

Not surprisingly, developers continue to look for new applications for the nifty smart phone and other mobile devices. Most notably, they have adapted banking and payment services to allow them to be accessed by consumers from a smart phone, taking into account the unique features of the new host platform. These unique platform characteristics can affect how and where these devices are used, and determine the type of value added consumer services to be provided (and paid for). This can create whole new markets instead of just extending current ones.

Crucially, these cross-industry innovations do not require complete changes in technology. They, in fact, leave existing technologies and components from the different industries essentially untouched. However, such innovations do need a deep understanding of how these technologies can best be linked.

To help us identify the challenges and pitfalls in developing and deploying these cross-industry innovations and to subsequently offer solutions and recommendations, we made a study of three such projects (see box for details) in the mobile communication industry: a mobile payment application involving a start-up and its suppliers; a mobile banking application involving an alliance between a mobile network operator and a retail bank; and a mobile television application involving an alliance between an information technology firm, a television producer and a communications equipment supplier.

How to succeed

Our research shows that there are three critical success factors in cross-industry innovation, and all have to do with the right composition of the development team and its proper interaction.

First of all, the project team needs to include specialists from the respective industries. A high degree of differentiation means that the project benefits from high-quality components

"…there are three critical success factors in cross-industry innovation, and all have to do with the right composition of the development team and its proper interaction."

and deep component-level expertise. In the mobile television and the mobile banking projects, this was achieved through temporary new product development alliances between leading firms from the different industries. In contrast, the start-up company failed to develop a high-quality application on its own, since it lacked a detailed technical understanding of the two industries that it tried to address.

Second, there should be frequent and rich information exchanges between these specialists. This will help to facilitate the generation of detailed knowledge on how to successfully integrate the different component technologies. In the case of the mobile television project, this intense co-ordination was the direct result of the appointment (by the two project partners) of dedicated solution architects, who had frequent and personal contact with the co-ordinating IT company. This allowed project members to monitor and align the operational activities at the respective partners. In the mobile-banking alliance, an attempt was made to facilitate co-ordination by renting for the project team members a central office location in an attractive mid-size city.

Project cases

The following cases were part of our study:

- An independent start-up developed a mobile payment application, which made use of the mobile phone to transfer funds between users. It could also be used to purchase products and services from online web stores that adopted this payment method. The start-up company collaborated with suppliers, but not with incumbents, such as banks or mobile operators.

- A mobile banking application (integrated in preconfigured mobile phones) enabled users to pay bills, transfer funds, check account balances, and top-up prepaid airtime. This project involved a contractual alliance between a mobile network operator and a retail bank,

- A mobile television application made it possible to broadcast mobile video calls live on television, thereby turning mobile users into cameramen. This application was developed in an informal alliance between an information technology firm, a television producer and a communications equipment supplier.

Making business sense of cross-industry innovation (continued)

by Ferdinand Jaspers and Jan van den Ende

And finally, timely decision-making between the specialists is necessary to prevent and resolve conflicts between the intensely collaborating specialists. As can be expected, it is difficult for partners with different industry backgrounds and with no prior ties to reach consensus about complex architectural decisions and trade-offs.

For instance, the attractive office location mentioned was not sufficient enough to create the conditions for decision-making between the partner firms. One of them (the bank) tightly controlled its team members. Office space was available, but decision space was not forthcoming. This resulted in long project delays, cost overruns and quality issues.

There are important lessons to be learnt. In the case of buyer–supplier relationships or asymmetric joint ventures, it is quite obvious where the decision-making authority lies. However, this is not always clear in alliances of equals, which means that a mechanism is needed to help prevent and resolve conflicts when consensus cannot be reached. Establishing clear conflict-resolution rules could be one such mechanism; another could be formally appointing one of the players to take the leading role.

For instance, in the mobile television alliance, decision making was based upon consensus, where possible. However, in the event that this did not work, the telecom partner was given the final say. Coupled with top management support from all partner firms, this approach ensured timely decision-making and clear conflict-resolution.

