FACTORS AFFECTING THE PERFORMANCE OF BRANDED APPAREL RETAILERS UNDER PRIVATE EQUITY OWNERSHIP

Factors Affecting the Performance of Branded Apparel Retailers Under Private Equity Ownership

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Declaration

This thesis is the author's own work and has not been submitted in substantially the same form for the award of a higher degree elsewhere.

Abstract

Branded apparel retailers are part of a high growth sub-sector in UK retail (PwC, 2016). The growth of this sub-sector has attracted investment from middle market private equity firms (Clark and Bawden, 2011), yet little research has been undertaken into the role that private equity firms play in the growth of these firms. This is surprising given that private equity investors have had a mixed impact on the performance of branded apparel retailers. Using a grounded theory approach (Glaser & Strauss, 1967; Locke, 2001; Charmaz, 2008), this study identifies the factors affecting the performance of branded apparel retailers under private equity ownership. Data was collected from private equity professionals and branded apparel retailers, as well as other industry stakeholders such as corporate finance professionals. From the grounded theory process, the researcher developed a Three-Stage Private Equity Model to demonstrate the factors that affect branded apparel retailers through different stages of private equity ownership. This study makes the following contributions to theory. First, the Three-Stage Private Equity Model provides insight into the private equity and branded apparel retailer relationship. This study provides an in-depth understanding of the factors affecting firm performance. Second, the study contributes to parenting theory by questioning the static nature of the Heartland Matrix (formerly the Ashridge Portfolio Display Matrix). This study highlights that parenting relationships are far more dynamic than the Heartland Matrix suggests. Third, the Three-Stage Private Equity Model is used as a substantive theory-to question the value adding and value subtracting mechanism proposed by Campbell et al (2014). The study finds the value adding and value subtracting behaviours identified by Campbell et al (2014) do not fully apply to buy-to-sell parenting relationships. The study contributes to parenting theory by highlighting the differences and similarities between

the factors identified within the Three-Stage Private Equity Model and the value adding/subtracting behaviours proposed by Campbell et al (2014).

Key Words: Private Equity, Branded Apparel Retailers, Grounded Theory, Parenting Theory.

Abbreviations

BVCA – British Venture Capital Association

CEO – Chief Executive Officer

FTSE 100 – Financial Times Stock Exchange 100

HPWP – High Performance Working Practices

IPO – Initial Public Offering

KKR – Kohlberg Kravis Roberts (Private Equity Firm)

PR – Public Relations

R&D – Research and Development

PwC – PricewaterhouseCoopers

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CHAPTER 1: INTRODUCTION

1. INTRODUCTION

1.1 INTRODUCTION

Within the UK, a set of branded apparel retailers has emerged in recent years. These firms have achieved rapid growth in a challenging retail environment (PwC, 2016). The researcher became interested in the growth of these firms and set out to investigate them further. Initial research into these firms led the researcher to identify the important role private equity played in their growth. In order to investigate this phenomenon, the researcher adopted a grounded theory approach. Grounded theory was first presented in the work of Glaser and Strauss (1967). Grounded theory uses an inductive approach to research, rejecting the logico-deductive approach whereby researchers develop testable hypotheses (Goulding, 1998). Grounded theory can be used to develop substantive theories in under-explored and under-theorised contexts. These theories can be used to question or build on other substantive theories, which can lead to the development of formal theories (Glaser and Strauss, 1967). The relationship between branded apparel retailers and private equity firms had previously been unexplored and warranted further investigation. The grounded theory tradition suggests researchers start with a broad research aim, rather than theoretically driven research questions (Glaser & Strauss, 1967; Locke, 2001; Charmaz, 2008). The aim of this study was to understand the factors affecting the performance of branded apparel retailers under private equity ownership.

In this study, the Three-Stage Private Equity Model (also referred to as the Three-Stage Model) is developed to explain the factors that affect the performance of branded apparel retailers under three different stages of private equity ownership. In keeping with a grounded theory tradition, the Three-Stage Model is then used to question existing substantive theory (Locke, 2001). The substantive theory that this study addresses is parenting theory, specifically the Heartland Matrix (formerly the Ashridge Portfolio Display Matrix) and the value adding and value subtracting parenting behaviours it describes (Goold et al, 1994; Campbell et al, 2014). Through adopting this approach the study makes the following contributions. First, the Three Stage Model identifies factors affecting the performance of branded apparel retailers under private equity ownership. Second, the study builds upon the static nature of the Heartland Matrix, by identifying that parenting relationships are more dynamic than this model originally suggests. Third, the study suggests that the value adding and value subtracting parenting behaviours identified by Campbell et al (2014) are not fully applicable in the context of buy-to-sell parenting relationships. The following section will now outline the aims of the chapter.

The aims of this chapter are as follows. First, in Section 1.2, to introduce in more detail the grounded theory approach and the phases the researcher passes through when collecting data. Second, in Section 1.3, to present the context of the study; private equity firms and branded apparel retailers. Third, to introduce the theoretical areas to which the study contributes. The main theoretical area is parenting theory; however, the study also uses private equity and branding literature to develop the grounded theory. These theoretical areas will be introduced in Sections 1.4, 1.5 and 1.6. Fourth, to present the grounded theory developed in this study which details the factors that affect the performance of branded apparel retailers under private equity ownership. The theory developed will be presented in Section 1.7. Fifth, to discuss the contributions the grounded theory model developed in this study has for understanding parenting theory. These contributions will be detailed in Section 1.8.

1.2 GROUNDED THEORY AND DATA COLLECTION PHASES

This study adopts a grounded theory approach through the philosophical lens of social constructivism (Charmaz, 2008). Grounded theory was first 'discovered' in the work of Glaser and Strauss (1967) and can be used to develop substantive theories. Grounded theory adopts an inductive approach to research, rejecting the logico-deductive approach whereby researchers develop testable hypotheses (Goulding, 1998). Grounded theory requires researchers to enter the field without prior theoretical influence, and generate emergent theory from what they discover (Goulding, 2002). This also means the researcher should not seek to develop theoretically driven research questions that might lead to the forcing of data into existing theoretical frames (Locke, 2001). The issue of theoretical neutrality is, however, becoming an increasingly contentious point amongst grounded theorists (Dunne, 2011). Grounded theory can be a challenging methodology to implement and then write up (Locke, 2001; Charmaz, 2008; Dunne, 2011; McGhee et al, 2007). A full discussion of the researcher's approach will be given at the start of the literature review. Grounded theory involves an inductive process, by which the researcher engages in data collection and analysis simultaneously (Glaser and Strauss, 1967; Locke, 2001; Maxwell, 2005; Charmaz, 2014). In this approach, multiple data collection tools can be used (Glaser, 1978).

The data collection process passed through four stages, with the constant analysis of data shaping the next stage of data collection. Within this study, a range of data collection methods was used, including an exploratory case study, interviews, participant observation and document analysis. Initial research involved an exploratory case study into branded apparel retailer Knowles. Please note that all firms and individuals involved in the data collection process within this study have been given pseudonyms to retain their anonymity. Following this case study, it became apparent that Knowles was considering private equity investment as a potential option to further its growth. The researcher then decided to explore whether this was true for other branded apparel retailers and identified that a number of firms had received private equity investment. In some cases, branded apparel retailers had passed through multiple stages of private equity ownership. The link between the wider retail sector and the private equity market has also been discussed within the literature (Clarke and Bawden, 2011; Burt and Limmack, 2001). Additional secondary research across the consumer products sector enabled the researcher to identify that while there were examples of highly successful private equity and target firm relationships, some relationships were less successful. The researcher decided to investigate this phenomenon further, adopting a theoretical sampling approach which led the researcher to interview private equity professionals as part of the second phase of data collection. These interviews saw the researcher begin to understand how private equity firms affected the firms in which they invested. From these interviews, the participants suggested that the researcher meet corporate finance professionals, and this led the researcher to the third stage of data collection, interviews with these professionals. These individuals are involved in brokering deals between private equity firms and branded apparel retailers and therefore could provide an excellent insight into their relationship. Due to their position within the industry, corporate finance professionals were able to connect the researcher with branded apparel retailers. The fourth stage of data collection saw the researcher interview individuals within branded apparel retailers. This stage gave the researcher the target firm perspective of the factors affecting them under private equity ownership. In line with the grounded theory method, following these stages of data collection the researcher began to develop the grounded theory. The next section will discuss the context of the study; private equity and branded apparel retailers.

1.3 Private Equity and Branded Apparel Retailers

Private equity is a global, trillion-dollar industry that owns or has owned a wide range of firms globally (Kelly, 2012). Private equity is inherently connected with society through consumption, employment and personal investment. A person's consumption is linked to private equity through the purchase of products and services provided by private equity-owned firms such as Boots, Burger King and Hilton. Individuals can also work for private equity-backed firms such as Pets at Home or Pret a Mange. Moreover, personal finance is connected to private equity through institutional investors which manage personal pension plans. Yet, despite the influence of private equity firms on society, relatively little is known about them. Commonly, private equity firms are perceived as asset strippers which buy firms then laden them with debt, causing long-term negative effects. This perception is, in some cases, true; however, private equity varies greatly and ranges from small minority stake investments into high growth firms to public-to-private deals where listed firms are taken into private ownership.

Private equity research has focused primarily on the study of private equity deals that see publicly listed firms become private firms (commonly referred to as public-to-private deals) or on complete management buyouts where majority stakes are taken in target firms (Kaplan and Strömberg, 2008; Gilligan and Wright, 2014). However, despite the financial value that public-to-private deals contribute to the overall value of the private equity industry, in the UK between 2007 and 2012 only six public-to-private buyouts were completed (BVCA, 2013). Moreover, across Europe in 2013 public-to-private transactions accounted for less than 5% of total deal value (Gilligan and Wright, 2014). In contrast, the UK middle and lower areas of the private equity market saw more than 1,500 deals completed between 2007 and 2012 (BVCA, 2013). This area of the private equity market is described as the middle market and encompasses firms making investments of between £5 million and £100 million, although definitions vary (Clarke and Bawden, 2011; BVCA, 2013). The context of this study is the UK middle market because the branded apparel retailers identified at the start of the research process are within the investment size bracket of the UK middle market.

Branded apparel retailers were first brought to the researcher's attention due to their rapid growth within the UK. According to PwC Strategy (2016), the premium lifestyle clothing market's sales grew from £1.4 billion in 2009 to £2.7 billion in 2014. These figures are based on data collected from sales of 21 UK premium lifestyle brands, five of which are included in this study. The researcher sought to investigate the growth of these firms, adopting a grounded theory approach (Glaser and Strauss, 1967). This approach requires the researcher to minimise the impact of theory before entering the field. Initially, when investigating the firms, the researcher was led by industry press reports in determining the group of firms to investigate. Towards the end of the study, it became clear that the group of firms studied related to aspects of pre-existing theoretical categorisations. However, the firms also had differences. For example, Ailawadi and Keller (2004) discuss single brand retailers, defining them as retailers which stock only their own brand apparel, such as Gap. Jones and Kim (2011) develop this further through identifying that single brand apparel retailers have brands that have strong links to their retail environment which, coupled with their brand, helps reinforce consumers' self-perception and identity. Jones and Kim (2011) cite firms such as Abercrombie and Fitch and American Eagle as examples of single brand apparel retailers. Within this study, the researcher used these theories to help conceptualise the firms investigated. Although the single brand retailers shared similar characteristics with the firms in this study, there were also clear differences. Firstly, the brands of the firms investigated all represented an aspirational middle-class lifestyle, and these brands were strongly associated with the founder's own lifestyle. Second, the firms investigated were significantly smaller in terms of turnover and store numbers than the single brand retailers and therefore are at a much earlier stage of growth. Therefore, the firms investigated in this study can be defined as lifestyle branded apparel retailers, or branded apparel retailers for short. It is important to note that other types of products/services can be described as lifestyle brands; however, the focus of this study is on lifestyle branded apparel retailers. The following section will discuss the theoretical areas most relevant to this study.

1.4 Parenting Theory

Parenting theory is centred upon the idea of parenting advantage. Parenting advantage is achieved when a parent firm creates more value for a subsidiary firm than any of its rivals if they owned the same firm (Campbell et al, 1991; Goold et al, 1994; Campbell et al, 2014). Parenting theory seeks to understand the mechanisms through which parent firms create value for their subsidiaries. Goold et al (1994) identify four forms of parenting relationships; stand-alone, linkage influence, central and functional services linkage, and corporate development activities. Within parenting theory, private equity firms can be loosely categorised as corporate development activities. Corporate development activities are defined as the buying and selling of subsidiary firms within a portfolio;

these activities can both create and destroy value. However, this classification may not reflect the unique characteristics of private equity firms (Landau and Bock, 2013). Barber and Goold (2007) suggest that the strategy of private equity firms is fundamentally different from other types of parenting relationships; this is because while corporations buy-to-keep, private equity firms buy-to-sell. Therefore, although corporate development activities involve the buying and selling of firms, in some cases corporate development activities will see a parent hold a firm in its subsidiary, whereas private equity firms will commonly exit their investments before closing their fund. There is, therefore, a need to further understand how private equity firms, with their buy-to-sell approach, affect the firms in which they invest. The Heartland Matrix has implications for understanding this.

Goold et al (1994) first developed the Ashridge Portfolio Display Matrix as a tool for parent firms to understand their potential to add value to subsidiaries versus the risk of subtracting value from subsidiaries. More recently, this model has been renamed the Heartland Matrix (Campbell et al, 2014). Although the model is of value, this value is derived from its use as a diagnostic tool. The Heartland Matrix remains a static model which does not provide a dynamic perspective on parenting relationships after the parent has acquired or invest in the subsidiary. For example, it provides guidance on whether or not a parent should invest or continue to invest in a subsidiary, but it does not provide further strategic guidance to follow up on this decision. This represents a gap in the parenting theory literature to which the Three-Stage-Model contributes. That is, parenting relationships are in fact far more dynamic than the Heartland Matrix suggests. Moreover, the same type of parenting relationship (private equity) can produce very different results over time depending on a range of factors identified within the Three-Stage Model.

Campbell et al (2014) develop the Heartland Matrix further through identifying value adding and value subtracting behaviours in which parent firms can engage. These act as a guide for managers within parent firms to minimise value subtracting activities and maximise value adding activities. Despite the merits of these value adding and value subtracting factors, they are developed for buy-to-keep parenting relationships rather than buy-to-sell. Therefore, the grounded theory developed within this study provides a comparison to the work of Campbell et al (2014) and contributes to the understanding of value adding and value subtracting behaviours in buy-to-sell private equity parenting relationships. The factors considered are people decisions/poor people decisions, strategies/misleading strategic guidance, relationships, brand, and financial engineering. These factors were selected as they were most relevant to the context studied. The value adding and value subtracting factors have been developed within the context of buy-to-keep parenting relationships and have not been investigated within the context of buy-to-sell parenting relationships. This represents a gap in the parenting theory literature. The Three-Stage Model developed in this study provides insight into these value adding and value subtracting behaviours within the context of buy-to-sell parenting relationships.

1.5 PRIVATE EQUITY LITERATURE

Due to the context of this study being the middle market private equity sector, private equity literature is relevant in helping contextualise the study. Private equity is an investment class that raises funds that operate for predetermined time periods, referred to as closed-end funds, from private and institutional investors. The capital raised is then invested into firms (Gilligan and Wright, 2010; BVCA, 2013). During these predetermined time periods, the private equity firms invest in target firms and exit them before the fund closes so as to return their capital and any profits accrued to investors. The private equity firm is said to then provide three forms of 'engineering' or generic strategies to help grow the firms they invest in (Kaplan and Strömberg, 2008):

- Financial Engineering - the use of complex debt structures, known as leverage.
- Operational Engineering - actively scrutinising and influencing a firm's strategy to deliver operational improvements in the target firm.
- Governance Engineering - refers to incentivising senior management within the target firm to deliver improved performance through providing equity stakes to managers or lucrative bonus schemes.

Private equity has received attention within finance literature. The most important area of research to this study is the understanding of the effect that private equity has on the performance of the firms in which they invest (Kaplan, 1898; Kaplan and Strömberg, 2008; Bernstein and Sheen, 2013; Lerner et al, 2011). As an indicator of long-term value creation, research has investigated the effect that private equity firms have on operating performance (Kaplan, 1989) and research and development (Lerner et al, 2011), as well as more novel measures such as food hygiene performance (Bernstein and Sheen, 2013). Despite the importance of this research, existing work has focused primarily on large-scale quantitative studies that investigate the outcomes of private equity ownership. Little research has been undertaken into understanding the factors or mechanisms which lead to these outcomes. Moreover, the three forms of engineering identified by Kaplan and Strömberg (2008) are very broad factors and are seen only to have a positive effect on firm performance; they do not consider the potential negative factors that lead to a decline in target firm performance. This study adopts a qualitative approach to understanding these factors within the UK middle market private equity, a context which is underexplored (Clark and Bawden, 2011).

1.6 BRANDING LITERATURE

The researcher sought to understand how private equity firms affect branded apparel retailers and, to do this, an understanding of their performance was needed. Traditional measures of firm performance were used, such as operating profit and turnover (Richard et al, 2009; Sutton, 1997; Dess et al, 1984). However, to gain further insight, the researcher sought to understand the effect that the private equity firms had on brand performance. For branded apparel retailers, their brands are key intangible assets (Ailawadi and Keller, 2004; Jones and Kim, 2011). The researcher reviewed the literature on brand equity and brand valuation to develop a means of understanding brand performance (De Chernatony, 2001; Srivastava et al, 1998; Barwise et al, 1989; Salinas and Ambler, 2009). The researcher identified that brand valuation techniques, whereby a financial value is placed on a brand, were not suitable within the context studied (Salinas and Ambler, 2009). Instead, the researcher sought to understand how the private equity firm affected the values of the firm's brand. Brand values are created and managed by managers within firms (de Chernatony and Riley, 1998). However, consumers then interpret these values to contribute to the overall perspective of the brand. In this study, the context was focused on the management of brands as no consumers were interviewed.

Therefore, the researcher focused on the aspect of the brand that the firm controlled, the brand values. Instead of measuring brand value an approach was adopted whereby the researcher evaluated the impact private equity firms have on brand values. The researcher investigated the effect of private equity firms on these values, and whether they maintained brand values or contradicted the brand values.

1.7 THREE-STAGE PRIVATE EQUITY MODEL

Based upon the grounded research process, the researcher developed the 'Three-Stage Private Equity Model'. The model provides a valuable contribution through identifying the factors that affect target firm performance across three different stages of private equity ownership.

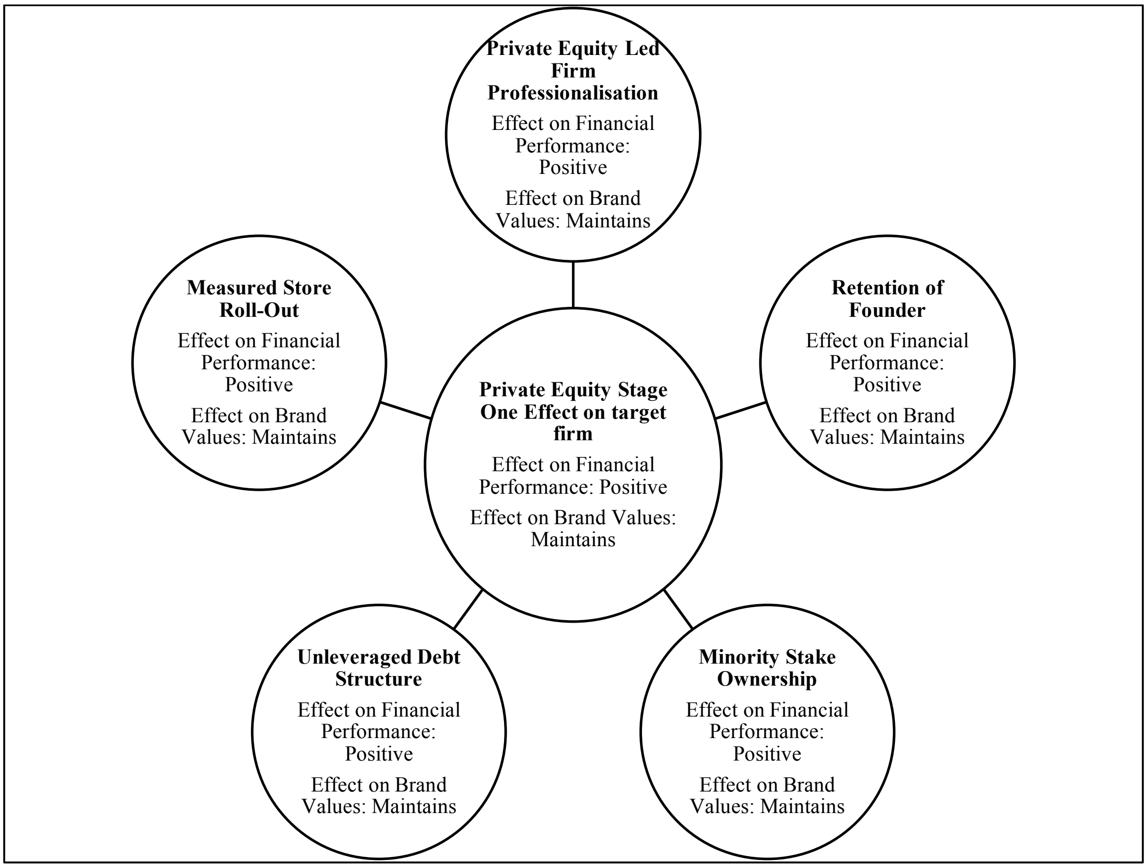

Figure 1: Private Equity Stage One

Figure 1 details the factors affecting branded apparel retailers under private equity ownership stage one when branded apparel retailers enter into private equity ownership. During this stage, the private equity firm helps **professionalise** the business, allowing for increased efficiency which in turn boosts profits. The founder is also freed up within the business to return to managing the brand, allowing brand values to be maintained. The **unleveraged debt structure** has a positive effect on financial performance because the management team can maintain the values of the brand which is a key value-generating asset. The **minority stake ownership** also has a positive effect on financial performance as well as helping maintain the values of a brand because the firm is still controlled by the founder, who is able to consider the values of the brand whilst making decisions. This arrangement reduces the risk of the private equity firm rapidly growing the business through implementing strategies which could damage the values of the brand. In addition, the **retention of the founder** is important. The values of a lifestyle branded apparel retailer's brand are strongly associated with the founder's own lifestyle. Through the founder remaining within the firm, the brand's values can be maintained, and financial performance can be improved as the founder can maintain the values of the brand. The final factor is the measured roll-out of stores. Branded apparel retailer's brands are often strongly linked with a particular lifestyle which is synonymous with specific locations. Therefore, a **measured store roll-out** is important and helps maintain the values of the brand.

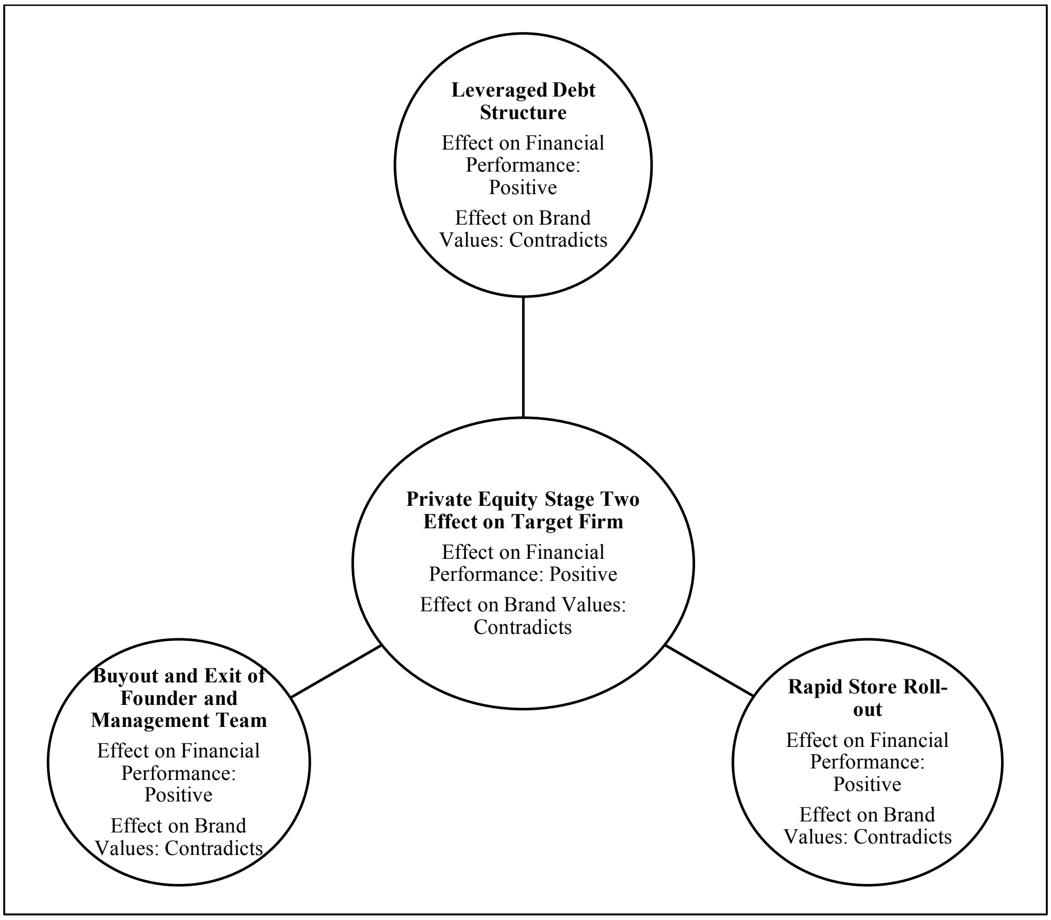

Figure 2: Private Equity Stage Two

Figure 2 details private equity stage two, which is when the firm passes into the second stage of private equity ownership as part of a secondary buyout. The deal type at this stage is significantly different from stage one private equity ownership. The deal sees the firm fully bought out by the private equity firm, leading to the **exit of the founder and the management team**. The buyout has a positive effect on firm financial performance because the private equity firm has complete control and is able to pursue its own strategic objectives of maximising value during their period of ownership. This approach, coupled with the exit of the founder and management team, has a negative effect on the value of the firm's brand. The founder is important in maintaining the firm's brand values and, with the founder gone, the strategic actions of the firm begin to move away from the original values of the brand. A **rapid store roll-out** is representative of a strategy that leads the firm away from its core values. During private equity stage one, the store roll-out is measured and helps maintain brand values. However, through the need to grow the firm quickly, the private equity firm begins to rapidly open stores in locations that do not support the values of the brand. This process is accelerated due to the private equity firm using **leveraged finance** to purchase the firm. Leverage places debt within the firm, and this means that the target firm requires an increase in profits to service this debt. This situation causes a short-term increase in financial performance, but the strategies used to achieve this contradict the firm's brand values. Overall during private equity stage two, financial performance is improved, but this comes at the expense of implementing strategies that have a negative effect or contradict the values of the brand.

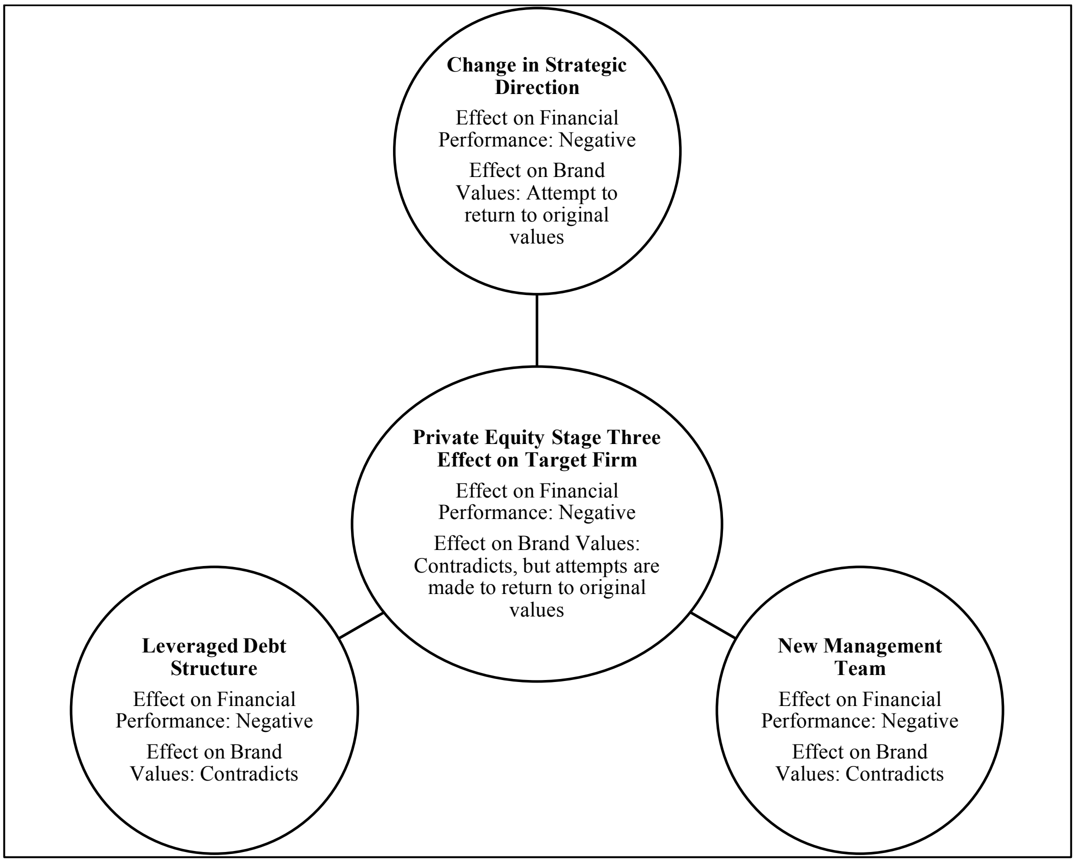

Figure 3: Private Equity Stage Three

Figure 3 details private equity stage three, which sees the firm pass into the ownership of a third private equity firm. The ability of this firm to generate value is inhibited by the actions of the previous private equity firm. While the financial performance of the target firm was rapidly boosted by the previous private equity firm, this was done at the expense of the firm's brand. Following private equity stage two, the management team exit the firm and are replaced by a **new management team** tasked with taking the firm to the next level of growth. This new management team causes further disruption within the firm. The new team realises that it has to address the brand of the firm and implement a **change in strategic direction** to restore the original values of the brand. However, due to the rapid increase in financial performance of the firm during private equity stage two, the firm's value increases significantly. As a result, a **leveraged finance deal** is used to acquire the firm. This deal places further pressure on the firm's financial performance and requires the management team to repay the debt associated with the deal. Their ability to increase profits is, however, hampered by the damage to the brand under the previous private equity owners. The following section will now discuss the implications the model has for understanding parenting theory.

1.8 THEORETICAL CONTRIBUTION

The Three-Stage model developed within this study is used to contribute to a deeper understanding of the effect private equity has on target firm's performance through identifying context-specific factors that affect performance. Existing research has suggested that broad factors such as financial, operational and governance engineering lead to success in private equity relationships (Jensen, 1989; Kaplan and Strömberg, 2008). This study finds that these factors are over-simplistic and can in fact have a negative effect on target firm performance. The Three-Stage Model also provides a novel and important insight into the effects that private equity firms have on the brands of the firms in which they invest. The Three-Stage Model has implications for the Heartland Matrix. Despite the value of the Heartland Matrix, it is a static tool that can be used to understand whether or not a parent is likely to create parenting advantage within a subsidiary it already owns or a new subsidiary. The Three-Stage Model provides further insight into what happens after a parent firm acquires a subsidiary. This model provides a managerial insight into the factors affecting private equity parenting relationships following investment. The Three-Stage model also has implications for understanding the value adding and value subtracting behaviours identified by Campbell et al (2014).

The study supports the work of Campbell et al (2014) through identifying similar value adding behaviours within the context of private equity parenting relationships. For example, the study finds private equity firms have a positive or negative impact on the performance of their target firms through implementing good people decisions/bad people decisions, and good strategies/misleading strategies. The study goes further through identifying that these value adding/value subtracting parenting behaviours are more likely to occur at different stages through the three stages of private equity ownership. Moreover, the study also identifies that in buy-to-sell parenting relationships, strategic lag can occur where the strategies of a previous parent manifest themselves under the ownership of the next private equity parenting, with either a positive or negative effect on target firm performance. Within the study, opportunistic parenting is also observed; this is the process whereby a private equity parent seeks to rapidly grow a target firm with little regard for the impact on the future performance of the firm. This approach is a major issue within buy-to-sell private equity parenting relationships, as the private equity firm is focused on increasing the value of the firm as quickly as possible during the period they own the firm.

The study also contributes to parenting theory through finding evidence that contradicts the value adding and value subtracting behaviours of Campbell et al (2014). For example, the study finds that in private equity parenting relationships, parent firms can actually have a negative influence on the brand of their target firms, whereas Campbell et al (2014) suggest that buy-to-keep parents have a positive impact on subsidiary brands. The study also identifies the different approaches the private equity firms have towards the brand of their target firms during the three stages of ownership. During private equity stage one they demonstrate a hands-off approach, where they leave the management of the brand to the founder, focusing instead on professionalising the business. During private equity stage two they disregard the brand, and instead focus on rapidly growing the firm. During private equity stage three, the private equity parent realises the brand's values have become damaged, and during this stage, they adopt a reactive approach and attempt to restore the values of the brand. Additionally, this study finds that financial engineering, in the form of leverage, has a negative influence on target firms, whereas Campbell et al (2014) describe financial engineering as a value adding parenting behaviour. This study therefore suggests that buy-to-sell parenting relationships are different to buy-to-keep parenting relationships in their approach to brands and financial engineering.

1.9 CONCLUSION

The thesis will now adopt the following structure in order to demonstrate the development of the grounded theory and the study's contribution to theory. First, a review of relevant literature will be presented, focusing on parenting theory, private equity and branding literature. Second, the context of this study will be given, and this chapter will focus on the private equity industry and detail how private equity works. This is important in understanding how private equity firms represent a unique approach to parenting, and also provides context to the factors affecting target firms under private equity ownership. Third, the methodology used in this study will be discussed. This is a significant chapter as it presents the rationale for adopting a grounded theory approach, as well as the data collection phases the researcher passed through in order to develop the grounded theory presented in this thesis. Fourth, the findings will be discussed; this chapter will present the data collected within the study, using verbatim quotations to support the development of the grounded theory. Fifth, the findings of the study will be discussed, and the grounded theory will be presented in the form of the Three-Stage Private Equity Model. The chapter will then outline the contributions the Three-Stage model has to parenting theory. The final chapter in the thesis is the conclusion, and it will summarise the study and discuss managerial implications and the limitations of the research.

CHAPTER 2: LITERATURE REVIEW

2. LITERATURE REVIEW

2.1 INTRODUCTION

The focus of this research is to investigate the factors affecting the performance of branded apparel retailers under private equity ownership. This study develops a grounded theory that can be used to contribute to a deeper understanding of parenting theory: the Three-Stage Model of Private Equity Ownership. This approach is in line with grounded theory, where researchers can develop grounded theories which can then be used to question or revise substantive theories (Glaser and Strauss, 1967; Locke, 2001). However, grounded theorists must be open to a range of potential theoretical areas throughout the research process, and should avoid carrying theoretical baggage into the field as doing so can lead the researcher to force data into pre-existing theoretical frameworks (Charmaz, 2008). To clarify the researcher's position on this important issue, a discussion of the approach adopted in this study is given before reviewing the literature, which starts by discussing parenting theory. The context of the study naturally connected the researcher with the extant literature surrounding private equity; this was an important literature area to help contextualise and develop the grounded theory. Additionally, for the researcher to understand the relationship between private equity firms and branded apparel retailers, the researcher sought to investigate the performance of the target firm. The researcher did this through analysing literature on firm performance measures as well as brand equity and value. The objectives of this chapter are therefore to:

1. Provide a rationale for the researcher's approach to literature within this study and how this relates to the practical and theoretical challenges of literature reviews in grounded theory studies.
2. Examine parenting theory and present a rationale for how the grounded theory developed in the study can be used to contribute to this theoretical area.
3. Provide contextualisation on how the extant literature has investigated the effects of private equity ownership. This contextualisation will aim to highlight the lack of qualitative research in this area, as well as the focus on the outcomes of private equity ownership rather than on the factors that lead to these outcomes.
4. Discuss the approach that this study uses to understand firm performance from both a financial as well as brand perspective, which is important in being able to understand the effect that private equity firms have on target firms.

The structure of this chapter is as follows. To achieve objective 1, the chapter will discuss the researcher's approach to prior literature and literature review positioning within the study. This study adopts a grounded theory approach, and throughout the iterative research process, a range of different literature areas was investigated. Within this section, a conceptualisation of the literature is presented. Using literature reviews in grounded theory can be both theoretically and practically challenging (Locke, 2001; Dunne, 2011, McGhee et al 2007). The researcher adopted a rationale to highlight these challenges and identify the strategies that are presented at the start of this chapter. The challenge centred on the iterative nature of grounded theory, whereby the researcher is expected to constantly reflect on a wide range of theories to help build their grounded theory. The second challenge is the positioning of the literature review within the literature. This positioning is important as it provides an introduction to the grounded theory approach, which is then discussed in more depth in the methodology chapter. The researcher's approach to prior literature will be discussed in Section 2.2.

To address objective 2, a review of parenting theory literature will be undertaken. Parenting theory is concerned with investigating how parent firms can create/destroy value within their subsidiaries (Goold and Campbell, 1991; Goold et al, 1994; Campbell et al, 1995; Goold et al, 1998; Campbell et al, 2014). This theoretical area will be discussed in Sections 2.3, 2.4 and 2.5 and is relevant to this study as private equity firms can be classed as parents of the target firms in which they invest (Goold et al, 1994; Barber & Goold, 2007; Campbell et al, 2014). To achieve objective 3, the chapter will review the literature to investigate the influence of private equity firms on target firms. This section will highlight the limited amount of qualitative research in this area. Within grounded theory, literature can be used to help develop theories towards the end of the grounded theory process (Locke, 2001). This literature area is contextually linked with the main study and helps provide an insight into existing works in this area; it will be discussed in Section 2.6. To fulfil objective 4, a short review of the literature concerning firm performance measures and brands is given, and will be covered in Sections 2.7 and 2.8. This section of the literature review draws on these theoretical areas to develop the grounded theory model. This literature is used to help conceptualise the model towards the end of the grounded theory process, and was reviewed as the researcher sought to understand not only how the private equity firm was influencing the target firm financially, but also the influence it had on the brand of the firm.

2.2 GROUNDED THEORY AND LITERATURE REVIEWS

Grounded theory was first 'discovered' in the work of Glaser and Strauss (1967). Grounded theory is an inductive rather than a deductive process. Grounded theory can be a valuable approach when seeking to investigate contexts that have not previously been investigated to develop new substantive theories (Glaser and Strauss, 1967; Strauss and Corbin, 1990; Locke, 1996). Literature reviews in grounded theory have been a subject of much debate (Dunne, 2011; McGhee et al, 2007; Bryant and Charmaz, 2007; Backman and Kyngas, 1999). In the original work of Glaser and Strauss (1967) they argue that individuals should enter the field without prior theoretical knowledge. This approach dictates that researchers should not engage with literature until the grounded theory process is nearly complete (Glaser, 1998). This doctrine centres upon the risk of prior theoretical knowledge contaminating the development of the grounded theory and the risk that the researcher attempts to fit the data they collect into an existing theoretical framework rather than reflecting what they have discovered. These preconceptions can undermine the development of the grounded theory (Glaser, 1998). However, this does not mean a total theoretical abstinence; more recent work suggests that the evolution of grounded theory can accommodate prior reviews of the literature. As Dunne (2011) suggests, it is not so much an issue of whether or not to engage with literature, but more an issue of when to use literature in the grounded theory process. For example, Locke (2001) suggests that researchers should engage with extant literature during the final stages of the grounded theory process. Moreover, engaging with the literature is important as it enables the researcher to clearly outline their contribution to theory (McGhee et al, 2007; Locke, 2001).

The idea of entering the field without prior theoretical knowledge is a challenging if not impossible practice, especially within PhD studies (Dunne, 2011; Cutcliffe, 2000). PhD candidates are likely to have passed through an undergraduate and masters level education, exposing them to a wide range of theoretical concepts. Furthermore, PhD students are often required to submit research proposals, as well as literature reviews, before and during the enrolment in the doctoral programme (Luckerhoff & Guillemette, 2011). Additionally, it is not clear how a researcher can understand the significance of what they find in the field without having an understanding of existing literature (McGee et al, 2007). These arguments suggest that being a theoretical blank canvas is challenging and unrealistic. Furthermore, there are multiple benefits of undertaking a literature review. The literature review enables the researcher to provide a clear rationale for the study, as well as helping contextualise the study. Moreover, literature reviews in grounded theory reveal how the phenomenon has been studied (May, 1994; Hutchinson, 1993; Urquhart, 2007; Denzin, 2002). Additionally, literature reviews can help reduce the risk of 'reinventing the wheel', in which the researcher fails to acknowledge something that already exists (Coffey and Atkinson, 1996). Initial literature reviews can also help to justify the need for the researcher to adopt a grounded theory approach (Antle May, 1986). Evidently, reviewing literature before commencing data collection can provide benefits for the research and the researcher. In the debate between grounded theorists, there is increasing support for a middle path between initial reviews of the literature and the traditional grounded theory process (Dunne, 2011). Glaser (1998) espouses the freedom that a grounded theory approach gives the researcher; as a result, grounded theory is likely to evolve over time (Strauss and Corbin, 1994). However, it is important to state that a prior conceptual framework developed from a literature review before collecting data would not be suited to the grounded theory process (McGhee et al, 2007). The framework developed from and embedded in the theory would be too restrictive during the grounded theory process, and theoretical forcing would occur.

