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The Ethics of the Complete Management Buyout Cycle: A Multi-Perspective Analysis

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ABSTRACT. Management buyouts occur when incumbent managers (typically in association with third party investors) purchase all of a firm's outstanding stock and remove it from public trading. Prior ethical analyses of such activities have ignored the fact that large numbers of such buyouts return to public trading. The ethical implications of management buyout activity can be more fully understood if the entire buyout process is considered, beginning with the time the firm is taken private until it is returned to public trading. Using a widely employed strategic management ethical framework developed by Hosmer (1994), this paper examines the ethics of the complete buyout cycle.

Management buyouts (MBOs) occur when investors, led by incumbent managers, remove a firm from public trading by purchasing all of its outstanding stock (Frontier, 1989). Such activities have become accepted business practice in the United States and other developed countries. It is estimated that $235 billion of all types of buyouts occurred in the United States during the 1980s (Zahra and Fescina, 1991). MBOs were a very significant part of this total, but the total also includes buyouts which did not include incumbent managers such as those in which all employees participate, employee stock ownership plans (ESOPs). Observers have noted similar levels of buyout activity in Europe to that in the United States (Osborne, 1990).[1] Since the early 1990s, MBOs have attracted less interest than they once did, but they still represent a significant level of economic activity with all buyouts valued at approximately $8 billion in the United States in 1994 (*Mergers & Acquisitions*, 1995), an amount sizable enough to warrant continued study (Bettis, 1991).

Most MBOs do not remain privately held firms indefinitely, rather they eventually return to public trading (Kaplan, 1991). Pressures to return to public trading originate from several sources. For example, third party investors such as Kohlberg, Kravis and Roberts who specialize in buyout financing typically are needed to participate in buyouts in order to secure the total amount of the required financing. Typically, KKR's investment horizon is relatively short; they expect to be repaid quickly for their investment since they commonly do not wish to run the business. Rather, KKR's goal as investors is to reap the financial benefits associated with the immediate buyout and potential restructuring of the firm. They then prefer to exit the firm to pursue other financial opportunities. One way to repay third-party investors quickly is to take the buyout firm public again.

In addition to outside investors' interests, the firm's managers also have pressures to return the firm to public trading. Often managers invest almost all of their own wealth in the buyout. Going public allows these managers to reduce their financial exposure; they can sell part of their stock in the MBO firm and diversify their risk by pursuing other investments. Thus, there are strong internal and external pressures that drive buyout firms to pursue a second Initial Public Offering (IPO). The return of a an MBO firm to public trading is called a *reverse buyout.*

The complete management buyout cycle then can be conceptualized as consisting of two phases: (1) public-to-private and (2) private-to-public. First, an initial purchase of all the stock of a publicly-held firm by incumbent managers and third-party investors (e.g., Kohlberg, Kravis and Roberts) makes it a privately held company.

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While holding the firm under the protection of private ownership, owner/managers restructure it in accordance with their overall purposes for the buyout (Keels et al., 1992). Then the firm again offers its stock to the public. Many firms repeat this cycle more than once, balancing the desire for long-term restructuring against the need for external infusions of capital.

While a high percentage of buyouts goes through the full public-private-public cycle, investigators of buyout activity have looked mostly at the first half of the process, largely ignoring a significant part of the cycle. Moreover, their conclusions about the ethics of buyouts have been inconsistent. If one considers the total buyout cycle including buyout reversals, one might reach different conclusions about the attendant ethical issues. Such an expanded approach might also resolve some of the apparent inconsistencies in prior ethical examinations of the topic. This paper enriches the discussion of MBO ethics, first, by broadening the ethical analyses of buyout behaviour through the use of a more comprehensive framework, and second, by considering the full cycle.