In short, our study shows that cross-industry innovations pose several opposing challenges: combining very different specialist expertise from different industries, while at the same time creating decision procedures and good co-ordination between first-time partners.

Although we know from researching the literature that company characteristics, such as an innovative culture and a firm's ability to learn from external developments, are important for innovation success, our study provides strong evidence that proper management of innovation projects is essential as well.

Looking to the future

While some of the points we raised and recommendations we made are specific to the industries involved in the three projects we investigated, most could easily be extrapolated to projects in other business areas.

And that is important because what is happening with cross-industry innovations in the mobile communications industry is of course being replicated in other industries – such as medicine and health care – and with other technologies, products and services. Drug development is another area to watch out for, especially development projects at the intersection of traditional pharmaceuticals and biotechnology, as well as, nano-biotechnology. ■

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This article draws its inspiration from the paper *Organizing Interindustry Architectural Innovations: Evidence from Mobile Communication Applications*, written by Ferdinand Jaspers, Andrea Prencipe and Jan van den Ende, and published in the *Journal of Product Innovation Management*, 2012;29(3):419-431.

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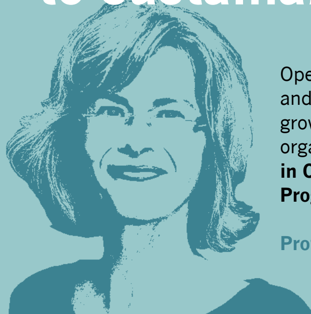

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The competitive advantage of private label branding in FMCG

by Maciej Szymanowski

Retailer own-branded products, known as Private Labels, have been steadily gaining market share over the last few decades and now account for about one third of Fast Moving Consumer Goods' sales. As a result, increasing attention is being paid to leveraging the most from Private Labels, while national brands are undergoing a marketing shift in an effort to counteract this.

The Private Label (PL) as we know it today is a progression from an idea that emerged in the 1970s as a bottom-range alternative to national brands. From the original concept of communicating no-frills value to customers on the very lowest budgets through basic items in simple packaging, today's PLs have developed into various tiered ranges targeted to different types of customers. While the original version still appeals to those with the tightest purse strings, its siblings offer mid range and even premium products.

Despite their current success, PLs remain low profile in a marketing sense, with their primary means of competition against national brands being the value they offer.

Competitive advantage

Our research has shown that Fast Moving Consumer Goods (FMCG) choices are very strongly influenced by familiarity. That is to say, products that the consumer already has experience in using. Shopping habits are not easily broken, but pressure on finances, for example during economic recession, can be a powerful catalyst for doing so. Because PL products are easily identified as cheaper alternatives to comparable, familiar branded items, they are an easy and obvious way to save money.

Once the consumer makes the switch, they develop familiarity with the PL itself. Subsequently, even when consumers' financial situations improve, this familiarity effect prevails. Once they start buying PLs they tend to stick with them. This results in a steady growth of PL market share.

Increased consumer acceptance of PLs has led to their owners wondering how to leverage more from them. While range expansion and increased differentiation appear to be attractive options, our research suggests neither of these strategies is necessarily wise. (Note: the following observations do not apply to premium PL ranges.)

PLs are known for being copycats of familiar, standard products that are not associated with specialist expertise. Consumers do not trust PLs to be innovators, which means they are unlikely to succeed when introducing new products for which there is no direct comparison. Similarly, expanding a range with variations on a theme can be counter-productive.

As a general rule, too much choice can be overwhelming for consumers. Particularly with PL products, which are understood to be simple low-cost basics, consumers don't expect to have to make complex decisions.

RSM Expertise

Marketing is an area of business with lots of impact in daily life, and its dynamic evolution depends upon daring new ideas and high quality research.

The Department of Marketing Management at RSM is renowned for its leading marketing research, the volume and quality of which places its faculty members among the most productive scholars in Europe.