To provide strategic advice on operating within the middle ground, Dunne (2011) suggests researchers should be reflexive in their practice. Dunne draws on the work of Robson (2002) in suggesting that researchers must have an awareness of their identity and practice and how this impacts upon their research. Within the context of grounded theory, Dunne suggests that the researcher must constantly be reflecting on their actions during the data collection process. Researchers should be aware of existing theory; however, in doing so, they should also attempt not to let this theory dictate the development of their grounded theory. Henwood and Pidgeon (2006) describe this reflexive approach as being theoretically agnostic, in that the researcher should acknowledge the existence of theory but possess the awareness that this theory should not shape their own grounded theory. Through adopting this approach, the researcher can acknowledge the influence of theory and their experience on their research (Charmaz, 2000). Dunne (2011) and McGhee et al (2007) provide their personal experiences of how they used literature reviews in their work while adhering to a grounded theory approach. To help foster reflexivity, the researcher used a research diary to record interpretations of the data as the study progressed, and this helped the researcher remain theoretically agnostic.

Dunne (2011) took the approach of undertaking an extensive review of the literature before entering the field, enabling him to identify gaps within the literature. Not only did this provide him with a clearer understanding of the extant field, but also enabled him to adhere to the PhD process. However, Dunne made the conscious decision not to create a theoretical framework from the literature he had reviewed, enabling him to adhere to the grounded theory approach and preventing him from viewing the data through a particular theoretical lens. Once Dunne started the data collection process, he adopted the constant comparative method whereby he sought out a range of different theories to help in data analysis. When it came to structuring the thesis, Dunne faced the dilemma of whether to adopt the traditional thesis structure where the literature review is followed by findings and discussion. Given the non-linear grounded theory process, the idea of placing the literature review between the findings was considered. However, Dunne believed this arrangement represented a risk if the examiners were not familiar with the grounded theory approach and it would make the work difficult to follow. This issue was a major and unexpected challenge (Dunne, 2011). The approach used in the final thesis was to adopt the traditional structure; however, Dunne argues that in keeping with grounded theory, the literature was used to contextualise the study rather than act as a traditional literature review. In their study of grounded theory research and the role of the literature review, McGhee et al (2007) describe how their studies adopted a grounded theory approach and also used an initial literature review. The benefits of doing so are that it provided justification for the study, met their institutional requirements and allowed them to discover the extent of previous knowledge in the field. They again champion the importance of researcher reflexivity within the process.

This section will now discuss this researcher's approach to literature within the study. This is important as Dunne (2011) suggests: "Whatever decision is taken, it is imperative that the researcher clearly articulate this issue from the outset and cogently outline and defend the preferred option to minimise the potential for misunderstanding between the author and the reader" (Dunne, 2011; p.121). Within this study, the researcher decided to conduct an initial literature review during the first year of the PhD process. This approach was driven by the need to obtain a deeper understanding of the existing research, as well as to identify potential gaps within it.

The initial literature review saw the researcher investigate a variety of literature areas. Initially, the researcher was interested in understanding the growth of branded apparel retailers. The research was at first driven by the broad research question of how these firms had achieved their success and what management lessons could be learnt. This initial broad research question was not driven by theory, but rather by a practical phenomenon the researcher had observed. The initial literature review delved into theoretical areas that might be able to explain this phenomenon. The researcher remained reflexive throughout this process and developed an agnostic approach to theory (Henwood and Pidgeon, 2006), in keeping with a grounded theory tradition. This approach required an awareness of various theoretical ideas, but not an attempt to develop a theoretical framework or a theoretically-driven research question before entering the field.

Once in the field, the researcher completed an exploratory case study from data collected from Knowles. From this case study, the theme of private equity emerged and led the researcher to explore this area further (more detailed overview of this will be discussed in the methodology chapter). Throughout the remaining grounded theory process, the researcher adopted a constant comparison approach, further developing the literature review and exploring a wider range of theoretical areas. This process meant that some research areas became less relevant while others increased in importance. During this process, the researcher was careful to let the theory emerge from the data, rather than forcing the data into existing theoretical perspectives. The result was the development of a grounded theory model that presents factors that affect the performance of branded apparel retailers under three different stages of private equity ownership: the Three-Stage Model of Private Equity Ownership. Towards the final stages of the grounded theory process, the researcher became aware that three key literature areas had linkages with the Three-Stage Model; these are parenting theory, private equity and branding.

Parenting theory is where this study makes its main contribution. Private equity and branding literature are used to help contextualise the study and develop aspects of the grounded theory. The researcher made the decision to focus on these three literature areas to avoid what Dunne (2011) describes as "excessively long chapters peppered with tangential explanations of diverse theories, and again detract from the flow and thrust of the study" (p.120). Additionally, the researcher chose to adopt the thesis format, where a literature review precedes findings and discussion chapters, to avoid detracting from the flow and thrust of the study. This presentation is in line with Locke (2001) who argues that grounded theorists must be pragmatic in their manuscript/thesis presentation and structure. However, within this study, the researcher has adopted an approach to writing the literature review following the development of the grounded theory in line with the work of Glaser and Strauss (1967). Although the researcher was exposed to and aware of a range of literature areas throughout the research process after the grounded theory was developed, the researcher fully understood that the grounded theory had the potential to contribute to parenting theory.

Therefore, in this study, the literature will be discussed in light of the development of the grounded theory and will help to highlight gaps in the literature. A major challenge the researcher had to consider when presenting the thesis, was that developing research questions from a literature review felt like retrofitting the study. Instead, reviewing the literature through the lens of the developed grounded theory reflects the grounded research process the researcher went through. However, in taking this approach, it can also be challenging to prevent the literature review becoming a discussion chapter, where the researcher in light of the grounded theory (Three-Stage Model) details how their grounded theory contributes to substantive theory. To avoid this risk, the researcher presents an overview of the key literature areas and highlights gaps within the literature that the Three-Stage Model contributes to, as well as the areas within the literature that help conceptualise the model. One research question is given within this chapter, to help highlight the main contribution the study makes to parenting theory.

Following the literature review chapter, the rest of the study will then focus on how the grounded theory model was developed from the data collection process. The model will then be presented in the findings chapter and discussion. Within the discussion, the literature examined in this chapter will be compared to the grounded theory developed, and the theoretical contributions of the study will be explained in more detail. This approach is in keeping with the grounded theory tradition, as this study develops a grounded theory model that is then used to develop substantive theory.

2.3 PARENTING THEORY

This section will provide an overview of the parenting theory literature and will begin with the origins of the work, moving then to discuss the Heartland Matrix as well as the more recent value adding and value subtracting mechanism identified by Campbell et al

(2014). Parenting theory was first introduced in the work of Goold and Campbell (1991). Their brief case notes discussed the issues surrounding how a business can know whether or not it can create value for a subsidiary. This issue was coined as parenting advantage and is described by Campbell et al (1995) as the process by which "parent companies create more value than any of their rivals would if they owned the same business" (p.121). The concept is born out of the success of highly diversified parent firms, which possess a range of subsidiary businesses across different sectors. Parenting advantage as a concept is relevant to a range of different types of firms (Goold et al, 1994). While it is relevant to large corporations which hold multiple firms within a portfolio, it is also useful for firms which operate with multiple sub-business units. For example, Campbell et al (2014) include Apple as an example of a firm that can use parenting theory when managing its sub-units. However, they suggest that parenting theory cannot be applied to investment funds because fund managers have limited influence over the firms they invest in, and therefore parenting theory does not apply to their particular context. Importantly, Campbell et al (2014) describe private equity firms as parent firms, and they use the example of private equity firm KKR which exerts significant strategic influence over the firms it invests in. Within this study, parenting theory is even more prominent, as middle market private equity firms are increasingly more hands-on with the firms in which they invest (Gilligan and Wright, 2010). Although, in some cases, private equity firms make minority stake investments into target firms, it is evident that even in minority deals private equity firms adopt a parenting role due to the influence they have on a firm's strategy. This dynamic represents a shift in the private equity industry between 1994 when Goold et al published their first insights into parenting theory and the present day.

Goold and Campbell (1991) critique Porter's Value Chain, suggesting that it is not enough to predict the success of a parent/subsidiary relationship. They suggest that if a parent firm possesses skills and assets that can create more value than other potential parents, this is parenting advantage. Sadtler (1993) develops the conversation around parenting theory. He presents anecdotal evidence of hotel group Marriott and its success as a parent firm, as well as the failures of major tobacco firms to diversify. Sadtler (1993) presents three broad strategies that firms can adopt to create parenting advantage: proceed slowly and do not rush the process, only engage in new businesses that offer foolproof opportunities, and avoid diversification. These early introductions into parenting theory present the theory in its embryonic stage, highlighting the relevance of the issue within the wider business environment during the 1990s.

Goold et al (1994) identify four approaches to value creation in parenting relationships. These are stand-alone, linkage influence, functional and service influence, and corporate development activities.

- Stand-alone parenting relationships are where parent firms operate their subsidiaries as stand-alone businesses. This relationship involves the parent firm making large-scale capital investment decisions and monitoring the performance of the subsidiaries but avoids day-to-day involvement. This approach links to the concept of a hands-off corporate parent (Goold and Campbell, 2002).

- Linkage influence is where the parent firm seeks to develop linkages between their subsidiaries and is later referred to as horizontal added value (Campbell et al, 2014). For example, the parent firm may relocate senior managers across a portfolio of subsidiary firms to transfer knowledge and expertise.

- Central and functional service linkages are when parent firms provide administrative assistance to their subsidiaries; for example, the parent may provide payroll services to the subsidiary firms.

- Corporate development parent-subsidiary relationships occur when a parent engages in the buying and selling of subsidiaries within its portfolio. This approach is said to have the potential to both create and destroy value for the subsidiary. Private equity firms can loosely fall into this category; however, their unique buy-to-sell approach means that they are fundamentally different (Barber and Goold, 2007).

Parenting theory was formalised in the Goold et al's (1994) book titled ‘Corporate-Level Strategy' and in a Harvard Business Review article by Campbell et al (1995). These works built on existing work and provided a practical ‘toolkit' of strategic processes that a firm can go through to assess whether it can create parenting advantage. Goold et al (1998) continued to develop the theoretical foundations of parenting theory and discussed the concepts of value creation and value destruction in parenting relationships.

Value destruction relates to when corporate parents destroy some value within the firm in which they invest. Goold et al (1998) suggest this value destruction comes from the senior management within the parent firm, as they divide their time between portfolio firms and making career-enhancing decisions. As a result, the paper suggests that parent firms should have limited intervention in the firms they invest in rather than attempting to change things too quickly. They surmise that all parents possess the propensity to destroy value; managers in parent firms should be aware of this implication and avoid value-destroying activities. Value creation, on the other hand, occurs when the parent firm identifies and implements strategies that can increase value, and applies the skills and resources to do this. More recently, Campbell et al (2014) proposed a set of value-adding and value-subtracting behaviours that parent firms can engage in; these will be covered in more detail later in this section and their relevance to this study will be discussed.

Parenting theory is in its infancy, despite spanning a period of over fifteen years (Nell and Ambos, 2013). There are few studies that have investigated this topic in depth. Moore and Birtwistle (2005) apply parenting theory within the context of luxury fashion brand Gucci. In this case, parenting advantage is created through the transfer of intra-group synergies, particularly brand management skills and knowledge transfer. This study identifies the mechanisms through which Gucci Group creates value for its subsidiary brands. The study finds that all four parenting advantage, value-creating relationships exist including corporate development activities. However, Gucci is yet to sell a subsidiary brand. Therefore, Gucci, although representative of the four forms of parenting relationships that create value, did not fully explore the concept of corporate development activities as the group has only bought brands. Barber and Goold (2007) discuss how private equity firms buy-to-sell rather than buy-to-keep, indicating that the nature of private equity relationships is different to other types of parenting relationships. Private equity does receive occasional reference within the work of Goold et al (1994) and Campbell et al (2014); however, research into private equity firms as parents has not been fully investigated. The grounded theory developed within this study can provide insight into private equity parenting relationships. The next section will discuss studies that have investigated parenting theory.

Kruehler et al (2012) present a holistic framework for assessing corporate parenting strategies. This framework incorporates the concept of value destruction. The study lists insufficient expertise and skills, managerial entrenchment, empire-building, risk aversion, lack of performance measures, and lack of motivation as value-destroying activities that parents can engage in. This study relates to corporations which buy-to-keep rather than buy-to-sell and does not consider value destruction within the context of buy-to-sell parenting relationships. The grounded theory developed in this study provides an insight into buy-to-sell parenting relationships. Existing research does not consider that value could be created on its own for either the subsidiary or parent. This issue of value creation for both the parent and subsidiary is discussed in the work of Nell and Ambos (2013); they investigate parenting theory in multinational corporations, and the role the headquarters plays in adding value. Their study focuses on subsidiary performance effects, rather than benefits at a corporate parent level. The grounded theory developed in this study provides a deeper understanding of the impact that private equity parenting relationships have on both the parent and subsidiary through providing the insight that parent firms can create value at the expense of their subsidiaries. The next section will now discuss the Heartland Matrix.

2.4 THE HEARTLAND MATRIX

The Heartland Matrix was originally referred to as the Ashridge Portfolio Display Matrix and was first developed in the work of Goold et al (1994) and was updated in the work of Campbell et al (2014) (Figure 4). The Heartland Matrix is a strategic tool that managers of parenting firms can use to understand their potential to add or subtract value from a subsidiary. The Heartland Matrix is underpinned by the value added logic. Campbell et al (2014) describe value as a ‘squishy' concept, in that value can be defined as whatever the management of a firm decides; usually, management adopts a financial perspective on value, in the form of net present value (NPV), profitability or market capitalisation. Net present value is defined as the future net cash generated by a firm discounted against today’s value. NPV can be used by managers to determine whether or not to acquire a firm. or sell a firm within their portfolio. NPV in this case is used as a financial measure to help guide decision making. However, to determine the extent to which NPV is positive or negative, parent firms can add and subtract value for their subsidiaries. It is suggested that a parent firm can add value in two ways; vertical and horizontal added value. Vertical value refers to the value a parent can add to a subsidiary, while horizontal added value refers to the value a sister firm within the parent’s portfolio can add value to the subsidiary. The Heartland Matrix is built on this logic.

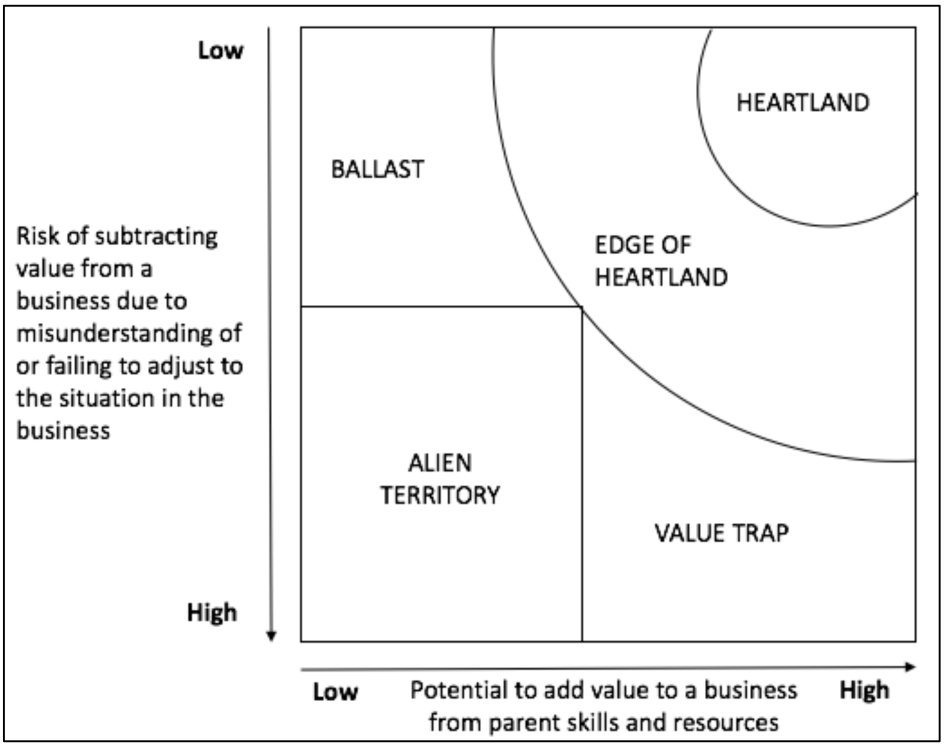

Figure 4: The Heartland Matrix

The Heartland Matrix can be used to determine the potential to add value versus the risk of subtracting value. Based upon these two axes, a position on the matrix can be determined that falls into one of the five categories: heartland, edge of heartland, ballast, value trap, and alien territory. Campbell et al (2014) suggest that managers use the percentage impact on NPV, or profitability or market capitalisation to determine the value added/risk. Therefore, if a parent calculates that it will have a positive influence on one of these factors (NPV, profitability, market capitalisation), it will convert this into a positive percentage. This positive percentage will equate to high potential to add value and low risk of subtracting value. On the other hand, if the parent is likely to have a negative impact on these factors (NPV, profitability, market capitalisation) the percentage will equate to low opportunity to add value and a high risk of subtracting value. If a firm has the potential to add value to a subsidiary, this is described as parenting advantage.

The prescription of the use of NPV, profitability or market capitalisation as a means of plotting a firm's position is somewhat undermined with further reading of the work. The authors admit that conceptually the matrix is useful, but practically it may be less so due to the challenge of actually applying the model. Campbell et al (2014) suggest two primary uses for the matrix. The first use of the matrix is as a tool for managers to assess their portfolio of firms. However, they argue that there is no precise judgment for doing this, and the positioning of firms is based purely on well-informed subjective managerial judgement rather than any particular metric. This subjective approach is in line with the original Ashridge Portfolio Display Matrix which suggests managers should interpret the level of fit between the parent and subsidiary versus the level of misfit (Goold et al, 1994). The second use of the Heartland Matrix is as a tool for plotting potential acquisitions. Managers can use the framework to anticipate the potential to add value and the risk of subtracting value from a potential subsidiary firm. However, in reality, this is challenging to do, as the potential to add value to a subsidiary cannot be fully understood before purchase, making NPV, profitability and market capitalisation difficult to use as metrics. Moreover, the risk of subtracting value is even harder to ascertain as Campbell et al (2014) suggest: "This is because managers cannot know what they do not know, and it is usually what they do not know that is the main cause of subtracted value" (p.111). This again highlights the subjectivity underpinning the matrix. Additionally, the Heartland Matrix model is static, in that it can only be used as a predictive tool. The Matrix does not give the management team guidance on what to do after they have acquired the subsidiary other than potentially tracking the firm periodically on the Heartland Matrix.

Within the context of this study, the practical uses of the model, as described by Campbell et al (2014), present some issues. Private equity firms make time-scaled investments; this means that funds used to acquire companies open and close within predetermined timescales. Therefore, firms are acquired with the clear intention of selling before the fund closes. As a result, the Heartland Matrix provides limited utility to private equity firms, as they have the clear intention of selling the firm at the end of the fund cycle and do not require analysis on whether or not to hold the firm. Private equity is different to the portfolio approach, where firms are bought and then held perpetually. The distinction between the portfolio approach and private equity is discussed in the work of Barber and Goold (2007) who argue that the buy-to-sell strategy of private equity firms means that they can achieve a competitive advantage over corporations that buy-to-own, for a number of reasons. Firstly, private equity firms can give the businesses they invest in their full managerial attention during the investment period. A firm within a buy-to-own portfolio may not be under the same level of scrutiny. Secondly, buy-to-sell firms do not embark on resource intensive projects to develop synergies between firms that will lead to the sharing of costs, capabilities or customers. Instead, private equity firms seek to improve operational efficiencies to maximise profits in the firms in which they invest. Thirdly, buy-to-sell private equity firms accumulate experience of operating a range of firms very quickly. With the closure and opening of multiple funds, a large private equity firm could acquire and sell hundreds of businesses within its various funds' lifecycle. In contrast, a buy-to-keep parent may only hold a small number of firms, resulting in a slower acquisition of experience. Evidently, private equity is a unique form of parenting relationship, which requires further investigation. The following section will detail the five positions on the matrix:

Heartland Business: a heartland business is one where the parent firm has a low risk of subtracting value and has high potential to add value; this demonstrates a strong fit between the parent and subsidiary. Campbell et al (2014) suggest that a parent can increase profits by between 50-100%. An example of a heartland business is the luxury brand group LVMH, which owns luxury brands in wines and spirits, fashion, cosmetics and jewellery. A heartland business for LVMH would be a high-end luxury brand.

Alien Territory: an alien territory business is one where the parent has a high risk of subtracting value and a low potential to add value. An alien territory business represents no apparent fit between the parent and subsidiary. Acquiring an alien territory business may represent a diversification strategy. Campbell et al (2014) cite that during the 1960s and 1980s, large corporates bought up firms within a diverse range of industries; ultimately this led to little value being added to the subsidiaries and lots of value being subtracted.

- Ballast: a ballast firm is a firm where the potential to add value is low, and the risk of subtracting value is low. From the perspective of a firm assessing its portfolio of firms within the Heartland Matrix, a ballast firm is likely to be efficiently run and have strong synergies with the parent firm. Ballast firms do not create large amounts of value for the parent, but they consistently generate returns and therefore should be kept within the portfolio (Goold et al, 1994). From the perspective of a parent firm looking to use the Heartland Matrix to acquire a subsidiary, a ballast business would represent a low-risk investment, although it is unlikely that the parenting relationship will create large amounts of value.

- Value Trap: a value trap is a firm where there is high potential to add value, but also a high risk of subtracting value. Using the Heartland Matrix as a tool to assess a portfolio, value trap businesses can be seen as high-risk ventures. Campbell et al (2014) suggest that although there is high potential to add value, managers are more likely to subtract value resulting in a net negative impact. While a value trap business represents a high-risk investment, if a potential parent is aware of the risks of subtracting value, it can develop strategies to minimise this risk. With reduced risk of subtracting value, the firm would be a heartland business. Again this highlights the static nature of the model, and that its main role is as a diagnostic rather than prescriptive tool.

- Edge-of-heartland: an edge-of-heartland firm is described as an unknown quantity. While there is some potential to add value and some risk of subtracting value, neither can be fully known or anticipated. This category is the most ambiguous, as within this area of the matrix, subsidiaries have the potential to become a heartland firm, while also running the risk of becoming alien or ballast firms. This is the most dynamic aspect of the model as it suggests that there is the potential for a subsidiary to move between categories within the model based upon the strategies implemented by the parent firm.

In order to develop the Heartland Matrix further, Campbell et al (2014) suggest some value adding and value subtracting behaviours. Value adding activities can be divided into two categories: vertical added value and horizontal added value. Vertical added value comes from the strategic changes parent firms bring about directly within the subsidiary. Horizontal added value is the process whereby value is created within a subsidiary through developing synergies with other firms within the portfolio. For example, sister firms within a portfolio could share best practice, or collaborate to increase purchasing power. In some cases, vertical and horizontal added value are likely to overlap, as collaborative initiatives can come from the parent firm and the subsidiaries are then left to implement them. Within this study, horizontal added value is less relevant because private equity firms rarely seek to develop synergies between the firms they invest in due to the buy-to-sell mindset they adopt (Barber and Goold, 2007). However, this is not always the case. For example, private equity firm Blackstone uses a Portfolio Operations Group to purchase products and services for the whole portfolio (Kelly, 2012). This structure means it can buy products and services in bulk across the firms in its funds, such as office equipment or delivery services. Parent firms can also subtract value. Value subtracting activities are not divided into vertical or horizontal. Within this study, the focus will remain on vertical added value and subtracted value. Campbell et al (2014) identify ten sources of direct or vertical value that parent firms can implement within their subsidiaries to create value for them.

- People Decisions - the recruitment of new managers to replace underperforming managers. Parent firms can only add value if the managers they recruit are more capable than the previous managers.

- Strategies - the process whereby parent firms can implement strategies that add value within subsidiaries. Campbell et al (2014) provide some anecdotal insights into parent firms which have implemented strategies within their subsidiaries. These include Emerson Electric where CEO Chuck Knight would run strategy conferences at which business units could develop a strategy using his and the senior team’s insights. The term 'strategies' is a somewhat catch-all category and has the potential to cover a range of strategic actions a parent firm could implement, ranging from financial strategy to HR strategy. Within the context of this study, strategies are an important aspect to consider. Kaplan and Strömberg (2008) identify that private equity firms implement three practices to increase the value of their investments. These are described as forms of engineering; operational, financial, managerial. These factors will be discussed in more detail later in this chapter. Operational engineering relates to ‘strategies' as a value adding activity. This is because private equity firms are said to implement strategic changes within the firms they invest in so as to increase the valuation of the firms at exit. These strategies can include implementing more efficient management systems and attempting to reduce costs within the target firm. Evidently, the strategies/operational engineering will have further relevance to this study.

- Targets - parent firms can add value to their subsidiaries through setting targets. Parent firms are said to be able to take a strategic view on the direction of the subsidiary and set targets that enable the strategic aims to be realised. Furthermore, targets can add value, as incumbent management teams may not have been as pressured to drive growth. Parents can, therefore, use targets to motivate staff, and this links to the next source of added value.

- Performance Management - the process whereby the parent firm can incentivise managers within subsidiary firms to add value. The value is added through appropriately incentivising managers to realise targets that lead to improvements in performance within the subsidiary. In the context of this study, performance management is important as it has strong associations with the private equity sector. Kaplan and Strömberg (2008) label the performance management practices that private equity firms adopt as governance engineering or the process of incentivising senior managers within target firms. This process can include incentivising the senior management with share options, as well as large bonuses if performance targets are met. Performance management is said to increase the focus of senior managers within private equity investments, allowing the aims of senior management to be in line with those of the private equity firm (Jensen, 1989).

- Policies and Standards - the process through which a parent firm implements management systems or controls within the subsidiary to increase efficiency and reduce costs. One example might be the implementation of budgets within the subsidiary to tighten financial controls. Campbell et al (2014) give the example of the Hanson Trust, where Lord Hanson the founder and Managing Director would require any capital expenditure in excess of £1,000 by managers within subsidiaries to require his personal sign-off. The aim was to reduce capital expenditure and also make subsidiary managers scrutinise their expenditure decisions.

- Relationships - the value adding activity whereby the parent firm can draw upon its relationships to bring benefits to their subsidiary. This can include situations where a parent firm has strong relationships with an international market and allows the subsidiary to utilise these relationships to enter the market. Parent firms can add value to their subsidiaries through successfully utilising these contacts.

- Technology or Products - parent firms can create value in subsidiaries through providing access to technology as well as to products. For example, parent firms may possess patents for particular technologies that can be shared with the subsidiary, leading to an improvement in the subsidiary's performance. Additionally, parent firms can also centralise research and development projects and then share the findings across their subsidiaries. Doing so helps to reduce the risk of duplication and also disperses new technologies throughout the subsidiary firms.

- Expertise - the process of transferring knowledge and best practice from the parent to the subsidiary to add value. For example, a parent firm may possess expertise in lean manufacturing that can be transferred to the subsidiary. Another example is when a parent firm possesses strong financial expertise, and this can help improve the financial performance of the subsidiary through implementing a more efficient taxation strategy or improving accounting practices.

- Brand - Campbell et al (2014) suggest that parent firms can add value to subsidiaries through brand-based strategies, which fall into two categories. Firstly, parents can add value to the subsidiary through transferring the parent's brand to the subsidiary. An example of this would be the Virgin Group which transfers its brand to the subsidiaries it acquires, such as Virgin Trains and Virgin Airways. The strength of the Virgin brand helps create value for the subsidiary.

Secondly, brand-based activities can add value to the subsidiary through the transfer of brand management skills from the parent to the subsidiary. Large, fast-moving consumer goods firms such as Proctor and Gamble and Unilever can transfer their brand management capabilities and expertise to their subsidiary brands to enable the subsidiaries to manage their own brands better and to help create value.

Campbell et al (2014) enter nine value subtracting activities that parent firms can engage in, developed from their work with corporate groups over the last 30 years and also informed by research into subtracting value undertaken by the Boston Consulting Group.

- Misleading Strategic Advice - parent firms can subtract value from subsidiaries through providing strategic advice that subtracts value, which can occur when the parent firm is investing into a subsidiary that operates within a new industry. The parent may implement strategies that have worked in other industries but may not suit the new industry.

- Inappropriate Performance Targets - refers to the situation where parent firms set performance targets and incentives that have a negative influence on the performance of the subsidiary. For example, a parent might set aggressive growth targets for the subsidiary's management team. These growth targets could cause conflict between the management team in the subsidiary and with the parent firm, resulting in a decrease in a firm's performance. Alternatively, targets can also be inappropriate for the subsidiary, as a result of the parent firm not having a strong understanding of the sector within which the subsidiary operates. The management team will then be distracted from relevant targets to focus on the corporate parent's targets, leading to a negative impact on performance.

- Inappropriate Capital Constraints - the process where the parent firm withholds or limits the amount of capital distributed to a subsidiary or restricts the subsidiary's expenditure. A parent firm withholding investment into a subsidiary can prevent the subsidiary from making investments and cause it to slip behind competitors. Alternatively, capital constraints can be controlled through bureaucratic decision-making processes, but these lengthy processes can decrease the subsidiary's ability to make quick decisions and react to changes in the market.

- Inappropriate Policies and Constraints - when a parent firm implements policies within its subsidiaries that have a negative impact on the performance of the subsidiary. This can include poor remuneration policies implemented by the parent firm within the subsidiary that prevent the subsidiary attracting the best management talent within the industry. Alternatively, the parent firm could implement management systems that place administrative burdens on the subsidiary. Adhering to these systems requires management time and distracts the management team from more important issues, leading to a negative influence on the subsidiary.

- Poor Quality People Decisions - circumstances where the parent firm makes poor people decisions, including the failure to remove poorly performing managers or appointing managers who are a poor fit with the target firm.

- Misguided Synergy Projects - where parent firms look to create synergies between firms within their portfolios. This can subtract value, as it can require large amounts of resource to develop synergy projects because managers within subsidiaries are often forced to work with one another distracting them from more pressing issues affecting their business. This issue is less apparent in private equity as the buy-to-sell approach means private equity firms are less likely to develop synergies between the firms within their funds (Barber and Goold, 2007).

- Inefficient Central Services - when the parent firm's central operations are not efficient in dealing with the needs of subsidiaries. This can occur when the central services are slow and do not have a strong fit with the needs of the subsidiary. Additionally, central services can also be separate from the subsidiary, which can reduce communication and the ability of the parent and subsidiary to work together effectively.

- Delays and Timewasting - parent firms can slow down the decision-making processes and lead to time wasting through taking up managerial time. This can lead to delays in the decision-making processes and cause opportunities to be missed.

2.5 PARENTING THEORY: THE GAP

Despite the merits of the value adding and value subtracting activities identified by Campbell et al (2014), there are also some limitations. Firstly, the factors identified apply more to firms that are bought to keep rather than bought to sell. Linking back to the original work on parenting theory Goold et al (1994) describe the different forms of parenting relationship; stand-alone, linkage influence, central and functional service, and corporate development activities. Based on the different form of parenting relationship, the value adding and value subtracting mechanisms become more or less relevant. For example, a linkage relationship is likely to be more susceptible to the effects of inefficient central services or delays and time-wasting. A stand-alone parenting relationship is less likely to be affected by the same value subtracting activities, as the parent operates the subsidiaries as independent businesses. It is also evident that private equity represents a unique form of firm ownership (Kaplan and Strömberg, 2008; Kelly, 2012; Jensen, 1989; Amess and Wright, 2007; Barber and Goold, 2007). Through the research process, it became increasingly apparent that the researcher's grounded theory had important implications for understanding parenting theory because research into how private equity firms operate as parents was under-explored within the parenting theory literature. The grounded theory evidently has implications for parenting theory, in particular comparing the value adding and value subtracting parenting behaviours identified by Campbell et al (2014) with the grounded theory developed in this study.

The value adding and value subtracting mechanisms identified by Campbell et al (2014) can be presented in pairs in which the parenting behaviours can result in positive and negative effects on the subsidiary (Table 1). For example, a parent firm can make good or poor quality people decisions. However, some parenting behaviours are presented as having only the potential to add value. For example, the parent firm implementing their brand within the subsidiary or providing brand management is seen to only have a positive effect on the performance of the subsidiary. Once the grounded theory was developed in this study, the researcher was able to determine which of Campbell et al's (2014) factors were relevant within this study. Based on this analysis, there is a focus on the following factors: people decisions/poor people decisions, strategies/misleading strategic guidance, relationships, brand and financial engineering. These factors have been highlighted in Table 1. The following section will provide a rationale for focusing on these factors.

People decisions/poor people decisions was selected as a mechanism to investigate due to private equity firms commonly bringing in new managers into the investments they make, or they may position themselves on the boards of the firm (Gilligan and Wright, 2010; Kaplan and Schoar, 2005). It is therefore important to understand within a private equity context the effect this has on target firm performance.

Strategies/misleading strategic advice was selected as a mechanism to investigate as private equity firms are hands-on with the investments they make (Kelly, 2012; Gilligan and Wright, 2010; Kaplan and Strömberg, 2008). This can be described as operational engineering, where the private equity firm seeks to make changes within the target firm in order to improve performance. This value adding/value subtracting factor is clearly important to consider within the context of private equity investment.

Relationships was selected due to the private equity firms being highly networked as a result of the number of deals they complete and the number of professionals working within an industry with which they interact. Barber and Goold (2007) suggest that private equity firms accumulate experience of adding value to the firms they invest through the large number of deals they make compared to corporations who buy firms and keep them in their portfolio. This rapid accumulation of experience also suggests that they accumulate many contacts within the industries in which they invest, making relationships an important value adding factor that private equity firms may bring to the investments they make.

Brand was selected due to the investment context the study investigates, focusing on private equity investments into branded apparel retailers. For these firms, the brand is a key intangible asset. Campbell et al (2014) suggest two ways parents can add value in relation to brand, through transferring their brand to the subsidiary or through brand management capabilities. Within this study's context, the private equity firm is unlikely to transfer its brand to the subsidiary, because firstly it intends to sell the target firm and secondly the private brand would simply not be applicable for a branded apparel retailer. It is, therefore, interesting to consider this factor within this study to gain a deeper insight into whether or not the two brand-based behaviours identified by Campbell et al (2014) apply to the private equity context.

Financial engineering was selected as this practice is synonymous with the private equity sector. Financial engineering is the process of using debt to buy a firm. Financial engineering in the form of leverage is important to enable private equity firms to make large returns on their investment, but is also a controversial practice as it burdens the target firm with debt (Jensen, 1989; Kaplan and Strömberg, 1998; Gilligan and Wright, 2010). Evidently, it can also have negative implications for the performance of the subsidiary. This issue will be investigated further in this study.

Table 1: Value Adding and Value Subtracting Parenting Activities (Developed from Campbell et al, 2014)

Value Adding Parenting Activities	**Value Subtracting Parenting Activities**
People Decisions	***Poor Quality People Decisions***
Strategies	***Misleading Strategic Guidance***
Targets	Inappropriate Performance Targets
Policies and Standards	Inappropriate Policies and Constraints
Performance Management	
Relationships	
Technology and Products	
Expertise	
Brand	
Financial Engineering	
	Inappropriate Capital Constraints
	Misguided Synergy Projects
	Inefficient Central Services
	Delays and Timewasting

Following the development of the grounded theory, the researcher became aware that the model had clear implications for the development of Campbell et al's (2014) value adding and value subtracting mechanisms. The researcher was able to use the grounded theory developed within this study to develop a deeper understanding of parenting theory. This understanding led to the development of the following research question that emerged towards the end of the research process:

- How do the value-adding and value-subtracting mechanisms identified by Campbell et al (2014) compare to factors affecting branded apparel retailers under private equity ownership?

This approach to using grounded theories to question/develop substantive theories is in line with the grounded theory methodology (Locke, 2001). Additionally, the grounded theory process allowed the researcher to develop a more dynamic understanding of parenting theory. Previously the Heartland Matrix has been diagnostic rather than prescriptive. The grounded theory developed in this study allows managers an insight into parenting relationships as they progress over time and represents a more dynamic approach to understanding parenting relationships. This will be discussed in more detail in the discussion chapter. The next section will discuss private equity literature and the role this had in contextualising the grounded theory.

The following section will provide an overview of existing research into private equity and will help realise objective 3. This section aims to provide contextualisation on how the extant literature has investigated the effects of private equity ownership, highlighting the limited amount of qualitative research in this area and the value that qualitative approaches can add to the literature. The research into the influence that private equity firms have on the firms they invest in has stemmed from a finance tradition, and has been viewed through an agency theory perspective (Jensen and Meckling, 1976; Jensen, 1989; Bacon et al, 2009). During the wave of public-to-private leveraged buyouts towards the end of the 1980s, academics proposed that private equity ownership represented a superior corporate form/structure. It is argued that this is because private equity firms are said to reduce the agent/principle problem (Jensen, 1989; Jensen, 2002). Principles are the shareholders of a firm, while agents are the managers of a firm. The principle agent problem occurs when a firm's managers manage based on their personal objectives, such as career progression, rather than try to create financial value for the shareholders. Private equity was said to address the agent/principal problem, as in a public corporation, managers (agents) are under-incentivised and answer to a wide range of stakeholders (principals). Jensen (1989) argued that private equity was a superior organisational form, as it centralised stockholders into a single entity (the private equity firm), and incentivised the managers with large bonuses or equity stakes in the firm. Furthermore, the use of leveraged finance in deals placed tighter financial discipline on the firm, meaning that managers were unable to pursue frivolous projects or withhold retained earnings that could otherwise be invested or used to service debt. This superior corporate form was said to align the goals of the principals and agents of the firm, resulting in the maximisation of the firm's performance. However, in the late 1980s, the private equity bubble burst, resulting in the default and bankruptcy of high profile private equity-backed firms, raising questions over Jensen's claim that private equity represented a superior corporate form/structure which could reduce the agent/principal problem (Kaplan and Strömberg, 2008).

2.6 PRIVATE EQUITY LITERATURE

Private equity research has investigated a range of performance measures in relation to private equity ownership. The underlying question within the finance literature is centred upon discovering whether private equity ownership has a positive or negative effect on a firm’s performance. Performance has been assessed using traditional metrics, such as financial performance, as well as novel measures such as employment levels (Kaplan, 1989; Davis et al, 2008; Amess and Wright, 2007; Burt and Limmack, 2001). The majority of research into private equity has focused on the activity of deals that have seen firms taken from being publicly listed to private ownership, or on management buyout deals. These deals can be for sums in excess of £100 million and are usually in the billions. Private equity firms operating in this area of the market are well known and include Bain Capital, Carlyle Group and KKR. These firms typically take publicly listed firms into private ownership. These deals contribute a significant percentage of the total capital invested by private equity globally; however, as a percentage of the total volume of deals, these firms account for far less. In reality, deals take a number of different forms, leading to heterogeneity between deal types and private equity firms (Munari et al, 2007; Mueleman et al, 2009; Ryan and Schneider, 2003; Clarke and Bawden, 2011). The following section will provide a brief overview of private equity research, focusing primarily on literature that seeks to understand the influence that private equity firms have on a firm’s performance.

Kaplan and Strömberg (2008) suggest that private equity firms apply three changes to firms they invest in: financial engineering, governance engineering and operational engineering. Financial engineering refers to the leverage used to construct private equity deals. Leverage places debt within the target firm, requiring it to service this debt and develop financial discipline (Jensen, 1989). Governance engineering refers to the incentives given to a target firm's senior management, and this can be achieved through requiring management to invest their private capital into the firm. This stake is illiquid and can only be sold when the private equity firm exits the deal. The stake either increases or decreases in value depending on performance (Kaplan, 1989). Operational engineering refers to when private equity firms provide strategic capabilities that improve the operational performance of the firm and increase the firm's value. Kaplan and Strömberg (2008) suggest this form of engineering has grown since the cheaply available debt of the 1980s private equity bubble. They cite the appointment of former GE chief executive Jack Welch as an advisor to Clayton Dubilier and Rice as an example of the rise of operational engineering. The emergence of operational engineering is particularly important to this study, and has been labelled by Kelly (2012) as the 'Rise of the Ops'. Operational engineering is important as, within the middle market, private equity firms are less able to use financial engineering due to a number of factors, which will be discussed in more detail in the industry context and definition chapter. This means that middle market private equity firms have to become more involved with the firms in which they invest.

Two dominant perspectives of private equity exist; the belief that private equity firms are financial engineers who burden companies with excessive debt to reap short-term gains, as opposed to the perspective that private equity firms create value through driving efficiency measures within firms (Bernstein and Sheen, 2013; Kaplan, 1989). Public opinion has driven the financial engineering perspective, with major private equity scandals attracting press attention. For example, the RJR Nabisco's leveraged buyout by private equity giant KKR. This deal represented one of the largest leveraged buyouts in history, and was made notorious in the book 'Barbarians at the Gate: The Fall of RJR Nabisco' (Burrough and Helyar, 2004). The deal saw RJR sell off large parts of its business, in a highly leveraged deal, causing a long-term destruction in the firm's value. Such public scandals have painted a negative view of private equity (Amess and Wright, 2007). Although this stigma of private equity exists, there have been multiple studies commissioned that paint private equity in a positive light (Axelson and Martinovic, 2013). The majority of critics cite the fact that private equity firms laden target firms with debt and then leave after a set period; however, there are multiple examples of this approach to investment creating long-term value (Kaplan and Strömberg, 2008). Take for example Hilton Hotels, which was acquired by Blackstone Group in 2004 for $25bn. Blackstone exited this deal in 2013 with a $12bn profit, and is credited with reviving the Hilton brand during the financial crisis (Financial Times, 2013). The issue of investment duration will now be discussed; this is an important feature of private equity ownership (Barber and Goold, 2007).