Prior ethical analyses of buyouts

Prior analyses of buyout ethics can be criticized on several dimensions. First, they have relied on rather narrowly defined views of ethics. The three principal articles (see Table I) that have examined the ethics of buyouts have discussed only the firm's fiduciary responsibility to shareholders.[2] Further, these three articles did not reach the same conclusions about the ethical implications of taking a firm private: some asserted that buyout firms (implying all types of buyouts) meet the necessary ethical standards (Houston and Howe, 1987); others insisted that buyouts, almost by definition, are unethical (Jones and Hunt, 1991). Finally, they reached these divergent conclusions by studying only the initial phase of the buyout cycle.

In light of these inconsistent results, two things seem to be needed. First, we need to approach the ethical issues engendered by MBOs by examining them from multiple (and potentially opposing) points of view in order to fully understand the complete range of considerations associated with the activity. Second, the complete buyout cycle must be considered in order to better grasp some of these problems. To broaden the ethical perspective on MBOs, the method of analysis needs to be amenable to the examination of complex strategic business decisions. Hosmer (1994) observed that strategic decisions have a complexity that requires consideration of multiple perspectives in order to be understood. His observation was consistent with the argument often made by scholars of strategic management,

TABLE I
Summary of buyout ethics articles

Article	Principle arguments
Houston and Howe (1987)	1. Buyouts produce social wealth. 2. No ethics established for division of the wealth. 3. Limited responsibility to non-stockholders; law will need to establish their rights.
Bruner and Paine (1988)	1. Must meet fiduciary responsibility. 2. May use synthesis to evaluate impact of buyout and establish criteria for fiduciary responsibility.
Jones and Hunt (1991)	1. Can not meet complete fiduciary responsibility to stockholders due to managers bias to serve themselves. 2. Must consider impact of leverage on firm. 3. Must consider wider impact of buyout on other stakeholders.

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that one must sample multiple respondents from the top management team in order to understand the multiple dimensions of a firm's strategy and consider multiple measures in order to understand the firm's performance (Venkatraman and Grant, 1986).

Thus, Hosmer (1994) proposed that ethical analysis should not rely on a single perspective but rather ten different perspectives, or principles, drawn from the most frequently-cited ethical theories. Such a multi-perspective analysis adds assurance that the issue has been fully examined. This methodology has helped to fuel an examination of ethical issues in the strategic management literature in recent years (for example see Menon and Menon, 1997; Conner and Prahalad, 1996; Quinn, 1996; Gladwin et al., 1995). Sadly, many business decision makers feel that all that is involved in ethical decision making is to make sure that no laws have been broken. Our purpose in choosing Hosmer's framework is to demonstrate how much more complex a full consideration of ethics can be. We do not claim to put forth a method for ensuring derivation of "correct" answers; no model can do that. We employ a framework like the one Hosmer (1994) proposed to examine the complete MBO cycle.

Hosmer's principles

Hosmer (1994) noted that the need to make ethical decisions or take ethical actions arises whenever we run the risk of bringing harm to others, and he goes on to acknowledge that managers must take action even though some parties benefit while others are harmed. His Ten Principles, presented in Table II, therefore require that the analyst consider more than financial performance or returns to shareholders alone. It is acknowledged, by us and by Hosmer (1994), that no one of Hosmer's principles is necessarily consistent with all the others. Rather these principles represent a wide range of perspectives that can deepen our understanding of the various ethical implications of a strategic business decision. They can illuminate our assessments of both buyout and reverse buyout activity. We discuss his principles as they apply to buyout cycle behaviour and summarize our conclusions in Table III.

Ethics of the complete buyout cycle

Principle One: Self-interest. Hosmer's first principle, self-interest, refers to the belief that when

TABLE II

Hosmer's ten principles of ethical analysis

1. Never take any action that is not in the long-term self-interests of yourself and/or the organization to which you belong.
2. Never take any action which is not honest, open and truthful, and which you would not be proud to see repeated widely.
3. Never take any action that is not kind and compassionate, and that does not build a sense of community, a sense of all of us working together for a commonly accepted goal.
4. Never take any action that violates the law, for the law represents the minimal moral standard of society.
5. Never take any action that does not result in greater good than harm for the society of which you are a part.
6. Never take any action that you would not be willing to see others, faced with the same or a similar situation, also be free or even encouraged to take.
7. Never take any action that abridges the agreed-upon and accepted rights of others.
8. Always act to maximize profits subject to legal and market constraints, for maximum profits are evidence of the most efficient production.
9. Never take any action in which the least among us are harmed in some way.
10. Never take any action that will interfere with the right of all of us for our self-development and self-fulfilment to the limit of our abilities.