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Although retail chains invest heavily in differentiating their store brands, our research reveals that in the case of PL goods this isn't likely to be worthwhile. We find that in consumers' eyes all PLs are roughly equal, with the comfort zone of familiarity with one PL being carried over into all others. Consequently, if a retailer invests in developing and promoting its PL, the benefits gained are shared with other retailers' PLs.

In the quest to gain the upper hand, it could be tempting to differentiate a PL to the point where consumers perceive it to be truly unique. But doing this would come at a cost burden, which would negate the PL's primary source of competitiveness, its price point. Differentiating a PL would require investment in marketing and development. It would also necessitate commitment to the suppliers set up to produce the differentiated products, thereby removing the ability to continually shop around for best price. At the same time, a very differentiated PL would be disassociated with other PLs and therefore would not benefit from the combined consumer familiarity.

With PLs on the rise, national brands are developing strategies for fighting back. The traditional separation of brands owned by the same corporation from one another may be about to turn on its head.

The fact that national brands are usually specialised within certain product categories means that, throughout the store, consumers have many brand names with which to form benefit associations. Meanwhile, the store's PL happily spans every product category offered, giving it the advantage of higher overall visibility and a well-established and universal promise of good value across categories. As a result, some multiple brand owners are starting to increase visibility of their own name (eg, Unilever) on branded items in an effort to create store-wide cross-category presence, which can capitalise on the familiarity consumers already have for any of their products. While this idea could be risky in case of negative consumer opinion about the corporation, it actually presents the opportunity for the owner company to market itself, and by association all of its brands, in a positive way.

"While Private Labels mimic branded products, national brands are beginning to mimic Private Labels' use of familiarity as a competitive weapon."

While Private Labels mimic branded products, national brands are beginning to mimic Private Labels' use of familiarity as a competitive weapon. This indicates a move towards simplified consumer choice. In the future, we can expect further innovations from retailers and manufacturers in terms of product display and labelling to further simplify consumer choices and take advantage of consumer familiarity. ■

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This article is based on the paper *Consumption-Based Cross-Brand Learning: Are Private Labels Really Private?* written by Maciej Szymanowski and Els Gijsbrechts, and which was published in the *Journal of Marketing Research*, Vol. 49, No 2, pp. 231-246. www.journals.marketingpower.com/doi/abs/10.1509/jmr.07.0416

A broader perspective: harmonising leadership activities

by Marius van Dijke

It is common for companies to seek advice on how to motivate employees. At the same time, and in the interests of efficiency and competitiveness, most companies continually look for ways to improve work processes. The question is: how do these different types of activity relate to each other? Are they mutually supportive, or in conflict with each other, and what are the consequences?

Without the voluntary co-operation of their employees (known as Organisational Citizenship Behaviour), companies would have a hard time to prosper, or even to survive. Co-operation refers to behaviour that is intended to support the organisation and it goes well beyond the letter of the employment contract and job description. For example, co-operation refers to putting extra effort into one's work and doing it with care and attention.

It also includes helping co-workers and supervisors who need this. It involves taking the initiative to suggest process improvements, and speaking up about decisions or actions when one disagrees with them. Co-operation thus refers to being motivated to support and defend the company when necessary.

Obviously then, given the enormous difference it makes to the success of a company, a burning issue for leaders is how to generate employee co-operation. But how do you encourage people to behave in this way, since it is voluntary activity? It is vital for leaders to look closely at this; indeed it is an inherent part of empowerment leadership techniques.

"…when people know they are being treated fairly, they feel valued as members of the organisation, which makes them want to contribute to the organisation's welfare in return."

Fair rules

As various scientific studies show, fair decision-making plays a powerful role in encouraging co-operation among employees. Fairness refers to managers who make decisions that are not based on their own self-interest, or based on stereotypes. It also refers to taking all relevant information into consideration, and making sure the decision-making process is transparent and open.

Fair decisions have pervasive and positive effects, including stimulating employee co-operation, because they alleviate a deeply held – and realistic – fear: the fear of being taken advantage of by one's leader.

It's simple: when people know they are being treated fairly, they feel valued as members of the organisation, which makes them want to contribute to the organisation's welfare in return.