Private equity funds are described as closed-end investment vehicles, as they run for set periods of time (Kaplan and Strömberg, 2008; Amess and Wright, 2007; Barber and Goold, 2007). During this period, the private equity firm must invest and then exit, with funds typically running for between 8-12 years. Within the financial sector, this investment period is perceived to be long-term. However, others may argue that it is short-term. Deal length can also vary greatly. There is debate over whether private equity investment is short or long-term in nature. Critics argue that private equity investments are short-term investments, held for only a proportion of time the fund runs for, whereas others cite the fact that investment periods are around five years, which is a longer duration than the average time that institutional investors hold publicly listed stocks (Bacon et al, 2012).

Some private equity deals will focus on implementing a short-term business plan in which a firm needs a quick resale (PSE, 2007). In contrast, other private equity firms may invest into companies that have longer-term business plans. There are also cases where successful private equity investments have rolled over from one fund to another due to the potential for further growth of the target firm. There is clearly a wide range of different types of deal and approaches to investment duration. Evidence suggests that the average period investments are held for by a UK private equity firm has increased incrementally between 1986 and 2007 (Gilligan and Wright, 2008). The short-term versus long-term nature of private equity strategy has been investigated in various studies (Venkatraman, 1989; Lerner et al, 2011; Davis et al, 2008). These studies have used patent applications and investment into R&D as an indicator of a long-term investment strategy and have found that firms that receive private equity investment file for more patents and invest more in R&D than comparative non-private equity firms. This finding suggests that private equity firms adopt a long-term orientated approach to managing the firms in which they invest. The following section will now discuss the influence private equity firms have on operating performance of target firms.

Research into the influence of private equity firms' operating performance is largely positive (Kaplan, 1989). Kaplan (1989) found that a variety of performance-related ratios improved under private equity owners in public-to-private deals. Contemporary studies have also yielded similar results (Davis et al, 2008; Cumming et al, 2007; Amess and Wright, 2006). For example, Cumming et al (2007) conclude that across various methodologies there is a positive relationship between private equity ownership and a firm's performance. However, more recently, Guo et al (2011) questioned these findings. Guo et al (2011) analysed buyouts completed between 1990 and 2006; they found that in comparison to the 1990s results, operational performance increases were far more conservative. This finding demonstrates the importance of the wider economic environment on influencing the health of the private equity sector.

More recently, studies have sought to understand the influence private equity firms have on management within the firms in which they invest. For example, Bacon et al (2012) analysed the adoption of high-performance work practices (HPWP) by target firms under private equity ownership. They identify that the adoption of HPWP is dependent on the duration of the investment period. For example, firms that are held for shorter periods will have lower adoption levels of HPWP compared to longer-term investments. The grounded theory developed in this study allows for a deeper understanding of how private equity firms affect the firms they invest in from a managerial/strategic perspective. Private equity research has originated in the finance literature, assessing firms' performance in financial terms. Clearly, there are benefits to this approach, as financial ratios can be applied across firms, giving a means of comparison. However, more recently, studies have looked beyond these financial measures to assess the impact of private equity firms on performance.

Research into private equity has started to move beyond a firm's financial performance to assess the impact that private equity firms have on the firms in which they invest. Bernstein and Sheen (2013) investigated the role private equity ownership has on firms within the fast food industry. Using data from public health inspections of private equity-owned and non-private equity-owned restaurants, they identified that those which were private equity-owned showed higher scores in health reports. This metric is strongly linked to customer satisfaction in the restaurant industry. From this data, they conclude that private equity firms, after the initial investment, have positive impacts on the operations of the firms in which they invest. Bernstein and Sheen (2013) argue this is indicative of long-term strategic management.

These results are also consistent with the word of Bloom et al (2009). Their study investigates the managerial practices of over 4,000 Asian, American and European medium-sized manufacturing firms. They found that private equity-owned firms not only showed superior managerial practices to their public and family-owned counterparts, but also showed particular strengths in people management and operations management practices. However, in an industry such as manufacturing, the ability to improve operational practices would be more attainable. Furthermore, in Bernstein and Sheen's (2013) study, managerial practices again relate strongly to the context they study. It could, therefore, be argued that cross-industry management practice can be challenging to apply to all circumstances. Within the context of this study, the management of brands became apparent as part of the grounded theory process because branded apparel retailers have strong brands that allow them to create value. The effect private equity firms have on the brands of the firms they invest in has not previously been investigated.

One important theme within private equity research is the investigation into employment levels of firms, before and after investment. Private equity has a stigma that when it invests, wholesale operational efficiencies lead to job losses within the firm. With operational efficiencies being sought by the private equity firm, it would seem logical that jobs would be lost and employees laid off. Studies have found that employment levels increase following buyouts, but the rate that these increases occur are less than those shown by other firms in the industry (Kaplan, 1989; Lichtenberg and Siegel, 1990). Davis et al (2008) conducted a study into employment using a sample spanning from

1980 to 2005. They identified that post-buyout employment was less than other non-private equity-owned firms; however, they identified that the pre-buyout employment growth of these firms was already low. Moreover, Davis et al (2008) suggest that significant declines occur post-buyout in retail businesses, whereas in manufacturing businesses, post-buyout employment growth remains consistent. Despite the insight existing research has given on the effects of private equity ownership on the target firms they invest in, little research has been taken using qualitative methods.

To date, research into private equity has predominantly used large-scale quantitative studies. Although studies suggest that private equity has a positive impact across a range of measures, it is evident that in some cases firms are negatively affected. Within quantitative studies, these cases can be lost within large data sets; however, it is important to understand both the positive and negative influences of private equity. Qualitative research into private equity allows the researcher to develop a deeper insight into this phenomenon. Moreover, research has investigated the outcomes of private equity ownership; however, little work has been done to look at the factors that lead to these outcomes. For example, while Kaplan and Strömberg (2008) identify different forms of engineering as ways that private equity firms influence the firms they invest in, it is unclear whether these factors are enough to explain fully what they do. Additionally, the work of Campbell et al (2014) has identified a number of value adding and value subtracting parenting behaviours. These indicate that the work of Kaplan and Strömberg (2008) may be overly-simplistic. Throughout the research process, it became increasingly evident to the researcher that the private equity literature did not fully explore these factors. However, the literature is extremely valuable as a tool for helping conceptualise the grounded theory and it gave the researcher a better understanding of what approaches researchers had taken previously, and the potential for this study's grounded theory to provide further insight. The next section will discuss how the researcher used literature to help conceptualise the study, and this relates to how the researcher assessed firm performance.

2.7 ASSESSING FIRM PERFORMANCE

The following section will detail the literature regarding firm performance measures as well as brand performance literature. This section aims to meet objective 4 through introducing the relevant literature to explain the approach to performance used in the development of the grounded theory. Central to the develop of the grounded theory was the need to understand the influence private equity firms have on the target firms in which they invest. To gain a deeper insight into the factors affecting the target firm, it was important to be able to understand the effects on target firm performance. Evidently, existing research into private equity ownership has focused on the use of measuring the financial performance of the target firms in quantitative studies utilising large datasets (Davis et al, 2008; Cumming et al, 2007; Amess and Wright, 2006; Guo et al, 2011). Therefore, financial performance will be considered. Given that the study investigates branded apparel retailers, it is evident that brands are important intangible assets for these firms. These intangible assets contribute to the creation of financial value (Edeling and Fischer, 2016; Baumgarth, 2010). It is, therefore, important to understand how the actions of private equity firms affect these intangible assets. This is in line with the work of Steers (1975) who argues that firm-specific understandings of performance must be developed. The following section will now present the approach the study used to understand a firm’s financial performance as well as the performance of the brand.

The performance of a firm can be translated into a wide range of metrics. Organisational performance is said to be the ultimate dependent variable for researchers to consider when conducting management research (Dess et al, 1984; Richard et al, 2009). Although this may not be true for all management research areas, performance is certainly commonly referred to. Sutton (1997) identified that in the major management journals, 439 articles were published that investigated some aspect of firm performance over a three-year period. Firm performance can be divided into two categories; organisational performance and organisational effectiveness (Richard et al, 2009). Organisational performance refers to financial performance e.g. profits, product market performance. Organisational effectiveness refers to other internal measures that relate to effectiveness, such as staff turnover or customer satisfaction. The most commonly used metrics to understand firm performance are financially based. These accounting measures include net operating profit, profit margins, and return on assets and sales. This study used two financial performance measures to provide an insight into the effect private equity firms had on financial performance and to help develop the grounded theory. These were firm turnover and profit, and this data is taken from the firm's annual reports and is used to provide an overview of firm performance. The decision to look at financial data was made as the researcher wanted to understand how the factors identified within the study affected target firm performance. The researcher used financial data from the UK Companies House Beta Service. Richard et al (2009) describe these measures as an objective accounting measure and therefore provide a good basis for comparison between firms. Within marketing research, accounting measures such as profit are commonly used (Ambler and Roberts, 2008; Katsikeas et al, 2016). Katsikeas et al (2016) present arguments for and against the use of financial performance measures. While they present standardised measurements which are readily available, they also have negative aspects, such as being a top line figure that may not fully reflect what is going on within the various areas of the business. Moreover, Katsikeas et al (2016) suggest these measures may also undervalue intangible assets, such as brands. To complement the data on financial performance, the researcher sought to understand the effect private equity firms had on the brand of the firm in which they invest. The following section provides an overview of relevant theoretical areas and a justification for the approach adopted.

2.8 BRANDING LITERATURE

De Chernatony (2001) argues that brands are valuable assets as they can provide key income streams. Brands can have a significant effect on firm performance (Srivastava et al, 1998; Van Heerde et al, 2007). Perrier (1997) suggests that a brand can contribute 70% of a firm's earning. Evidently, brands are key intangible assets that can generate value for a firm. Ballow et al (2004) identify that the traditional accounting value of tangibles accounts for less than 20% of a firm's assets, whereas in the 1990s they accounted for 80% of a firm's value. This shift suggests that intangible assets, such as brands, are becoming significant generators of value for many firms. Whitwell (2005) question the ability of financial analysts in their assessment of the value of a firm's intangible assets. Using in-depth interviews, they discover that analysts offer apparently objective analysis of intangibles; however, each analyst acts as an independent valuation source due to the lack of universal accounting guidelines for evaluating intangible assets. Furthermore, they find that intangibles matter more to valuations in certain industries than in others. For example, one analyst talks about the differing importance of intangibles between sectors, e.g. intangibles being more significant for products such as mobile phones, versus the same company's fixed landline business. Evidently, individuals coming from financial backgrounds may not possess a strong understanding of brands as intangible assets. This factor is relevant to this study as private equity professionals typically come from financial backgrounds. Therefore, this lack of expertise may affect the brand of the firms in which they invest. The grounded theory that this study develops provides an insight into this important issue. The interaction between financiers, marketeers and consumers is discussed in the work of Cova Paranque (2012) who investigate how these groups interact to both create and destroy brand value. Their study finds that the excessive pressure from financiers to monetise the brand of the firm, can lead to a reduction in the value of a firm's brand because consumers are increasingly aware of exploitative behaviours implemented by brand managers to exploit consumers' loyalty. The study highlights the need to investigate the role that financiers play in influencing the brand of a firm. However, to investigate this further, more detailed analysis of the literature concerning the valuation must be discussed, and detail of the perspective taken in this study will be given. The following section will now present a discussion regarding literature surrounding brand equity measures, brand valuation and the values of brands.

Brand equity can be defined in multiple ways. It can be broadly defined as "the marketing effects uniquely attributable to the brand – for example, when certain outcomes result from the marketing of a product or service because of its brand name that would not occur if the same product or service did not have the same name" (Keller, 1993; (p.1). This broad categorisation is further refined due to the emergence of two distinct areas of research into brand equity. These areas are; the investigation into understanding the financial or balance sheet value of a brand, and the need to develop a better understanding of brand equity within the strategic decision-making process (Keller, 1993). Based on these two approaches to brand equity, Keller (1993) develops the concept of customer-based brand equity or "the differential effect of brand knowledge on consumer response to the marketing of the brand" (p.8). This concept means that if a brand receives a positive response from consumers, the brand is said to have more consumer-based brand equity than a brand that receives a less positive response. Despite the importance of brand equity within marketing, the literature remains fragmented and inconclusive (Buil et al, 2013). A number of approaches to measuring consumer based brand equity have been proposed (Aaker, 1996; Washburn and Plank, 2002; Pappu et al, 2005; French and Smith, 2013; Buil, 2013; Ailwadi et al, 2003; Kapferer, 2005; Keller, 2003). Due to brand equity manifesting itself through the actions of consumers, it is an intangible asset rather than a measurable asset (Ambler and Barwise, 1998; Buil et al, 2013; Leone et al, 2006). The context of this study was not consumer based, and data was not collected from consumers; therefore, investigating brand equity as a performance measure within this study would not have been feasible. Brand valuation, however, provides another alternative measure through which academics and practitioners have attempted to assign a financial value to brands.

Marketing academics and practitioners have been driven to develop a range of brand valuation methods (Barwise et al, 1989; Cravens and Guilding, 2000; Srivastava et al; 1997; Aaker, 1991; Ratnatunga and Ewing, 2009; Salinas and Ambler, 2009). Salinas and Ambler (2009) attribute this to the need to better understand marketing performance as well as for the finance sector to be able to more accurately determine their value in transactions and pricing of shares. Edeling and Fischer (2016) conduct a meta-analysis investigating marketing impact on firm value, and they find that marketing expenditure does have a positive impact on firm financial performance and therefore stock market performance. However, they are also careful in promoting this claim, and suggest that managers should develop marketing metrics to understand how the point at which investment in marketing begins not to help improve firm financial performance. Brand valuation can be described as the financial worth of a brand as an asset (Ambler et al, 2004). Salinas and Ambler (2009) identify and compare 52 academic and practitioner approaches to brand valuation (such as Interbrand and Ernst and Young). They identify four core approaches to brand valuation; cost, market, and income, as well as additional categorisations for other measurement types. Cost refers to the historical cost of creating the brand and the anticipated cost of creating a similar new brand. Market refers to valuing a brand based on comparison to the price at which similar brands have been exchanged previously. The income approach refers to using future cash flows attributable to the brand to understand its value; this approach uses discounted cash flows. Within their work, they conclude that although a range of methodologies exists, there is no one method suitable for all uses (Salinas and Ambler, 2009). Moreover, while some methods are practically sound, theoretically they are weak, and vice versa. Accountancy research has also attempted to develop techniques to evaluate brands.

Within accountancy research, there has also been research into the development of accountancy-based measures of brand value (Barth et al, 1998). Academics have also drawn on Tobin's Q as a measure of a firm’s intangible assets such as brands (Simon and Sullivan, 1993). Tobin's Q is the ratio of the market value of a firm’s assets divided by the book value of the firm. Tobin’s Q is used by Deloitte (2013) to assess the value that a publicly-listed firm generates from its non-tangible assets. Tobin's Q, although commonly used, is not suitable for this study as within the context of this study the firms are not publicly traded and therefore do not disclose the levels of information required to accurately use Tobin's Q, such as the market value of the firm based on stock price. Accountants have also used goodwill in the treatment of brands (Barwise et al, 1989). Goodwill is defined as "the excess of the total value of a business entity over the fair values of the individual identifiable assets (less liabilities) on its balance sheet" (Sutton, 2004: p.214). Sutton (2004) suggests managers should either use discounted cash flow or earning-multiple techniques. Essentially, goodwill still needs to be underpinned by one of the brand valuation approaches reviewed by Salinas and Ambler (2009) or a subjective assessment.

Within this study, the researcher found it challenging to implement a brand valuation technique based on the approaches suggested by Salinas and Ambler (2009), for the following reasons. First, although multiple approaches are suggested, as Salinas and Ambler comment, not all of the approaches are fit for purpose. Second, the researcher was unable to get access to the necessary financial data to implement a valuation methodology. Therefore, a different approach was adopted; this was based around the researcher seeking to understand how the parent of the firm affected the values of the brand. The following section will discuss brand values and will lay out the approach adopted within this study.

De Chernatony (2001) uses the work of Rokeach (1973) to defines values. Rokeach (1973) describes values as "an enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state existence" (p.5). An important aspect of this definition is that values dictate and drive behaviour. A brand can be made up of clusters of values; these values are then promoted through the employees within firms. Therefore, a firm with brand values of honesty and integrity, whether implicit or explicit, should act in an honest way and with integrity. Schein (1984) suggests brand values can manifest themselves through various artefacts, including advertising, pricing, working environment and people. For example, a luxury brand might have a brand value of exclusivity. To promote this value, it would use premium pricing strategies, employ individuals with extensive project knowledge, and have stores in exclusive locations. Values are also discussed in the work of Keller (2001) and his Customer-Based Brand Equity Pyramid model. This model serves as a guiding tool to help managers build strong brands by helping them understand the characteristics of strong brands and the process it takes to build them. Brand values fall into the first level of the pyramid in the area of brand salience. This section of the pyramid is based on consumer understanding of 'who the brand is'. Keller (2001) adopts the approach to values through association with human personality characteristics. Within this, there are five dimensions of brand personality/values, including sincerity, excitement, ruggedness etc. However, in reality, there are likely to be a combination of a far larger number of dimensions.

The values of the brand that the firm creates and manages do not define the brand construct, as consumer perceptions and assessment of the brand shape this (de Chernatony and Riley, 1998). De Chernatony and Riley (1998) identify that branding experts commonly refer to the value system of brands when discussing definitions of brands. This means that practitioners refer to brands when they are actually discussing brand values. Alexander (2009) investigates the management of values within the context of Welsh brewery Brains. The study investigates how the fit between a firm's brand values and a sponsor's values can be used to communicate the values of both brands. The study compares the existing values of the firm's brand with the desired values of the brand. It is evident that senior managers within firms are tasked with managing the values of the brand. If a firm is successful it is likely the brand values are going to be maintained, whereas a lack of success will mean the firm is likely to change its brand values or implement strategies that address this issue. It is also important to mention that although a brand's values can be managed by a firm, the values of the brand may vary across subcultures within the firm (Brown, 1995). However, ultimately, the management of the firm is charged with attempting to create congruency throughout the firm.

De Chernatony (1999) suggests that there is a need to understand how firms actually manage brand values. He suggests a focus towards the internal aspects of the firms and how this shapes the values of a brand. Hutchinson et al (2007) also identify that the actions of a firm's senior management have an effect on the values of a firm's brand. They find that niche market locations enabled the reinforcement of brand values. More contemporary work has linked brand values with brand orientation (Wallace et al, 2013). Brand orientation is the approach whereby firms centre upon the creation, development and protection of brand identity, underpinned by the belief that brands can help create competitive advantage (Urde, 1994). Brand orientation has grown out of the concept of marketing orientation (Kohli and Jaworski, 1990; Homburg and Pflesser, 2000). Wallace et al's (2013) research is focused on the diffusion of brand values amongst an organisation and the different levels of adoption of brand values. Baumgarth (2010) suggests that firms which seek to create, develop and maintain brand values are likely to see a positive effect on financial performance. Evidently, if a firm's brand values resonate with consumers, and these values are maintained by the management team, this can lead to a positive influence on firm performance. This study will, therefore, seek to evaluate how the strategies implemented by the parent firm impact brand values, specifically whether they maintain or contradict brand values. This understanding will be developed through assessing the actions of the parent firm based upon the grounded theory process.

2.9 CONCLUSION

To summarise, this chapter has addressed the objectives set out in the introduction. The first objective has been met through providing a clear overview of the researcher's approach to literature within the grounded theory process. The researcher highlights how theory was used prior, during and after the grounded theory had been formalised. However, the researcher was careful to adopt a theoretically agnostic approach during the early stages of the project. As a result, the researcher developed a grounded theory, which enabled the researcher to contribute to grounded theory. Objective 2 has been met through highlighting the potential contribution the grounded theory developed in this study has to grounded theory. The study finds that the value adding and value subtracting mechanisms identified by Campbell et al (2014) may not apply to private equity ownership. Therefore, the grounded theory developed in this study can help contribute to the understanding of these factors within the context of private equity parenting relationships. Objective 3 has been reached through preventing a review of extant literature that investigates the influence private equity firms have on the firms in which they invest. The review finds that the influence has been over-simplified, and that existing research has sought to identify the outcome of private equity ownership rather than understanding the mechanisms that lead to these outcomes. Additionally, the researcher identifies that limited qualitative research has been undertaken in this area. Objective 4 is reached through highlighting the approach this study uses to understand firm performance. The study uses two approaches, firstly analysing financial data to understand the effect that private equity firms' strategies have on target firm financial performance. Secondly, the study seeks to investigate the influence that private equity firms have on the values of the brands in which they invest. The researcher uses this approach to understand whether the strategies implemented help maintain brand values or contradict/damage brand values. The following chapter of the study will further elaborate on the methodological choices the researcher made in this study.

CHAPTER 3: METHODOLOGY

3. METHODOLOGY

3.1 INTRODUCTION

The following chapter is of the utmost importance within this study as it details the methodological approaches used to develop the grounded theory presented. Grounded theory can be a complex methodology to use and present (Locke, 2001; Dunne, 2011). This chapter will attempt to do this in a coherent manner to illustrate clearly the steps through which the grounded theory was created. It is important for the methodological process to be presented with thoroughness and clarity so that the grounded theory developed from the study has rigour (Chiovitti and Piran, 2003). To do this, the chapter aims to achieve the following objectives:

1. Introduce the ontological and epistemological approaches the researcher used, and to highlight the philosophical foundations and the implications this has for the research choices made.
2. Present the methodological approach used.
3. Provide insight into the overall research process and the data collection phases and procedures the researcher undertook.

The structure of the chapter is as follows. To achieve objective 1, the chapter will detail the ontological and epistemological foundations of the study. Within this study, the researcher adopted a relativist ontology and a social constructivist epistemology, and this will be discussed in Sections 3.2, 3.3 and 3.4. To achieve objective 2, the researcher will introduce grounded theory and will detail its origins and developments and introduce social constructivist grounded theory. The section will also discuss the different grounded theory schools of thought, as well as data analysis approaches. Throughout, the researcher will highlight the choices made in relation to this study; these choices will be discussed in sections 3.5 to 3.11. To achieve objective 3, the researcher will introduce the data collection phases the study passed through. The study used four data collection phases. Phase one used an exploratory case study to investigate the growth of branded apparel retailer Knowles. It is important to note that Knowles is a pseudonym given to a real firm, and that all firms and individuals within this study have been given pseudonyms. From this exploratory case study the researcher then conducted phase two, which involved conducting interviews with private equity professionals. Phase three then followed, with the researcher conducting interviews with corporate finance professionals. The final phase then saw the researcher conduct interviews with branded apparel retailers and will be discussed in sections 3.12 to 3.19.

3.2 ONTOLOGY

A researcher's ontological perspective is their personal assumption about the nature of reality and acts as the starting point for philosophical debates (Easterby-Smith et al, 2012; Guba and Lincoln, 1994). The ontology adopted within this study is relativism. By adopting a relativist ontology, the researcher takes the view that multiple truths exist, and that facts are dependent on the perspective of the observer (Easterby-Smith et al, 2012). Through adopting a relativist ontology, the researcher is acknowledging their impact on the area studied and that the researcher is implicit within the research process as they shape the participants' view of reality (Shankar and Goulding, 2001; Johnson and Duberly, 2000). The ontological underpinnings of this research contrast with realist approaches. Realists believe there is one single truth, and that facts exist and can be revealed (Easterby-Smith et al, 2012). A relativist ontology was adopted as it enables the researcher to view a situation from multiple perspectives of individual realities (Mills et al, 2006). This approach is well-suited to the context of this study, as the researcher is attempting to understand how one set of firms (private equity) affects another set of firms (branded apparel retailers). To do this, the perspective of both sets of firms was sought. A relativist ontology allowed this approach to be adopted.

3.3 EPISTEMOLOGY

Epistemology refers to the assumptions a researcher has about the methods used to inquire and investigate the world. The epistemological spectrum ranges from positivism to constructivism. Positivism suggests that there is an observable external reality, of which observers are independent (Easterby-Smith et al, 2012; Guba and Lincoln, 1994; Yin, 2016). Positivism developed formally through the work of French philosopher August Comte, and has grown to become the dominant paradigm within scientific inquiry. Constructivism is at the polar end of the epistemological spectrum. Social constructivists believe that individuals shape reality and, through their interpretations, researchers should not seek to identify grand patterns but rather understand the nuances that occur in the lives of individuals or groups (Shotter, 1993; Gergen, 1999; Charmaz, 2014). Social constructivists seek to gain an understanding of situations rather than reducing them into causal parts. It is also important to note that nominalism exists as a more extreme position. Nominalists believe in extreme constructivism, in which truth does not exist, and all facts are socially constructed (Easterby-Smith et al, 2012; Patton, 2005). Table 2 is adapted from Easterby-Smith et al (2012) and is useful in illustrating the decisions the researcher has made regarding the studies of epistemological foundations.

Table 2: Characteristics of Positivism and Social Constructivism (Source: Adapted from Easterby-Smith et al., 2012).

	Positivism	**Social Constructivism**
The Observer	Must be independent	Is part of what is being observed
Concepts	Need to be defined so that they can be measured	Should incorporate stakeholder perspectives
Units of Analysis	Should be reduced to the simplest terms	May include the complexity of 'whole' situations
Sampling Techniques	Large numbers selected randomly	Small numbers of cases chosen for specific reasons

3.4 SOCIAL CONSTRUCTIVISM

This study adopts a social constructivist epistemology for the following reasons. Firstly, the researcher utilised a number of qualitative techniques that actively engage the researcher in the research process, through using interviews to discuss issues and gain knowledge that would otherwise be unavailable if the researcher were to adopt an independent and passive position. Often what is not said in interviews can be as useful as what is said (Charmaz, 2014). The researcher wanted to initially investigate the growth of branded apparel retailers; a social constructivist approach lends itself to this type of sample. The number of firms identified would not have been suitable for positivist enquiry as the sample size would be too small to be statistically significant. Furthermore, the researcher also wanted to understand an interaction between two types of firms; a positivist approach would have been challenging to adopt within this context due to the complexity that can exist in these interactions (Easton, 2010). The study also uses a grounded theory approach, and this involved entering the field with a broad initial research problem. This approach is not compatible with a positivist enquiry, as the researcher does not know what they are going to discover before entering the field. It is, therefore, challenging to assign quantitative measures to the phenomenon observed as the researcher is unaware of what is going to be observed. Based on the sample and unit of analysis, a positivist approach was rejected.

Secondly, within this study the researcher used a grounded theory approach and sought to develop a grounded theory based upon observations within the field. Through engaging in this process, the researcher is acknowledging their role in collecting data and constructing theory. Moreover, this can be seen as a process of co-producing data between the interaction of researcher and the context studied (Charmaz, 2014). Therefore, a social constructivist approach lends itself well to grounded theory (Charmaz, 2000). The relationship between social constructivism and grounded theory will be discussed in more depth later in this chapter.

Thirdly, the context of the study is complex and fluid and was made up of multiple firms and individuals who interacted in a number of ways. These interactions can be complex and required a social constructivist approach to developing a deeper understanding. The units of analysis of this study cannot be compartmentalised into a singular setting. For example, when investigating the growth of branded apparel retailers, the researcher discovered that private equity firms were important in this process and that corporate finance professionals could also provide valuable insights. Within this study, the situation could not be reduced to a single unit of analysis, especially when adopting a grounded theory approach, whereby theoretical sampling is used. Rather, a complex picture emerged involving stakeholders who represent not only the views of the organisations they work for but also their personal perspectives and behaviours (Rubin and Rubin, 1995).

3.5 METHODOLOGICAL APPROACH: GROUNDED THEORY

This study adopted a grounded theory approach. Grounded theory is a methodological approach used to generate or discover theory in areas that have previously been understudied or ignored (Glaser and Strauss, 1967; Goulding, 1998). Grounded theory is grounded within data and rejects the logico-deductive approach to research and, instead, grounds theory with empirical research (Goulding, 2002; Locke, 1996). This approach is an emergent method, which starts within the empirical world and constructs an inductive understanding as events happen (Charmaz, 2008).

Grounded theory has grown out of a sociological tradition, and has its roots in nursing research. Since its inception, it has been applied across a wide range of research areas including management, organisational studies, and marketing (Goulding, 2002). Grounded theory is centred on the generation of new theory, in which the research process sees the development of theory through the continual process of data collection and analysis (Glaser and Strauss, 1967; Strauss and Corbin, 1990; Goulding, 2002). Grounded theory is not, however, 'atheoretical' (Goulding, 1998). Rather, it relies on an awareness of a wide range of theoretical positions and empirical work to enhance the researcher's theoretical sensitivity (Goulding, 1998).

Grounded theory was developed in the work of Glaser and Strauss (1967) entitled 'The Discovery of Grounded Theory'. This work originated from the University of California, within the School of Nursing, and has become known as the classical or traditional form of grounded theory. Their original study was titled the ‘Awareness of Dying' (1966); in this book Glaser and Strauss conducted fieldwork within a hospital to understand how patients react to the issue of death (Locke, 2001). They identified that different patients exhibited different levels of awareness before their deaths, and the different forms of awareness in turn impacted upon how nurses interacted with patients. The symbolic interactionist school of thought heavily influenced Glaser and Strauss as researchers. The most informative work in shaping their perspective was Blumer (1969). Blumer, as a symbolic interactionist, proposed that the way people act towards ‘things' is based upon the meaning ‘things' have, and that the meaning of ‘things' is a product of social interaction. Additionally, meaning is modified through the interpretive process of humans encountering these ‘things'. Symbolic interactionism underpins grounded theory; however, since its inception, the philosophical heritage underpinning the approach has developed (Charmaz, 2008). The philosophical heritage of grounded theory and its development will now be discussed.

The ontological and epistemological foundations of a study should determine the methodological approaches adopted (Easterby-Smith et al, 2012). Until 2008, grounded theory was viewed as a set of methodological techniques or strategies rather than a methodology/methods package (Birks and Mills, 2011). Strauss and Corbin (1998) were the first grounded theorists to implicitly state the philosophical underpinnings of their approach to grounded theory. The heritage of grounded theory sits within the area of symbolic interactionism and pragmatism. They positioned modern grounded theory as being ontologically and epistemologically underpinned by relativism and pragmatism, respectively. Glaser (2005) argues that the philosophical underpinnings of grounded theory should remain broad, as positioning it within a particular philosophical camp would limit its utility to researchers (Birks and Mills, 2011). However, when reviewing the work of Glaser and his approach to the role of the researcher, it is evident that he leans towards realism within his work (Mills et al, 2006). Glaser (1978), the proponent of traditional grounded theory, argues that researchers should observe what is real, or that truth emerges from observing reality. This is indicative of a realist leaning. More recently, grounded theory has taken a constructivist turn.

Unlike other qualitative methodological traditions, the ontological and epistemological foundations of grounded theory are in a fluid state. Grounded theorists can choose to adopt a range of possible ontological positions at the discretion of their personal beliefs (MacDonald and Schreiber, 2001). One such ontological position applied to grounded theory is social constructivism (Lowenberg, 1993; Annells, 1996; Charmaz, 1995; 2000; Mills et al, 2006). Constructivist grounded theory has been developed primarily by Kathy Charmaz, who trained under Glaser and Strauss (Mills et al, 2006). Charmaz (2000) discusses the importance of acknowledging the researcher's role within grounded theory. Charmaz suggests that grounded theory, as proposed by Straussian and Glassian schools, are suggestive of an external reality and have a realist leaning, whereas social constructivist approaches to grounded theory views the data, not as a window on reality, but instead the product of the interaction between the researcher and participants (Charmaz, 2000).

The constructivist turn has been brought about through criticisms levelled at grounded theory that suggest that grounded theory was too strongly attached to modernist epistemological roots rather than moving into the post-modern paradigm (Locke, 2001; Charmaz, 2014). Critics of traditional grounded theory argue that the researcher is too detached from the research process, and the data gathered is too fragmented. As Charmaz

(2014) explains: “grounded theory fragmented the respondent’s story, relied on the authoritative voice of the researcher, blurred difference, and uncritically accepted Enlightenment grand metanarratives about science, truth, universality, human nature, and world-views” (p.13). Based on social constructivist grounded theory, the researcher should interpret what they are viewing, whether that is through interviews or observations (Charmaz, 2014). This interpretation is part of a co-producing process, in which the researcher in conjunction with the participants and their contexts create data (Denzin, 2002). Data is not seen as an ‘out there’ construct waiting to be captured by the researcher, but rather the product of the researchers and the context interacting (Charmaz, 2014). Within this study, a social constructivist approach to grounded theory is adopted. This choice was shaped by the ontological underpinnings of the study, as a relativist ontology is suited to using a social constructivist grounded theory methodology (Mills et al, 2006).

3.6 FUNDAMENTAL TENETS OF GROUNDED THEORY

The two central tenets of grounded theory, proposed by Charmaz (2008), are detailed below. This section also includes an explanation of how the core features of grounded theory were adhered to within this study. It is important to note that some features of grounded theory are heavily debated; these issues will be discussed in relation to this study when discussing the split between the Glassian and Straussian interpretations of grounded theory.

1. Researchers should minimise the influence of preconceived ideas about their research problem, theory and research context. Researchers enter the field

without the baggage of theory to allow theory to emerge from the field. The core agenda of this tenet of grounded theory is the distancing of the researcher from a hypothetico-deductive approach. Rather than selecting a theoretical base, creating a hypothesis and then testing it within the field, the researcher should enter the field and see what they discover. The extent to which a researcher brings theory and preconceived ideas into the field is heavily debated within ground theory research (Locke, 1996). The divergence between Glassian and Straussian approaches to grounded theory will be discussed in the following section, and the researcher's position will be discussed.

2. Data should be collected and simultaneously analysed, in an iterative research process (Glaser and Strauss, 1967; Locke, 2001; Maxwell, 2005; Charmaz, 2014). This process is underpinned by two analytical operations; constant comparison and theoretical sampling (Locke, 1996; 2001; Maxwell, 2005). Constant comparison requires the researcher, having developed initial codes and categories, to then compare these codes and categories. The recommended approach to selecting the context in which to sample is theoretical sampling (Glaser, 1992; Locke, 2001). Before starting the research project, researchers should identify a broad research question or problem concerning a context they want to investigate further (Maxwell, 1998). Locke (2001) describes theoretical sampling as: "gathering information that will best support the development of the theoretical framework" (p.55). This approach dictates that the researcher should remain flexible within the research process, and be open to collecting multiple

types of data from sources that support the development of theory (Coyle, 1997; Van Maanen, 1998).

This study adopts the analytical operations of constant comparison and theoretical sampling. The study started with an exploratory case study into a particular firm, with the broad research question aiming to investigate the growth of branded apparel retailers. During this process, the data was simultaneously collected and analysed. This was an iterative process in which the researcher moved between theoretical and empirical worlds. The data collection process was then discovery-driven, and centred on collecting the data required to build a grounded theory. This process led the researcher to interview private equity professionals and corporate finance professionals, and then finally return to further interviews with branded apparel retailers. The mechanics of this process will be discussed in more depth in the second half of the methodology sections; however, it is important to briefly illustrate the researcher's application of constant comparison and theoretical sampling.

When using grounded theory researcher should be open to a range of possible interpretations of the data throughout the research process (Barley, 1990; Agar, 2006) in comparison to hypothesis-driven research, where the aim of the study centres on proving or disproving the hypothesis. Grounded theory requires the researcher to remain open to a wide range of possible theoretical interpretations throughout the research process. Rennie (2000) suggests that grounded theory challenges the researcher to bracket-out theory while being theoretically sensitive. The approach the researcher adopted is discussed in the literature review chapter. To summarise, the researcher drew on the work of Dunne (2011) and McGhee et al (2007). This saw the researcher undertake an initial literature review, however, and adopt a reflexive approach to remain theoretically agnostic (Robson, 2002; Henwood and Pidgeon, 2006). One technique the researcher used was a research diary, and this enabled the researcher to keep a record of their interpretations of the data and constantly reflect and compare as the grounded theory process progressed. This ability to reflect upon the research process helped in developing a theoretically agnostic approach. Throughout the study, a range of theoretical areas was investigated as the grounded theory was constructed. Towards the end of the grounded theory process, the researcher developed the grounded theory. The researcher then narrowed the relevant literature into three areas which had linkages with the grounded theory (parenting theory, private equity and branding). The researcher then compared the grounded theory with these areas to develop the studies contribution to existing theory.

3.7 GROUNDED THEORY AND MIDDLE RANGE THEORIES

Grounded theory is focused on developing middle range theories. Middle range theories were first discussed in the work of Merton (1967). He suggested that researchers should not seek to develop grand theories that attempt to explain large-scale phenomena. Rather, theory should be built around smaller conceptual contexts such as theories to explain deviant behaviour or social control. Middle range theories are built on empirical research that contributes to the understanding of a particular context rather than seeking to explain universal events or behaviours. Glaser and Strauss (1967) refer to theory as being either substantive or formal. Substantive theories are theories that describe particular practical situations, such as managing change in organisations or consumer attitudes to e-commerce. These theories are developed from an empirical inquiry and have a strong practitioner focus (Locke, 2001). Formal theories are conceptual theories that attempt to generalise concepts; for example, agency theory or game theory. Grounded theorists should seek to develop substantive theories; these theories can then be used to revise, or question formal theory. The development of a larger number of substantive theories will add further value to larger theories, as it enables researchers to understand whether a formal theory can be generalised across all contexts.

Within this study, the context is well suited to developing substantive theory, as the researcher was initially interested in understanding the growth of brand apparel retailers. From the broad research interest, the researcher became aware that private equity firms played an important role in this process. From here, the researcher investigated the relationship between branded apparel retailers and private equity firms. The researcher then sought to develop a grounded theory to explain how the private equity firms affected the branded apparel retailers at different stages in their growth. Rather than attempting to develop theory that would explain all private equity and target firm relationships, this study is focused on a particular context, namely middle market private equity firms and branded apparel retailers. The nature of private equity firms varies considerably, depending on factors including industry specialisation and target investment size. Through developing substantive theories, formal and substantive theories can be built upon or questioned (Glaser and Strauss, 1967; Locke, 2001). Therefore, this study uses the grounded theory developed to make its main theoretical contribution to the understanding of parenting theory.

3.8 GROUNDED THEORY SCHOOLS OF THOUGHT

Since its inception, Glaser and Strauss have become divided in their view of what constitutes grounded theory. This divide has led to the development of 'Glassian' and

‘Straussian’ schools (Stern, 1994). These perspectives have become labelled as ‘classical’ and ‘evolved’ grounded theory (Mills et al, 2006). This divide becomes most apparent following the publication of Glaser's (1992) ‘Basics of Grounded Theory Analysis'. In this book, Glaser directly attacks the work of Strauss and Corbin (1990) for moving grounded theory away from the concept discovered by himself and Strauss in 1967. The two schools of thought vary on a number of issues including researcher roles, theory, philosophical underpinnings, and pre-understanding (Easterby-Smith et al, 2012).

Locke (1996) argues that the two schools of thought are actually not greatly different and that the differing perspectives of Glaser and Strauss are down to personal conflicts between the two theorists. The following section will outline the position this study adopts in relation to these two schools of thought. Ultimately, all researchers will use grounded theory slightly differently to suit the skills they have as well as the phenomenon studied. In this respect, grounded theory can be viewed as a set of tools that the researcher can use, rather than be a prescriptive method to which researchers should stringently adhere.

The role of the researcher varies between ‘Glassian’ and ‘Straussian’ schools of thought. Glaser (1992) suggests that the conflict between the two schools centres on the issue of ‘Emergence versus Forcing’, especially when analysing data. Glaser argues that through using a highly structured and rigorous coding process, involving constant comparisons between categories, ‘Straussian’ grounded theorists are guilty of forcing data into categories. Instead, Glaser suggests that theory should emerge from the data in an organic and less structured data analysis process, allowing the themes to speak to the researcher.

In comparison, Strauss (1987) believes that the researcher should actively interrogate and question the data. In this process, the researcher should question what they are seeing, and build categories based on this. Locke (1996) gives the example of a study of a kitchen restaurant and, specifically, the presence of a well-dressed woman in the kitchen. Strauss and Corbin would actively interrogate the observation; why is she in the kitchen? Why is she dressed this way? Based on this interrogation of the data, they would then label the observation through a coding process. Codes would then amalgamate into categories based on these interpretations and, as a result, insight is garnered from the researcher's interpretations.

Glaser strongly objects to this approach. While the researcher is naturally obliged to consider the data, Glaser believes that the interrogation leads to the corruption of the initial data and the movement away from the actual phenomenon studied. Through this interpretation, and questioning the phenomenon studied, comes a process of second-guessing the data and building interpretations that may not reflect the true nature of what is observed (Glaser, 1992). Although many commentators argue that these differences between the two schools of thought may be trivial, it remains important to have a clear understanding of where studies sit in relation to the two schools. The perspectives Glaser and Strauss adopt can be seen to be a result of their individual backgrounds and academic heritages.

Glaser's perspective on the role of the researcher emerges from the heritage of the institute where he trained, the University of Columbia (Locke, 1996). The University of

Columbia had a strong quantitative heritage. In his writing, Glaser can be categorised as being strongly influenced by a positivist perspective (Locke, 1996). Glaser's approach to grounded theory was one of viewing reality through a glass screen when conducting research; his role and interaction with the observed phenomenon were kept minimal and were not discussed in his research. Glaser saw himself as an observer and wrote little on acknowledging his role in the research process. Given the social constructivist underpinning of this study, it would seem logical to reject a Glassian perspective of grounded theory. However, there are multiple aspects to his approach that can be drawn upon and remain relevant methodologically despite their contrasting philosophical underpinnings. This will be discussed within the context of data analysis and the differing perspectives of the Glassian and Straussian schools of thought on this process.