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TABLE III
Measuring the complete buyout cycle against Hosmer's principles

Hosmer's principle	Buyouts	Reverse buyouts
Self-interest	Manager's self-interest is served	Manager's self-interest deviates from the firm's
Personal virtue	Manager's personal virtue is upheld	Manager's personal virtue is upheld
Religious injunctions	Sense of community lost in buyout	If firm is stronger after reversal, may have stronger sense of community
Government requirements	Meets legal requirements	Meets legal requirements
Utilitarian benefits	Stock holders receive benefit	Stock holders receive benefit
Universal rules	More freedom to make rational decisions	Freedom to make rational decisions curtailed by short term corporate expectations
Individual rights	Workers' perceptions of implicit contract between workers and firm violated	Workers' perceptions of duties and obligations begin to return to a stable state
Economic efficiency	Firm is more efficient	No further performance gains
Distributive justice	Poor and less fortunate not well served	Poor and less fortunate gain no benefit
Contributive justice	Self fulfilment frequently occurs for those leading buyout but not for those restructured out of a job	Self fulfilment for both managers and workers more likely to be realized

individuals are allowed to attend to their own interests, society as a whole will prosper. However, Hosmer (1994) warns that the key to this principle is the consideration of *long-term* self-interest. Taken purely as a short-term guide, this principle could be read erroneously as an endorsement of selfishness.

This self-interest principle has a significant overlap with one of the theories frequently used to analyze MBOs, agency theory. Agency theorists argue that the more closely the interests of managers and firms become aligned, the better the firm will perform, since such an alignment maximizes benefits for both the manager and the firm.[3]

It is a common assumption that, as employees, managers place their own self-interest above the interests of the firm. Agency theory says that this problem disappears when managers become owners. Empirical evidence suggests that firm interests and managerial self-interests coincide when the firm is taken private in an MBO; this alignment of interests, it is argued, leads to improved firm performance (Thompson and Wright, 1991; Green, 1992). Divergence of interests again becomes a problem when the firm's buyout is reversed and its owner-managers give up a significant portion of their ownership to the public. For example, it has been shown empirically that the general and administrative (G&A) expenses of the firm decline while a firm is a privately held, but they rise again when the firm is publicly offered once more (Bruton et al., 1992). When the control of such expenses directly benefits managers as owners, they exercise this control diligently. Once it is no longer in their self interest to control costs closely, they do not. For example, Tiffany & Company became a private entity in 1984 when Avon sold the unit to its incumbent management. The two top officers owned 7.5 percent of Tiffany while it was privately held. Third party investors held the remainder. While it was a private firm, its G&A expenses decreased as a relative percentage. However, once Tiffany returned to public trading, senior management's

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ownership dropped, and its G&A expenses began to edge up. The Tiffany example illustrates how a buyout is consistent with the principle of self-interest while the reverse buyout, which involves a divergence of managerial and firm interests, violates this principle.

Principle Two: Personal Virtues. Drawing from the moral thought of Aristotle, Hosmer argues that an ethical analysis should also consider whether the decision makers would be proud of their decisions. There are many stories about how corporate managers have fulfilled long-time entrepreneurial dreams by buying out a faltering corporate division and turning it around, creating a personal success story. A&W Root Beer, for example, was a lackluster unit of United Brands until its buyout. During the period of its buyout, as well as its subsequent return to public trading, A&W has performed very well. Cases of such buyout success stories abound. In these situations, the virtues of the managers leading the buyout are commonly praised.