Effective empowerment

Empowering leadership techniques have been proven to stimulate co-operative behaviour among employees. Part of empowerment, for example, is giving employees more independence.

This means providing them with the necessary authority and resources, so that they can make autonomous decisions without always needing the approval of their leaders. In itself, this is of course a good thing when handled wisely. However, it is important to bear in mind the impact of greater autonomy. It can lessen the fear of being taken advantage of – again a good thing – but it makes procedural fairness less important – and indeed, less effective.

On the other hand, encouraging personal development – another empowering technique – often leads to greater importance being given to feedback. Naturally, since they want to learn and grow, employees will want feedback on how well they're doing. Employees consider fair treatment as feedback that they are valuable staff members who contribute to the organisation in important ways.

Being encouraged towards personal development therefore makes fair procedures and treatment *more* effective in stimulating co-operation. In other words, one empowerment technique makes procedural fairness less important and less effective; the other makes it more important, and more effective.

Harmonising activities

There are many more management techniques in use within companies, of course, but the above examples serve to illustrate the question introduced at the outset: when different types of leader activity are seen *in relation to each other*, are they effective? A simple comparison is medicine. Two different types of medication may be good for you when taken singly, but taken together, they could interact in a way that has dire consequences. The point is, it is essential for leaders to take a broader perspective on the different activities being introduced within the company.

We know from our research that co-operation is hugely important, and that it is possible to generate voluntary co-operation among employees. But it's not something that can be approached mechanically.

My recommendation is to take the time to reflect and observe the actual circumstances, and get a clear picture of the situation. As a leader, and as a complete person, you need to take a step back sometimes, and really consider all the angles. You need to look at what you actually come across in your daily activities, and what decisions you are making. Make sure that some of the techniques you are using don't result in hampering the effectiveness of parallel techniques. Synchronise your activities. Make sure you are structuring the environment to support employee co-operation: it really is vital for the success of your organisation. ■

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The effect of blockholders in corporate governance

by Hans van Oosterhout, Pursey Heugens and Marc van Essen

Unlike the Anglo-Saxon model, whereby ownership of publicly traded companies is typically in the hands of dispersed shareholders, in continental Europe ownership often lies in the hands of what are known as 'blockholders'. But how does this affect corporate governance, especially when employees, protected by strong labour institutions, are also powerful?

Ask any investor what corporate governance is about, and it is very likely that they will say that it is about the question of how shareholders of publicly traded firms can make sure that they get a return on their investment. That this will happen is not always obvious, given that professional managers, who may seek to serve themselves rather than the shareholders, call the shots in the firms they own.

In practice, however, this dominant way of thinking about corporate governance only applies to the US and the UK, where publicly traded firms are owned by highly dispersed and individually relatively powerless shareholders, and where managers therefore have ample opportunity to serve themselves rather than the shareholders.

Things are quite different in continental Europe, however, where the ownership of public firms is typically in the hands of a few large and hence powerful 'blockholders', and where, next to shareholders, employees are also powerful and well protected by labour institutions. Does this mean that continental European corporate governance does not fit the currently dominant Anglo-Saxon way of thinking about corporate governance?

A recent meta study that we've published – *Competition and Cooperation in Corporate Governance: The Effects of Labour Institutions on Blockholder Effectiveness in 23 European Countries* – confirms that corporate governance in continental European countries differs from the currently dominant Anglo Saxon model in a number of critically important ways.

Hands-on approach

As explained above, first, continental European firms are often owned by a few large 'blockholders', some of whom are actively and durably involved in the firms they own. Combining all research findings on European corporate governance to date, the study presents evidence that such 'relational investors' typically add more value to firms than institutional investors. The latter often take a hands-off approach towards the firm's managers.

With so many firms to pay attention to, institutional investors simply cannot afford to be actively involved with any particular firm they own. If institutional investors are unhappy with how a given firm performs, they prefer to sell their shares in the firm rather than become actively involved in its management, which in the short run will depress rather than boost firm value.