Glaser (1992) suggests that there is no need to review literature before conducting fieldwork. Through reviewing literature, the researcher is tainting their judgement and ability to generate categories and codes. In contrast, Strauss and Corbin (1990) suggest that researchers should have an initial insight into theoretical issues within the area they intend to study, in addition to bringing their experience as researchers into the research process. More recent analysis of this issue within grounded theory has suggested that researchers should have a clear understanding of the purpose of the study (Maxwell, 1998; Locke, 2001). Furthermore, some studies have discussed the potential pros and cons of conducting literature reviews (Dunne, 2011; McGhee et al, 2007).

The researcher discussed their approach within the literature review. Therefore a brief overview of this issue will be given. Within the context of this study, the researcher has progressed through a university education and, as a result, has become exposed to a wide range of theories. The social and political processes a researcher passes through dictate that they exhibit a suitable level of theoretical knowledge to develop research proposals and publications (Dunne, 2011; Cutcliffe, 2000). Rarely would a proposal be accepted or approved without sufficient reference to theory, especially within modern business schools. In this respect, it is very difficult not to be influenced by theory. Within this context, an initial theory was studied, and a literature review was conducted; however, the researcher remained theoretically agnostic to the prospect of using other theory once the field had been entered. The theory was not tested, but rather used as a guide; evidence of this process can be seen through the original theoretical areas considered to the final theoretical area used. The constant analysis of data was useful in distancing the researcher from theoretical preconceptions, as through this iterative process the researcher quickly moved between different theoretical lenses rather than viewing the data through a single theoretical lens.

3.9 ANALYSIS OF DATA IN GROUNDED THEORY

Broadly within qualitative research, data analysis involves the analysis of words, events and their meaning, creating descriptions and understandings of the studied phenomenon (Miles and Huberman, 1994). Central to grounded theory is the need to constantly analyse data, in an iterative process (Glaser and Strauss, 1967; Locke, 2001; Maxwell, 2005; Charmaz, 2014). Coding is a fundamental aspect of grounded theory data analysis (Patton, 2005). Coding involves breaking data down into small chunks, labelling them, and then building groups of similar chunks into larger categories. During the data analysis, it is good practice to analyse interviews in an ongoing process. Within this study, the researcher transcribed and conducted analysis on interviews shortly after their completion. This method was a useful strategy as it enabled the researcher to sample theoretically, as well as helping inform the types of questions that should be asked in the next round of interviews. Table 3 details the data analysis approach proposed by Locke (2001). This approach will be introduced and discussed.

Table 3: Data Analysis in Grounded Theory Research (Source: Adapted from Locke, 2001).

Stage 1: Comparing Incidents Applicable to each Category
Within this stage, the researcher should first read through transcripts and bracket information into small 'chunks', which can be in the form of interview transcripts, archival data or written-up observation notes. When the data has been 'chunked', the chunks are given names. This naming process requires the researcher to interpret what they believe is occurring within the data and use a descriptive name. The process can be done formally through index cards, or loosely through notes on transcripts. Following this naming process, the researcher should compare categories through arranging named chunks of data into categories. This is a continual process that will take time, and the eventual categories arrived at will not be formed until the end of the study. During this phase, the researcher should also complete an activity called 'memoing'. This process involves writing about the data, in a process that stimulates further analysis of the data. Memos can be about concepts within the data or a means of expressing the researcher's ideas about the data. This activity may continue throughout the writing process.
Stage 2: Integrating Categories and their Properties
This stage involves the researcher identifying similarities and difference between the codes generated in stage one and involves the building-up of categories and their construction into a theoretical framework. The use of diagrams is required at this stage as it can be valuable to visualise the relationship between different categories.

Stage 3: Delimiting the Theory
The process of delimiting theory involves establishing the theoretical components of the framework as well as clarifying the story the researcher wishes to tell about the research context. This process involves firming-up the categories and reducing the framework to make it applicable to a particular context. This stage of the research process is where theoretical saturation will begin to occur. Additional data collected begins to add little to the core categories of the theory. The researcher should make a decision as to which categories are most useful in helping them tell the story. The researcher should also be aware of their audience for the research, and select a story or categories that talk to this.
Stage 4: Writing the Theory
This process involves the writing up of the research process, creating (for example) an article or thesis. Again, this process involves linking the study with wider theoretical concepts and helps connect the emergent substantive theory with formal theory.

Charmaz (2014) adopts a similar approach to Locke (2001). However, she uses two forms of coding; open and focused. Open coding involves chunking of the data and giving each 'chunk' a name (Locke, 2001). Rather than naming or labelling the chunk, Charmaz suggests that the researcher should give it a noun form of a verb, such as speaking, acting or playing. This brings life to the events within the data. Charmaz also advises researchers not to read the whole interview before coding, but rather, break it down into isolated pieces of data. This is similar to Locke's view of the coding process. Following this process, focused coding occurs. This involves the sorting of large amounts of data into larger core categories as part of the emergent process within grounded theory. Charmaz is also a proponent of a continual memo-writing process.

Walker and Myrick (2006) suggest that data analysis within grounded theory is "more about the researcher and less about the method" (p.558). Strauss and Corbin (1998) echo this sentiment; they use the metaphor of a smorgasbord, from which the researcher can pick and choose their data analysis techniques and processes. Glaser and Strauss both adopted slightly different approaches to data analysis. Strauss's approach is more mechanical, while Glaser sees data analysis as an art rather than a science (Walker and Myrick, 2006). For example, Strauss and Corbin (1998) are proponents of a detailed coding approach, which requires a line-by-line analysis of interview transcripts using a highly structured process which involves breaking the data into small chunks. However, criticisms of this approach have arisen, as it fractures the data rather than allowing emphasis of the bigger picture of the data research context (Charmaz, 2000).

3.10 DATA ANALYSIS APPROACH ADOPTED

This study drew upon the operational approach proposed by Locke (2001) as detailed in Table 3. Locke's operational procedures give the researcher the ability to retain the ‘art’ within the data analysis process as championed by Glaser (1992). However, it is important to highlight that the adoption of Locke's (2001) approach was used as a high-level procedural framework through the stages the researcher passed. In combination with Locke's approach to data analysis in grounded theory, the researcher was also informed by the work of Charmaz (2014) and the social constructivist approach to grounded theory. Within this study, the researcher appreciated the importance of understanding the context of the interview and the holistic nature of the interview process. By breaking the data into small chunks, there is the risk that the researcher becomes too focused on creating isolated codes that do not represent the actual events the participant discusses in the interview. Although it is argued that chunking and naming can range from two words to whole paragraphs (Locke, 2001), the researcher felt that conducting the interviews offers insight beyond what is said. For example, the body language of an individual and the tone they deliver their answers are also important. Using a research diary, the researcher wrote their first reaction to the interview shortly after the event, detailing the behaviour of the participant as well as the researcher's reaction. When analysing the data, this information became a useful tool for 'framing the analysis' and helping the researcher build early codes.

The researcher plays an essential role in the interview process. Adopting a constructivist approach to grounded theory, the researcher acknowledges their role in the research process. The theory they develop is part of a co-constructed process within the participants. In some ways, the use of strict coding is restrictive as it breaks down the data into chunks that are too abstracted from the phenomenon studied (Heath and Cowley, 2004).

Within this study, the researcher adopted a holistic and open process to coding. Although initial coding was completed using margin notes, the researcher was conscious not to break the data down into abstract chunks as this would lose the connection with contextual factors. Instead, a more holistic approach was adopted within the analysis allowing the researcher to understand the wider context in which the participants' responses exist, in line with the less structured approach to data analysis proposed by

Glaser (1992). This gave the researcher greater freedom and creativity to analyse the data, moving away from the more mechanical coding process proposed by Straussian grounded theorists (Heath and Cowley, 2004).

The analysis of non-interview based data is another issue that arose during this study. Extensive guidelines exist on how to code and analyse interview transcripts; the analysis of observational or archival data is less clear. The approach adopted was dependent on the data form. For example, participant observations were written up into notes based on the researcher's experience from the event. Following this, the observations were coded and then written up as memos. Dunne (2011) suggests that memos contribute to the researcher's reflexivity, as memos can act as reflective notes. Alternatively, archival data, such as newspaper articles and company documents, were used to set the scene, helping to frame the data. Through maintaining a research diary, the researcher was able to incorporate insight from these reports into the analysis of interviews and observations. The researcher could have adopted a line-by-line coding approach to this form of data; however, it was felt that the language used, especially within newspaper reports, was formulaic and neutral, relaying information about events rather than giving specific insight.

The data analysis process used within this study drew on both Glassian and Straussian perspectives of data analysis in grounded theory. The following points clarify the data analysis approach used in this study and provide a rationale for their adoption.

Explanation of the data analysis approach adopted is given at three levels; philosophical, procedural and mechanical:

- Philosophical. Despite the researcher choosing to adopt a less mechanical Glassian approach to data analysis, the researcher did so through a social constructivist lens. The researcher felt that the more liberal coding process proposed by Glassian grounded theorists fits best with social constructivist enquiry. It allowed the researcher to interrogate the data within the wider context studied rather than abstracting the data from the context. Moreover, the relativist ontology adopted within this study meant that the researcher deemed it important to allow the participants' interpretations to emerge from the data. Through using a mechanical coding process, the clarity of the participants' interpretations may have been lost.
- Procedural. The procedural level of data analysis refers to the overarching process to which the researcher adhered. Within this study, Locke's (2001) approach to grounded theory data analysis was adopted. The researcher passed through the four procedural stages. However, the mechanical approach adopted by the researcher varied from that of Locke (2001).
- Mechanical. The study adhered to a holistic and flexible coding process, closely linked to Glassian grounded theory. However, this approach was adopted on a purely mechanical level and was chosen as it allowed the researcher greater flexibility in analysing the data. Moreover, the researcher felt the mechanical

approach to data analysis proposed by Straussian grounded theorists abstracted the data too much and removed the data from the context studied.

3.11 GROUNDED THEORY AND METHODS

Multiple forms of data collection can be used within grounded theory research (Glaser, 1978). This study used an exploratory case study during the first phase of data collection. This case study can be described as intrinsic, as it sought to understand a particular firm and the uniqueness of it (Stake, 1995). Locke (2001) suggests that case study research is more a means of defining a research context and selecting a 'case' to look at, than a methodological package. Instead, Locke (2001) argues that case studies, as sampling tools, can be used within grounded theory to develop a deeper insight into the research context. Within this study, a single case study was used to gain insight into a particular firm. Following this, the researcher used theoretical sampling to guide the sampling process within the study.

The second phase of data collection involved conducting semi-structured interviews with private equity firms. This approach has been used in the work of Palmer and Quinn (2003). They used interviews to develop a deep understanding of the influence these financial stakeholders play. According to Kvale (1996), the purpose of qualitative interviews is "obtaining qualitative descriptions of the life world of the subject with respect to interpretation of their meaning" (p.124). Yin (2011) suggests that interviews are the most common form of qualitative data collection. At the same time, interviews can be complex and difficult to control, as conversations can become too informal and move away from the core of the problem. However, through using an interview script or protocol, the semi-structured approach can keep the interview on track (Rubin and Rubin, 1995).

Semi-structured interviews are suited to this particular study, as they allow the researcher to probe the individuals' experiences of events that have occurred and to identify the strategies used by private equity firms in relation to branded apparel investments. The interviews ranged from 30 to 120 minutes in duration, and some were conducted face-to-face, while others were conducted as telephone interviews. Face-to-face interviews tended to gain a deeper insight through the interpretation of body language and tone. The following section details the mechanics of this process and the challenges the researcher faced. Two issues arose when interviewing private equity professionals, and they are the interwoven problems of interviewee bias and researcher credibility.

The study adopted the following methodological structure. Firstly, a single exploratory case study was used to gain a deeper insight into the context studied. Following this initial exploratory study, important themes emerged. These themes were explored using grounded theory. Figure 5 illustrates the phases of data collection and the epistemological underpinnings and methodological techniques used. The study was divided into four main data collection phases. The specifics of each stage adopted will be discussed in the following section.

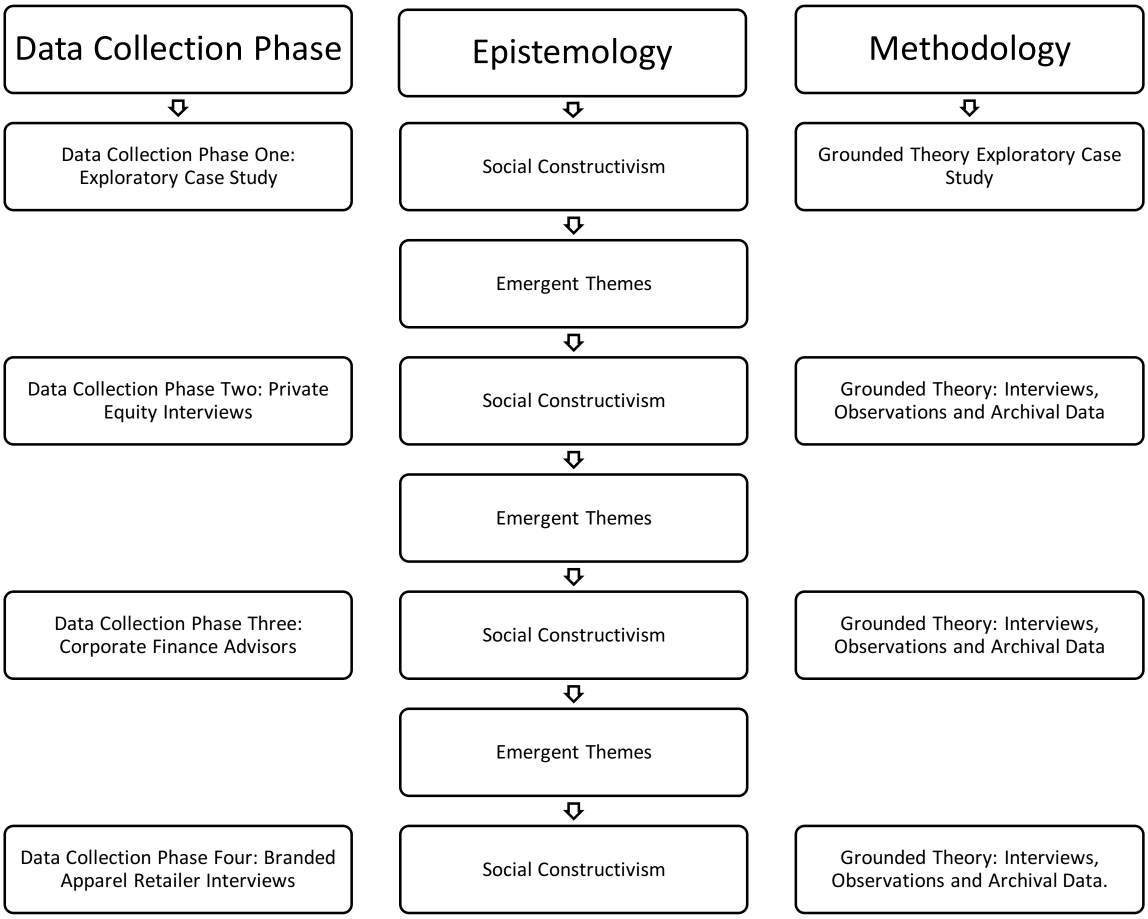

Figure 5: Methodological approaches adopted within the study.

3.12 DATA COLLECTION PHASE ONE: EXPLORATORY CASE STUDY

Case study research allows for the use of a number of data collection techniques to gain a deeper insight into a particular setting (Eisenhardt, 1989; Easton, 2010; Yin, 2008). This study used a range of data collection techniques, including interviews, event observations and analysis of company documents, as well as research into secondary data sources such as industry reports, online articles and trade reports. Case studies can be used in a number of different ways (Gerring, 2004; Halinen and Tornroos, 2005), and can span ontological and epistemological perspectives (Jarvensivu and Tornroos, 2010). Therefore, case study research fits well within the relativist ontology of this study. This is because case studies can represent a snap shot from within a particular context, constructed from multiple interpretations of the reality, from both the participants' and researcher's perspective. The broad definitions of what case study research constitutes gives the researcher a wide range of potential options when conducting case study research. This allows the researcher to tailor case study methods to their research context (Yin, 1981).

The first phase of data collection was an exploratory case study. This approach was adopted in accordance with the work of Perry (1998). Perry (1998) suggests that exploratory or pilot case studies are useful tools in the overall research process and can be used as confirmatory devices. This helps researchers inform the studies' data collection strategy. Moreover, case studies can be used to explore unique contexts or firms which deem further investigation. Case studies are excellent research tools for gaining insight, as they allow the in-depth study of particular firms or contexts (Yin, 1981; Verschuren, 2003; Easton, 2010). Case study research allows multiple perspectives to be sought, allowing a better understanding of the phenomena studied (Dubois and Araujo, 2007). Within the exploratory case study, a number of the branded apparel retailer's stakeholders were interviewed; this allowed for the development of richer data.

Case studies can be used within grounded theory (Locke, 2001). Debate exists concerning the number of case studies required for a study (Siggelkow, 2007). Siggelkow (2007) argues that one case study is enough, because if it can be used to disprove a theory, then there is no need to use more than one case. Other scholars suggest researchers should construct multiple comparative case studies (Yin, 2002; Perry, 1998). The case study approach adopted in this study is a single expressive or exploratory case study (Stake, 2006). It focuses on a particular context, acting as an exploratory device to understand the context in more depth. It allows the researcher to immerse themselves in a firm, and the key issues and events that surround it. From the initial case study, two important categories emerged. Although there were a number of potential categories, the researcher delimited the categories to progress with further theoretical sampling. This is a slight divergence from the typical grounded theory approach, which suggests all possible categories are addressed (Goulding, 2002). Using an exploratory case study enabled the researcher to enter into a new area that had not been anticipated and, using a grounded theory approach, to develop emergent categories through theoretical sampling. The use of an exploratory case study allowed for an in-depth understanding of the context to be developed.

The initial selection of a context in a grounded theory study should be driven by a broad research problem or question (Locke, 2001). In this study, the researcher sought to gain a deeper understanding of the growth of a group of firms that had grown quickly within the UK. PwC Strategy (2016) identified that the premium lifestyle clothing market's sales grew from £1.4 billion in 2009 to £2.7 billion in 2014. PwC analysed data from 21 UK premium lifestyle brands, five of which are included in this study. Evidently, these firms had grown significantly over the past decade. For practical reasons, the researcher focused his attention on UK-based firms. In keeping with the tradition of the grounded theory process, the researcher did not seek a theoretical definition of the firms before entering the field to determine the data collection strategy. It was, however, evident that the firms shared similar characteristics, and within the industry press were grouped and compared with one another. Within the press, these firms were referred to as lifestyle brands. Although the term lifestyle brands can be applied across a range of different product categories, the researcher focused on firms operating within the apparel retailing sector. The researcher also used another strategy to help determine the most common application of the term ‘lifestyle brand' through using a Nexis search. The search term used was ‘lifestyle brand', and yielded over 3,000 results. Using the grouping tool in Nexis, which groups search results by industry, the most common group was fashion and apparel (384) followed by consumer products (334). This search was useful in narrowing down the focus of lifestyle brands to consumer-based products and, more specifically, fashion and apparel. Although this does not mean to say other product types cannot be lifestyle brands, it would appear that the term (based on the Nexis search) applies most commonly to fashion and apparel retailers.

Following this, web-based research was undertaken to identify fashion and apparel consumer brands which fit into the lifestyle brand label. An initial list of potential lifestyle brands was drawn up and then discussed with members of the Lancaster University Marketing Department to further refine the list. The final list contained ten brands that fell into the lifestyle brand categorisation and had been referred to as lifestyle brands; either by themselves or by press reports. Additionally, as the research process progressed, the researcher identified that these firms possessed a similar characteristic; their brands all sought to represent aspirational middle-class lifestyles as well as having been started by a founder who created a brand that represented their own lifestyle. Towards the end of the research process, the researcher sought to understand how the theory could help conceptualise the firms investigated within the study; the following section will now discuss this process.

The firms in this study fit into the broad classification presented by Ailawadi and Keller (2004). They discuss apparel retailers which only stock their private label products, citing the examples of US retailers Gap and Brooks Brothers. Jones and Kim (2011) expand on this work and discuss single-brand retailers. They suggest that single brand retailers have a brand that is synonymous with their retail environment, and that if successful they help reinforce consumers' self-perception and identity through their brand message (Jones and Kim, 2011). They achieve this through using brand message cues to create differentiation. Koo and Kim (2013) further develop this idea and discuss single brand apparel retailers. They describe single brand apparel retailers as apparel firms which develop their own symbolised logos, promote brand characteristics within their retail environments and give the examples of firms such as Abercrombie and Fitch, American Eagle and Banana Republic. Within this study, the firms investigated can be described as single brand apparel retailers based on these characteristics. The firms investigated fall into this definition. However, although based on the characteristics identified within the research process, they also represented aspirational middle-class lifestyles as well as having been started by a founder who created a brand that represents their own lifestyle. It is important to note that the firms investigated within this study are significantly smaller than firms such as Abercrombie and Fitch etc. Therefore, to amalgamate the theoretical and contextual definition of the firms in this study, based on the previously mentioned characteristics, the firms are described as lifestyle branded apparel retailers; this has been shortened to branded apparel retailers.

3.13 Grounded Theory and Sampling Approaches

Sampling is an important topic when considering the relationship between case study research and grounded theory. Case study researchers suggest entering the field with a clearly defined research context; this could be a firm, an industry or a network of firms. This approach is known as purposeful sampling. Purposeful sampling is the process through which a researcher has determined, before the study, the sample the study will use, which can be based on a range of criteria. Grounded theorists propose that purposeful sampling should start any research project, due to the researcher wanting to understand a particular context in more depth (Locke 2001; Goulding, 2002; Charmaz, 2014). However, once the researcher enters the field, the researcher should adopt a theoretical sampling approach. Theoretical sampling allows the researcher to enter into new areas, with the freedom to follow where the data takes them (Glaser and Strauss, 1967).

3.14 Initial Contact

Following the identification of suitable firms, letters were sent to senior managers within the firms. This approach yielded limited success, with some of the firms failing to reply and others denying access to the researcher. Formal letter writing to engage with companies is often the recommended method of approaching firms at the start of the research process (Easterby Smith et al, 2012). However, with the advent of modern social networking sites and other forms of e-communication, from the experience of this study, letters are increasingly a less efficient means of engaging in data collection. This issue will be discussed in phase two of the data collection process.

Despite the limitations of letters as an initial means of making contact with firms, one firm granted the researcher access (Knowles). An initial interview was undertaken at the firm's headquarters with the Marketing Director. Further interviews snowballed from this, based on referrals. In addition to data collected through interviews, the researcher also engaged in participant observation. This involved attending the Autumn/Winter range launch with the Marketing Director and Managing Director of the firm and speaking to various buyers from other firms. The motivation for attending this event was twofold. First, it enabled the researcher to network with other Knowles' employees to further data collection; this led to meeting Martin Knowles, the founder. Second, the researcher sought to gain an insight into the firm's growth through attending the event. To further enhance the data obtained through interviews and participant observation, the researcher engaged in extensive collection of data from secondary sources such as newspapers, Internet articles and trade publications. This data was archived to create a timeline of media events to use as a backdrop for the interviews. This added to the depth of the data quality. In total, over 30 pieces of secondary data were used. This approach enabled specific events to be brought up in interviews rather than discovering the events for the first time within the interview. Having initially conducted data collection within the firm, data was then collected through interviews with stakeholders. This gave a richer data and helped reinforce emergent categories.

3.15 KNOWLES CASE STUDY

Knowles is a British lifestyle branded apparel retailer founded in 1989 by Martin Knowles. The Knowles brand represents an aspirational British country lifestyle and is strongly linked to the lifestyle of the founder. In 2014, Knowles had revenues of just under £100 million with 74 UK stores. Further background on Knowles will be given within the findings chapter. Table 4 details the interviews conducted. The researcher also conducted store visits to gain a deeper insight of the branded apparel retailer within context. This included two visits to the brand's ‘pop-up' retail channel format at two major outdoor shows, as well as visits to seven ‘bricks and mortar' stores across the UK. The approach involved observing the retail environment and talking informally about the brand with Knowles' assistants within these environments. Permission to do this was granted by Knowles. These visits were invaluable, as they allowed the researcher to gain a deeper insight into the brand. Observational research within a retail setting has been used in a number of studies (Runyan et al, 2012; Borghini et al, 2009; Dion and Arnould, 2011).

Table 4: Knowles Interviews Conducted.

Firm/Stakeholder Name	**Interviewee Position**
Knowles	Marketing Director
	Managing Director
	Founder
	Interim International Director
	Brand Manager
Knowles Stockist	Knowles Stockist A
Knowles Franchise	Knowles Franchisee
Knowles Stockist	Knowles Stockist B
Corporate Finance Advisor	Managing Director
Retail Brand Analyst	Research Director
Brand Consultant	Freelance

Purposeful sampling was used to make initial contact with a number of branded apparel retailers. However, access could only be arranged with one such firm (Knowles). This is a limitation of purposeful sampling; if access is denied, the research design has to be reconsidered. A criticism of grounded theory is that it is only feasible if the researcher has excellent access to the firm, and is free to pursue data collection across multiple departments and levels of the organisation (Easterby-Smith et al, 2012). However, access may become less relevant if themes emerge that take the researcher into new research contexts. This can be seen within this study, where the issue of private equity investment emerged following data collected within Knowles. From interviews with Knowles, the researcher began to understand that employees of Knowles saw that private equity offered a potential means for the firm to continue its ambitious growth plans. The researcher then undertook further secondary research into the private equity industry. The researcher found that a number of other branded apparel retailers had received private equity investment. As interviews with Knowles progressed, the researcher began to pursue a line of questioning on the subject of private equity. This was prompted as individuals within Knowles were often referring to a conflict that existed between implementing strategies that generated financial value, while at the same time attempting to stay true to the Knowles brand. In addition to this issue, the researcher's secondary research into private equity saw that private equity had a reputation for aggressively pursuing profits. There were cases where private equity firms had bought firms, sold off their assets for a profit and then sold the firm. This left the firm on the brink of bankruptcy but generating significant returns for the private equity firm. From the exploratory case study, two closely linked concepts emerged. The first concerned the conflict and trade-off between the pursuit of profits versus the maintenance of brand values. The second was the issue of how private equity firms affect the firms they invest in, especially in light of the trade-off that branded apparel retailers were already facing. Moreover, more generally across the consumer products sector, there were cases of private equity ownership benefitting the firm, while in other cases, these relationships appeared to be less successful. The researcher sought to understand why this may be the case, and this led the researcher into a new research context; the private equity industry.

3.16 DATA COLLECTION PHASE TWO: PRIVATE EQUITY INTERVIEWS

Phase two of the data collection process was driven by theoretical sampling and involved conducting interviews with individuals working in private equity firms. In the UK, the largest part of the private equity market is the middle market and covers investment into businesses with enterprise values of between £5 million and £100 million. Within the middle market, private equity firms which had either invested in branded apparel retailers and, more broadly, the consumer market were targeted. This approach was adopted because private equity firms will often focus on particular sectors such as consumer products or construction.

Having had limited success obtaining access to firms during the first research phase through writing letters, a more direct approach was adopted. Firstly, industry events were attended; these offered the opportunity to network face-to-face with individuals working within private equity. This yielded positive results and snowballed into other interviews. Another novel approach adopted was to network virtually. This was done using LinkedIn, the online social networking site for professionals. LinkedIn was a valuable source of contacts; it enabled direct contact to be made with professionals. It is also useful in snowballing interviews as, once connected, the researcher can see the contacts of the individual. Following interviews, the researcher connected to the interviewee via LinkedIn. This gave the researcher further credibility when seeking interviews with further contacts.

Bias is an issue that can affect any interview process and can come from both the interviewer and interviewee (Easterby-Smith et al, 2012). The researcher adopts a social constructivist position within this study. With this approach, the researcher acknowledges their role in the research process, through which the researcher interprets the interviewees' perceptions of events or phenomena. Within this context, the researcher attempted to remain as unbiased as possible throughout the research process. In contrast, interviewees cannot be guaranteed to be unbiased; although they may be relaying their personal views, they may choose to admit certain stories or avoid talking about certain subjects.

When interviewing private equity professionals, individuals were happy to discuss successful investments. In these cases, the researcher had to probe deeper into the answers the interviewee was giving. One means of doing this was through developing a rapport with the interviewee; this opened up the discussion, and would regularly reveal deeper insight in interviews. Another tactic through which the ‘party line’ could be avoided was to gather an in-depth knowledge of the individual and the activities of the private equity firm before the interview. Through using industry terms, and demonstrating a good knowledge of the sector, the researcher was able to develop credibility in interviews and, in turn, form trust (Easterby-Smith et al, 2012).

The researcher also had to adapt the interview style to build rapport and credibility, due to the nature of the private equity sector (Fontana and Fey, 1994). For example, private equity professionals will often sit on multiple company boards and are accustomed to receiving direct and precise questions. The style of interview adopted was therefore very important. Interview questions had to be direct, well-structured and laden with sector knowledge so as to keep the interviewee's attention. In order to remain precise in interviews, a semi-structured interview script was devised. Interview scripts are useful tools in qualitative enquiry (Yin, 2011; Easterby-Smith et al, 2012). They allow the researcher to have key topics of interest; however, the interviewer can also probe interesting answers, taking the conversation away from the script. Combined with initial research, a semi-structured script was created before questioning. Each interview had a bespoke script that related to the activities of the individual; a generalised script would not have been suitable within this context. This approach is commonly associated with grounded theory, as the researchers can pursue emergent themes (Charmaz, 2014).

The researcher conducted interviews with private equity professionals who have previously, or are currently, invested in branded apparel retailers. Also, private equity professionals who had not previously invested in branded apparel retailers, but had invested in consumer brands were interviewed. These individuals were interviewed due to the economic trends playing out within the sector. Private equity firms with vintages (the year the fund starts) following the 2008 financial crisis, operated in an environment in which there is a chronic under-supply of high growth firms within a post-recession economy (Prequin, 2013). The private equity industry's reduced ability to obtain leveraged finance has created an environment, especially within the consumer sector, where the supply of viable investments falls well below demand. As a result, target firms with high growth potential are attracting multiple private equity firms into competitive bidding processes. Therefore, within the sector, although the investment managers may not have directly invested in the firm, they may have conducted a due diligence of the target firm or, alternatively, be interested in a secondary or tertiary buyout of a branded apparel retailer. This gives those that have not invested in branded apparel retailers an excellent knowledge of other branded apparel retailer investments, as well as providing an alternative view of the investment to those directly involved. The broad sample is further justified based on the size of private equity firms. Jensen (1989) conducted a survey into the average number of employees private equity firms have. On average, he found private equity firms had 13 employees. Although this research was conducted in 1989, the researcher found that this observation still held true in many of the private equity firms investigated. This meant that the interviews conducted were with individuals who had an extensive understanding of the industry as well as the activities of their firms due to the small number of individuals working within firms and the sector as a whole. The following section details the interviews conducted with private equity professionals.

Alpha, Kappa, Sigma and Omega have previously invested or were currently invested in branded apparel retailers. The other private equity firms which have not invested in branded apparel retailers operate within the same segment, namely consumer products. Detailed in Table 5 are the relationships these firms have with branded apparel retailers. Further information on these brands will be presented within the next section of this chapter.

Table 5: Interviews Conducted with Private Equity Professionals.

Firm Name	**Position**	**Description**
Alpha	**Chief Finance Officer (CFO)**	Alpha operates within the UK middle market. They invest in firms with an enterprise value of between £10 million to £100 million. Their strengths lie in driving internationalisation and operational improvements. Since 2007, Alpha has had a 27% stake in Oxford Red, for an undisclosed fee.
Beta	**Partner**	Beta is a US-based private equity firm which has recently entered the UK market. Beta invests in firms with an enterprise value of £10 million to £100 million. The partner interviewed operated within the branded consumer products sector. Beta

		is currently not invested in any branded apparel retailers.
Gamma	**Investment Director**	Gamma focuses on investments in firms with an enterprise value in excess of £25 million. Gamma is the investment arm of a major UK insurance company. The investment director interviewed specialised in investments into consumer products, predominantly specialist retail and luxury branded goods. Gamma is currently not invested in any branded apparel retailers.
Delta	**Investment Director**	Delta focuses on investments into firms with an enterprise value of between £50 million and £300 million. It is a pan-European fund. The investment director interviewed specialises in consumer apparel. Delta currently has no investments in branded apparel retailers.
Zeta	**Investment Manager**	Zeta is a business angel consultancy that connects investors with small high growth companies. It has helped match a number of small brands with business angels in the early stages of growth. Currently not invested into any branded apparel retailers.
Theta	**Partner**	Theta typically invests in firms with an enterprise value of between £5 million and £100 million. It invests across six core sectors. The partner

		interviewed specialises in the consumer sector. Theta is currently not invested into any branded apparel retailers.
Kappa	**Partner**	Kappa is a pan-European private equity firm. It focuses on investment in firms with an enterprise value of between £200 million and £1 billion. It has invested in some of the UK's biggest consumer and retail brands. Kappa wholly acquired Ski Bum in 2007, in a deal worth around £350 million. It is the current owner of the brand. The partner interviewed focuses on the consumer sector and previously held a chairmanship at Blue Wave.
Sigma	**Partner**	Sigma has a successful track record in investing minority stakes in small, high-growth firms. Its target enterprise value ranges from between £5 million and £100 million, and it specialises in development capital deals. Sigma invested in Ski Bum in 2000, taking a minority stake for £3.5 million. Sigma realised its investment in 2005, having increased the turnover six-fold. Ski Bum was then involved in a secondary buyout with another leading private equity firm, in a deal worth more than £90 million. Sigma invested in another branded apparel retailer in 2006. The partner

		interviewed had extensive experience in investing in branded apparel retailers.
Omega	**Investment Manager**	Omega is a private equity firm that specialises in investing in brands, and has invested in some of the UK's fastest growing brands over the last 25 years. Its target enterprise value ranges from £1 million to £50 million. The investment team originates from a strategy/brand management background and has since been complemented with individuals from a finance background. Omega invested in Kimpton in 1999, taking a minority stake in the firm, and exited in 2007. This period saw an eight-fold increase in sales. The minority stake was sold back to the management team at Kimpton, although Omega and Kimpton still have a strong ongoing relationship. Kimpton also invested in Rugged Bear in a management buyout deal in 2010. This deal size was around £8 million, for an undisclosed stake in the firm.

3.17 DATA COLLECTION PHASE THREE: CORPORATE FINANCE INTERVIEWS

Within the private equity industry, corporate finance plays an important role in both the buying and selling of firms. As intermediaries between the private equity firm and the brand, corporate finance advisors have a lot of power within the sector and are also ideally positioned to give an insight into the influence that private equity firms have upon branded apparel retailers. Access was gained to these firms through referrals from private equity professionals. As a result, interviews were carried out with four major corporate finance advisors within the consumer sector. The interviews conducted took the same approach as interviews with private equity professionals. This strategy was adopted as part of a theoretical sampling process, and offered insight into the relationships between private equity and branded apparel retailers. Table 6 contains further information on the interviews undertaken with corporate finance professionals.

Table 6: Interviews Conducted with Corporate Finance Professionals.

Firm Name	Position	Description
Amethyst Corporate Finance	**Director**	Amethyst is a regional corporate finance firm, covering the UK Midlands area. It has experience in deals between small private equity firms and high-growth branded apparel retailers. The individual interviewed had extensive transaction experience within the consumer sector.
Quartz Corporate Finance	**Partner**	Quartz is a top tier accountancy firm that operates an industry-leading corporate finance advisory services department. The individual interviewed specialises in consumer products and has advised on both the buy and sell side of deals between brands and private equity firms.

Carbon Corporate Finance	**Director**	Carbon is one of the UK's largest accountancy firms. Carbon operates a corporate finance division specialising in both the buy and sell side of private equity.
Jasper Investment Bank	**Managing Director**	Jasper is one of the world's largest and oldest investment banks. It is market leader in global mergers and acquisitions. The Managing Director interviewed has advised on global brand-related deals on both the buy and sell side. The deals made were mainly above the middle market of private equity.

3.18 DATA COLLECTION PHASE FOUR: BRANDED APPAREL RETAILERS

Having conducted interviews with both private equity and corporate finance firms, contacts were made with important gatekeepers within the industry. A number of these professionals had either invested, or knew others in the industry who had invested, in branded apparel retailers. The researcher was therefore able to gain access to branded apparel retailers through these gatekeepers. Furthermore, it was clear that saturation of data had occurred from interviewing private equity professionals; however, there was a need to gain further perspective from the perspective of the branded apparel retailers. The researcher also sought to gain further insight into the branded apparel through interviewing an expert retail consultant who specialises in developing research insights for the apparel retailing sector. This was used to get an overview of the sector, and also discuss some of the themes that had emerged from the grounded theory process.

Table 7 details the interviews completed as part of data collection Phase Four. These branded apparel retailers are also spread across a variety of different stages of growth. For example, their turnovers range from £6 million (Sporting Lions) to £240 million (Kimpton). The range of growth stages provides an interesting contrast across contexts. Table 7 also includes details of the interview with retail consultant Vanessa Grey of Retail Research, an expert within the sector. Semi-structured interviews were used. Following the completion of these interviews, the researcher felt that data saturation had occurred. Rather than worrying about obtaining a specific number of interviews, saturation was achieved when theory began to emerge and take shape. This approach is in line with the perspective that Locke (2011) proposes, in which the researcher should question what information and what type of information is required to understand the context of the study and to build a grounded theory. To further formalise the development of the grounded theory, the researcher used financial data to understand the effect private equity firms were having on the financial performance of the firms in which they invest. Two measures were used; these were turnover and operating profit, financial performance metrics that are commonly used within management research to understand firm performance (Richard et al, 2009; Katsikeas, 2016). Data was obtained from the UK Companies House Beta Service for the firms that had received private equity investment (Ski Bum, Kimpton, Oxford Red, Rugged Bear).

Table 7: Interviews Conducted with Branded Apparel Retailers

Branded Apparel Retailer	Interviewee Position	Description of the Brand
Kimpton	**Managing Director**	Founded in 1991, Kimpton sells high-quality aspirational clothing for middle-class families. Their brand values represent an aspirational middle-class British lifestyle and are strongly rooted in the founder's lifestyle. Currently, Kimpton has no retail outlets and operates solely through online and mail order. It has an international presence in America and Germany. Latest figures (2012) show a turnover of more than £240 million. Kimpton has been through a period of private equity ownership under Omega private equity between 1999 and 2007.
Ski Bum	**Chairman**	Founded in 1988, Ski Bum sells clothing for men, women and children. Ski Bum represents an active, outdoor lifestyle. The two founders started the brand to fund their ski and surf lifestyle. The brand is multi-channel, and has a strong retail presence with over 208 stores in the UK. Its latest accounts (2012) reveal a turnover of £162 million. Ski Bum has had three private equity owners. Firstly, Sigma between 2000 and 2005. Sigma then sold Ski Bum to another private equity firm, Baker International, in a secondary

		buyout; however, access to this firm could not be arranged. This period of private equity ownership ran between 2005 and 2007. In 2007, a tertiary buyout was completed, and Ski Bum was bought out by Kappa private equity. Kappa currently owns Ski Bum.
Oxford Red	**Board Member**	Founded in 1999, Oxford Red is a brand that represents a preppy British public school and university lifestyle, aimed at 14 to 22-year-olds. The brand is multi-channel, with an international presence including 18 international stores; in the UK, it has over 60 stores. The current turnover is more than £120 million. Oxford Red received investment from Alpha private equity in 2007; Alpha currently holds a minority stake in the firm.
Blue Wave	**Managing Director**	Founded in 1985, Blue Wave is a branded apparel retailer selling both men's and women's clothing. The brand promotes a happy bohemian lifestyle. Originally founded by two entrepreneurs, the brand is an extension of their lifestyle. Blue Wave is a multi-channel retailer and has over 100 stores and concessions in the UK. Blue Wave has a current turnover of more than £100 million. Blue Wave has not received private equity investment, but its former chairman is a senior figure in the private equity firm Kappa.

Rugged Bear	**Northern Sales Director**	Founded in 1993, Rugged Bear is an après-surfing branded apparel retailer. The firm sells men's and women's clothing. It currently has 12 dedicated stores and over 400 concessions. The brand also has strong mail order and online sales. Current turnover is over £12 million (2012). In 2010, Omega invested into the brand through a management buyout.
Sporting Lions	**Managing Director**	Sporting Lions offers fashionable clothing for teens and individuals in their early twenties. The brand has a strong university heritage and is representative of a traditional British red brick university sporting and social lifestyle. Sporting Lions does not currently have any fixed stores; however, it trades through pop-up stores at country fairs. Also, it has concessions as well as mail order and online channels. The current turnover of Sporting Lions is more than £6 million. Sporting Lions received investment from an early stage. Firstly, Knowles invested in Sporting Lions in 2010, allowing Knowles to enter the teenage clothing market. However, following this investment Knowles decided to sell its stake to an Asian investment group, which owns a number of brands.
Retail Research	**Group Research Director**	Vanessa Grey is the group research director for a major retail consultancy and research agency. She is a

(Vanessa Grey)		member of multiple retail think tanks and offers expertise within the media.

3.19 SUMMARY OF THE RESEARCHER'S GROUNDED THEORY JOURNEY

Goulding (2002) uses diagrams to present the typical grounded theory process. This can be a useful research tool for the researcher when reflecting on the process they have undertaken within the study. Figure 6 illustrates how the approach to grounded theory varies in this study compared to Goulding (2001). The approach adopted in this study is on the right of Figure 6, while Goulding's approach is on the left.