In other instances, managers bought out firms and drained their lifeblood to make a quick dollar. Playtex, for example, underwent four buyouts and reverse buyouts from 1985 to 1991. This rapid succession of buyouts and reverse buyouts became the target of criticism because it undermined Playtex's long-term competitive strength (Anders, 1991). The manager leading these buyouts, Joel Smilow, has been widely censured and his ethical standards questioned.

Whether buyouts are well-received by shareholders and other stakeholders is not, however, the issue here. The question is whether the managers themselves can take pride in the actions under scrutiny. No manager who has led an MBO has been known to claim an intention to breach any ethical standards. Even in highly-criticized buyouts, such as that of Playtex, the CEO acknowledged that although he gained wealth through the buyouts, he believed that he had strengthened the firm by improving its strategic position and benefitted all of the shareholders (Anders, 1991). While others may not agree with their decisions, in both buyouts and in reverse buyouts, managers believe that they honor the principle of personal virtues.[4]

Principle Three: Religious Injunction. Hosmer's third ethical principle builds on the writings of St. Augustine and St. Thomas Aquinas to argue that actions must be judged in terms of the impact on others in the community in which the firm operates.

Many observers believe that an MBO damages a sense of community. This sense of community can be as narrowly focused as the feeling of belonging workers have within the firm. Alternatively, community can be broadened to include the region where the company is located. In either case, MBOs are regarded negatively. Principally, this loss of community can be traced to the restructuring the firm undergoes while it is privately held.

In the narrower sense, many workers can lose their jobs in such restructurings (Wiersema and Liebeskind, 1995; Liebeskind et al., 1992). For example, Gibson Greetings reduced its number of full-time employees by over 20 percent in the year of its buyout. In addition to the numerous outright job losses, other jobs became temporary or part-time. In a broader sense, MBO firms also terminate contracts with community-based suppliers and sever other long-term associations as they work to control costs. A common defense of executives in an MBO is that they preserve the jobs of a few as an alternative to the potential closing of the entire company, which would cost all its workers their jobs. Nevertheless, such restructuring decisions are typically viewed as infractions against the principle's demand for "kind and compassionate" action toward the community in which the firm operates.

The effect of the actions taken in the MBO might prove to be positive in the long run. If the restructuring is successful, the firm will be stronger when it returns to the public marketplace. Thus fortified, it can direct more of its resources toward the community. MBOs typically fall short of the community principle, but successful reverse buyouts have at least the potential to uphold it.

Principle Four: Government Requirements. Hosmer integrated the thought of Hobbes and Locke into his framework by requiring that decision-makers observe governmental laws and regulations. It is

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tempting to dismiss this principle as a self-evident given: firms must abide by the law to remain in business. Nonetheless, the news media overflow with stories of legal transgressions. Up to now, the state has accepted as legal both MBOs and reverse buyouts. By implication, the entire cycle satisfies this principle.

Principle Five: Utilitarian Benefits. Utilitarianism has been developed from the ethical works of Bentham and Mill and can be viewed in two different lights. First, actions are ethical which result in the greatest good for the greatest number of people. Alternatively, it has been argued that it does not matter how many people benefit, but it is the magnitude of the total benefit that counts. Hosmer (1984) chose to employ the first interpretation, not the latter, in analyzing strategic management actions; and we adhere to his choice here.

Utilitarian theorists have justified most business activity contending that it promotes the greater good of society by enhancing society's economic welfare. One common interpretation is that any business activity is ethical under this principle as long as it produces positive results. Even though the tangible benefits may accrue to only a few, their gain is assumed to trickle down to society as a whole.