In contrast, relational investors are both able and motivated to get involved in the firms they own, and on the balance of the available empirical evidence to date, it turns out that their involvement matters positively for firm value.

A second important difference between Anglo-Saxon and continental European corporate governance involves the role of employees. In most continental European countries, employees are organised in strong labour unions and are well protected by labour laws protecting them against dismissal and giving them voice in the companies they work for.

Whereas mandatory works councils are found in many jurisdiction, in places like Finland or Germany employee representation also involves seats on the corporate board. This means that collective employee

interests are a force to be reckoned with in continental Europe. European corporate governance should therefore perhaps be more concerned with powerful employees than with powerful managers. Although protagonists of the Anglo-Saxon corporate governance model have acknowledged the power of employees in continental European firms, they tend to conceive of the relationship between shareholders and employees as an adversarial one in which the two parties compete for the largest slice of a given corporate pie. This is different in many continental European countries, which brings us to the third difference with the dominant Anglo-Saxon corporate governance model.

In contrast to so-called 'liberal market economies' such as the United Kingdom and Ireland, in which capital and labour compete with each other through competitive factor markets, so-called 'co-ordinated market economies' like Denmark, Sweden, and the Netherlands have developed labour institutions that enable active co-operation for mutual benefit between blockholding shareholders and organised employee interests.

Thus labour laws that protect employees against dismissals, for example, can actively stimulate employees' investments in valuable firm-specific skills that they would not make without some form of employment protection. Also, labour institutions that increase employee voice in the firm engender the type of co-operation between blockholders and employee interests that facilitate the kind of continuous innovations and quality improvements that German Mittelstand firms are known for.

Better labour protection is not just a blunt weapon that workers bring to the negotiation table when it is time to set new collective agreements or develop extensive social plans in times of corporate crisis. It is in many cases a much gentler instrument that gets blockholders and workers alike interested in jointly enlarging the corporate pie rather than splitting the one currently in front of them. ■

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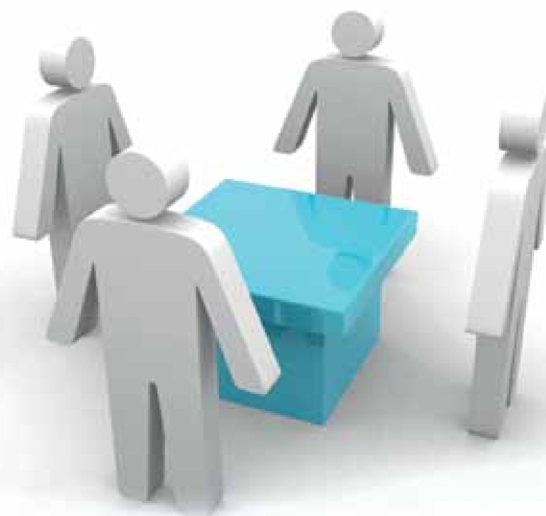

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The paper *Competition and Cooperation in Corporate Governance: The Effects of Labour Institutions on Blockholder Effectiveness in 23 European Countries* is written by Marc van Essen, J (Hans) van Oosterhout and Pursey P M A R Heugens. Forthcoming in *Organization Science*.

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Private equity and public-to-private transactions

by Peter Roosenboom

What considerations lie behind the decision to mount a management buy-out of a publicly listed firm, and should third party investors be involved? Indeed, does the involvement of private equity investors actually aid company performance after a deal is done?

Private equity in its purest sense is more a facilitator of management buy-outs that result in a listed company being taken off a public stock exchange rather than an adder of value to the target company's performance.

This is one of the key findings of research into the subject that I undertook alongside colleagues from Warwick Business School and the Econometric Institute, Erasmus University Rotterdam. A key corollary is that managers would much prefer to carry out such transactions without third-party involvement.

The root of the motivation that drives management behaviour is to be found in the underlying reasons behind the decision to mount a management buy-out in the first place.