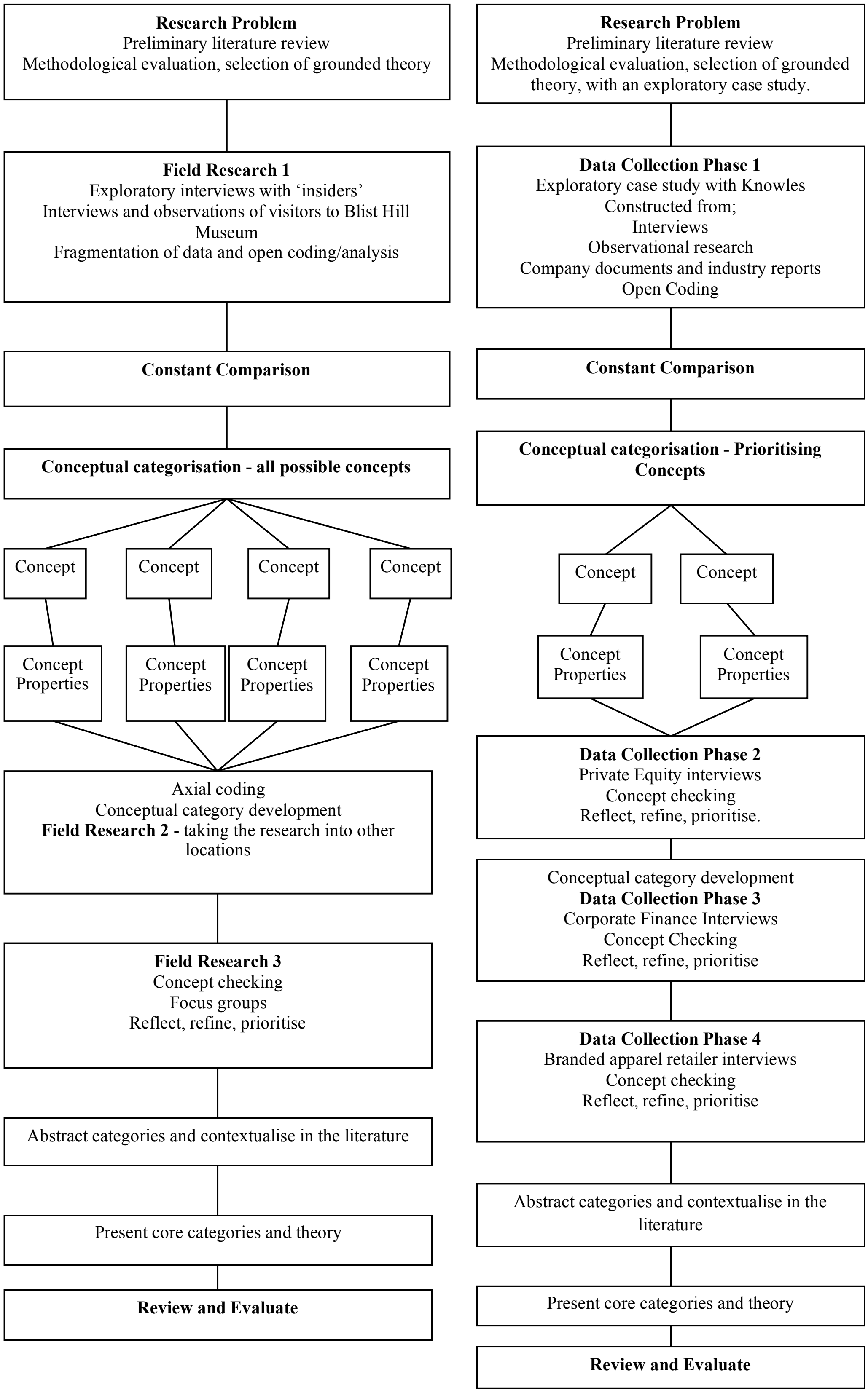

Figure 6: Comparison of Ground Theory Approaches (Source: Adapted from Goulding, 2001)

3.20 ETHICAL CONSIDERATIONS

The study adhered to the ethics guidelines presented by Easterby-Smith et al (2012). Table 8 details each principle, and how this study adheres to it.

Table 8: Ethical Considerations in Management Research (Source: Easterby Smith et al, 2012).

1) Ensuring no harm comes to participants
• No harm, physically or reputationally, came to any participants. The nature of the study is such that this consideration is not an issue.
2) Respecting the dignity of the research participants
• The dignity of the research participants was respected.
3) Ensuring the fully informed consent of research participants
• Each interviewee verbally consented to the interview, and was clear in the knowledge of the purpose of the interview, and the wider purpose of the study.
4) Protecting the privacy of research subjects
• All respondents have been given pseudonyms in the write-up of this study.
5) Ensuring confidentiality of research data
• All individuals and firms have been given pseudonyms. Data has been secured in a locked cupboard within a locked office for the duration of the study. Furthermore, all electronic recordings and transcripts are securely stored on the university network and are password protected. Data was shared and discussed with the supervisors of the project; the supervisors also adhered to research data confidentiality.
6) Protecting the anonymity of individuals or organisations
• The anonymity of participants has been maintained within the write-up of the study. Although a number of firms were happy to have their names used in the

	study, a decision was made to make all participants anonymous. When snowball sampling, the next interview participant inherently knows that the researcher has spoken to the previous participant. Therefore, information that was deemed confidential or strategically significant that had emerged from previous interviews was not discussed in other interviews. Furthermore, participants would often draw on examples from other firms within the sector that the researcher had conducted interviews with. The researcher was therefore wary of disclosing any information about the firm in that interview. To address this, the researcher only discussed publicly available information about the firm. Additionally, no transcripts or field notes have been included in this study to further enforce participant confidentiality.
7)	**Avoiding deception about the nature and aims of research**
•	The nature and purpose of the research were clearly outlined when making initial contact with the participant, whether this was through email or a telephone conversation. Furthermore, participants were briefed before interviews started about the nature of the research, and given a clear description of the research study. The participants were also informed that all research data would be presented under pseudonyms.
8)	**Declaration of affiliations, funding sources and conflicts of interest**
•	No external funding was given to directly support this research. The researcher made sure to inform the participants that data would be shared with the supervisors of the study and no other individuals.
9)	**Honest and transparency in communication about the research**
•	The researcher was clear to the study's participants about the nature of the research, and no deception took place.

10) Avoidance of any misleading or false reporting of research findings
• Research findings were reported truthfully and fully; no false reporting of research findings has been made.

3.21 CONCLUSION

This chapter is important in highlighting the methodological approaches used by the researcher in this study. As mentioned previously, grounded theory can be a complex methodology to use as well as to write up. Therefore, it is important to present a clear rationale for adopting the approach as well as detailing the process the researcher went through. This chapter achieves this goal through meeting the objectives set out in the introduction. Objective 1 has been achieved through providing an overview of the ontological and epistemological foundations of the study, detailing how the relativist ontology and social constructivist epistemology of the researcher directed the choices made in the study. Objective 2 has been achieved by presenting a comprehensive discussion of grounded theory. This discussion provides a rationale for this approach, which links to the philosophical underpinnings of the study as well as the phenomenon the researcher sought to investigate. The researcher also provides insight into the debates between Glassian and Straussian grounded theory, and how this influences the researcher's approach to grounded theory. Additionally, this section demonstrates that the researcher adheres to the central tenets of grounded theory, which are the need to minimise theoretical preconceptions before entering the field and to collect and analyse data simultaneously. Objective 3 has been realised by presenting the methodological techniques used in this study and by discussing the data collection phases and processes the study passed through, with the use of an exploratory case study with branded apparel retailers Knowles. The second stage of data collection was driven by theoretical sampling and saw the researcher interview private equity professionals. Following this, the third stage of interviews was with corporate finance professionals, and they were chosen due to their knowledge of the sector and their role in brokering deals between private equity firms and target firms. The final stage of data collection was with branded apparel retailers. These interviews allowed the researcher to gain an insight into how the private equity firms had affected these businesses. The study will now present the findings of the grounded theory process. These findings will be used to develop the grounded theory.

CHAPTER 4: INDUSTRY CONTEXT AND DEFINITION

4. INDUSTRY DEFINITION AND CONTEXT

4.1 INTRODUCTION

The aim of this chapter is to introduce the context in which this study has been undertaken. This study seeks to understand the factors affecting the performance of branded apparel retailers under private equity ownership. The chapter aims to achieve the following objectives:

1. Define private equity, as well as the private equity context this study investigates.
2. Demonstrate how private equity works; this is important as the study examines the factors affecting target firms under private equity ownership, and so to fully understand these factors, an overview of private equity must be given.
3. Discuss the trend of private equity firms investing into branded apparel retailers, justifying why it is important to study this phenomenon further.

To achieve the first objective a definition of private equity will be given, and the context of this study (the UK private equity middle market) will be introduced. This will be in Section 4.2. To achieve the second objective, the six stages of private equity will be discussed: raising the investment, leverage, deal-making, operations, exit, and dividing profits. This discussion will provide a valuable insight into the unique private equity industry and the way private equity firms operate. This will be discussed in Sections 4.3 to 4.9. To achieve the third objective, information will be presented highlighting the link between private equity and retailing and, more specifically, private equity and branded apparel retailers. The prevalence of deals in this sector highlights a need to investigate the phenomenon further. This will be in Section 4.10.

4.2 PRIVATE EQUITY

Private equity is an asset class that provides capital in exchange for equity in firms that have growth potential. The Bank of England (2013) reported that in 2000 the UK had 2,000 firms under private equity ownership, but by 2007 this figure had risen to 14,000. In the UK, private equity owns 5% of the total assets in the corporate sector (Bank of England, 2013). Private equity has various and often conflicting definitions, which can vary between geographic regions. In Europe, private equity includes venture capital, whereas in the US, venture capital is excluded in definitions (Kaplan and Strömberg, 2008). For this study, private equity will be defined as the process of providing ‘closed-end’ capital commitments to private or publicly listed firms, commonly using a combination of equity and debt (leverage). Despite this definition, the parameters of these deals in private equity vary greatly depending on a number of factors. These factors will be discussed throughout this chapter.

The economic theory of private equity firms is based on the principal-agent issue (Jensen, 1989; Kaplan, 1989; Gilligan and Wright, 2008), which is centred on conflicts of interest between shareholders and managers. Private equity addresses this issue, as it aligns the goals of the principals (private equity) with those of the agent (target firm) through offering large incentives to management or through taking complete control of the firm. Gilligan and Wright (2008) argue: "This idea of alignment is central to all the economic structures observed in the private equity market" (p.1). This economic heritage is useful in understanding the strategic motivations and objectives of the sector, as it is indicative of private equity as an asset class seeking to rapidly increase the value of the firms in which they invest (Jensen, 2001; Jensen, 1989). Within the private equity industry, there are high levels of heterogeneity between the strategic approaches that private equity firms adopt. These range from venture capital-type deals to the buyout of major publicly-listed firms; this study focuses on the UK middle market, which is a diverse area of the private equity market (Clark and Bawden, 2011).

The UK private equity middle market is the focus of this study. The middle market is defined by financial parameters. The British Venture Capital Association (BVCA) (2013) categorises the middle market as an equity investment of between £5 million and £100 million. It is important to note that these investment sizes are not the total deal value, i.e. equity plus debt, but are purely indicative of equity invested. Clark and Bawden (2011) criticise the breadth of the middle market definition. They argue that, in reality, the middle market is a fluid and wide-ranging market space in which the activities of private equity firms vary greatly. For example, a £10 million early stage investment for a 5% equity stake varies massively from a £100 million management buyout, taking the firm from being publicly listed to private ownership. Furthermore, during the investment process, a private equity firm may take a business from having a turnover of below £5 million to a turnover in excess of £50 million. In this case, the market definitions have little value other than quantitative parameters for statistical purposes.

The justification for selecting the middle market is driven by the grounded theory process. The branded apparel retailers investigated fall within the investment parameters of the middle market. Moreover, the researcher observed that the deals undertaken between private equity firms and branded apparel retailers had occurred within this area of the private equity market. Within the UK middle market, there is a wide range of private equity firms, all operating in different investment niches. For example, some firms may specialise in the early growth of food and drink brands, investing in deals up to £20 million. Other private equity firms may operate within a similar sector; however, they will focus on investing in deals in excess of £50 million. Clark and Bawden (2011) highlight this diversity; their research into the middle market finds that there is a wide range of strategies adopted within the middle market.

4.3 How Private Equity Works

Private equity firms are part of a cyclical investment process. To understand the investment process, it is important to identify the flow of capital (Kelly, 2012). The following section aims to illustrate the differences in the practices of private equity firms in comparison to other financial stakeholders. Figure 7 is adapted from Kelly (2012) and illustrates the flow of capital within private equity. The following section is divided into describing six stages of private equity, and this will provide an insight into the practices of the sector and the key factors that drive this cycle. The motivation for presenting private equity in this manner is to highlight the shareholder orientation of the sector and the importance of maximising financial value (Jensen, 2001; Jensen, 1989).

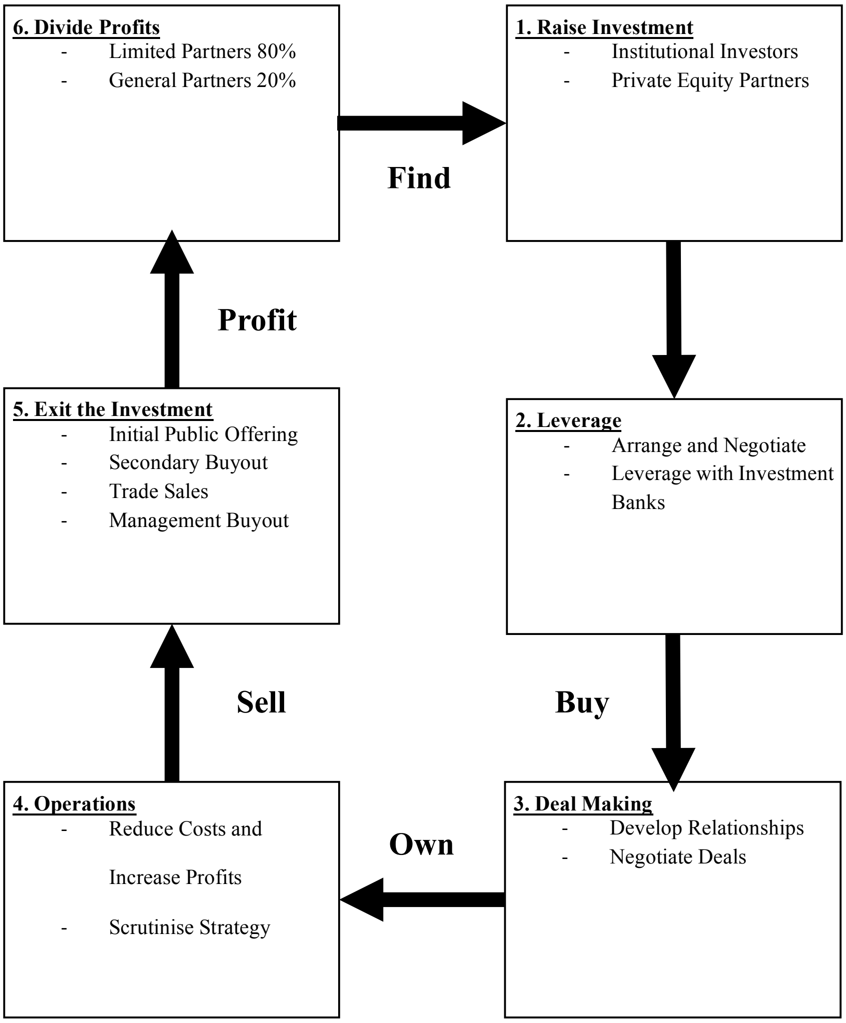

Figure 7: The Flow of Capital within Private Equity (Source: Adapted from Kelly, 2012)

4.4 STAGE 1: RAISE THE INVESTMENT

Private equity firms start by raising investment in order to begin investing in firms. Private equity funds are closed-end investments, as they are run for a predetermined time, typically ten years (Kaplan and Strömberg, 2008). Funds raised consist of capital from general and limited partners, which are institutional investors and can include pension funds, insurance companies, banks, family estates, government agencies, wealthy individuals, and academic institutions. General partners are individuals within the private equity firm who actively manage the investment strategy of the fund. The typical capital structure of a private equity fund is 80% limited partner and 20% general partner (BVCA, 2010). The amount of capital that general partners invest is seen as a good indicator of the confidence the private equity firms have in generating a significant return on investment. Limited partners have little say in investment decisions, although they will have a good understanding of the fund's strategy before investment. Private equity gives institutional investors direct access to an area of the market (private companies), which would be hard to access otherwise. Private equity firms sit in the middle of this relationship and have a duty to the general and limited partners to increase the value of the fund. Private equity funds seek to maximise the value of the firms they invest in during their ownership period to return a profit to their limited and general partners.

4.5 STAGE 2: LEVERAGE

Leveraging is the process of borrowing capital, to buy a stake in a target firm and using the target firm as collateral. The debt then remains with the target firm once the private equity firm has exited the investment. Leverage is one of the most important factors in the rise of private equity and its potential to deliver huge returns. However, it is also one of the most controversial (Gilligan and Wright, 2014). Leverage in private equity has been described as a form of financial engineering (Kaplan and Strömberg, 2008; Kelly, 2012), which involves loading a target firm with large amounts of debt, having little involvement with the firm or selling off its assets and profiting from a quick sale. However, it is also important to recognise that not all private equity firms use leverage; small to medium size deals into high growth firms will often be pure equity.

Leverage in private equity is similar to mortgaging a property. A private equity firm wanting to invest into a firm valued at £50 million would invest £10 million of its fund capital; the remaining £40 million could be bought with borrowed leveraged finance. In this process, the target firm is used as collateral for the debt. The extent to which a deal is funded by leverage is known as gearing and is an expression of the debt to equity ratio. The use of leverage has multiple benefits for private equity firms as they need only to make a profit based on the capital invested. Therefore, if a private equity firm invests £20 million of capital and leverages £80 million, and the company sells for £120 million, the firm generates £20 million in profit, doubling its initial equity investment. Had the private equity firm not used leverage to acquire the company, and invested the full £100 million, it would have had to sell the firm for £200 million to double its money; leverage makes private equity highly lucrative, and without it, the industry would not have grown to the size it is today.

The use of leverage finance links private equity firmly to the investment banking sector. In 2007, the top twenty private equity firms paid Wall Street investment banks $16.3 billion in fees, falling to $7.65 billion in 2010 following the financial crisis (Kelly, 2012). The reliance of the sector on investment banks has meant private equity is exposed to major market events such as the financial crisis in 2008. The following section will look at the relationship between private equity, investment banks, and major economic events, which has implications for understanding the current state of the UK private equity sector.

Macroeconomic trends act as a good indicator in determining whether or not leverage can be used in deals. Axelson et al (2013) identify that economic credit conditions determine the amount of leverage private equity can obtain and, as a result, the total number of deals made in terms of size and volume in the market. For example, following the 2008 financial crisis, banks became less willing to provide the private equity industry with cheap debt. The global economic crisis reduced leverage levels significantly. In contrast, before the financial crisis, and during periods of cheap credit, some of the largest private equity deals were undertaken.

Kaplan and Strömberg (2008) explain the sometimes volatile relationship between private equity and leveraged finance. They suggest that the 1980s private equity boom was supercharged by the availability of cheap debt, following the creation of junk bonds. Junk bonds are high risk, high yield bonds raised by corporations that wish to generate significant amounts of capital quickly. Junk bonds were first developed by investment bank Drexel Burnham Lambert (The Economist, 2010). However, in 1989 the junk bond market collapsed, culminating in the bankruptcy of Drexel Burnham Lambert.

The collapse of Drexel Burnham Lambert had wide-reaching implications for the private equity sector, which saw many high profile leveraged buyout deals collapse or fail to return a profit to investors; for example, the bankruptcy of American-based pharmacy Revco, and the infamous RJR Nabisco buyout by KKR (Brunner & Eades, 1992; Burrough and Helyar, 2010). The ramifications of the junk bond crash caused a slump in the market throughout the mid-1990s. However, in the mid-2000s, leveraged buyouts began to increase, leading to a second leveraged buyout boom where, between 2000 and 2007, record amounts of capital were committed to the private equity industry (Kaplan and Strömberg, 2008). For example, in 2007 KKR completed its acquisition of Alliance Boots for £1.25 billion. This is the largest-ever UK buyout, and since then no deal in the

UK has come close to this size (Gilligan and Wright, 2008).

The financial crisis was a watershed moment for the private equity industry. The period between 2000 and 2006 saw the total corporate debt created by private equity grow to record levels (Bank of England, 2013). Following the financial crisis, debt became increasingly difficult to obtain, as illustrated by the rising levels of equity used in deals by private equity (BVCA, 2010). Before the financial crisis, investment banks were undertaking reckless lending practices, especially in leverage finance. The failure of the Royal Bank of Scotland and the resulting government bailout were in part down to their aggressive strategy within their leveraged finance division (FSA, 2011). Such a public collapse caused shockwaves in the banking industry, leading to some banks reducing their operations within this area. Distinctions in leverage should also be made between the sizes of deals undertaken. Figure 8 illustrates how smaller deals (below £100 million) historically have had lower levels of leverage than those above £100 million. This point is important for this study, as it demonstrates the middle market's use of operational engineering instead of relying on financial engineering, which is a notable trend within the private equity sector.

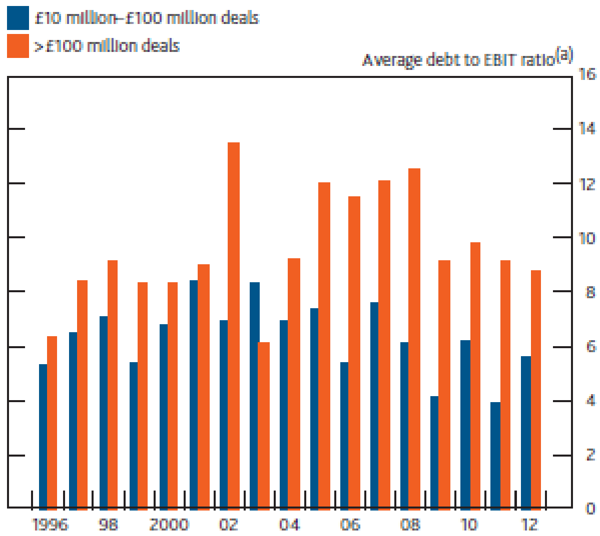

Figure 8: Average debt to earnings ratios for acquisitions of UK companies by private equity firms 1996-2012 (Source: Bank of England, 2013).

4.6 Academic Perspectives on Leverage

Leverage has received attention within academic literature (Baxter, 1967). Academics in the 1980s examined the growth of the leverage buyout sector. They predicted that the approach to ownership that private equity firms adopted would lead to the demise of the traditional corporation, to be replaced by a private equity approach to firm ownership; this was described as the eclipse of the modern corporation (Jensen, 1989). This prediction was based in part on the perceived positive implications leverage has on firms. The influence of leverage causes firms to operate under tighter financial restraints to service the large debt, and creates financial discipline through cost cutting and management efficiencies. This benefit is in comparison to publicly-listed firms which have slacker financial controls (Jensen, 1989). However, research by Wright et al (1996) found that failed private equity buyouts are more likely to have higher levels of leverage. This argument is supported in the work of Baxter (1967), who suggests that extreme levels of leverage cause insolvency. Moreover, the overpayment for a firm, which is likely to have higher levels of leverage, is a major cause of distress in private equity deals (Kaplan and Stein, 1993). Leverage within the context of this study is important because between private equity stage one and private equity stage two, the branded apparel retailers move from deals that used no leverage to deals that were leveraged. This offers an interesting comparison between two different approaches to leverage.

4.7 STAGE 3: DEAL MAKING

For private equity firms, deal making is incredibly important. Being able to develop strong relationships with the management of target firms prior to investment allows a deeper understanding of the issues that affect the business, and the role the private equity firm can play in growth. Often, target businesses will be approached by multiple private equity firms, all attempting to display their credentials as potential investors. Furthermore, businesses employ financial advisors to find buyers; this involves the creation of pitch books that are sent to private equity firms. Many of the UK's largest investment banks and accountancy firms operate corporate finance teams that work specifically in this area. If multiple private equity firms become interested in a company, a corporate finance advisor will run an auction for it.

The type of deal structure private equity firms adopt is dependent on a number of factors. These include the industry, management team, stage of a firm’s growth and the founder, as well as the expertise of the private equity firm. One of the most common forms of private equity deal within the middle market is expansion or development capital. Development and growth capital deals see private equity firms invest in small to medium businesses with high growth potential. These types of investment will involve little to no leverage and will be undertaken by private equity firms operating with strong sector knowledge. This deal structure sees the private equity firm take a minority stake in the target firm. Annually, this deal type accounts for approximately 25-40% of the volume of deals in the UK market (BVCA, 2013). Within the context of this study, development capital deals are highly relevant. The lifestyle brands selected typically engage in development capital deals with private equity firms during the early stages of their growth. Development capital deals or minority investments are relatively under-studied within the literature. Importantly, the founder or management team remains within the firm.

Other deal structures exist, such as management buyouts, management buy-ins, rescue/turnaround and public-to-private. In addition to development capital deals, secondary and tertiary buyouts are significant to this study. These buyouts occur when one private equity firm sells directly to another private equity firm. If the same company is then sold to another private equity firm, this is a tertiary buyout. Secondary and tertiary buyouts are common within the middle market, where companies are passed between different private equity firms as they grow. These types of deals were observed within this study. Public-to-private deals are also important within private equity. These deals involve the buyout of a publicly listed firm, with the private equity firm buying a majority stake and removing the firm from the market. These deals are often the largest in the industry, undertaken by mega funds such as KKR or Bain Capital. This deal type is typical of the leveraged buyout boom of the late 1980s and mid-2000s. These deals are publicly highly visible, and have become the most commonly known type of private equity deal. However, in reality, these deals account for less than 5% of the total value of private equity deals in Europe (Gilligan and Wright, 2014). This statistic is significant, as research into the impact of private equity has commonly been analysed in the context of public-to-private buyouts. This study instead focused on the heterogeneous middle market, where multiple types of deals exist. Moreover, the private equity firms investigated within this study have a far more hands-on approach to the target firms in which they invest. This study provides a deeper insight into an under-researched area of the private equity industry.

Private equity interacts with a number of different professional advisors throughout the investment process. Professional advisors work on both the buy and sell side of deals. Within the sector, advisors can hold a lot of power as they act as gatekeepers for successful firms looking for investment. Some of the key stakeholders include investment banks, accountancy firms, legal firms and corporate financial advisors. Most significant to this study is the role that corporate finance advisors play in the industry. On the deal side, corporate finance teams specialise in mergers and acquisitions, on both the buy and sell side. On the buy side, corporate finance advisors help private equity firms or trade buyers identify suitable acquisition targets and advise them through the process. On the sell side, advisors pitch firms to buyers, as well as guiding firms through the deal process. Corporate finance advisors play an important role in advising firms on how to sell their businesses, actively engaging at a board level with strategic advice before sale. The importance of corporate finance advisors emerged through the grounded theory process, and therefore the researcher chose to speak to these important gatekeepers. These individuals then helped the researcher access branded apparel retailers and to advance the study.

4.8 STAGE 4: OPERATIONS

Operational engineering is a key feature of private equity (Kaplan and Strömberg, 2008). Operational engineering is a practice that sets private equity apart from other asset classes and is the activity by which private equity firms actively engage with the strategy of the firm in which they invest. Operational engineering can take many forms, such as developing efficiencies, entering new global markets, or corporate downsizing. Operational engineering emerges as a viable strategy for private equity firms during periods when credit is less readily available, such as after the 1980s junk bond crash or the 2008 financial crisis. Kelly (2012) labels this trend the ‘rise of the ops'. The middle market of the UK private equity industry has a heritage of using operational engineering to increase the value of the firms in which they invest. This was particularly relevant in this study, where it was observed that private equity firms adopted an approach whereby they delivered growth through providing strategic guidance for the firms in which they invested.

4.9 STAGE 5: EXITING THE INVESTMENT

Private equity funds are closed-end investments, which means they have predetermined start and finish dates. This can be described as a buy-to-sell approach to firm ownership or parenting (Barber and Goold, 2007). Towards the end of the investment period, private equity firms have to exit the investments they have made in order to return capital plus profit to their general and limited partners. Exits can take a number of different forms including trade sales, repurchases by the management team, flotations, and secondary or tertiary buyouts. Each sell-on usually is to a larger private equity firm. This process can also see an incremental percentage stake in the firm sold through each buyout stage. Within private equity, secondary and tertiary exits have increased due to the slowdown in initial public offerings (IPOs) (Gilligan and Wright, 2008). IPOs are when a firm offers its shares to public markets in order to raise capital; these shares can then be traded on stock markets such as the London Stock Exchange.

Investment duration and exit strategy are important to this study. The private equity sector, within the context of the wider financial sector, views itself as a long-term investor. Funds on average run for ten years (Kaplan and Strömberg, 2008). During this period, private equity firms must invest and exit a firm. This means that, on average, investments are held for between four to six years, although in some cases this could be significantly less (BVCA, 2010). Moreover, if a firm shows potential for future growth, it may be partially exited and passed over into the private equity firm's new fund. This approach to investment is indicative of a buy-to-sell approach to parenting.

Private equity firms make a profit from two distinct revenue streams, carried interest and management fees. Carried interest refers to the increase in the value of the funds. Typically, a private equity firm will agree a percentage share of profits; this is usually 20% (Gilligan and Wright, 2008). Carried interest can be ratcheted to incentivise the private equity fund's performance. It is therefore in the interests of the general partners to maximise the financial value of the firms they invest in during the period for which they own the firm. This is important to this study, as it highlights that incentives exist for private equity professionals to grow the target firm before exiting the investment.

4.10 PRIVATE EQUITY AND BRANDED APPAREL RETAILERS

Clark and Bawden (2011) highlight the link between middle market private equity firms and the retail sector. They identify that private equity firms enable small retailers to grow through implementing strategies that improve cash flow and management practices. From their dataset, they identify 107 private equity deals within the mid-market between 2000-2008. Within their dataset, they identify (using standard industry definition codes) that 42 of the deals undertaken were in firms categorised as selling clothing, footwear and accessories. Interestingly, eight out of the 42 deals made in this sector were in administration by the end of 2009. This outcome suggests that private equity does not always lead to positive effects on firm performance following the investment. However, in comparison, eight deals were made in the household/home retailers, of which three firms entered into administration following private equity ownership. Evidently, there is a strong link between mid-market private equity in the UK and retailing, especially in what can broadly be defined as the apparel retailing sector (clothing, footwear and accessories).

Within the UK retailing sector PwC (2016) has developed insights into the premium lifestyle clothing, footwear and accessories market. As mentioned previously, the premium lifestyle clothing sector's total value increased from £1.4 billion in 2009 to £2.7 billion in 2014. Moreover, the percentage size of this sector within the total UK clothing market has grown from 3.3% in 2009 to 5.5% in 2014, with PwC predicting a rise to

6.2% by 2020. Important to this sector is the sense of identity these brands provide to consumers, through consumers buying into a particular heritage or theme (PwC, 2016). PwC also found that brand engagement is essential for these firms, noting that the in-store experience allows the firms to build brand identity with consumers. The rapid growth of this sector is perhaps why private equity firms are being attracted to invest in these firms. Alternatively, it could also suggest that this sector has achieved such rapid growth due to private equity involvement. Central to the success of these businesses is the strength of their brands and their ability to generate brand loyalty (PwC, 2016). Of the 21 brands the PwC report investigated, 18 were founded in the UK, and from these firms, nine have received private equity investment. This strong association between private equity and the premium lifestyle segment warrants further investigation. Moreover, it highlights the importance of understanding the factors affecting branded apparel retailers under private equity ownership. Furthermore, from the 18 UK based firms PwC investigated, the researcher collected data from either the firms themselves or the private equity firm involved in five of the nine private equity-backed firms. To further highlight the relationship between private equity and firms operating within the apparel sector, Table 9 has been developed. This demonstrates the relevance of private equity within the wider branded apparel retail sector globally. Please note, no firms included in this study or the PwC report are included in the table. Evidently, there is a clear link between these two sectors, which requires further investigation.

Table 9: Overview of Branded Apparel and Luxury Retailers' Involvement With Private Equity

Brand	**Description**	**Deal Size and Date**	**Current?**	**PE Firm**
Ben Sherman	British men's fashion brand	£40m 2015	Yes	Marquee Brands

				(PE-backed portfolio)
Sweaty Betty	British yoga/fitness fashion brand	Undisclosed 2015	Yes	Catterton
TOMS	American footwear brand	Undisclosed 2014	Yes	Bain Capital
American Apparel	American fashion brand	$14m 2014	Yes	Five T Capital
Crocs	American rubber footwear brand	$200m 2014	Yes	Blackstone Group
Versace	Italian luxury brand	EU210m 2014	Yes	Blackstone Capital
Dr Martens	British footwear brand	£300m 2013	Current	Permira
Jaeger	British women's fashion brand	£19.5m 2012	Yes	Better Capital
Valentino Group	Luxury fashion group	EU5.3 billion 2008	Exited	Permira
Hugo Boss	German luxury fashion brand	Part of Valentino Group Deal 2008	Exited	Permira
La Perla	Italian luxury lingerie brand	Undisclosed 2008	Exited	JH Partners
Agent Provocateur	British luxury lingerie brand	£60m 2007	Yes	3i
Hobbs	British fashion brand	£111m 2004	Yes	3i
Jimmy Choo	British luxury shoes and accessories brand	£9m 2001 £100m 2004 £185m 2007 £500m 2011	Exited	Phoenix Equity Lion Capital

				Tower Brook Capital Labelux (stable of brands)
Gray and Osbourn	British women's premium mail order fashion brand	£4m 1998	Exited	Piper Private Equity

4.11 CONCLUSION

This chapter set out to achieve three core objectives, and a reflection on these objectives will now be given. Objective 1) was achieved by providing a definition of private equity and highlighting the characteristics of the middle market. Importantly, the middle market is a diverse area of the private equity market, with a wide range of investment strategies and deal types being completed in this area. This has implications for the development of the Three-Stage Model as at different stages of growth the investment strategies of the private equity firm and the effects this has on the branded apparel retailer will vary. Objective 2) is achieved through providing an overview of how private equity works. This is important as it provides insight into the strategy of private equity firms, and highlights the unique buy-to-sell approach they adopt. Objective 3) was achieved through demonstrating the role private equity has played in retailing, and more specifically the branded apparel retailing sector. There is a prevalence of private equity deals in this sector, justifying research into the factors affecting the performance of branded apparel retailers under private equity ownership.

CHAPTER 5: EMPIRICAL FINDINGS

5. EMPIRICAL FINDINGS

5.1 INTRODUCTION AND RATIONALE FOR STRUCTURE

Before detailing the contents of the chapter, a rationale for the structure adopted is given. A grounded theory approach enables researchers to use theoretical sampling to guide them when collecting data (Glaser and Strauss, 1967). Theoretical sampling allows the exploration of themes that emerge from the data and gives researchers the ability to adapt their data collection strategy accordingly. Within this study, the research process began with collecting data from branded apparel retailer Knowles. The data collected was then used to create an exploratory case study. The rationale for this approach was to allow the researcher to understand the growth of Knowles and to see where the data would lead the researcher. During the data collection process with Knowles, the researcher also developed a document archive of reports about branded apparel retailers and the wider industry. From the analysis of these two sources of data, the researcher identified the important role private equity played in the growth of branded apparel retailers.

The grounded theory approach can often be a messy process (Locke, 2001; Dunne, 2011). The focus of the research can change throughout the process as well as the context from which data is collected. Writing up empirical findings can therefore be challenging for the researcher, as the complexity of the process makes it hard to present findings in a coherent manner. This complexity comes from the continual process of concept checking, reflecting, refining and prioritising, and can mean that concepts identified at the start of the project may not be relevant at the end of the study. If the researcher were to include all the iterations and potential categories, the chapter would lack clarity.

To bring more clarity to the presentation of the findings, this section is organised around the three stages of ownership identified within the study. The presentation of the findings deviates from the different stages of data collection discussed within the methodology.

The findings emerge from the theoretical sampling process in which the researcher engaged. The researcher could have chosen to present the findings in a way that followed the theoretical sampling approach. This method may have been more indicative of the complex grounded theory process and could have been used in conjunction with the research diary kept by the researcher. However, reflecting on this approach, the researcher found the process too complicated to present. Instead, an approach is adopted that presents the finalised categories that have emerged from the grounded theory process. The rationale for presenting in this manner is that it allows for a chronological understanding of the factors affecting the performance of branded apparel retailers under each stage of private equity ownership.

Stage one refers to the first investment a branded apparel retailer receives from private equity. The branded apparel retailers that are in, or have been through this stage are Kimpton, Ski Bum and Rugged Bear. Blue Wave and Sporting Lions have not been through private equity ownership, but they provide an interesting comparison and a way of further developing an understanding of the factors identified. Stage two refers to the period after the private equity firm has exited the investment. During this stage, the branded apparel retailer can be bought out by private equity as part of a secondary buyout, or enter into another form of ownership arrangement. The firms that have passed into this stage are Kimpton and Ski Bum. In this stage, Kimpton exited private equity and returned to private ownership and Ski Bum was bought out in a secondary private equity deal. The different trajectories of these two firms offer an interesting contrast between the factors that shape their relationship with private equity. Finally, the third stage of private equity refers to branded apparel retailers that have entered into private equity ownership for the third time. In this stage, Ski Bum will be discussed, as it has been involved in a tertiary buyout. Within each stage, factors affecting the performance of branded apparel retailers under private equity ownership are considered. Performance is assessed based on the analysis of turnover and operating profit of the target firm. Turnover and profit are taken for the period in which the private equity firm is invested in the target firm. This data was taken from UK Companies House Beta service, which is an online platform that contains annual financial reports for publicly and privately registered companies and partnerships in the UK. The aims and structure of the chapter will now be discussed.

The aims of this chapter are as follows:

Introduce in Sections 5.2 to 5.9 the Knowles case study, and demonstrate how the researcher became interested in understanding the role that private equity firms played in the growth of branded apparel retailers.

Present data in Sections 5.10 to 5.26 on the factors affecting branded apparel retailers during private equity stage one. Firstly, the firms investigated will be introduced, and their involvement with private equity will be given. The researcher will then present the factors identified from the data that affect branded apparel retailer performance during private equity stage one. This will be done through presenting the emerging categories;

emergent categories is a term used within grounded theory to describe the themes that come out of the data collection process (Locke, 2001). The term emergent is important as it demonstrates that the themes are grounded in empirical observations i.e. they have emerged from the data collection process (Goulding, 1998). Quotations and performance data will be used to demonstrate the emergence of the theory.

Present in Section 5.27 to 5.34 the factors affecting branded apparel retailer performance under private equity ownership during private equity stage two. This will be done through introducing and comparing Ski Bum and Kimpton. Ski Bum entered into the second stage of private equity ownership while Kimpton returned to private ownership. This provides an interesting comparison to help develop a deeper understanding of the factors affecting branded apparel retailers during private equity stage two. This will be supplemented with data collected in the study from private equity professionals, branded apparel retailers, corporate finance advisors and branding consultants. Quotations and firm performance data will be used to support the findings.

Present in section 5.35 to 5.36 the factors affecting branded apparel retailers during the third stage of private equity ownership. Ski Bum is the only firm within this study that has passed through three stages of private equity ownership and will, therefore, feature heavily in this section. Quotations and performance data will be used to support the emergent categories. Through addressing these aims, the researcher intends to demonstrate the emergence of the Three-Stage Private Equity Model from the data collection process.

5.2 KNOWLES CASE STUDY

The following case study introduces the branded apparel retailer Knowles. The history of the brand is discussed, and the importance this has in shaping the Knowles brand in its present form. This is significant as it highlights the important role the founder has in creating and maintaining the values of the brand based on their own lifestyle. This has significant implications for when the firm is involved in a private equity relationship and will be discussed in more detail later in the chapter. The key themes or categories that emerge from the data will then be considered. Particular focus will be given to the strategic conflict Knowles faces between implementing strategies that are financially viable and remaining true to the Knowles brand values. The case study will then move on to discuss the role private equity has in relation to the future growth plans of Knowles.

Entrepreneur Martin Knowles founded Knowles in 1989. Before founding the company, Martin worked for his father's business selling clothing at country fairs throughout the UK. Country fairs have a long history within the UK; they are annual events that bring together dispersed rural communities. These events include the showing of animals, produce and crafts. In recent years, country fairs have grown in popularity, and have developed a strong retail offering. As a result, many retailers use these events to sell their products and connect with consumers. Martin's father sold clothing designed for a country lifestyle, such as wax jackets, wellington boots and tweed. While working for his father, Martin noticed that the stallholders' offerings were all very similar. The colours of the clothing sold were green, brown and grey. Martin decided to import an initial range of brightly coloured country clothing, branded with the newly created

Knowles logo. This risk paid off and the new clothing range sold out. Following the success of this first range, Martin decided to develop further ranges and began trading formally as the Knowles brand in 1989.

In 2001, the foot and mouth crisis struck the UK. The disease led to the prohibition of the transportation of livestock, causing all rural shows to be suspended. This event caused major disruption for Knowles, as it prevented Martin from selling his products at country fairs. This came at a bad time, as Martin had just placed his season's order. Martin reacted by visiting garden centres and small equestrian shops, to see if they would stock his product. In conjunction, Martin had proactively taken thousands of addresses from customers. As a result, Martin was able to move his business away from the temporarily suspended country fairs towards mail order and stockist channels. In 2003, the first mail order catalogue was published, followed in the same year by the launch of the first Knowles website. The business grew quickly through these new channels. As a result, Martin decided to open a Knowles shop in his home town. In keeping with the countryside roots of the brand and its quirky nature, the store opened in a historic market town building which had previously been occupied by a cobbler for 103 years.