As representative business activities, both buyouts and reverse buyouts satisfy this principle. The firm's shareholders, for example, have consistently been shown to receive a premium for their stock which may be as high as 40 percent above the prevailing price before the buyout (see Palepu, 1990 for a review of the financial impact of buyouts on shareholders). These shareholders obtain a benefit from the buyout, and the utilitarian principle assumes that their gain should enhance the larger economic well-being of society since they will invest and spend their proceeds.[5]

Similarly, in reverse buyouts, the aftermarket performance of a firm's stocks increases in value 29.6 percent from the time the buyout halts trading until the time the reverse buyout begins it again (*Mergers & Acquisitions*, 1995). Again these profits to incumbent managers and their third party investors will be invested and spent which provides a benefit to all of society. Thus, both buyouts and reverse buyouts can be assumed to fulfil the utilitarian principle.

Principle Six: Universal rules. Drawing upon Immanuel Kant's universal imperative, Hosmer contends that a firm should undertake only those actions which it would be willing to see others implement as well. According to Kantian thinking, the focus should be whether individuals follow free and rational processes in determining their moral decisions. Kant would not have us consider the *consequences* of our moral decisions. The question is whether one's actions can be universalized without contradicting moral law. The quest for universality places a strain on most business decisions. Here, we take the broad position that free, rational decision making is desirable and therefore should be universal.

It is arguable that, in a MBO, managers have greater freedom to pursue rational decision making on the firm's behalf (Seth and Easterwood, 1993). The short term financial pressures to satisfy quarterly earnings goals have been heavily criticized in American business. A privately-held firm avoids these pressures. In particular, firms which were divisions of large companies before their buyouts may have faced short term financial performance demands with little or no understanding of their role with respect to the parent company.

For example, the management of Harley Davidson bought it out and took it private in 1981; previously it had been a division of the AMF Corporation. The managers of Harley Davidson restructured the firm and pursued goals which maximized its value without having to meet other corporate goals which were not consistent with the specific needs of the motorcycle manufacturer. As a result of these rational decisions which focused strictly on the needs of Harley Davidson, this firm has become one of the great success stories of American industry.

The ability of a firm's managers to make such sharply focused decisions lessens after the return to public trading. The need to make short term decisions which maximize the quarterly profit expectations of various stakeholders and analysts resurfaces and inhibits the freedom to make

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rational decisions. Thus, reverse buyouts can be seen as violating this principle.

Principle Seven: Individual Rights. Thomas Jefferson argued that no act is moral that undermines the rights of the individual. This concern for individual rights forms Hosmer's seventh principle. The question of individual rights almost always surfaces when buyouts are discussed. Individual employees develop personal perceptions about what the firm requires of them and what it will provide them in return. One persistent belief among workers is the notion of the implicit contract – if persons perform their jobs as mandated by the firm, then they are entitled to keep those jobs (Rousseau, 1989). This implicit contract commonly impacts, and may even may supersede, the legal agreement that workers and management may develop (Sampson, 1994). Workers commonly think that doing their jobs well is all that is required for keeping their jobs. Such an implicit contract prevailed for years at International Business Machines (IBM). While it was never written anywhere, workers at the firm felt once they were hired, they would have a job for life.

Buyouts destroyed this myth of "job security" during the 1980's. During that period, buyout firms, including MBOs, engaged in significant restructuring (Muscarella and Vetsuypens, 1990) that often involved selling off units (e.g., Fruit of the Loom sold its General Battery and Acme units) or seeking to operate more efficiently with fewer employees (recall the previously cited case of Gibson Greetings cutting 20 percent of its workforce in one year). Consequently, buyouts came to be associated with painful and extensive job losses. The result was that workers frequently felt that their individual rights had been transgressed. It was this sense of loss of rights that led to wide criticism and complaints about MBOs by workers and union representatives.

When a buyout is reversed, the firm may resume its previous modes of conducting business. As Lewin (1974) described it, organizational change is a process of unfreezing the organization and then refreezing it. Taking the firm private unfreezes it. The private unfrozen period can be one of uncertainty and instability. Then it refreezes, or returns to a stable state, when it is taken public again. In the more stable state, following a reverse buyout, workers' perceptions of how they are expected to perform and how the firm will respond become more predictable. From the perspective of the workers, a reverse buyout is more likely than a MBO to honor their rights.