There are several principal reasons that can be readily identified in any given set of transactions (the transactions examined in this case included a series of deals enabled by private equity involvement in the UK between 1997 and 2003, featuring a wide range of companies in an equally wide range of industry sectors; they include United Biscuits, Pizza Express, Dewhurst, Fortnum & Mason, Anglian Group, Fitness First, Brake Brothers, and Osborne & Little, this last one being the family company of the current UK Chancellor of the Exchequer, George Osborne).

One, the senior management might want to cancel a company's public listing because they have lost the appetite for complying with the public reporting and governance requirements that are part and parcel of the listing. All other considerations aside, the reporting requirements increase the risk of losing control of proprietary information to competitors.

Two, senior management might feel that a company is undervalued, which increases the risk of it being the subject of a hostile takeover, and the loss of senior management jobs.

Three, the pressure of constant public and media scrutiny. Four, the absence of interest from industry analysts and the investing public, resulting in low liquidity. Taken together, these factors can combine to make it difficult, perhaps even impossible, for a company to take advantage of its public status, most notably issuing shares to finance growth, whether of the organic kind or by acquisition.

Such considerations will almost always raise the possibility of private equity involvement in determining a company's short-, medium- and long-term future. Over the past 25 years, the sight of private equity firms joining forces with incumbent management to stage a buy-out has become a familiar element on the commercial landscape.

In certain cases, management might be able to mobilise enough bank finance to complete a purchase on their own. This might arise in situations where a company is seen to be undervalued, and has ample cash reserves on its balance sheet that could be deployed to finance a buy-out; the ability to keep total control of a company, and so derive maximum benefit from any post-buy-out improvement, would certainly increase the attractions of taking this route to ownership.

More commonly, however, the help of one or more private equity investors will be needed to enable a deal to proceed, not least because of their ability to arrange the necessary additional external financing. There exists a very simple equation: the larger ▸

Private equity and public-to-private transactions (continued)

by Peter Roosenboom

a company is, the less likely it is that its managers will possess the sums of money required to take it private.

In the research, we focused on deals in which managers remained in their positions after going private to ensure that they are active decision makers in the going private process. We use two complementary approaches to investigate private equity participation in these going private transactions.

The first part of our analysis explores which firm characteristics are associated with managers seeking private equity backing as an alternative to conducting the deal on their own without outside equity capital and assistance.

Thus, we compare pure management buyouts (MBOs) and private equity-backed (PE-backed) deals to a control group of firms that remained publicly listed. Such analysis provides important insights into managers' choice of the particular route to take their firm private but assumes passive private equity investors.

The second part of our analysis addresses this assumption and compares the post-deal performance of MBOs versus PE-backed deals. This enables us to determine whether private equity investors add extra value in performance improvements post-deal or are simply good in the cherry picking of targets that are expected to perform well.

My own thinking today reflects the observations made as part of the research process. Companies that were the subject of MBOs without PE involvement, tended not to outperform their peer group before delisting, but did so afterwards. This is what I would expect of a company whose senior managers will now benefit directly from being owners of their company, rather than hired hands.

The PE-backed companies placed under the microscope, by contrast, were already outperforming their peer group. This would suggest to me that the private equity investors involved inclined towards cherry-picking. In short, pure private equity investors bringing nothing more to the table than finance were only seriously interested in those companies that were already doing well.

This is an important consideration that senior management teams considering mounting a buy-out should factor into their thinking when deciding just how to structure their planned transaction. Should they involve private equity backers, knowing that they might well prove to be mere deal facilitators rather than post-deal value-adders? Or might they somehow manage on their own, and keep all the gains for themselves? ■

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This article draws its inspiration from the paper *When Do Managers Seek Private Equity Backing in Public-to-Private Transactions?* by Jana P Fidrmuc, Alessandro Palandri, Peter Roosenboom (Erasmus University) and Dick van Dijk. Published in *Review of Finance Advance Access*, June 28 2012. (http://rof.oxfordjournals.org/content/early/2012/06/28/rof.rfs021)

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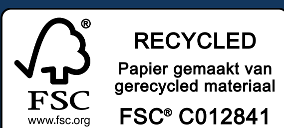

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