"If there hadn't of been foot and mouth, Martin wouldn't have lost his business, we wouldn't have had retail" – Brand Manager, Knowles

The firm grew rapidly through its multi-channel strategy. In 2006, Knowles operated five stores in the UK and had begun to sell internationally through wholesale outlets and licensing agreements. By 2007, Knowles was selling at over 300 shows in the UK. The growth of its store footprint continued, and currently, Knowles has 74 stores in the UK.

By 2014, revenues are expected to top £100 million. The brand is also sold across America and Western Europe, as well as Australia, New Zealand, South Korea and Japan. Knowles prides itself on being a truly multi-channel business. In 2012, Knowles operated through five core channels. These are retail (38%), trade (35%), direct – both online and mail order (21%), shows (5%), and licensing (1%).

5.3 THE KNOWLES BRAND

"What we've tried to portray with Knowles, or what I've tried to portray is just what goes on around quite genuinely a market town in Great Britain, we've catered for that family, the family that we were and the family that I have today and yes, there is a bit of equestrian there, there's a bit of grow your own there, there's a bit of make do and mend, so that's what were all about really" – Martin Knowles, Founder

The values of the Knowles brand are central to the firm and resonate strongly with its consumers. The key words used to describe the values of the brand are British, Country, Colourful, Fun, Sense of Humour, Quality and Family. 'British' relates to the heritage of the brand and the traditional British patterns and designs used in products. The 'Britishness' of the brand is also significant as it underpins other brand values. 'Country' refers to the origins of the brand, having started at county fairs. The Knowles brand draws heavily from a British Country lifestyle to construct their brand values and uses rural animals in designs, such as ducks, sheep, cows, foxes and pheasants. These symbols are used to reinforce the link between the brand and its heritage.

The products are designed to suit an outdoor country lifestyle and associated activities such as long walks in the countryside or shopping at a local farmers' market. Colour is also an important aspect of the Knowles brand. The brand was created around the idea that country clothing could use more than dull green, brown and greys. As a result, Knowles incorporates a variety of bold colours and exotic prints into their clothing ranges, designing over two hundred unique prints each year. The brand values are at the core of what Knowles does. Its product ranges always include detailing to reflect this, elevating its products above anything else on the market. 'Fun and humour' is also a core brand value; this again aims to reflect British eccentricity and is regularly used in brand communications.

Quality is a core value of the Knowles brand. Products are manufactured to a high standard from high quality materials; the detailing of products also reinforces this quality. Central to this is the idea of family and community. The brand has an offering for the whole family, including clothing ranges for men, woman and children and babies, with 60%, 20% and 20% of sales respectively. In 2010, Knowles introduced a new homewares range, including duvets, dog beds and crockery. Family and community values are important to all aspects of the firm, and not just the communication of the brand to consumers. These values also inform the way that Knowles operates in its relationships with stakeholders; it seeks to develop value with them and fosters a sense of cooperation and community.

“The brand DNA is in a lot of people within the business, it’s amazing how it just keeps going, and they recruit people that ‘get it’, so it’s sort of self-fulfilling in some ways, in a subconscious way, even if it hasn’t been overt, it’s subconscious, it’s there.” - Brand Manager, Knowles

The Knowles brand permeates the culture of the firm. Knowles prides itself in having staff who live and breathe the Knowles lifestyle. For example, its brand book, used to communicate the values of the brand to suppliers, contains two pages illustrating the culture of the firm. This is done through providing statistics on activities the Knowles staff undertake. For example, 32 people own chickens, 82 people bake cakes, 123 people are busy mums and dads, 57 people ride or own horses, 104 people have dogs, and 56 people grow their own vegetables. These characteristics are directly related to the core values of the Knowles brand. This culture is also used in interactions with investors, buyers and other stakeholder groups. For example, when meeting with international business partners in the UK, Knowles rents out a large British country house. At these meetings, the values of the Knowles brand are promoted through activities. The firm and its stakeholders will play garden games and have traditional British afternoon tea. This helps immerse stakeholders in the Knowles brand, giving stakeholders a strong understanding of the brand and how these values transfer into the way it does business. This can also be seen at their product launches. Although held in central London due to the proximity of retail buyers and the fashion press, the venue was transformed to represent the brand values of Knowles and included having a pen of lambs at the event, as well as brightly coloured plastic sheep to decorate the venue. The firm's brand is strongly influenced by the lifestyle of Martin Knowles. Martin created the brand in the image of his lifestyle; the brand and its values grew based on his own personal values.

5.4 Importance of the Entrepreneurial Founder

"Martin is in every day, he is a major driving force, and yes the brand is him, you could say menswear is what he wears, his sister works in the business too, within the marketing team I run, and is always about, you know their mother loved baking, they lived locally, they collected kit at antiques shows, it's the heritage and the nostalgia piece" – Marketing Director, Knowles.

Employees of Knowles state the importance of Martin's entrepreneurial spirit and understanding of the values of the brand and its consumers. Having grown up working with his father's business, Martin has a natural ability to trade and sell. The Knowles brand is a reflection of Martin's lifestyle. Martin has an important role in transferring his vision of the brand to his staff. This, in turn, helps develop a culture within the firm which is in keeping with the values of the brand. Martin acts as a guardian for the Knowles brand, his tacit knowledge of the brand's values protects the brand from over-commercialisation. This capability enables him to stay true to the brand heritage and maintain the brand's values. In major decision-making processes, Martin can input his opinion on whether decisions will impact the values of the brand. This helps protect the brand, and balances a mass distribution strategy whilst maintaining brand values. Additionally, Martin helps maintain a strong corporate culture which is fully linked to the values of the brand, such as community and family orientation.

5.5 THE IMPORTANCE OF BRAND VALUES

"It's important throughout, to be honest, I often say the brand is our biggest asset; it's the greatest thing, but also the riskiest thing if we mess with it, and I think from a director, well everyone in the business to be honest, it's really important, because it should inform their decision making, going back to: is it on brand? Is it commercial? It's a healthy debate we have, and it's a learning curve for people in the business" - Managing Director, Knowles

For employees of Knowles, brand values are an asset that is held in high regard by all those within the firm. They understand the importance of the brand as a differentiator between their competitors and the value of the brand to consumers. At Knowles, these brand values permeate the firm and are central to decision-making processes. The brand and the firm's culture have clear synergies and come together in a symbiotic relationship. Although as an entity the brand is constructed by Martin Knowles and the firm, and interpreted by consumers, it influences the firm in a cyclical process. The firm may operate on a day-to-day basis outside the perception of consumers; however, the strategic actions of Knowles' senior management directly impact the presentation of the brand in the mind of consumers. Alternatively, on a purely financial level, the brand is a means through which Knowles can add significant margins to products. The fragility of the brand also emerges from discussions with Knowles' staff. Knowles goes to considerable lengths to prevent the brand becoming damaged by internal or external stakeholders. For example, the firm issues a brand book to all stockists and invites them to head office to experience the culture of the firm. Also, all retail store staff are invited to head office to initiate them into the firm's culture. This protection of the brand, as a fragile asset, is central to the next theme; the conflict between brand and commercially based decisions.

5.6 STRATEGIC CONFLICT: BRAND VERSUS FINANCE

Strategic conflict exists within the firm when it comes to making business decisions. The conflict arises in the strategic decision-making process, between the extent to which a decision is commercial versus being true to the values of the brand. Multiple examples of this conflict can be seen in this case study; the following section will detail key examples.

"You could stick this brand into Bluewater, and you'd make a lot of money, Meadowhall or wherever, potentially a lot of money, but it would be another fascia above a glass door, and then it's like, well that's what, not keeping it special and selling out in a way, so that's the balance." – Marketing Director, Knowles

Martin was aware that a rural countryside-inspired brand could not be situated within urban shopping centres or out-of-town retail parks. As a result, a store roll-out strategy focused on opening stores in locations that had strong associations with the brand values. These included market towns and seasonal tourist resorts where middle-class families holiday. Although these locations might not be as profitable as large city centre locations (some stores are in seasonal seaside locations), they help communicate and reinforce the values of the brand to consumers. Also, within these handpicked towns, store locations were selected based on the appearance of the building. Stores had to have a historical relevance or be listed buildings.

One example of this revolved around opening a store in Guildford in Surrey, which is an affluent town with a traditional high street consisting of older buildings and a modern shopping centre. Knowles identified Guildford as a suitable town to open a store based on demographic analysis of consumers. This process can be as fine-grained as identifying how many consumers have pet dogs; a characteristic Knowles has identified as part of their target customers' lifestyle. Although Knowles had the option to enter into the modern shopping centre, which would attract significant footfall and benefit from the halo effect of other major retailers in the centre, Knowles felt this location would not reflect its brand values. This lack of congruency between the brand values of Knowles and the location would have had a negative influence on the brand of the firm. In this case, Knowles had to pass on the opportunity and instead waited until a suitable location became available.

This example reinforces how, despite the potential to increase profits in the short-term by taking a lucrative retail location in a modern shopping centre, Knowles instead made the decision to wait for a site that had synergies with the values of their brand. Knowles' commitment to selecting the right location can be seen in the allocation of managerial responsibility in the strategic management process of selecting store locations. At Knowles, the Marketing Director, with the help of an external demographic profiling firm, has a strong say in the selection of store locations. Typically in retailing, the choice of store location would not be as heavily influenced by a marketing director. This highlights the importance of the brand to the firm, and the lengths to which Knowles goes to maintain and protect the way its brand values are communicated.

5.7 STAFF RECRUITMENT AND THE FIRM'S CULTURE

"She didn't get it at all, and I think that's the thing, you either do or you don't… it's about the personal fit to the business, and we just weren't her psyche, she wasn't a country girl, she didn't have a family" – Brand Manager, Knowles

In recruiting staff, having a strong understanding of the Knowles brand is important. The senior management team highlighted the recent recruitment of directors into the firm. Previously, an appointment at board level was made in order to move Martin Knowles into the Chief Executive role to focus on product design, branding and growth. The individual appointed had previously worked at a branded apparel retailer within the same sector (Ski Bum) and had been involved in the process of selling the firm from minority private equity ownership into full private equity ownership. Following the appointment with Knowles, it was evident that the individual did not buy into the culture of the firm, as explained by the brand manager of Knowles. The firm's culture and the values of the brand required the individual to consider strategic decisions from a commercial and brand-based perspective. Having come through two stages of partial, then full private equity ownership, the individual was too focused on making decisions that created short-term profits. The individual did not fit the brand-led culture of Knowles and failed to recognise the importance of the brand to the firm. Eventually, this individual left. The second recruitment of the Managing Director was far more productive. Senior management team members talked about the way the current Managing Director immediately understood the importance of the brand, and its role in the internal culture of the firm and strategic decision-making processes. Similarly, the recruitment process for store staff was influenced heavily by a candidate's ability to articulate the values of the brand. New candidates were asked before interviews to bring an item they felt most reflected the values of the Knowles brand and to discuss their thinking with the interviewer. The Managing Director stated that this was a valuable tool in identifying individuals who were suitable to work for Knowles. For example, candidates would bring home-baked cakes or their pet dogs to interviews. Although this was a useful tool in recruitment, a conflict arises. For example, a person could have a strong understanding of the values of the brand but have little or no retail experience and vice versa. This conflict between brand-based decisions and commercial-based decisions runs through the firm at all levels.

5.8 BRAND VERSUS PROFIT MAXIMISATION IN THE FIRM'S GROWTH

The conflict between brand and profit maximising decisions can be seen in the following example. A national mail order catalogue approached Knowles with the intention of stocking Knowles products. The catalogue was one of the UK's most circulated clothing directories and contains a broad range of brands. The catalogue was owned and run by a major British high street retailer, and has a circulation of more than three million copies per season. Knowles decided to put its ranges in the catalogue, following a lengthy decision-making process. Knowles was concerned that the decision would have a detrimental effect on the brand through becoming associated with a high street retailer. In contrast, commercially it would expose the brand to a whole new customer base and was financially lucrative. Reflecting on this decision, the Managing Director stated that it had resulted in increased sales and had received a positive response from consumers. However, some customers were unhappy about the brand being placed in the catalogue as they felt it went against the values of the brand.

Knowles were evidently anxious about the conflict that arose between growing the profits of the business and the effect this would have on the values of the brand. Through the data collection process, coupled with the researcher collecting data from press and industry reports, the role of private equity within the branded apparel retail sector became apparent. The researcher decided to adapt the questions used within interviews to investigate this theme further. The researcher became interested in understanding how, despite the important role private equity firms play in helping firms grow, in some cases private equity can be seen to have a negative impact on firm performance. This insight came from the analysis of industry reports, and the Knowles case study led the researcher to become interested in understanding the factors that affect performance in private equity investments into branded apparel retailers. The following section aims to highlight how the issue of private equity emerged from the exploratory case study.

5.9 Private Equity

"Yeah, we will, there will be a time when we need external funding of one description to help us get to the next level of growth, because it's a lot of investment putting in a new warehouse system, opening a new store, growth internationally, they will take a lot of cash, that is hard to come by so it's privatisation all the time..." – Managing Director, Knowles

Knowles has ambitious growth plans. The senior management team is confident that the firm can continue to grow and is excited about the future. The team's international ambitions have been part of the firm's strategy from an early stage, with Martin Knowles picking up international stockists at trade shows and through existing contacts in the sector. Although sporadic, Knowles had multiple forms of their business in international markets such as stockists, international shipping from the UK and licensing agreements. However, the firm also had ambitions to open wholly-owned retail outlets internationally. This would require significant investment in retail locations, marketing, and international warehousing. Recently Knowles has entered into the homewares market, selling cushions, bedding, kitchenware and towels. These brand extensions require larger retail outlets which, in turn, require larger capital investment. The Marketing Director of Knowles discussed the operational challenges surrounding such rapid growth;

"For the size of the company most people would presume we'd be all tickety boo behind the scenes, you're getting your product on time hallelujah, but it's a bit like the duck on the water paddling away really calmly, but underneath you have no idea what's going on, however that's the growth of a company, and its only once all of those things are falling into place so that you won't topple over" – Marketing Director, Knowles

Despite the customer-facing aspects of the firm being relatively well operated, areas of the business have the potential to be further professionalised, to build solid foundations for future growth. These operational upgrades require capital investment in systems, premises and staff. The senior management team was aware that organic growth could only take the firm so far; however, to continue growing, capital investment was required. This is the stage at which private equity firms operating within the lower middle market become interested in firms like Knowles. With their ability to improve operational performance, as well as inject capital into the firm, private equity firms are suited to helping firms like Knowles grow. During the period when the researcher was collecting data on the firm, the issue of private equity investment to continue growth arose. It was evident from conversations with board members that they were beginning to consider external investment. Also, industry and national press were beginning to link the firm with various private equity firms. However, within Knowles there is an awareness of the potential negative effects private equity firms can have on performance.

"Some private equity deals which have been buy-in, leverage a business with debt, and sell on, once it's just expanded it has created as many problems, and that is not an ideal model, for a lifestyle brand the other thing I have noticed they don't understand is the brand" - Interim International Director, Knowles

Despite Knowles acknowledging that they will require investment to fund further growth, there is also an awareness that private equity firms have had a negative effect on other brands within the industry. This suggests that, although private equity firms can help firms grow, they can also have a negative effect too. The researcher became interested in exploring this relationship further to understand what factors led to positive and negative relationships. The focus of the research project changed at this stage. In conjunction with the case study the researcher investigated the wider industry, and it became apparent that brands similar to Knowles had received private equity investment. The researcher decided to explore these relationships. To do this, the researcher began investigating the role of private equity firms. Adopting a theoretical sampling approach, the research strategy of the study was adapted. The focus moved away from an exploratory case study to an interview-based data collection strategy. This saw the researcher interview private equity firms, corporate finance advisors and branded apparel retailers to gain an insight into the factors that affected target firm performance. It is important to note that, following the completion of the data collection process and towards the end of the research project, Knowles received private equity investment. This deal involved a minority stake in the firm being bought by a British mid-market private equity firm. The following section will present the data collected from exploring the relationship between private equity firms and the target firms in which they invest.

5.10 PRIVATE EQUITY STAGE ONE

Private equity stage one refers to the first stage of private equity ownership that a branded apparel retailer passes into. Following the Knowles case study, and wider research into the industry, it became apparent that private equity had a significant role to play in the growth of branded apparel retailers. This led the researcher to explore in more detail the relationship between branded apparel retailers and private equity firms. From this process, the researcher became interested in understanding why certain private equity and branded apparel retailer relationships appeared to have a positive effect on target firm performance, while others had a negative effect on performance. The researcher then sought to identify factors that affected this performance. The following section specifies the factors that affect the performance of branded apparel retailers. Firstly, information will be given detailing the background of the private equity firms and lifestyle brands studied. This will provide an insight into the context in which the researcher collected data, and will also be useful for explaining the relationship between private equity firms and lifestyle brands. The relationships and firms detailed are Sigma and Ski Bum; Kimpton and Omega; Alpha and Oxford Red; Omega and Rugged Bear; and, the Blue Wave and Sporting Lions. Blue Wave and Sporting Lions have not received private equity investment, and the rationale for their inclusion is to provide a contrast between firms that have received private equity investment and those that have not. Following this, the main categories/themes identified within the study will be presented. These are; private equity-led firm professionalisation, the importance of retaining the founder, minority stake ownership and unleveraged debt structure. Table 10 provides an overview of the financial performance of the firms that received private equity investment. Data is given to show the turnover and operating profit for each year the target firm was under private equity ownership. Table 10 also details the number of stores the firm had at the start of the private equity ownership period and the end. Please note that Oxford Red and Rugged Bear were still under private equity ownership in 2012 at the end of the data collection phase of the study.

Table 10: Branded Apparel Retailer Performance Under Private Equity Ownership

Brand	**Private Equity Firm**	**Year**	**Turnover**	**Operating Profit**	**Number of Stores**
Ski Bum	Sigma	2000	£5,527,717	£1,064,191	30
Ski Bum	Sigma	2001	£8,297,000	£1,662,000	-
Ski Bum	Sigma	2002	£21,522,000	£2,396,000	-
Ski Bum	Sigma	2003	£30,521,000	£3,166,000	-
Ski Bum	Sigma	2004	£45,032,000	£1,555,000	-
Ski Bum	Sigma	2005	£60,711,000	£4,014,000	98
Kimpton	Omega	1998	£11,717,166	£79,700	0

Kimpton	Omega	1999	£18,512,735	£331,073	-
Kimpton	Omega	2000	£29,329,447	£145,018	-
Kimpton	Omega	2001	£36,772,205	£1,790,837	-
Kimpton	Omega	2002	£47,900,803	£4,462,964	-
Kimpton	Omega	2003	£60,420,517	£5,645,370	-
Kimpton	Omega	2004	£85,975,091	£9,986,111	-
Kimpton	Omega	2005	£102,293,594	£13,324,846	-
Kimpton	Omega	2006	£128,509,853	£21,787,012	-
Kimpton	Omega	2007	£153,639,787	£26,651,247	0
Oxford Red	Alpha	2007	£10,924,778	£2,268,914	21
Oxford Red	Alpha	2008	£22,041,053	£3,378,638	-
Oxford Red	Alpha	2009	£41,777,842	£5,114,073	-
Oxford Red	Alpha	2010	£64,763,601	£6,846,523	-
Oxford Red	Alpha	2011	£91,511,001	£10,619,449	-
Oxford Red	Alpha	2012	£120,142,742	£5,303,175	81
Rugged Bear	Omega	2010	£11,348,726	£300,941	6
Rugged Bear	Omega	2011	£11,897,730	£274,440	-
Rugged Bear	Omega	2012	£12,979,202	-£81,454	12

5.11 SIGMA AND SKI BUM

Founded in 1988, Ski Bum sell men's, women's and children's clothing. Ski Bum represents an active outdoors lifestyle. The two founders started the brand to fund their ski and surf lifestyle. The brand is multi-channel with a strong retail presence, with 208 stores in the UK. Sigma is a private equity firm that typically invests between £3 million and £30 million. Its current fund is over £1 billion in size, and it makes between six to ten investments per year. Sigma has a number of specialist investment areas including consumer markets, energy and environmental, financial services, healthcare, education, technology, and media. The private equity firm first formally operated in its current form in 1999. The present focus of Sigma is domestic businesses; however, it also invests in companies looking to expand internationally. Within the UK, Sigma is classed as a lower mid-market firm. Its core competencies lie in taking companies that are run by entrepreneurs, professionalising them, and then exiting. The individual interviewed at Sigma was Tom Dale, who has had a career in finance, working for Sigma for fifteen years. During this period, he has been involved in investments within the consumer sector and is considered to be one of the most successful private equity partners in the UK in this sector. The following section will detail the investment process and the role that private equity played in the growth of Ski Bum.

In 1999, Sigma was approached by the founders of Ski Bum, who had built a business that had 30 stores in the UK and turnover of more than £5 million. The founders approached Sigma with the intention of selling the whole business to the private equity firm. Dale had already lined up a new managing director with experience in the sector. However, following a meeting with the Ski Bum founders, he realised that they had the potential to take the brand forward if complemented with new additions to the management team. Dale persuaded the founders to stay, and had to turn away the managing director he had lined up for Ski Bum. With the founders now on board, in 2000 Sigma invested in a 40% minority stake for £3.5 million. In 2005, Sigma exited the investment; Ski Bum was sold to another private equity firm (Baker International) as part of a secondary buyout for an undisclosed fee. At this stage the founders also sold their remaining shares, placing the firm under full private equity ownership with Baker International. Under the minority ownership of Sigma, Ski Bum saw turnover rise from £5,527,717 to £60,711,000, and on exit, Sigma realised almost a twelve-fold return on its initial investment.

5.12 Omega and Kimpton

Founded in 1991, Kimpton sells high-quality clothing for middle-class families. Its brand represents an aspirational middle-class British lifestyle and is firmly rooted within its own founder's lifestyle. Currently, Kimpton has no retail outlets and operates solely through online and mail order. It has an international presence in America and Germany. In 2012 Kimpton had a turnover of £214,948,849. Omega operates within the same area of the private equity market as Sigma. It invests in founder-owned businesses that are seeking growth. Omega typically takes minority stakes in the firms it invests in, with the entrepreneurial founder maintaining the majority share. Omega was founded in 1986; it has a slightly different heritage as private equity firm to others within the sector. The founding partners come from a brand management/retailing background. Having invested their money in a successful chain of bars, they decided to start their own investment company that grew into Omega private equity. Its investment strategy is focused on deal values of £1 million to £5 million, and it currently has a total fund value of approximately £100 million. This is small compared to other funds within its market. Omega specialises in investments in the consumer goods sector and, more specifically, in companies that have strong consumer brands. Its expertise as a firm revolves around working closely with target firms. In many ways, it is more like a consultancy firm, reflecting the background of its founding partners. The deal structure adopted by Omega is typically a development capital deal, using a minority stake. Omega works with entrepreneurial founders and helps them professionalise the firm. Omega focuses on building long-term relationships with the firms it invests in, with many of the entrepreneurial founders from its investments becoming advisors to the firm.

Omega invested in Kimpton in 1998. The individual interviewed at Omega was David Cook. David is an investment manager and has been involved in a number of deals the firm has undertaken. Omega invested into Kimpton as part of a development capital deal. The deal came about through Kimpton's need to continue growing. At the time, Kimpton had cashflow issues that were hampering its ability to do this as it had previously received investment from an individual who wanted to exit the business. The founding partner of Omega had developed a good relationship with Kimpton's Finance Director and founder over a number of years. Omega has a reputation for finding excellent high growth investments. This heritage comes from its strategy of actively searching the market for investments, through attending trade shows and reading industry press. This approach has allowed it to develop strong relationships with entrepreneur-owned branded firms during their early stages of growth.

In 2003, Omega sold half of its shares in Kimpton as part of a fund closure and rolled the remaining shares into its next fund. The relationship between Omega and Kimpton is still strong as, until recently, Omega's founding partner sat on the board of Kimpton as a non-executive director. The exit from the firm was staged over two funds to release capital for the private equity firm; the first exit came in 2003. The remaining stake in Kimpton was rolled over into a new fund and then sold in 2007. Importantly in the case of Kimpton and Omega, the minority stake held by Omega was sold back to Kimpton in two stages. This meant that following the second sale of Kimpton shares in 2007, Kimpton reverted to being owned by the founder and other senior managers. Kimpton returned a profit of 30 times the original investment.

5.13 ALPHA AND OXFORD RED

Founded in 1999, Oxford Red is a brand that represents a preppy British public school and university lifestyle, aimed at 14 to 22-year-olds. The brand is multi-channel with a presence that includes 18 international stores. In the UK, Oxford Red has over 60 stores. The turnover of Oxford Red was more than £120 million in 2012. Alpha private equity is a leading UK private equity fund. Alpha was founded in 1989, and currently operates two funds with a total value over £1 billion. Alpha invests across a range of sectors including consumer, technology, energy and healthcare. Alpha has a more general investment strategy than other specialist private equity firms such as Omega, and Alpha employs investment managers and partners across a wide range of sectors. Its investment strategy varies depending on the structure of the deal. It typically invests in firms with an enterprise value of between £10 million and £100 million. Deals can range from full buyouts to development capital deals in which Alpha takes a minority stake in the firm. Alpha is bigger than both Sigma and Omega, sitting at the top end of the middle market. Alpha often buys firms from smaller private equity firms in the form of secondary buyouts.

In 2007, Alpha invested in Oxford Red and currently holds a minority stake in the firm. Oxford Red attracted significant interest from private equity firms before 2007. The outcome came down to a competitive bidding process, in which a number of private equity firms were willing to offer significant amounts of capital for a stake in the firm. Alpha managed to seal the deal due to the strong relationship between Oxford Red's founder and the founding partner of Alpha. This was important, as the founder would have to work closely with Alpha to realise the growth strategy of the firm. The deal was finalised in 2007, for an undisclosed fee for a minority stake in the firm. The individual interviewed at Alpha was Jack Brooks, an investment manager who currently sits on the board of Oxford Red.

5.14 RUGGED BEAR AND OMEGA

Founded in 1993, the Rugged Bear brand represents an active outdoor lifestyle, and produces clothing to be worn after engaging in outdoor pursuits. Clothing produced by Rugged Bear is designed for individuals who have an active lifestyle and a love of outdoor pursuits. The brand was founded in the Cotswolds, and the company currently operates 13 retail outlets across the UK. The strategy of Rugged Bear has been to focus on developing a wholesale clothing business, selling into major UK fashion retailers, as well as smaller stockists. In 2012, Rugged Bear had a turnover of £12,979,202 million.

Omega invested £8 million in Rugged Bear in 2010 as part of a management buyout deal, which saw the exit of the founder of the brand, who was in his early seventies. The management buyout was driven by the managing director of Rugged Bear, and took full ownership of the firm. Before investment, Rugged Bear had six retail outlets, and by 2012 it had twelve. The strategy of Rugged Bear is based around developing the wholesale side of the business which in 2012 has over 400 trade accounts.

5.15 Blue Wave

Blue Wave is a branded apparel retailer that represents a family orientated, active, bohemian lifestyle. The brand was founded by two entrepreneurs in 1985. The brand values of Blue Wave reflect the active lifestyle of the founders, which was based around skiing. Blue Wave is a multi-channel business, selling through online and mail order as well as bricks and mortar stores. In 2012, Blue Wave operated 105 retail stores and 30 concessions and had a turnover of £89,324,000. Blue Wave has not received private equity investment. However, Blue Wave's chairman is Ryan Baines, a partner at Kappa private equity. The justification for the inclusion of Blue Wave in stage one is to contrast its growth story with other firms within the sector, and how the factors identified apply to their growth.

5.16 Sporting Lions

Sporting Lions is a branded apparel retailer that represents a traditional university sporting lifestyle. The founder of Sporting Lions drew directly from his experiences at university to create a brand that represented his own lifestyle. In 2010, Knowles invested in Sporting Lions. This investment saw the founder of Sporting Lions continue to operate the business under the guidance of Martin Knowles. In 2012, Sporting Lions had a turnover of over £5 million and three retail outlets. However, due to the growth of Knowles they were unable to continue to manage the relationship. As a result, Sporting Lions was wholly acquired in 2012 by an Indian business that owned a portfolio of apparel brands. Sporting Lions was included in stage one as it presented a contrasting early stage growth story.

5.17 EMERGENT CATEGORIES

Emergent categories in grounded theory are themes that emerge from the simultaneous grounded theory data collection and analysis process. As discussed in the methodology, the researcher adopted the operational approach suggested by Locke (2001). The emergent categories detailed in the following section represent the core themes identified within the study. The themes are the factors the researcher has identified from the data collection process as having an effect on the performance of the target firm during the first period of private equity ownership. The factors affecting performance are detailed in the following section and include private equity-led target firm professionalisation, the importance of retaining the founder, minority stake ownership, unleveraged debt structure and measured store roll-out. These factors are discussed in relation to their application to the relationships between Sigma and Ski Bum, Omega and Kimpton, Alpha and Oxford Red, Omega and Rugged Bear. They are also discussed in relation to Blue Wave and Sporting Lions, to contrast with firms that have not been in private equity ownership. Finally, the following section ends by presenting insights into the effects of the factors identified on firm performance. Performance is discussed in relation to target firm turnover and operating profit, as well as the effect the factors identified have on the brand of the firm in relation to the maintenance of brand values.

5.18 Private Equity-Led Target Firm Professionalisation

"We'll be getting involved maybe in businesses that have very little structure, revolve quite a lot around one or two founders, and our job, if we're at our best is by the time we sell that business, it will have a professional management team, an organisational structure, making it easy for the big private equity houses to come in and run." - Tom Dale, Sigma.

Private equity firms are first attracted to the firms they invest in due to their growth potential and high profitability. For example, private equity professionals are drawn to the margins that branded apparel retailers products generate, predominantly due to the value added by the brand. The values of the brand are attached to particular aspirational lifestyles that consumers are willing to pay more to be a part of. Importantly, although product quality may be higher than other clothing retailers, the cost of producing higher quality clothing is only slightly more, and therefore the extra value the brand adds to products adequately covers this additional cost. Jack Brooks of Alpha discusses this in relation to Oxford Red:

"Yeah, why is anyone buying, because quality is obviously better, but is it two times the quality? Or three times the quality? Actually it might be twenty times the quality, but it

is only costing you a few extra pounds to make it, so someone is paying an awful lot for as we say, the lifestyle" – Jack Brooks, Alpha.

Alpha, Omega and Sigma all state the importance of bringing in their expertise in running businesses when making minority stake investments into firms. Although entrepreneurial founders have created profitable businesses, their management structure is often underdeveloped. This lack of structure often leads the founder to become frustrated, as they find it challenging to continue running all aspects of the firm. This frustration acts as a motive for founders to approach private equity firms to sell a stake in their firms.

"What you will read, and what people will say is we are putting a lot more emphasis on growing the profits of the businesses and managing those, but I think we would probably say we have always done that, and then the other stuff is sort of a bonus, but I think certainly, at the bigger end, where they are very very big leverage buyouts, where it was all about financial engineering, certainly those have gone away…" – Investment Director, Theta

Private equity professionals operating within the lower end of the market pride themselves on their ability to achieve growth through delivering strategic and operational changes, whereas larger private equity firms have typically relied on financial leverage to increase firm value. One private equity manager argued that companies such as Hertz, Burger King and Hilton have spent millions of dollars hiring firms such as Boston Consulting Group and McKinsey to develop strategy, before being taken private by private equity investors. The private equity professional then questioned whether the private equity firm could actually improve on the strategy of the firm, given the previous input of these consultants. The growth of the firms under private equity ownership in public-to-private deals is therefore not down to operational engineering but due to financial engineering. The private equity firms in the lower end of the market tend to be more like strategic consultants, who actively interact and scrutinise the strategy of the firms they invest in, helping make target firms more efficient. This strategic scrutiny is focused on increasing the profitability of the target firm. Through maximising operational aspects of the firm, the target firm generates financial value for the private equity firm.

The professionalisation of the business has benefits for the private equity firm. Firstly, it allows the business to become more efficient, increasing profitability and setting solid foundations for scalable growth. Secondly, a target firm with a good corporate structure, strong infrastructure, and the potential for scalability and growth, makes the target firm easier to exit and appealing to new investors. The professionalisation process can be divided into four key areas; the appointment and attraction of experienced professionals, networking, negotiation and industry contacts, and operational expertise. These four key areas will now be discussed.

5.19 Appointment and Attraction of Experienced Professionals

"We can help with recruiting in a really good CFO, and we know what a really good CFO looks like, because we have invested in twenty, thirty, forty other businesses in the past, and we have got accumulative knowledge, decades and decades of built-in knowledge, however, the CEO of a clothing company, how is he supposed to know what a really great CFO is supposed to look like?" - Jack Brooks, Alpha

Alpha was able to use its experience of recruiting senior professionals to help Oxford Red recruit a high calibre finance director. This is common within the sector, where private equity firms in minority stake deals will place their own nominee chairman within the target firm, who will then help recruit senior management. These chairmen manage the relationship between the private equity firm, the entrepreneurial founders, and the senior management team. The chairman brings extensive industry experience and will have worked within the same sector. Often these chairmen have held similar positions for the private equity firm in previous deals. They may also have been involved in a target firm that received private equity investment. Private equity firms at this stage also place their partners on the boards of firms. The partner's role is to challenge the growth plans of the existing board. Due to the extensive network of contacts that private equity firms possess within sectors, the private equity firm will be able to attract a higher quality senior management team.

"Yeah the companies developed hugely because the old owner didn't invest heavily in any middle management, what he did was bring a guy called (Anonymous) in, who was previously the managing director at (Anonymous), now everything is in-house designed, the design team with graphic artists, brand director, you're probably talking 10 or 12 people at the moment" – Northern Sales Director, Rugged Bear

In the case of Rugged Bear, before investment the firm had been built around the entrepreneurial founder. However, following private equity investment, there was a need to bring in further middle management, and this allowed Rugged Bear to increase control over the brand. Whereas previously Rugged Bear would visit factories and be offered a range of products to buy and brand, it now had the capabilities internally to design and develop products and to approach manufacturers to make them. This change has enabled Rugged Bear to have more control over the design of its ranges and develop products that are designed around the values of the brand.

5.20 NETWORKING, NEGOTIATION AND INDUSTRY CONTACTS

"Yeah I think with private equity, what we do, it's just bringing new contacts along, so what we do is we facilitate so we don't run the business, although we are able to help, so if they want to know someone at John Lewis we are able to know someone at John Lewis or Debenhams, so it's just kind of like working the network..." - David Cook, Omega

David Cook of Omega provided insight into the networking benefits that private equity firms offer. Due to the investment strategy of Omega focusing on branded consumer goods, the role of networking had a significant role to play in adding value to the firms in which Omega invests. For example, Omega operates an alumni network of entrepreneurs who have received investment from Omega. When an entrepreneur encounters a particular problem or issue, Omega uses its alumni network to give the founder a contact within the industry. This support is invaluable to entrepreneurial founders, as it helps them share best practice. Furthermore, it also benefits Omega as it enables it to strengthen its networks and gain insights into how former target firms are being operated into markets.

"In January we brought into our team (Anonymous) who was the online marketing director at (Anonymous), so again, he's come on board at Omega so he is helping us both help our portfolio, but also help assess online businesses we're interested in" – David Cook, Omega

Private equity firms with a strong consumer sector focus often have excellent contacts within the industry. In the past, entrepreneurial founders would have struggled to network with buyers from large retailers. Private equity firms operating within the sector will have worked with blue chip companies as part of their previous investments and can introduce these individuals to the firm. David Cook of Omega highlighted the importance of contacts for Rugged Bear who have been able to develop relationships with national stockists through Omega's existing network. Furthermore, the connection with private equity will often give the firm more leverage in letting or renegotiating contracts. One private equity professional highlighted the importance of experience in this process. Having invested in over 50 companies in his career, he was able to offer insights to the management team beyond what they had experienced. For example, when negotiating with retailers, he was able to draw on his experience from other companies, which meant that the target firm did not rush into the first deal that was tabled.

5.21 OPERATIONAL EXPERTISE

Private equity firms bring financial discipline to a firm; this, in turn, drives operational efficiency. Most commonly in a minority stake investment, the private equity firm will appoint a new finance director. The finance director is tasked with identifying areas in the business where efficiencies could be made. For Sigma and Ski Bum, professionalisation activities included the implementation of a new IT system in 2002 that enabled Ski Bum to pursue a more efficient multi-channel strategy. Also, a new warehousing system was implemented to make the firm logistically efficient. Oxford Red saw the implementation of a new electronic ordering system, based on the recommendation of Alpha which had used the system in a firm in which it had previously invested.

"We share a business park with Knowles, and we've got a shared warehouse, it kind of works quite well actually, Knowles have taught us lots, learning about the brand, we learnt a huge amount of things, and also we had this opportunity to grow, we needed to grow fast, so they had all these things operationally that we could only dream of having..." – Founder, Sporting Lions

Despite not receiving private equity investment, Sporting Lions entered into a deal with Knowles in 2010 that saw Knowles make a minority stake investment into the brand, with Knowles then exiting this deal in 2012. During this time, the influence Knowles had on the Sporting Lions brand as a corporate parent was significant. The experience Knowles had of growing its business was useful to Sporting Lions in helping professionalise the business. This process of learning enabled Sporting Lions to transform its operations, by developing more efficient warehousing and distribution, as well as improving the online side of the business through sharing systems with Knowles.

"It is good because we do get the benefit of Ryan (Baines') knowledge. It was really useful, and is really useful, I feel, because this does bring a private equity view to the board, which is a really good thing to have..." – Managing Director, Blue Wave

Blue Wave decided to finance its growth with debt from an investment bank instead of entering into a deal with a private equity firm. This decision was made by the founders, who wanted to take some capital out of the business and then exit fully in five to six years' time. Despite not receiving private equity investment, the founders of Blue Wave appointed Ryan Baines as Chairman. Ryan is a partner at Kappa private equity, which is currently invested into Ski Bum. He has more than 25 years' experience, and has worked with a broad range of consumer goods businesses. The Managing Director of Blue Wave stated that Ryan's input has been invaluable. His role within the business has been to bring the private equity perspective to the management of the firm, and this approach is associated with driving operational efficiencies and scrutinising business expenditure. As a result, despite not having received private equity investment, Blue Wave has benefitted from the private equity expertise and the operational expertise that has driven efficiencies within the firm.

"I think they key thing they did was impose some disciplines, for me the helpful thing was they scrutinised our strategy, but didn't try to determine it, they asked lots of questions, and made sure we thought it through and were consistent" – James Kerdel, Kimpton

James Kerdel is the Managing Director of Kimpton, and discusses the importance of private equity on imposing discipline on the strategy of the firm following investment. During the period in which Omega invested in Kimpton, Omega would actively scrutinise the firm's strategy with the aim of driving operational efficiencies. Having this advice at board level has a positive influence on the firm. Moreover, during the initial private equity ownership stage, Omega had a minority stake in Kimpton. This limited the extent to which Omega could influence strategy, as although they could bring discipline to the strategy of Kimpton, the founder of the brand and board members still possessed majority stakes in the firm.

Private equity-led firm professionalisation has a positive influence on the performance of branded apparel retailers. Under the guidance of private equity, the firm gains more experienced senior management and access to wider business networks, as well as improvements in operational efficiency. Before private equity, the branded apparel retailers are often built around an entrepreneurial founder, which can make growth challenging due to the over-reliance on the individual across the business. Instead, professionalisation leads the business to become more corporate. This also benefits the private equity firm, as when looking for an exit, it must be able to show to prospective buyers that the business has the potential for further growth. Professionalisation of the branded apparel retailers builds a solid foundation for future growth. Private equity firms operating in the lower end of the middle market specialise in this professionalisation process, as it represents an opportunity to achieve growth and increases the value of the firm. Following this professionalisation process, the private equity firm does not possess the capabilities to continue the growth of the firm as their capabilities centre on firm professionalisation. As a result, the private equity firm develops the firm to the limit of its capabilities, presenting an opportunity for a new private equity firm to take the target firm to the next level of growth.

5.22 IMPORTANCE OF RETAINING THE FOUNDER

"The founders are never going to win any contest for management skills, and they're not going to come average in management skills, but they were still capable of running the business, and doing a very good job on the brand, and if you'd lifted them out completely it would have been a very large risk to take." - Tom Dale, Sigma Private Equity

The founders of branded apparel retailers are vital to the ongoing success of the firm as they help maintain the values of the brand. Alpha, Sigma and Omega all strived to keep the entrepreneur within the firms in which they invested. For example, in the case of Sigma and Ski Bum, Tom Dale alluded that although the founders did not possess the necessary skills to run a business, they had a strong understanding of the values of the brand. Tom Dale of Sigma also saw the importance of the founders in maintaining the values of the brand, as at the time of investing, the Ski Bum brand was fresh and exciting. The values of the brand positioned it well within the aspirational lifestyle market for individuals who skied and surfed. The values of the brand were clearly understood by the founders, and as a result, they were able to communicate these values clearly to their consumers. If Sigma had bought the founder out completely, this would have been a large risk to take with regards to the management of the Ski Bum brand.

Alpha's investment into Oxford Red saw the founder remain in the firm; this also had similar brand management benefits. However, since Alpha's investment, the founder has gradually moved into a non-executive role, and has been replaced by an experienced FTSE 100 Chief Executive. This non-executive role ensured that the founder still had an influence over the firm, especially in the area of branding and product design. Moreover, the founder still retained a majority stake in the firm. Introducing a FTSE 100 Chief

Executive was essential to Oxford Red and Sigma because it brought corporate experience and credibility into the firm. The new Chief Executive introduced new ideas and systems that they had used in their previous role at the FTSE 100 company, and this further helped Oxford Red streamline its operations and grow in a sustainable manner. Also, the new Chief Executive brought credibility to the firm. With experience of running a FTSE 100 company, the individual was more credible amongst investors, as well as with suppliers and potential future partners, further enhancing the reputation of the firm and helping support future growth. It also enabled Alpha to attract investors when they needed to exit the business.