Principle Eight: Economic Efficiency. Smith and Friedman and Blinder contend that the sole purpose of businesses is to maximize firm profits. Actions that do otherwise, they claim, waste the resources of individuals to whom the firm has a fiduciary responsibility: its investors. Hosmer calls this the economic efficiency guideline.

The financial gains achieved by buyouts suggest that they meet this standard. Several performance indicators show positive results following a buyout (see Bruton et al., 1992, for a summary). These improvements include measures of sales (Singh, 1990), plant productivity (Lichtenberg and Siegel, 1989), cash flow to assets (Smith, 1990), as well as combinations of these (e.g., Zahra, 1995).

The performance of reverse buyouts has received much less attention. The evidence indicates that they do not lose previous performance gains, but they also do not realize further improvements (Bruton et al., 1992). One explanation for this standstill is that costs climb again when a firm goes public. Increased monitoring costs and self-serving managerial actions deplete the gains realized during the private period. Potential profits are lost to agency. Reverse buyouts fail to meet the standard of profit maximization.

Principle Nine: Distributive Justice. Hosmer's ninth principle builds on the argument by Rawls that the firm's actions should serve the needs of the poor, the uneducated, and the unemployed. Business firms are not set up to consider society's least fortunate, so this principle is difficult to judge in the abstract. Within the hierarchy of a business firm itself, however, the workers lowest on the organization chart are typically the least educated and the worst paid. The restructuring following a MBO or its reversal usually hits these

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workers hardest. As a result, they often fall into the ranks of society's poor and unemployed. From this perspective, MBOs represent a clear breach of the principle of distributive justice. Additionally, the economic efficiency principle in guideline eight, combined with the self-interest analysis in guideline one, would seem to preclude any effort by the firm to help these workers. Furthermore, there is little reason to expect that a reverse buyout would ameliorate their plight. At the outside, a reverse buyout firm might gradually increase its employment rolls, but the least fortunate would rarely be included in applicant pools. These observations lead to the conclusion that neither MBOs nor reverse buyouts meet the requirements of the principle of distributive justice.

Principle Ten: Contributive Liberty. Nozick argued that actions should not interfere with the self-fulfilment of individuals. Hosmer describes this as the principle of contributive liberty. The themes of self-fulfilment and self-development encompass every aspect of a person's life. Both MBOs and reverse buyouts can promote or hinder the fulfilling of selfhood. Entrepreneurs/managers who take firms private and return them to public trading, for example, are seeking to realize a vision or goal. To limit that vision would undermine the entrepreneur's self-fulfilment. In 1982, through a leveraged buyout, Richard Snyder purchased a division of Singer Corporation which manufactured commercial heating and air conditioning units. He has built that unit into a firm whose sales have historically grown over 20 percent per year, and he has become a multi-millionaire.

The job loss associated with an MBO's restructuring, however, can severely restrict the level of a dismissed worker's development as a person. Eventually, workers may find greater growth and satisfaction in new positions elsewhere, but the immediate result of job loss is to close an avenue to personal development.

Since restructuring occurs less often or is less dramatic in reverse buyouts, this decision would seem to place fewer constraints on self-fulfilment. While employees who have managed to weather the full buyout cycle may have a sense of a return to normalcy initially, they eventually come to realize that they are working in a firm that will probably show no further performance gains. This prediction does not bode well for their future personal growth. Both the MBO and reverse buyout stages fail to satisfy the standard of contributive liberty, but the potential for transgression is less blatant in reverse buyouts.

Conclusion

Ethical critiques of MBOs, and all buyouts, must move beyond looking only at the privatization phase to examine the firm's condition when it returns to public trading also. The principal means for measuring the ethicality of buyouts, as well as most other business activities, has been the classical utilitarian ethics mode. From this point of view, an efficient market, which protects shareholders whose stock is purchased in the buyout, also promotes the moral good. Reverse buyouts, from the same viewpoint, must display g[illegible] stewardship of the private buyout firm's resources so that it can compete when it returns to public trading. Both MBOs and reverse buyouts pass the utilitarian test whenever they promote the greatest good for the largest possible number of people. The business community's standard claim for trickle down effects to the whole of society is how the "greatest number" argument is justified.

However, ethical analysis of a complete buyout cycle (going private to returning to public trading) should ponder more than this single utilitarian viewpoint. MBOs are complex activities that have widespread impacts on society, and these effects should be considered using frameworks capable of accommodating that complexity. But multiple perspectives can lead to varying ethical conclusions which suggest the necessity of making tradeoffs.

Managers would be well advised not to choose a single perspective from which to analyze the complete buyout cycle. Instead, they should reflect on all of these principles. Neither this framework nor any other can prescribe conclusively an ethical course of action for every case, but by employing the broadest possible frame-

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work, managers can feel more confident that they have wrestled seriously with all of the various dimensions of the issue. MBOs and reverse buyouts will continue to be controversial. The more broadly ethical questions are contemplated, however, the greater the likelihood that decisions rendered will be good ones.

This article has sought to illustrate the wide variation in conclusions when multiple ethical models are applied to strategic business decisions. We have worked through this demonstration using the buyout cycle as our sample case. The summary (see Table III) implies that no single ethical principle or model can ensure a satisfactory analysis of such a complex strategic decision. Nonetheless, two cautions should be noted. First, this analysis generalized about a broad phenomenon (i.e., the buyout cycle) using principles normally applied to individual cases. Throughout our discussion we have cited individual cases to help give the general case more specificity. While specific cases will vary, we have also drawn from collective empirical and qualitative evidence about the complete buyout cycle. Our analysis suggests that ethical conclusions can change as decision-makers bring to bear a variety of principles on any strategic question.

What this analysis gains in breadth, it loses in depth. Any one of the ten principles could be more intensively tracked (a methodology more consistent with the usual approach to ethical analysis). We could only scratch ten surfaces, but broad-based overviews like this can highlight the range of options available for deeper ethical analysis when a particular decision warrants very careful consideration from a particular perspective and when the potential for injury to a particular constituency is great. However, as a method for exploring the ethical ramifications of a specific strategic decision, we believe the breadth we demonstrate here is preferable to in-depth analysis from a single perspective. We hold up Hosmer's work – and his sources – as starting points. Beyond that, scholarly research on specific strategic issues and on case examples should provide a rich store of resources.

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Note

[1] There have been some differences noted in U.S. and European MBOs (Wright, Thompson and Robbie, 1992; Wright, Robbie, Romanet, Thompson, Joachimsson, Bruining and Herst, 1993). However, the basic principal of a firm led by incumbent managers being taken private is still present.

[2] Filatochev, Starkey and Wright (1994) examined the specialized case of management buyouts in Russia. However, this specialized case occurs due to the economic restructuring occurring in the country as it transitions from a demand economy to a market economy. For example, the vouchers produced to encourage public ownership of companies is unique to only such transitional environments. Thus, the ethical analysis applies to this unique transitional environment and is not included in this general review of MBO ethics.

[3] The seminal work in agency theory is attributed to Berlé and Means (1932) and Fama and Jensen (1983). For an excellent review of agency theory in the context of management issues, see Eisenhardt (1989).

[4] Strictly speaking, however, this is not the Aristotelian notion of virtue, for it did not refer merely to the self-perception of the agent. For Aristotle, a virtue was the habit of making right choices (not just thinking that you do), and right choices were those which really enhanced the fulfilling of needs inherent in human nature.

[5] In utilitarian theory, it is always the greater good of the *largest number* that counts. Benefits for the few *alone* would not satisfy Mill. One must show that the business practice promotes a larger *social* good in order to meet Mill's criterion.

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