"(Kimpton Founder) was an entrepreneur and wasn't naturally a manager, he was quite volatile, inconsistent, sometimes quite difficult, but he was very passionate, and his strengths lay in his branding, he is chairman, notionally, but in fact his job is brand guardian, marketer of taste" – James Kerdel, Kimpton

Following investment from Omega in 1999, the founder of Kimpton has remained within the firm. The Omega investment saw it take a minority stake in the business, allowing the founder and management team to retain majority control. Although the founder, as highlighted above, is criticised for his management approach, his retention at Kimpton has enabled the brand to remain true to its core values. Importantly, Omega and other members of the Kimpton board have managed to create a role that enables the founder of Kimpton to focus on the creative side of the business. This is echoed in the comments of David Cook of Omega;

"He's still involved, he's the chairman, sorry a director, a non-exec, but he does, he's heavily involved in the brand, he doesn't run the business day to day, but he will be involved in the range, finalising the range etc., just finalising the allocations of the catalogues, how online looks, yeah, and I think he always will do, that's his passion" – David Cook, Omega

The importance of retaining the founder is evidently a key factor in the success of the relationship between Omega and Kimpton, as well as the growth Kimpton has experienced following the investment. The founder of Kimpton remains within the business currently. At this stage of growth, the structure of the minority stake investment lends itself to retaining the founder, whereas if a deal is a full buyout, the founder is bought out and they lose control of the firm and are likely to exit the business. The importance of the founder for Kimpton can also be seen in their 2011 annual accounts, in which they provide an overview of potential risks to the business, such as rising raw material costs. Interestingly, one of the key risks is the loss of key persons within the firm. In particular, reference is made to the founder of Kimpton who is said to be "synonymous with the Kimpton brand" and whose loss "would potentially be of great significance". The exit of the founder will be discussed in more depth at the second stage of private equity ownership.

"That was always central to our initial idea, of cool rugby socks, that either guys or girls could wear, that would be prevalent on campuses all over the UK, which fitted in from where I went to uni, because we had such a strong gym culture, because literally, people going to campus, going to a lecture, going to the gym and catching up with their mates for a beer after" – Founder, Sporting Lions

Although Sporting Lions has not received private equity funding, the founder is evidently a clear driving force within the company. The brand has been developed based on the founder's own lifestyle and draws upon his experience at university. The Sporting Lions brand has been developed in order to fit into the culture of British universities, which have a strong sporting heritage. The founder of Sporting Lions is integral to the business at this point. At such an early stage of growth, and with the founder of the brand so heavily embedded in every aspect of the business, the exit of the founder would have a negative influence on the firm.

"It started off, the guy who started it all off was a guy called (Anonymous) and he's just retired, he's in his early 70s now and so he started it in his early 50s. When he started it he was living in the South West at the time, he had obviously been into the sailing business for quite a long time sailing, windsurfing that kind of thing, and that was his background and through that it's grown really..." – Northern Sales Director, Rugged Bear

Rugged Bear again shares a similar growth story to other branded apparel retailers in the sector. The founder initially operated a business selling windsurfing boards. The Rugged Bear brand grew out of the founder's lifestyle of surfing and sailing. The founder of Rugged Bear sold his share of the firm as part of the management buyout undertaken by Omega. However, despite the sale of a large part of the business, the founder was retained to help advise the management team. Following this transition period, the founder left the business; however, it is important to highlight the important role the founder played in educating the management team about the brand. Again, Omega used its experience of previous investments such as Kimpton, and retained the founder of the firm to help maintain the values of the brand.

"It started as a mixture of the two, it was technical, the ski wear was all technical, but some of the fleeces, it was much more sort of masculine, a functional, one of the strap lines they had at the time was fashion that functioned, which it's not now, it is now a lifestyle brand..." – Managing Director, Blue Wave

Blue Wave represents a slightly different growth story regarding the founders and their exit. During the early stages of growth, the two entrepreneurial founders started the brand as a technical ski clothing company designing products that were fashionable and functional. The two founders were also friends of the founders of Ski Bum. However, Ski Bum adopted a more lifestyle-focused strategy from the start; instead, Blue Wave focused on more technical ski clothing, such as warm, waterproof jackets and salopettes. As Blue Wave grew, the founders decided to bring in a new managing director who then moved the brand away from the founder's initial technical ski products. The Blue Wave brand then became more a representation of the new managing director's lifestyle and became more focused on women's fashion. When the new managing director arrived, the two founders were already working part-time within the business. The new managing director was brought in to scale the business, and offer the founders a viable exit, which they took by selling 25% of the business to the management team and retaining the other 75% as non-executives. Although they still own the business, they have little day-to-day input into the firm. This is different to the other companies studied, as it shows a movement away from the brand as developed by the founders. Instead, the brand now reflects the lifestyle of the new managing directors, while the founders remain involved in the firm in a non-executive capacity. This is significant, as although the values of the brand have changed, they are still strongly linked with the founder of the firm. In this case, the brand values are now a representation of the managing director's lifestyle, and this means that the values of the brand are maintained.

The retention of the founder is an important factor affecting the performance of branded apparel retailers. The entrepreneurial founder is critical in anchoring the brand to its roots and maintaining the core values of the brand. If the founder were to leave the firm at this stage, there is a risk that the brand the founder created could move away from its core values. Moreover, due to the firm being built around the founder, too many aspects of the business depend on the individual being there. To remove the founder completely would be a significant risk for the private equity firm.

5.23 Minority Stake Ownership

"Sigma has been at its most successful investing in consumer businesses where there is a good level of growth, with a minority stake position rather than just control, working with founders to professionalise businesses, for example, Ski Bum, we came in bought a minority stake and helped them grow the business up..." – Tom Dale, Sigma

Within the lower part of the middle market, private equity firms typically engage in minority stake investments. Minority stake investments see the private equity firm acquire a minority equity position in the target firm, whilst the majority position is held by a combination of the senior management team and entrepreneurial founder. Sigma specialises in these forms of investment. Tom Dale discusses how the success of Sigma's investment strategy has been based upon minority investment into high growth businesses. Sigma works in close collaboration with the entrepreneurial founders and management team of the business to help professionalise the firm, while seeking to maintain the values of the firm that helped support its success. They take the firms they invest in to a new level of professionalisation in order to exit the investment and pass the firm into the next stage of its growth cycle.

"When I met (Ski Bum founders), actually I thought they were quite able, I also thought it would be quite difficult to take them out of the business, at that time, so actually we dropped the guy we were going to buy it with, who wasn't too happy, and I went back to them and said rather than selling up entirely, why don't you sell a 40% equity stake to us, and we'll run it together, we'll help you get out in an orderly measure in three or four years..." – Tom Dale, Sigma

When investing into Ski Bum, the minority stake investment allowed the entrepreneurial founders to remain within the business. Tom Dale states the importance of retaining the founders within the firm, as it would be challenging to operate the business without them. This challenge stems from the firm being built around the founders. For example, the founders had management processes in place that required them to approve a large proportion of decisions. As a result of the private equity firm purchasing a minority stake, the founders retained control of the firm but were able to move away from the administrative burden of running the business. Instead, the founders could focus on maintaining the values of the brand through creating product ranges and controlling marketing activity. This enabled Sigma to work on improving the operational efficiency of the business rather than interfering with the management of the brand.

"Omega bought a minority stake, a very small stake, about 10 percent of the business, (Kimpton founder) and I and various others, the great and good and families etc., bought the rest of it" – James Kerdel, Kimpton

Similar to the deal between Ski Bum and Sigma, Omega invested a minority stake in Kimpton. This minority stake investment allowed the founder and management team to remain in control of the firm. As highlighted previously, the founder of Kimpton played an important role maintaining the values of the brand. Through having only a minority stake in the firm, Omega were unable to push the brand into short term profit-generating activities that could have had a negative long-term impact on the values of the brand. However, it is evident that Omega's investment strategy focuses on adding value to the firms they invest in from minority ownership positions, scrutinising rather than dictating strategies. Rugged Bear also received a minority stake investment from Omega. This enabled the Rugged Bear management team to retain majority control over the firm.

"Inherently there was a lot of, it is still a majority business owned by founders, there was an awful lot of personality knocking around in terms of who does he actually want to partner with, because he was thinking I had run this by myself, for about 7 or 8 years, so if he has got to face somebody else across the board table, and it could be a course of three, five, seven years or something, then it's got to be a good bit of chemistry" – Jack Brooks, Alpha

Alpha's investment into Oxford Red saw it take a minority stake position, with the majority stake being held by the founder. Jack Brooks reinforces the importance of having a good relationship between the private equity firm and founder. Jack gives insight to the power the founder retains within a firm where the founder has a majority stake. In the case of Alpha, it was aware that the founder had agreed to sell a stake of his business to Alpha. In doing this, Alpha had to show respect as a minority stakeholder and understand that the founder of Oxford Red still had control over the firm. This shows how minority stake deals can limit the ability of private equity firms to pursue short-term profit maximisation while allowing the founder to focus on building and reinforcing the values of the brand.

5.24 UNLEVERAGED DEBT STRUCTURE

"I think at the bottom end, so if you were talking to venture capitalists or even people doing deal sizes in single digit millions, it is very difficult to get debt at that size, so they would typically not be putting much if any in, and then as you get higher, and once you get to the point where banks are more comfortable, the banks then tend to be more comfortable for lending." – Partner, Theta.

Leveraged finance is important to the business model of the private equity firms, although its significance is less within the middle market. In the middle market of the private equity sector, the deal structure is commonly based around the private equity firm taking a minority stake in the target firm. This limits the ability of the private equity firm to use leverage as part of the deal, because investment banks view minority investments as high risk in comparison to majority investments as the private equity firm does not have full ownership of the asset. During this stage of investment, private equity firms seek to take minority stakes in the firms they invest in without using leverage.

"No, I have always been very resistant to that, we were lucky because we weren't in a position where they were powerful enough to insist on it, Omega don't tend to use much leverage anyway, they are more at the venture end, rather than private equity, although they are changing slightly, with the bigger funds they are raising now, but no, we have never had any leverage" – James Kerdel, Kimpton

The deal that saw Omega invest into Kimpton was leverage-free. James Kerdel states that through not engaging in a leveraged private equity deal, it took the pressure off Kimpton to deliver short-term profits to service the debt. This was especially important in 2008 following the financial crisis. During this period, consumer spending dropped significantly. Had Kimpton been burdened with debt at this time, it may have had to adopt short-term strategies, such as discounting, to drive sales and service the debt. Instead, without debt, it was able to make longer term decisions, rather than having to generate short-term profits.

"We took on debt two and a half years ago, and it does put more pressure on, it's a good thing as far as I'm concerned as it makes people really think about it, and because when you say brand, brand is basically long term value it's not me being precious, it's because in 3, 4, 5 years time I'm wanting this company to be here and be stronger than ever, it's about stopping people doing a quick buck today, and then in terms of if we did have private equity backing or debt, it's still the same as saying that you need to be really sure about your decisions" – Managing Director, Blue Wave

The managing director of Blue Wave reinforces the link between debt and short-term profit maximisation. Although Blue Wave did not receive private equity backing, it took on debt to fund growth. The debt did create more financial discipline within the firm, as decisions had to be more carefully thought-through and justified. However, the firm was also concerned about making short-term value at the expense of the brand. Evidently, there appears to be an awareness that firms can be driven to implement strategies that generate short-term profits to service debt. However, this comes with the risk of implementing strategies that contradict the values of the brand, affecting the firm's ability to generate profits in the longer term.

Minority-stake deals also require a smaller capital investment. This means that the private equity firm is unlikely to use leveraged finance. For example, Sigma invested £3.5 million of its fund's equity in Ski Bum. This was a pure capital deal, in which no leverage was used. This same strategy was used for Alpha when investing in Oxford Red. The lack of leveraged finance in these deals means that the target firm is not burdened with debt and the target firm does not have the financial pressures that this debt would bring. The lack of debt within the firm means strategic decision-making processes are not driven by creating short term profits; instead the management of the firm are able to maintain the values of the brand.

5.25 MEASURED STORE ROLL-OUT

"We introduced children's wear and rolled out stores, about eight or nine a year, and keep our direct business growing with it, and international, all of which we did..." – Tom Dale, Sigma.

During its investment into Ski Bum, Sigma oversaw the expansion of the Ski Bum store portfolio, which grew from 30 to 98 stores. This growth, combined with the professionalisation of the firm, saw Ski Bum's turnover increase from £6 million to £60 million between 2000 and 2005. The strategy of rolling out stores during this period was highly successful for Ski Bum. The store footprint gave Ski Bum an extensive network that covered the whole of the UK. The store portfolio became an important touchpoint for the brand, allowing the values of the brand to be expressed through the retail outlets. Although the roll-out of Ski Bum's stores was accelerated by Sigma, the roll-out was a measured one. Retail outlets were opened in locations that had clear synergies with the brand, in line with the overall strategy of Sigma to anchor the brand and keep it strong, while growing the firm in the area of women's clothing.

"Retail is a channel for us, but I don't think it's our immediate future, our immediate future is trade, and I think retail might have its day, but it's not today. But building a trade base, that's where our unique selling points are, a lot of our competitors don't do that, so we want to do it and do it well, plus with retail, you put down a hundred grand, and that's a hundred grand you have to make, we like the flexibility not focusing on retail gives us" – Founder, Sporting Lions

The founder of Sporting Lions was wary of the expense of a rapid store roll-out to a small firm without significant private equity investment. Despite the benefit retail would have in building brand awareness, there is also the financial risk that comes with retail that reduces the firm's ability to be flexible in its strategy due to capital being tied-up. Moreover, similar to Knowles, Sporting Lions developed a large database of customer information from its origins at country fairs. This database allowed it to send catalogues as well as email mailshots to customers. Sporting Lions' strategy of focusing on selling to trade meant it avoided opening a large number of retail outlets; in 2012 it operated three retail outlets.

"It's predominantly wholesale, so through independent retailers, which is going pretty well, then we also sell online, and we do have some stores as well, the stores are more kind of heritage, so the plan isn't to open lots more stores, but they are a great outlet for the brand, and they kind of work in coastal locations where you would have associations with Rugged Bear" – David Cook, Omega

Rugged Bear has also adopted a wholesale strategy. Retail outlets are seen as an expensive strategy to pursue. Moreover, rather than viewing the outlets purely as a means to sell the product, they also have an important role in presenting and maintaining the values of the brand. The values of the Rugged Bear brand are suited to particular coastal locations, based on the heritage of the brand. These locations are used to reinforce the links between the coastal heritage of Rugged Bear to build authenticity. Due to store locations needing to support the values of the brand, the opening of stores has to be measured and well thought-out. Before receiving investment from Omega in 2010, Rugged Bear had six stores, and this increased to twelve stores in 2012. Evidently, Omega was anxious not to open too many stores as this could potentially damage the brand.

"How many stores, as a brand, do you want in the UK? Once you get through all the obvious towns, how many stores do you actually want to open either without cannibalising? Or making the brand too readily available?" – Managing Director, Blue Wave

The Managing Director of Blue Wave highlights the risk of cannibalisation through opening too many retail outlets. This remains a risk to all retailers when growing but, under private equity ownership, this risk can increase due to the need to grow quickly. One reason for this being the case is explained by Ryan Baines of Kappa private equity:

"If you went back ten-fifteen years, the roll-out cookie cutter analysis for consumer businesses was straightforward because most of the people in private equity have got a private equity background, so they'd go, you have opened X number of stores, they've performed in this way, you have just got to open more and you'll make a load of money" - Ryan Baines, Kappa.

The backgrounds of private equity professionals are typically either investment banking or accounting. As a result, private equity firms view rapid store roll-outs as a logical move for a business seeking to grow. The accountancy logic dictates that if you open more stores, they should make proportionally more profit; however, this perspective neglects the effect a rapid store roll-out can have on the firm. This can include making the brand too readily available, and the impact this has on the values of the brand, as well as the risk that rapid roll-outs have on cannibalising existing stores. These issues highlight the importance of a measured store roll-out, and the potential pitfalls of a rapid roll-out.

"I would describe it as more of a measured or tailored roll-out, in that if you've seen some of the stores, they are generally in nice sort of period buildings, or buildings that match the heritage of the brand, and if we want that real estate, in the right towns, at the right times, it is a bit more tricky." – Jack Brooks, Alpha Private Equity

This decision-making process can also be seen in the case of Alpha. Alpha engaged in a store roll-out strategy for Oxford Red. When Alpha invested into Oxford Red, it had a store portfolio of 21 stores in the UK, growing this to 81 stores domestically and internationally. When Jack Brooks of Alpha was questioned as to whether the strategy Alpha adopted was a roll-out strategy, he responded by saying the store expansion was a tailored roll-out, with specific locations and stores selected to reflect the values of the brand. This strategy worked on two levels. Firstly, on a micro-level, stores had to be traditional buildings which were unique and retained original features. Secondly, on a macro-level, the store had to be in a town or city that was affluent and had a demographic profile matching the values of the brand. Moreover, rather than saturating the UK market with stores, Alpha limited its UK retail footprint to 63 stores. Brooks stated that this was the optimum number of stores for a brand such as Oxford Red. Alpha has continued to expand the store portfolio of Oxford Red; however, these new stores have been in international markets such as the Middle East, Hong Kong and the USA. Alpha could have pursued further store openings within the UK, but it understood the risks such a strategy would have for the firm.

"There are very few people that genuinely understand how their own and offline businesses inter-relate properly. Clearly if you open a store, you will cannibalise your existing direct business, so take for example Cambridge, we have a lot of customers in Cambridge, if we had a store in Cambridge some of our existing customers would go to that store, in fact quite a lot, now they might spend a bit more, which is incremental, but ultimately, they were buying direct, and you were making lots of money, but you have now put in this very expensive store, and then you are mailing them catalogues still and you have lots more cost, how much more money do you make, you have got a cannibalisation problem" – James Kerdel, Kimpton.

Kimpton does not operate through a retail channel; instead, it has focused its strategy on developing online and mail order channels. Kimpton started as a mail order business, sending catalogues out in affluent areas of the UK and gradually building up a loyal following. James Kerdel suggests that, although opening retail outlets may increase sales in the short-term, it cannibalises an already highly profitable channel (direct) in doing so. The choice of Kimpton to not open stores has ultimately reduced the risk of cannibalisation and also meant it has avoided the expense of opening stores. Moreover, the money saved from not investing in a retail store in Cambridge was instead used to test the German market. This decision led to Kimpton developing a £40 million business in Germany within three years of entering the market through online and mail order channels.

5.26 INFLUENCE OF FACTORS ON FIRM PERFORMANCE

The factors listed above have a positive impact on firm performance. Professionalisation brings about operational improvements that reduce costs within the business, creating a solid foundation for future growth. The retention of the founder creates consistency within the firm and helps maintain the values of the brand. The minority stake investment from private equity is also beneficial to the performance of branded apparel retailers. The minority stake investment enables the management team and founder to retain control of the firm; this prevents the private equity firm from engaging in strategies that pursue short-term profits. The measured roll-out of stores is another factor that has a positive influence on firm performance. Although the private equity firm will instigate a store roll-out process, at this stage of growth stores are opened in locations that reinforce and maintain the values of the brand. This measured roll-out also reduces the risk of cannibalising existing channels as well as reducing capital expenditure. Overall, these factors combine to create an environment within the firm which has a positive effect on the values of the brand.

Table 11: Performance of Branded Apparel Retailers Before and After Stage One Private Equity Investment.

Target Firm Branded Apparel Retailer	Private Equity Firm	Year	Turnover	Operating Profit	Year on Year Turnover Change (%)	Year on Year Operating Profit Change (%)
Ski Bum	Sigma	2000	£5,527,717	£1,064,191	-	-
Ski Bum	Sigma	2001	£8,297,000	£1,662,000	50.10%	56.17%

Ski Bum	Sigma	2002	£21,522,000	£2,396,000	159.39%	44.16%
Ski Bum	Sigma	2003	£30,521,000	£3,166,000	41.81%	32.14%
Ski Bum	Sigma	2004	£45,032,000	£1,555,000	47.54%	-50.88%
Ski Bum	Sigma	2005	£60,711,000	£4,014,000	34.82%	158.14%
Overall % Change for Investment Period					998%	277%
Kimpton	Omega	1998	£11,717,166	£79,700	-	-
Kimpton	Omega	1999	£18,512,735	£331,073	58.00%	315.4%
Kimpton	Omega	2000	£29,329,447	£145,018	58.43%	-56.2%
Kimpton	Omega	2001	£36,772,205	£1,790,837	25.38%	1134.9%
Kimpton	Omega	2002	£47,900,803	£4,462,964	30.26%	149.21%
Kimpton	Omega	2003	£60,420,517	£5,645,370	26.14%	26.49%
Kimpton	Omega	2004	£85,975,091	£9,986,111	42.29%	76.89%
Kimpton	Omega	2005	£102,293,594	£13,324,846	18.98%	33.43%
Kimpton	Omega	2006	£128,509,853	£21,787,012	25.63%	63.51%
Kimpton	Omega	2007	£153,639,787	£26,651,247	19.55%	22.33%
Overall % Change for Investment Period					1211%	33339%
Oxford Red	Alpha	2007	£10,924,778	£2,268,914		
Oxford Red	Alpha	2008	£22,041,053	£3,378,638	101.75%	48.91%
Oxford Red	Alpha	2009	£41,777,842	£5,114,073	89.55%	51.36%
Oxford Red	Alpha	2010	£64,763,601	£6,846,523	55.02%	33.88%
Oxford Red	Alpha	2011	£91,511,001	£10,619,449	41.30%	55.11%
Oxford Red	Alpha	2012	£120,142,742	£5,303,175	31.29%	-50.06%
Overall % Change for Investment Period					100%	134%
Rugged Bear	Omega	2010	£11,348,726	£300,941	-	-
Rugged	Omega	2011	£11,897,730	£274,440	4.84%	-8.81%

Bear						
Rugged Bear	Omega	2012	£12,979,202	(£81,454)	9.09%	-129.68%
Overall % Change for Investment Period					14%	-127%

Table 11 details the growth in turnover and operating profits of the branded apparel retailers during the first stage of private equity ownership. For Ski Bum, under the ownership of Sigma, turnover shows year-on-year growth along with increases in operating performance. Although operating profit falls in 2004, this is attributed to investment into operational upgrades, and this short-term operating profit fall is recouped in the 2005 operating profit figures. Kimpton also sees consistent year-on-year growth in turnover and operating profit. Oxford Red, under the ownership of Alpha, demonstrates strong growth in turnover and operating profit, although in 2012 there is a drop in profit due to investment in a new electronic ordering system and international expansion into the USA and Asia. Rugged Bear shows the poorest financial performance of firms under private equity ownership. Although turnover increased between 2010 and 2012, operating profit fell by 127%. However, within this study, Rugged Bear had only been under private equity ownership for three years, and the effects of private equity ownership may not have fully manifested themselves. Moreover, profits will also have been invested back into the firm as part of the professionalisation process, similar to the early performance of Kimpton when Omega invested in it. It is also important to note that Ski Bum and Kimpton were under private equity ownership before the recession in 2008, and that a buoyant economy could be used to explain their growth during this period. However, Oxford Red saw significant growth when receiving investment just before the recession (2007) and through the recession (2008-2012). This performance would suggest that the growth is driven by private equity ownership rather than economic conditions.

5.27 PRIVATE EQUITY STAGE TWO

Private equity stage two refers to the second stage of private equity ownership into which a branded apparel retailer passes. Private equity stage two comes about from the branded apparel retailer being sold into full private equity ownership. This section explains in more depth the exit options following private equity stage one. Within this study, two firms have passed out of private equity stage one, and these are Kimpton and Ski Bum. While Kimpton returned to the ownership of the management team and founder, Ski Bum entered into the second stage of private equity ownership. The following section details the factors affecting the performance of Kimpton and Ski Bum during private equity stage two. Although Kimpton exited private equity ownership, it offers an interesting contrast between a management and founder-owned firm and private equity-owned firm. The factors identified as affecting target firm performance are leveraged debt structure, the buyout of the founder and management team, and rapid store roll-out. Within this section, data is drawn from private equity firms, branded apparel retailers, corporate finance advisors, and retail research consultants. The combination of different perspectives helps build a deeper understanding of the factors affecting branded apparel retailer performance under private equity ownership. Firstly, this chapter will discuss the options that firms face following the first stage of private equity ownership.

5.28 Private Equity Stage Two and Exit Options

"They take minority stakes as well as majority, there are different blends to where the market sits, and depending on who wants to do what, at the moment mid-market PE want majority control, and they want to be investing a chunk of money and probably be taking the founder out, or part of the founder's stake out, retail companies are often owned by dominant shareholders" – Sam Kent, Amethyst

The term 'secondary stage' refers to a firm that has passed through stage one of private equity ownership. The second stage typically sees the target firm move from minority to majority private equity ownership, also known as a full buyout. Private equity firms investing at this stage of growth have full control over the target firm and, as a result, have more control over the strategy of the firm. This second stage of private equity ownership typically sees the exit of the entrepreneurial founder. The sale of the target firm by the private equity firm to another private equity firm is known as a secondary buyout. In 2012, secondary buyout deals had the highest average deal size in the UK (BVCA, 2013). The private equity market often sees firms sold up through the private equity structure. Private equity firms specialise in taking firms from a specific stage of their growth to the next. The private equity marketing structure sees deal sizes increase in relation to the growth of the target firm and the size of the private equity firm investing. However, not all target firms will pass through a secondary buyout following minority stake investment. After the first period of private equity ownership, there are a number of potential exit options for private equity and target firms.

"I think intellectually you might prefer a pure exit, which would be to a trade buyer, and then you've intellectually created something which is of great value, and you have sold it to somebody who does that sort of thing, but there's, it's very logical as well, there are lots of different stages, or lots of different private equity firms, that invest in different parts of the market, but as part of the investment thesis, you would be made to say, there are very few businesses that you wouldn't think were suitable at least in some form at least for a secondary transaction or tertiary" – Jack Brooks, Alpha

One potential exit strategy for private equity is to sell to a trade buyer, which could be a conglomerate seeking to add a new business to its portfolio or a competitor looking to amalgamate two companies. Jack Brooks of Alpha suggests this is an appealing exit for private equity as it demonstrates the creation of an asset that is relevant to the wider industry, and represents an achievement by the private equity firm and boosts its reputation and overall brand image. However, Jack mentions there is always the option of a secondary or tertiary buyout, whereby another private equity firm purchases the target firm. This is also a viable option, but it has potential drawbacks for the private equity firm, as a seller as often the price paid by private equity investors is lower than trade buyers. A partner at Quartz corporate finance explains the benefits of selling to trade buyers:

"I think it's equally appealing, the old mantra is typically that trade buyers should be looking to pay more than private equity buyers because they have operational expertise so they can gain revenue synergies by, or cost synergies with, their existing operations" – Partner, Quartz Corporate Finance

Not only does selling to a trade buyer allow the private equity firm positive reputational benefits, but it also enables a higher price to be paid for the business. Due to the costs saved through absorbing the target firm into the corporate structure of the trade buyer, it enables a higher selling price to be achieved. However, trade sales represent a small percentage of private equity exits within the UK mid-market (BVCA, 2013). An alternative exit strategy for private equity firms is an initial public offering, whereby a firm's shares are listed for sale on a public market. Sam Kent of Amethyst discusses his perspective of IPO exits within the context of fashion retailers.

"The London Stock Exchange got badly hit years ago, by Debenhams floating, a lot of people were not happy with the way that was done, there have been other floatations of retailers, Super Group is another one, which for a while was flavour of the month then it bombed, the stock market is very transient, there aren't many fashion retailers on the stock market, there are a few, but not many, Tesco, Sainsbury, that sort of market, is day-to-day, it is all about the yearly, with fashion, because of seasonality, it is probably harder to be a quoted fashion business, I personally think fashion doesn't make very good stock market material, they are too transient, and they tend to be dominated by one entrepreneur" – Sam Kent, Amethyst

An IPO represents a good exit option for private equity firms because an IPO can be highly lucrative. It also helps reinforce the ability of the firm management and its investment strategy, as it shows it can take the firm from an entrepreneurial small business to a publicly listed firm. However, an IPO from a private equity firm holding a minority stake is rare within the apparel-retailing sector. Sam Kent suggests the apparel-retailing sector is an unappealing sector in which to invest due to the seasonality of retailing and rapidly changing consumer fashions. A bad season within the clothing sector can reduce a firm's share price, making it a volatile investment in public markets. Although IPOs of fashion retailers have occurred, they have often failed to perform well on the stock market. It is also important to note that other sectors suffer from such seasonality, although the effect on stock market performance appears most pronounced in the case of fashion retailers. If an IPO is not viable, the management team may engage in a management buyout of the private equity firm's equity and continue running the firm as a private business. This process could be led by an entrepreneurial founder alone or in combination with the management team. The capital to finance this buyout may be from a bank-based finance deal or a private equity investor.

The following section will detail the process following the exit of the private equity firm from a minority stake investment, and the impact majority ownership has on the target firm and its brand. This section will focus on two firms within the sector which have been involved in a secondary buyout process: Ski Bum and Kimpton. These firms have taken different strategic options following private equity ownership. Whilst Ski Bum was sold to another private equity firm in a secondary buyout, Kimpton opted to return to the ownership of the founder and management team. The contrasting approaches of these two firms will be discussed in the following section. Table 12 details the Ski Bum and Kimpton deals.

Table 12: Ski Bum and Kimpton following Initial Private Equity Investment.

Private Equity Firm	**Branded Apparel Retailer Name**	**Deal Size and Stake Taken**	**Leverage Used?**	**Overview of Relationship**
Baker International	Ski Bum	Undisclosed Fee Approximately £100m, Full Buyout Deal	Yes	Baker International bought out Ski Bum, as part of a secondary buyout deal, from Sigma and the founders of Ski Bum. This investment ran from 2005 to 2007/8.
N/A	Kimpton	Undisclosed Fee, return to founder and management team ownership.	No	Kimpton's founder and management team bought back the equity they sold to Omega. This ownership is currently still in place.

5.29 Baker International Background Information

Baker International was founded in the USA in 1984. Since then, Baker International has grown into a multi-national private equity firm, with offices in North and South America, Europe and Asia. It specialises in buying firms that have strong management structures in place. The firms are often acquired through secondary buyout deals. The global presence of Baker International means that it has expertise in taking the business it invests in into world markets. It also boasts a selection of operating partners which specialise in improving different areas of the businesses in which they invest. Currently, Baker International has one of the largest middle market funds, totalling over $10 billion at the time of investment into Ski Bum (2005). This fund has since closed, with its latest fund totalling over $20 billion.

The investment strategy of Baker International spans a broad range of sectors, including healthcare, industrial, telecoms, media, technology, retail, consumer, leisure, and financial and business services. A typical investment is in firms with an enterprise value of between €200 million and €1 billion. This investment range and strategy place Baker International at the high end of the middle market. Given its international presence and increasing fund size, Baker International could soon be engaging in public-to-private buyouts as it has already undertaken this activity in Eastern European markets.

The following section illustrates the relationship between Baker International and Ski Bum. Table 13 details the key features of the investment. Before Baker International's investment into Ski Bum, Sigma held a minority stake. In 2005, Sigma exited this investment. In 2005 Ski Bum's founders were ready to sell up, having seen the turnover of the business grow from £5,527,717 to £60,711,000. Under the influence of Sigma, the value of the founders' majority stake increased significantly throughout the investment period. The increase in the financial value of Ski Bum opened it up to private equity firms which invest in larger and more mature firms. These private equity houses specialise in taking majority stakes in firms and growing businesses that have been professionalised and have strong management structures in place.

Table 13: Details of Ski Bum's Secondary Buyout. Performance Under Baker International

Target Firm/Branded Apparel Retailer	Private Equity Firm	Year	Turnover	Operating Profit	Number of Stores
Ski Bum	Baker International	2006	£80,745,000	£8,734,000	98
Ski Bum	Baker International	2007	£110,929,000	£14,158,000	130

Baker International declined to be involved in this study. However, case summaries of its investment into Ski Bum have been analysed, along with more than twenty industry press reports. This data was complemented by interviews with private equity and corporate finance professionals. The secondary buyout deal was reportedly worth more than £100 million and was completed in 2005. Baker International held its investment in Ski Bum for two years. The reason for the short investment period was the fact that Baker International invested towards the end of its fund cycle, which is the period a private equity firm operates a fund from start to finish. The year the fund is started is referred to as its vintage. The fund's life is between eight and twelve years; within this period, investments are made and then exited. Ski Bum was invested in towards the end of Baker International's fund and this led to a shorter investment period.

The shorter investment period was also due to a resource problem for Baker International, which had to refinance the deal and move it into a new fund. This process would have taken significant managerial time, in a period in which a new fund was about to start. As a result, Baker International decided to exit the investment. The short investment period also meant that Baker International had to make short-term strategic changes to realise a profit. The deal between Ski Bum and Baker International was structured as a management buyout, with the senior management team installed by Sigma, buying out the founders of Ski Bum and Sigma's share. The management team was actively involved in the pitching process, with the help of corporate finance advisors, to find a suitable buyer.

5.30 KIMPTON'S EXIT FROM PRIVATE EQUITY

Following the successful investment period under the minority investment of Omega, Kimpton's founder and senior management team bought back the shares in the firm held by Omega. This was a gradual process that ran through three different funds of Omega, which slowly scaled back its holding in Kimpton; the process was concluded in 2007. This was a co-operative process between Omega and Kimpton rather than an aggressive buy-back process in which a firm wants to sever its ties with private equity. This can be seen in the retention of one of Omega's founding partners as a board member at Kimpton.

Following the exit of Omega, Kimpton has continued to grow sustainably under full private ownership, with sales currently more than £240 million. In part, this return to private ownership is down to the strong relationship between the founder of Kimpton and the Managing Director of Kimpton. Having worked closely together for a long period, they have formed a partnership that creates an environment for sustainable brand growth. This partnership also retains consistency in Kimpton's management structure. Rather than changing the senior management team every four or five years (as with most private equity investments) the stability of ownership has ensured that the firm's strategic direction retains continuity. This enables Kimpton to implement long-term strategies which are favourable in maintaining the values of the brand. Kimpton has also avoided opening stores as part of its growth strategy and currently operates through online and mail order channels. This strategy has continued following the initial private equity investment, and therefore Kimpton is not included in the discussion on rapid store roll-out in the following section due to its continued online and mail order strategy. Table 14 details Kimpton's performance following private equity.

Table 14: Details of Kimpton's Performance following Exit from Private Equity.

Target Firm/Branded Apparel Retailer	Private Equity Firm	Year	Turnover	Operating Profit	Number of Stores
Kimpton	N/A	2008	£168,053,399	£25,066,240	0
Kimpton	N/A	2009	£201,893,026	£28,462,030	
Kimpton	N/A	2010	£165,771,162	£30,208,720	
Kimpton	N/A	2011	£204,575,156	£20,293,296	
Kimpton	N/A	2012	£214,948,849	£21,752,123	0

The following section will discuss the emergent categories that developed from the data collected from both Ski Bum and Kimpton. These categories are leveraged debt structure, the buyout of the founder and management team, and rapid store roll-out.

5.31 LEVERAGED DEBT STRUCTURE

"What happened in 06/07, the secondary market really took off, so that was the first port of call for making a quick sale, sell it to PE, went into a competitive auction process and sold it, and this was a competitive auction process, so at the time people did overpay, as

they thought they could make a quick return, that is why you see a lot of insolvencies over the last 8 years, because things just got over-leveraged, and not that retail is any different, it has just taken a bigger hit than most" – Sam Kent, Amethyst

Leverage is commonly used within private equity, especially in secondary buyouts. Secondary buyouts are the process by which a private equity firm purchases a firm directly from another private equity firm. As detailed in private equity stage one, the private equity firm takes a minority stake in the firm. However, as with any private equity investment, the private equity investor must exit. One common exit option, especially from a minority investment deal, is to sell the stake to another private equity firm in a secondary buyout. During the first phase of private equity ownership, there is an increase in the firm's turnover due to the factors identified in stage one of private equity ownership. Due to the growth in turnover, the financial valuation of the firm increases, requiring a larger amount of capital to acquire the firm. Larger deals require larger capital investments, and private equity firms seek to leverage their equity, which they can only do through a full buyout. The larger amount of equity required leads to private equity firms using higher levels of leverage to acquire the firm.

Sam Kent of Amethyst, a corporate finance advisor specialising in mergers and acquisitions highlights this point. Sam discusses how before the financial crisis in 2008, private equity firms sought to quickly exit investments through selling to other private equity firms as secondary buyouts. With the availability of cheap credit, firms were able to use a large amount of debt to purchase firms. This meant more private equity firms could afford to enter into deals and, as a result, private equity firms entered into competitive bidding processes that drove up the value of firms. The increased value of the firms led to higher levels of debt, placing more pressure on the private equity firm to deliver a return to service the debt. Sam Kent argues that this process of 'over-leveraging' investments saw many insolvencies across a range of sectors, including retail. It is, therefore, evident that excessive levels of leverage can have a negative effect on the performance of firms receiving investment from private equity.

"We've had a conscious strategy of sticking with quality, and actually the long-term value of the brand and the loyalty of customers is more important than short-term profitability. Having a capital structure with no debt has enabled us to make those decisions, and having a majority shareholder who has no particular desire to maximise profits in the short-term also makes it possible." - James Kerdel, Kimpton

During its investment into Kimpton, Omega did not use leverage as part of the deal. Following the exit of Omega, Kimpton returned to the full ownership of the founder and management team. Returning to private ownership, rather than being bought out by another private equity firm, meant that Kimpton avoided being acquired with leverage finance. This enabled Kimpton to have a debt-free capital structure. James Kerdel highlights the importance of having no debt. He suggests that, as in the case of Kimpton, a firm without debt has less pressure to service this debt (pay off equity and interest). Therefore, without the financial pressure debt places on the firm and its strategy, it can be more long-term orientated in its decision making. This is particularly important when managing the brand. Kimpton can consider the long-term influence that decisions have on the brand rather than seek to maximise short-term profits. This enables Kimpton to maintain the values of their brand, enabling sustainable long-term growth.

"We did it all completely wrong, in that as a highly leveraged private equity company, about six years ago we embarked on international retailing, but because we didn't have very much money, we concluded we had to do this through franchising, so we hired somebody in actually from (Major High street Fashion Retailer), who knew about franchising, but what she did was to contact all her old relationships from (Major High street Fashion Retailer), and we landed up with stores in the Middle East and South East Asia, neither of which were, well if you think about the essentials of this being an outdoor-orientated" - Mark Stevens, Ski Bum

Baker International acquired Ski Bum using a leveraged finance deal. During the short period Baker International owned Ski Bum, it is evident that the leverage used on the deal had a negative influence on performance. Mark Stevens discussed the internationalisation strategy of Ski Bum under the ownership of Baker International. During this time, Ski Bum and Baker International brought in an internationalisation direction from a major high street fashion retailer to create and implement an internationalisation strategy. The strategy created and then implemented was inherently flawed. Ski Bum, using the franchising expertise of the new internationalisation director, adopted a franchise-based approach to internationalisation. This approach failed as the franchise model was targeted at the Middle Eastern and South East Asian markets. Both of these markets had climates that were ill-suited to wearing Ski Bum apparel, which is designed for more temperate climates. As a result, the international franchise model of Ski Bum failed, resulting in divestment from these markets. Although successful internationalisation has been a goal that has eluded many major British retailers, it is significant that this was driven by the high levels of leverage within the Ski Bum business. Moreover, given the short period Baker International held the investment for, it was clear that it wanted to rapidly engage in some form of internationalisation strategy, as Mark Stevens indicates when questioned on the motivations to internationalise:

"In order to get the valuation benefits of that for the exit from the private equity deal" – Mark Stevens, Ski Bum

The driver for internationalisation was not based upon what was best for Ski Bum in the long term, but rather what was best for Baker International to service the debt and to increase the valuation of the firm for their exit. Evidently, Ski Bum's efforts were fundamentally flawed by Baker International's need to engage in an ill-conceived internationalisation process. This was motivated by the need for Baker International to demonstrate that Ski Bum had proven international operations that would allow the next private equity buyer to come in with a clear avenue for growth in the future. This ability to take the firm from one stage of growth to the next is important for private equity firms as it increases the likelihood of their engineering a profitable exit. The private equity firms acquire businesses within their area of expertise, and then take them to the cusp of the next level, which represents a stage in the growth of the firm which is beyond their set of skills and capabilities. The influence of leverage finance can also be seen to have had a negative impact on other investments Baker International has made in the past. Baker International appointed Mark Stevens as Chairman, having previously been Chairman of Baker International-backed firm High Street Music (anonymised name).

"Sigma sold the business to Baker International in 2005, who operate within rather bigger companies, and actually I was brought in by Baker International as Chairman, because they had backed me when I ran High Street Music, a private equity-owned

business, and they actually didn't own it for very long, and they sold it after about two years, because the business did tremendously well, and they then sold it to Kappa, who are the current owners." Mark Stevens - Chairman, Ski Bum

Baker International backed the existing Ski Bum management team through engaging in a management buyout and bringing in a new Chairman (Mark Stevens) who had been the managing director of another Baker International investment. This investment was into a major British retailer of music, video and computer games, called High Street Music, and ran between 1998 and 2003. The exit of Baker International from the investment came after an IPO, in which High Street Music was floated on the London Stock Exchange, valuing the business at over £1 billion. However, share prices dropped on the day of the IPO due to the levels of debt Baker International had placed in High Street Music. Stevens left High Street Music in 2006, joining Ski Bum as Chairman in 2007. In 2013, High Street Music entered into administration. This case is commonly used as an illustration of private equity ownership, driven by the pressure of leveraged finance, having a negative effect on firm performance.

5.32 BUYOUT AND EXIT OF THE FOUNDER AND MANAGEMENT TEAM

"I think that's when the problems start, when you get to a certain stage of development with a company, you start off with small retailers, and most of the lifestyle brands start off with a person connection, something not started by a business, it's started by someone that's got a very personal connection, but I think the problem starts to arise when it gets to a certain stage of business development when it goes beyond a certain amount of stores and starts to grow up, and then it has to become much more professional and much more

business orientated and this is obviously why private equity firms quite like to get involved because they can look and see how they can strip out costs, and they can make it much more efficient, they know how businesses work, they can work on the logistics side, they can work on international development but that's often when it can sort of lose its identity, it's about maintaining its original identity and then maintaining that in a very special business-like manner..." - Vanessa Grey, Retail Research

Vanessa Grey is a retail consultant who specialises in developing research insights for the apparel retailing sector. Vanessa highlighted an important issue that branded apparel retailers encounter during their growth; their loss of identity. As branded apparel retailers grow during private equity stage one, they maintain a close link with the founder of the brand. As discussed during stage one of private equity, the founder has a major role in helping keep the values of the brand. Vanessa discusses the growth of the firm and how during the professionalisation process implemented by private equity firms, and the growth of the firm's retail footprint, the branded apparel retailer's brand values can become confused and begin to erode. The importance of the founder is key in helping maintain the firm's identity and brand values. If the firm loses its founder, it can begin to lose its identity. This is important during the second stage of private equity, as the founder can be bought out of the business at this stage.

"They take minority stakes as well as majority, there are different blends to where the market sits, and depending on who wants to do what, at the moment mid-market PE want majority control, and they want to be investing a chunk of money and probably be taking the founder out, or part of the founder's stake out, retail companies are often owned by these dominant shareholders" - Sam Kent, Amethyst

The UK private equity mid-market is highly diverse, with private equity firms within this area of the market adopting a variety of investment strategies across a range of sectors. During private equity stage one, private equity firms seek to professionalise entrepreneurially-owned firms through taking a minority stake. As the firm grows, the turnover and size of the firm take it into another investment strategy bracket, where larger private equity firms operate. Within this area of the market, the investment strategy differs from the lower end of the middle market, as seen in private equity stage one. As previously discussed, Sam Kent highlights how private equity firms in this area of the market prefer to have complete control of the firm. This means that they will often buy out the entrepreneurial founder. This is often a natural progression for the founder of the firm, as William Grey of Carbon Corporate Finance discusses his experience of the mind-set of an entrepreneurial founder:

"The decision points tend to be around their personal circumstances, they are fed up with running the business, want cash for whatever reason, but also sometimes knowing when, you know what, I've taken this business to 100 million, 50 million, I've taken it to a level and I need for the business to prosper, new skills, and sometimes you can bring those in an employee, often you need to give equity away to do that, do you know what, why don't we do that in a more fuller way, so I think a lot of it depends on the lifecycle of that

entrepreneur in terms of what they want at a specific time" – William Grey, Carbon Corporate Finance

At this stage of growth, following the initial private equity investment, a secondary buyout allows the founder to exit the business through selling their equity in the firm. This can be appealing to the founders who have started the firm and seen it grow into a multi-million-pound business. William Grey of Carbon Corporate Finance advises both private equity and entrepreneur-owned firms on both the buy and sell side of private equity. Having worked on multiple transactions within the consumer sector, he offers an insight into the mind-set of entrepreneurial owners. Through his experience, he suggests that entrepreneurial founders get to the stage where they have grown the business to a level where they can make a significant amount of money through selling their ownership stake in the firm. Additionally, this decision is influenced by the life stage of the founder. While some founders may wish to remain involved with the firm, others have grown the business through their 20s, 30s and 40s and feel this is the right time to exit; this can be seen in the case of the founders of Ski Bum.

"They probably thought the business might be worth £50 million, roll forward 3 or 4 years, Baker International pay £97 million plus, they don't care then, they are only staying around for as long as people want them to stay around, they've made more money than they could ever dream of" – Ryan Baines, Kappa

Baker International's buyout of Ski Bum in 2005 saw the exit of the entrepreneurial founders. Ryan Baines describes how, with the help of Omega, the value of Ski Bum increased dramatically. When Baker International bought out Ski Bum, the value of the business had grown rapidly, to a point where selling the business would make the founders incredibly wealthy. The rapid increase in value led the founders to sell their stake in the business. The exit of the founders saw the management of Ski Bum take over the firm, complemented with new additions to the board by Baker International.

"I think that motivation on behalf of the founding entrepreneurs is very much something we still try to capture, in terms of the essence of the brand, both for employees and customers, the way we describe it is Ski Bum is a brand for life outside nine to five, so it's very much outdoors orientated, casual clothing, and reflects people who enjoy, who live for life outside of work, the whole ethos permeates through to things like the actual clothing itself, and I think whenever we're struggling for creative influence, we actually go back to where it all started, one of the great things about being a retailer from the beginning principally through catalogues is we still have the archive of catalogues, I think often you find a company has been round for twenty years or so I think the problem is you've often lost your corporate memory, but the catalogues give us that, and when we lost our way a couple of years ago, actually we brought in a new brand director from Abercrombie and Fitch, and the first thing he did was to get out all the old catalogues, and actually his first collection, which was hugely successful was sort of modern updates on some of the original the late 1990s - early 1990s" - Mark Stevens, Ski Bum

Mark Stevens highlights the importance of the founders' lifestyles in maintaining the values of the Ski Bum brand. The founders' lifestyles strongly influenced the brand, and the firm has continued to tap into this source to maintain the brand values after they have exited the firm. Mark Stevens talks about the firm losing its corporate memory due to the age of the firm; however, returning to the old catalogues enabled Ski Bum to restore its original brand values. Mark Stevens suggests that this process had to happen after Ski Bum lost its way and lost sight of the original values of the brand after the founders left. The founders' exit evidently caused the firm to move away from the original values of the Ski Bum brand. The return to the original catalogues of Ski Bum is an attempt to go back to the original values of the brand which have been confused/contradicted under the previous private equity owners. This demonstrates the negative influence the founders' exit can have as it can lead to the new owners of the firm implementing strategies that contradict the values of the brand.

"Yes definitely, but the brand is distinct from (the founder) as well, but clearly in its inception, it is based on his view of the world, and he is still very much involved in that, and yes I think his lifestyle is, it does reflect his lifestyle, but now he has to be reminded that he's got more money than our average customer but it's very much about him" – James Kerdel, Kimpton.

The case of Kimpton tells a different story from that of Ski Bum, although in both firms it is evident that the entrepreneurial founders are important for maintaining the values of the brand. Kimpton, through buying back its shares from Omega, reverted to senior management and founder-based ownership. The retention of the founder allows Kimpton to have a reference point for the brand at all times. The Managing Director of Kimpton, James Kerdel, talked about the relationship between himself and the founder. While the founder was highly creative and essential for maintaining the values of the brand, he was also impulsive, and in the past had lacked the financial expertise that underpins successful businesses. Kerdel, on the other hand, has the role of channeling the founder's creativity and making sure brand-led decisions are balanced with financial viability.

James Kerdel reinforces this through suggesting that the Kimpton brand is a representation of the founder. However, Kerdel also states that since the inception of Kimpton, the founder has seen his net worth increase, and so he has to remain careful to make sure the values of the brand reflect his lifestyle when starting the brand. Through having the founder of Kimpton remain within the firm, Kimpton has been able to draw on the founder's lifestyle to maintain the values of the brand.

"I think they understand that businesses that can make strong emotional connections and can sustain much higher inherent profitability, than businesses that trade on some other USP like price positioning, that's not to say that you can charge more for your product, but if you have strong emotional connections, you keep your customers loyal, our branding is not overt but the customer and our customers still feel a connection, this is the appropriate thing to dress their children in, and then themselves" – James Kerdel, Kimpton.

Through retaining the founder and the positive influence this has on maintaining the values of the brand, Kimpton has seen success. James Kerdel attributes this success to Kimpton's ability to make emotional connections with its customers. While other competitors may move to compete on price, the competitive advantage Kimpton has developed is based on strong customer loyalty. In the following section, the influence of rapid store roll-outs will be discussed.

5.33 <u>RAPID STORE ROLL-OUT</u>

"In the old days it used to be about how many stores could you put into the UK, the reality is that retail is polarising, particularly if you have a fashion brand, you can argue, a brand like TM Lewin, a brand like Charles Tyrwhitt, or Musto, how many stores can they have in the UK? In the old days they used to go to every city, now there is probably a limited amount of locations, you get to that stage with lifestyle brands where what is premium, and what is mass premium, and if you are not careful your drift further down the class scale" – Sam Kent, Amethyst.

Sam Kent of Amethyst discusses the impact that having too many stores can have on fashion brands. Whereas in the past, fashion brands could have multiple store locations, with the growth of online retail it is less important to have as many retail outlets. In fact, having too many retail outlets can have a negative influence. Sam discusses how through having too many stores a brand can move from being premium to becoming mass premium. Moreover, the brand in this situation also risks losing its premium status and falling into an area of the market such as the fast-fashion retailing sector where it does not have the capabilities to compete. Sam Kent elaborates on this analysis when discussing Ski Bum:

"Ski Bum is probably the best example, Ski Bum with Sigma got it at the right time, grew it well, next owner, next evolution, did very well, third evolution, then it got a bit too big for itself, it has too many stores, too many things trying to go on, and financially they probably did the deal at the wrong time, at the end of the day, some brands can't expand too much" – Sam Kent, Amethyst

Baker International's strategy when acquiring Ski Bum was to continue the store roll-out, already started by Sigma. When Sigma exited the investment Ski Bum had 98 stores; Baker International added 32 stores, taking the footprint to 130 across the UK. The rapid store roll-out by Baker International was seen to have a negative impact on Ski Bum. Sam Kent reinforces this point. Sam highlights the fact that the rapid store roll-out of Ski Bum led to Ski Bum becoming 'too big for itself'. Ski Bum changed strategic direction, moving from operating as a branded niche apparel retailer, to attempting to move away from its niche market to attract more customers. This movement from premium/niche to mass market had a negative influence on the Ski Bum brand as it became perceived as too common. This change in strategy from niche to mass market, and the perils it presents for more premium brands, is discussed by Jack Brooks of Alpha:

"They have had a number of different views as to what is a sensible size estate, the likes of Next can carry absolutely shed loads of stores, and square footage, if there was a change in strategy for Oxford Red to go a little bit more mass market then there is probably about another 100 stores, and do a load of concessions and things, in department stores, but if they are looking to keep their premium positioning in the medium-term, then at least they can achieve a bit of growth from new store openings but not as much as there was, there is growth from improved product, and driving sales densities, those sort of things" – Jack Brooks, Alpha

Jack Brooks is aware that in order to continue growing Oxford Red, Alpha could push for more of a mass market strategy. However, this would bring it into direct competition with larger established retailers such as Next. The strategy of Next and the product and brand offering it has is suited to operating an extensive store portfolio; currently Oxford Red does not possess these capabilities. This represents a growth issue for brands that are positioned within the premium area of the market as it can mean growth through store roll-outs can be damaging the brand of the firm. The issue of rapid store roll-out is discussed by Phil Clarke an investment director at Gamma Private Equity.

"Well if you look at Ski Bum, I think it was the founders who took it on the first journey with Sigma, and then (Anonymised) joined as chief exec she was great, so then the next buyer (Baker International) was looking at extending the footprint, so it was all about store roll-out, and then the next buyer after that was sort of doing that, but then the sort of adage for private equity is always leave something on the table for the next man and that didn't happen with them" Phil Clarke, Gamma.

Phil Clarke believes that Baker International undertook a rapid store roll-out strategy when invested in Ski Bum. However, such a rapid roll-out and exit from the investment within a two-year time frame had moved the Ski Bum brand into a mass market position. This new mass market positioning was an issue for new owners Kappa. Kappa was in a situation where the values of the brand had been contradicted, and Ski Bum had reached a point where it had over-expanded its store portfolio, leaving fewer strategic options for Kappa. Phil Clarke refers to this as 'leaving something on the table' or giving the next investor a clear avenue for future growth. The rapid store roll-out by Baker International had a detrimental impact on the performance of Ski Bum. However, the detrimental effects did not manifest themselves during Baker International's short ownership period, allowing it to exit the investment profitably. The logic behind adopting such a strategy is discussed by Ryan Baines of Kappa.

“The roll-out cookie cutter analysis for consumer businesses was straightforward because most of the people in private equity have got a private equity background, so they'd go, you have opened X number of stores, they've performed in this way, you have just got to open more and you'll make a load of money, and that kind of works, but all the early signs were very positive from a financial analysis point of view" – Ryan Baines, Kappa

Ryan Baines suggests that in the past private equity firms have adopted a cookie cutter approach to growing consumer businesses they have invested in. The logic behind this strategy was that through opening additional stores, incremental sales would be achieved. Ryan suggests that this is down to the backgrounds of the private equity managers advising the firms, who predominantly come from finance and accounting. This suggests that they do not consider the influence that rapid store roll-outs can have on the brand of the firm, and the influence this can have on the strategic growth options of the firm in the future.

“You can compare and contrast some of the Ski Bum’s stages of their roll-out, I think a great example, just because I go on holiday there, is in the North Norfolk coast near a town called Burnham Market you have got an Oxford Red store in a lovely period building, took ages for it to find, it’s an expensive kit out, nice presentation etc., compare and contrast the Ski Bum store, which is about a mile, a mile and a half away, in a town called Burnham Deepdale, which is just a simple retail unit next door to a petrol station, now one of those is a lot easier to find and source than the other one, so the Oxford Red roll-out is a bit more complicated from a real estate point of view principally driven by

the fact it is trying to target a certain type of customer, and everything has to fit, the space has to fit, the fit-out has to fit, the marketing material has to fit-in etc. etc…" - Jack Brooks, Alpha

Jack Brooks of Alpha talks about the measured roll-out undertaken by Oxford Red, whereas the roll-out of stores undertaken by Ski Bum was more rushed. Whilst Oxford Red was conscious of making sure there was a good fit between the brand and the location, Ski Bum sought to open stores regardless of this consideration. This resulted in Ski Bum having stores in locations that do not support the values of the brand. This rapid store roll-out is perhaps indicative of a lack of understanding on the part of the private equity firm of the impact that rapid store roll-outs can have on contradicting the values of the brand.

5.34 INFLUENCE OF FACTORS ON FIRM PERFORMANCE

During the second stage of private equity ownership, the factors affecting firms can be clearly contrasted between Kimpton and Ski Bum. Ski Bum adopted a leveraged debt structure, saw the founders of the brand and the management team exit, and launched a rapid store roll-out. In contrast, Kimpton pursued a strategy whereby it exited private equity and returned to the ownership of the management team and founder, and did not use leverage and rejected a bricks and mortar retail roll-out. Kimpton instead focused on online and mail order. Table 15 details the change in turnover for Ski Bum and Kimpton. For Ski Bum the data given represents its ownership under Baker International for a two-year period, and Kimpton's data is from its exit from private equity in 2007 until 2012 where it is still under founder and management team ownership.

Table 15: Performance of branded apparel retailers during phase two of private equity ownership.

Target Firm Branded Apparel Retailer	Private Equity Firm	Year	Turnover	Operating Profit	Year on Year Turnover Change (%)	Year on Year Operating Profit Change (%)
Ski Bum	Baker International	2006	£80,745,000	£8,734,000	33.00%	117.59%
Ski Bum	Baker International	2007	£110,929,000	£14,158,000	37.38%	62.10%
Overall % Change for Investment Period					37%	62%
Kimpton	N/A	2008	£168,053,399	£25,066,240	9.38%	-5.95%
Kimpton	N/A	2009	£201,893,026	£28,462,030	20.14%	13.55%
Kimpton	N/A	2010	£165,771,162	£30,208,720	-17.89%	6.14%
Kimpton	N/A	2011	£204,575,156	£20,293,296	23.41%	-32.82%
Kimpton	N/A	2012	£214,948,849	£21,752,123	5.07%	7.19%
Overall % Change Investment Period					28%	-13%

Baker International grew the turnover and operating profit of Ski Bum significantly during its two-year ownership period. Kimpton also saw a growth in turnover between 2007 and 2012 by 28%; however, operating profit varied year-on-year, resulting in an overall decrease between 2008 and 2012 of minus 13%. This decrease in turnover in 2010 and decrease in operating profit in 2011 is in part due to investment in the internationalisation of Kimpton. Although Baker International had a positive impact on financial performance during this period, the strategies it implemented as part of its ownership of Ski Bum were in conflict with the values of the brand. In contrast, Kimpton under the ownership of the founder and management team avoided implementing strategies similar to those of Ski Bum and Baker International in order to maintain the values of the brand.

The leveraged debt structure used by Baker International allowed it to exit the deal with a significant profit. The leverage used meant Ski Bum had to grow financial revenues quickly in order to make the interest payments on the debt. This debt led to decisions being made that maximised short-term profits and neglected to consider the effect this had on the values of the brand. Similarly, the exit of the Ski Bum founder and management team led to the original values of the brand being contradicted by strategies that the private equity firm implemented. The rapid store roll-out also impacted negatively on the values of the brand. The over-expansion caused the brand to become too readily available, moving it from a premium position and cannibalising the existing retail outlets. In comparison, following its exit from private equity ownership, Kimpton did not have a leveraged debt structure. This meant that Kimpton was under less pressure to pursue short-term profits, and could consider the implications of strategic decisions on the brand. Kimpton returned to the ownership of the founder and management team, and this enabled the values of the brand to be maintained. Kimpton also opted not to engage in a bricks and mortar retail strategy, and instead focused on online and mail order channels. This decision reduced the risk of cannibalisation, as well as the expense of rolling out and operating a store portfolio. Although taking into account the turnover of the two firms, it would appear that Baker International had a positive influence on the performance of Ski Bum; the detrimental impact it had on the values of the brand did not manifest itself until the Ski Bum entered into the third stage of private equity ownership under Kappa.

5.35 PRIVATE EQUITY STAGE THREE

Kappa acquired Ski Bum from Baker International in 2007 for £350 million (Table 16). Kappa operates within the upper end of the middle market. It invests in businesses in a range of sectors and operates across Europe. Kappa has invested in some of the UK's largest consumer brands and has exited through both IPOs as well as secondary/tertiary buyouts. Its most recent investments in the consumer sector include a major high street café chain and an online cycling retailer. In this study, Ski Bum is the only firm to have passed into a third different form of ownership; the other firms involved in the study are yet to enter into a third stage. During this stage, the factors identified are new management team, change in strategic direction and leveraged debt structure. The following section will detail the key themes that emerged from Kappa's ownership of Ski Bum. It is important to note that data was collected whilst Kappa was invested in Ski Bum.

Table 16: Details of Kappa's Buyout of Ski Bum

Private Equity Firm	**Branded Apparel Retailer Name**	**Deal Size and Stake Taken**	**Leverage Used?**	**Overview of Relationship**
Kappa	Ski Bum	£350 million, Full Buyout Deal	Yes	Kappa acquired Ski Bum as part of a tertiary buyout deal, from Baker International in 2007.

5.36 <u>New Management Team and Strategic Direction</u>

"How good is (Managing Director of Ski Bum under Baker International) at each stage, the problem was between the Baker International deal and our deal there was nothing of any value on the Baker International deal when it was 97 million because that was the founders leaving, at the Kappa deal she did make money, so it changed her attitude when she partnered with us, you have to be able to measure that, and call it, you don't always know when you're doing a deal what do expect" Ryan Baines, Kappa

Following the purchase of Ski Bum from Baker International, Kappa engaged in a process of reviewing the senior management team of Ski Bum. The management team had been heavily incentivised under the ownership of Baker International. Following the sale of Ski Bum to Kappa, the senior management team of Ski Bum received large bonuses based on share sales. Ryan Baines questioned the attitude of the Managing Director of Ski Bum following the buyout from Kappa. Due to the significant amount of capital she received, Ryan believed her motivation was reduced under the ownership of Kappa. Additionally, other individuals within the firm exited following the buyout from Kappa. The International Director, who implemented the failed international franchise operation, also left Ski Bum. Mark Stevens discusses the arrival of a new brand manager, and the need to return to the roots of the brand through analysing the past collections of Ski Bum products. The flux in senior management is typical within private equity, as new owners want to bring in their own management teams with the skills to take the firm to the next level of growth.

Kappa had ambitious plans to exit Ski Bum via an IPO. In order to achieve this, Kappa brought in experienced senior management from publicly-listed retailers, to prepare the firm for public market ownership. One key addition was a new managing director from a clothing division of a major British supermarket, who brought the experience of operating within a publicly-listed retailer. The exit of the existing management team and the arrival of a more corporate set of managers bought further professionalism to Ski Bum, but it also led to some issues regarding the management of the brand, as Mark Stevens discusses:

"Well the head winds are quite stiff, this is not an easy time in UK retailing, but I think we are making good progress, I think we did lose our way in the 2008-2009 time, we had some very difficult financial performance, and actually we changed virtually the entire management team, and changed strategy" – Mark Stevens, Ski Bum.

Evidently, Chairman of Ski Bum Mark Stevens was aware of a dip in performance following the buyout from Kappa. This dip can in part be attributed to the strategic actions implemented by Baker International. One clear influence was the cost of relocating stores that were rapidly rolled-out under Baker International. Kappa and Ski Bum's new management team soon realised that certain stores were in locations that were having a detrimental impact on the brand. The rapid growth strategies implemented under the ownership of Baker International contradicted the original values of the Ski Bum brand. The Chairman's statement in Ski Bum's annual report picks up on this with regards to discounting that was implemented by Ski Bum under Baker international. Prior to investment from Kappa, Baker International reduced product quality and discounted for large portions of the year (40 weeks). This led to issues regarding product quality and also contradicted the values of the brand. Since being under Kappa's ownership, Ski Bum has significantly reduced the number of weeks it discounts products in each year. Jack Brooks on Alpha picked up on the impact Baker International had on the Ski Bum brand:

"Some people would say that Ski Bum just expanded too much basically, and that the brand became a bit, I wouldn't say shabby, less, which would be a poor way to phrase it, a brand that over the years tended to have less caché to it than perhaps it once did, but by all accounts they are sorting themselves out and they've got a good management team that has driven on operational efficiencies, and they've got some good working capital going, their banking relationships are miles better than they used to be, so I wouldn't be surprised if it is a nicely successful investment for Kappa, but it just obviously won't make the 18 times profit that it did when other people owned it…" – Jack Brooks, Alpha

Under Kappa, Ski Bum had to reassess its strategic direction and address the issues affecting the brand following the exit of Baker International. The impacts of Baker International did not manifest themselves until its exit. The detrimental impact Baker International had on the Ski Bum brand manifested itself when Kappa had to write-off £225 million in goodwill in 2010. Goodwill is an accounting measure for when a firm buys another firm and pays over the market value due to the intangible nature of the target firm's assets. Goodwill is commonly used when the acquired firm has a high proportion of intangible assets, such as a firm with a strong brand. In the context of Ski Bum and Kappa, the goodwill was related to the damage done to the Ski Bum brand under Baker International. Table 17 details the performance of Ski Bum under Kappa between 2007 to 2012. Annually there has been a growth in overall turnover, however operating profit has seen a minus 39% decline in the same period. 2010 was a particularly bad year for Kappa, as Ski Bums profits decreased by 91%. Although profits did increase significantly in 2011, this was due to a restructure of the debt arrangement by Kappa. Operating profit then fell again by 2012 to levels below 2008 performance. As Jack Brooks argues, Kappa is unlikely to achieve the levels of growth that were expected when they invested. The lack of growth has also created a problem with regards to Kappa's exit strategy from the Ski Bum brand. The IPO exit envisaged by Kappa has not been feasible. Extensive preparation for an IPO was undertaken by Kappa, such as the recruitment of experienced senior managers from publicly-listed retailers. Despite this, there was a lack of interest from investors and, as a result, Kappa had to abandon its plans to float Ski Bum in 2012.

"Actually we thought shy of it and sold the business, the subsequent owners who were Baker International also avoided this, and focused on business, and kept rolling out and

Kappa who are the current owners have been trying to address the brand, and actually I don't think they've solved it, and that is the problem with the brand..." – Tom Dale – Sigma

The quote above comes from a discussion the researcher had with Tom Dale regarding the approaches to managing the Ski Bum brand at each stage of private equity ownership. Tom suggests that during the first and second stages of private equity ownership both Sigma and Baker International avoided taking actions to maintaining the values of the brand. Tom admits that this was a conscious decision made by Sigma. Instead Sigma focused on professionalising Ski Bum. Baker International adopted a similar approach, whereby they focused on rolling out stores, rather than addressing the problems with the brand. The responsibility of then restoring the brand values fell on Kappa during the third phase of private equity ownership. Evidently in the case of Ski Bum, the private equity firm investing in them decided not to address the issues surrounding the brand as they knew they were due to exit the investment. This is perhaps indicative of the approach private equity firms take, where they focus on growing target firms as quickly as possible, and avoid making investments into areas of the business which may not pay back until they have exited.

"The roll out story is evaporating, as it's not about roll-out anymore, so the perception that private equity is the natural place, in harmony with small brands is, I don't think it's fair, I don't think there is, not disproportionately, there is a natural association, because of the long history, because people like talking about consumer brands, in the context of private equity, but , and people have seen (Anonymised), is owned by us, and (Anonymised) and all the stories of success and go well that's what I want to do, but I

wouldn't say that's, I can tell you what private equity does for people, but actually at the moment I would say small brands are better served by business angels than by private equity, because usually smaller growing brands need a longer period of investment" - Ryan Baines – Kappa

Ryan Baines discusses the role private equity plays in helping small brands grow. Ryan argues that although private equity has been beneficial to some consumer brands this may not be true for all consumer brands. Ryan suggests private equity used to be able to add value through helping consumer brands roll-out stores. However, he suggests that this is not the case anymore. Ryan also suggests that small consumer brands are not suited to private equity investment. The rationale for this is that private equity firms are not able to provide the long investment period required to help brands grow. This suggests that private equity may not be a suitable form of investment for small brands. This also links to investment duration and back to the case of Kimpton. Kimpton highlight the benefit of returning to private ownership as it allows them to consider the impact of strategies on the brand. Evidently Ryan's comments support this, as he suggests that consumer brands are better managed when held for longer periods. This is particularly revealing given that Kappa are currently invested in Ski Bum.

Table 17: Performance of Branded Apparel Retailers Before and After Stage Three Private Equity Investment.

Branded Apparel Retailer	Private Equity Parent	Year	Turnover	Operating Profit	Year on Year Turnover Change (%)	Year on Year Operating Profit Change (%)
Ski Bum	Kappa	2008	£126,934,000	£12,289,000	14%	-13%
Ski Bum	Kappa	2009	£129,431,000	£7,371,000	2%	-40%
Ski Bum	Kappa	2010	£134,953,000	£655,000	4%	-91%
Ski Bum	Kappa	2011	£152,466,000	£15,434,000	13%	2256%
Ski Bum	Kappa	2012	£163,528,000	£7,505,000	7%	-51%
Overall % Change Investment Period					29%	-39%

5.37 CONCLUSION

Having presented the findings, it is evident that in the context of this study there are three stages of ownership. Within each ownership stage, different factors combine to affect the target firm performance. While some factors have a positive impact, others have a negative effect on the target firm in relation to financial performance and the values of the brand. Table 18 below summarises the factors affecting each firm at each stage.

Table 18: Private Equity Stage One Factors Affecting Target Firm Performance

Brand Name	Private Equity-Led Firm Professionalisation	Importance of Retaining the Founder	Minority Stake Ownership	Un-Leveraged Debt Structure	Measured Store Roll-out	Effect on Brand Values	Effect on Turnover	Effect on Operating Profit
Ski Bum	Yes	Yes	Yes	Yes	Yes	Maintains	+998%	+277%
Kimpton	Yes	Yes	Yes	Yes	No	Maintains	+1211 %	+33339 %
Oxford Red	Yes	Yes	Yes	Yes	Yes	Maintains	+100%	+134%
Rugged Bear	Yes	Yes	Yes	Yes	Yes	Maintains	+14%	-127%
Knowles*	No	Yes	No	Yes	Yes	Maintains	+200%**	109%**
Blue Wave*	No	No	No	No	Yes	Maintains	+100%**	-47%**
Sporting Lions*	No	Yes	Yes	Yes	Yes	Maintains	N/A***	N/A***

*Indicates that the firm was not under private equity ownership during this study.

** Turnover and operating profit were taken from between 2008-2012 for companies not under private equity ownership.

***Turnover and Operating profit were not available from company house accounts. This is because Sporting Lions only submits a small company account return, this does not require the submission turnover and operating profit figures.

During private equity stage one, it is evident that the following factors are implemented that affect the performance of branded apparel retailers: private equity-led firm professionalisation, retaining the founder, minority stake ownership, unleveraged debt structure and measured store roll-out. Within the study, it is shown that these factors help maintain the values of the brand, and also have a positive effect on the financial performance of the branded apparel retailer. It is also interesting to compare the financial performance of the firms outside private equity ownership (Knowles, Blue Wave, Sporting Lions); their percentage growth in operating profit and turnover is less than those firms which have passed through or are in private equity stage one. This suggests that private equity firms have had a positive effect on the businesses they invest in during private equity stage one compared to those which have not received private equity investment. However, it is important to state that this analysis is only based on two financial metrics between firms that are all at different stages of growth, and so further financial analysis would be required to further explore this comparison.

Table 19: Private Equity Stage Two Factors Affecting Target Firm Performance

Brand Name	Leveraged Debt Structure	Buyout and Exit of Founder and Management Team	Rapid Store Roll-out	Effect on Brand Values	Effect on Turnover	Effect on Operating Profit
Ski Bum	Yes	Yes	Yes	Contradicts	+37%	+62%
Kimpton*	No	No	No	Maintains	+28%	-13%

*Turnover and operating profit were taken from between 2008-2012.

During private equity stage two, the following factors are observed to have a positive effect on firm performance, but the factors can also be seen to contradict the values of the brand: leveraged debt structure, buyout and exit of the founder and rapid store roll-out (Table 19). For Ski Bum, it saw a dramatic increase in both turnover and operating profit, but the strategies implemented contradicted the values of the brand. In comparison, Kimpton exited private equity. Under these conditions, it saw a decrease in financial performance, but the values of the brand were maintained.

Table 20: Private Equity Stage Three Factors Affecting Target Firm Performance

Brand Name	New Management Team	Change in Strategic Direction.	Leveraged Debt Structure	Effect on Brand Values	Effect on Turnover	Effect on Operating Profit
Ski Bum	Yes	Yes	Yes	Contradicts (but attempts are made to return to original values)	+29%	-39%

During private equity stage three, the following factors affected firm performance: new management team, change in strategic direction and a leveraged debt structure (Table 20). The strategies implemented by the previous private equity owner contradicted the values of the brand, and this manifested itself during the third stage of private equity ownership. Because of this, the private equity firm attempts to restore the original values of the brand. During this period, the firm's financial performance is negatively affected.

To conclude, this chapter sought to achieve the objectives set out at the beginning of the chapter. This concluding section will now reflect on these objectives. Objective 1) was achieved through presenting the Knowles case study, and highlighting how the researcher became interested in the role private equity played in the growth of branded apparel retailers. Objective 2) was achieved through presenting the themes that emerged during private equity stage one. These were private equity-led firm professionalisation, the retention of the founder, minority stake investment, unleveraged debt structure and measured store roll-out. These factors were presented and their implications on the financial performance and the brand of the firm were detailed. Objective 3) was achieved through describing the themes that emerged during private equity stage two, through identifying the factors that affected branded apparel retailer performance. These are leveraged debt structure, rapid store roll-out and the buyout of the founder and management team. The effect that these factors had on firm performance were discussed in relation to the contrasting cases of Kimpton and Ski Bum. Objective 4) was achieved through discussing the factors affecting branded apparel retailers during the third stage of private equity ownership. These factors were the change in strategic direction, new management team and the leveraged debt structure. The impact these factors have on branded apparel retailer performance are discussed. Overall this chapter sought to present the emergence of the grounded theory from the data collection process. The researcher has presented verbatim quotations and performance data to help demonstrate the development of the grounded theory. The discussion chapter will now conceptualise the theoretical framework, and will present the Three-Stage Model and the contribution this makes to understanding both parenting relationships and Campbell et al's (2014) value adding and value subtracting behaviours.

CHAPTER 6: DISCUSSION

6. DISCUSSION

6.1 INTRODUCTION

The following chapter will analyse the findings of the study, detail the study's original contribution to knowledge and set out to achieve the following objectives:

1. Present the Three-Stage Model for private equity.
2. Detail the contribution the Three-Stage Model makes.
3. Discuss the contribution this study makes to understanding the value adding and value subtracting parenting behaviours identified by Campbell et al (2014).

To achieve the first objective, Sections 6.2 to 6.5 will present the Three-Stage Model for private equity, developed from the grounded theory process this study adopted. The factors affecting the performance of branded apparel retailers under the three different stages of private equity ownership will be given, in terms of financial performance as well as the values of the firm's brand. The development of the Three-Stage Model is in keeping with the tradition and purpose of grounded theory, as it develops an understanding of a particular context. The Three-Stage Model formulated in the study can be seen as a form of substantive theory (Glaser and Strauss, 1967), which is a theory developed from empirical enquiry to provide a deeper understanding of particular practical situations (Locke, 2001). Substantive theories can then be used to contribute to questions or to develop other substantive theories; in the case of this study parenting theory. To achieve the second objective, Section 6.7 will highlight the contribution that the Three-Stage Model makes, and will do so by examining how it improves the understanding of private equity. Also, the contribution that the Three-Stage Model makes to understanding the dynamic nature of parenting relationships will be discussed in the context of the static Heartland Matrix. To achieve the third objective, Section 6.8 will compare the Three-Stage Model to the value adding and value subtracting behaviours identified by Campbell et al (2014). The behaviours compared will be people decisions and poor quality people decisions, strategies and misleading strategic guidance, relationships, brand, and financial engineering.

6.2 THREE-STAGE PRIVATE EQUITY MODEL

The Three-Stage Model has been developed through the grounded theory process adopted in this study and will be presented in this section. This model builds on the static Heartland Matrix, which is a tool parent firms can use to understand the extent to which they have the potential to add or subtract value from a subsidiary (Goold et al, 1994; Campbell et al, 2014). Two axes make up the matrix. Firstly, the extent to which the parent risks subtracting value and, secondly, the potential to add value. Despite the merits of this model as a diagnostic tool, it does not provide an understanding of what managers should do after they have plotted their subsidiary on the matrix. Campbell et al (2014) suggest that managers should be aware of value adding and value subtracting behaviours to attempt to create value for their subsidiaries. The contribution the Three-Stage Model makes to the Heartland Matrix and the value adding and value subtracting behaviours will be discussed following the presentation of the model around the three stages it depicts, starting with private equity stage one.

6.3 PRIVATE EQUITY STAGE ONE

Private equity stage one is the stage at which the target firm receives private equity investment for the first time. During this phase, a number of factors combine to have a positive effect on the brand values and financial performance of the firm. These factors are private equity-led firm professionalisation, the importance of retaining the founder, minority stake ownership, unleveraged debt structure and measured store roll-out strategy. The following section will describe these factors and discuss the effect they have on the firm's brand values and financial performance. Figure 9 presents an overview of the factors affecting branded apparel retailers during private equity stage one.

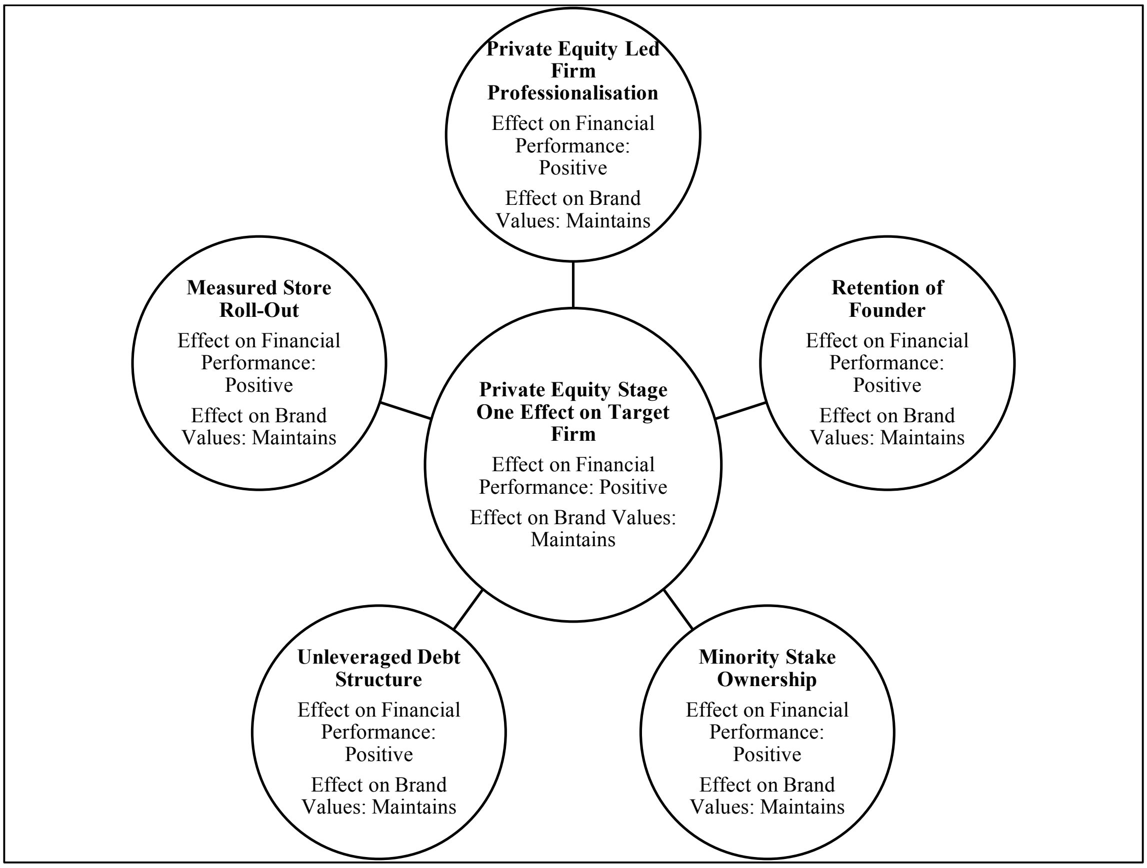

Figure 9: Private Equity Stage One

Private Equity-Led Firm Professionalisation

Private equity-led firm professionalisation is the process by which the private equity firm improves the operational aspects of the business. Actions can include the attraction and appointment of experienced professionals, where the private equity firm uses its existing network to recruit managers who specialise in the professionalisation process. The process is also aided by the private equity firm allowing the target firm access to its extensive industry contacts, enabling the target firm to develop key relationships that would not otherwise be readily available. The third aspect of professionalisation comes from the operational expertise that the private equity firm possesses. This expertise enables the private equity firm to scrutinise strategy and guide the target firm on how it can improve its performance.

Effects on Financial Performance: Positive

Private equity-led firm professionalisation and improvements in operational efficiency have a positive influence on the target firm's financial performance by helping to boost operating profit and turnover. However, in some cases, profit may temporarily fall due to the investment made in new systems within the firm, such as new warehousing systems.

Effect on the Values of the Brand: Maintains

Private equity-led firm professionalisation allows maintenance of the values of the firm’s brand. The professionalisation of the firm improves operational performance; this helps maintain the values of the brand. The firm now has a strong corporate structure and is equipped with efficient management systems, enabling the founder to focus on product development and marketing. The founder has strong links with the values of the brand and so, by returning the founder to a more creative role, he/she can manage the brand and help protect its values.

Importance of Retaining the Founder

The retention of the founder is a major factor which affects target firm performance during the first stage of private equity. The founder of the firm is important as the values of the brand are strongly linked to the founder's lifestyle. The founder can provide insight and reference to the values of the brand and helps maintain them. Although the founder may not necessarily possess the management skills needed to grow the firm, the founder is essential to maintaining the values of the brand. Additionally, with the arrival of new senior management, the founder can move away from day-to-day management and into a more creative role centred on product design and brand management.

Effect on Financial Performance: Positive

The retention of the founder has a positive influence on financial performance. The brand is an important intangible asset of the firm, and the values of the brand are important in underpinning the brand as an asset. The brand creates value for consumers, allowing the firm to generate financial value. Therefore, by maintaining the values of the brand, the brand as an asset is maintained, allowing the firm to continue to generate financial value.

This manifests itself in a rapid increase in both turnover and operating profit during private equity stage one.

Effect on Brand Values: Maintains

The retention of the founder has a positive influence on the brand values of the firm. The founder of the firm is the guardian of the brand and helps maintain the brand's values. Removing the founder would represent a great risk to the firm at this stage of growth, as it could lead to the values of the brand becoming damaged.

Minority Stake Ownership

Private equity firms operating within the lower end of the middle market specialise in investing minority stakes into businesses with high growth potential that are typically run by an entrepreneurial founder. Minority stake ownership means that the target firm receives the benefits of private equity ownership, while the senior management team can retain control of the business in key decision-making areas. Although the private equity firm scrutinises strategy, as well as selecting and appointing senior management, it does not have the power to overrule the founder and senior management team. The combination of the creativity of the founder and the professionalising capabilities of the private equity firm creates a positive environment for target firm growth. The minority stake ownership also reduces the ability of the private equity firm to drive strategies that increase the short-term financial performance of the target firm. The entrepreneurial founder and management team can retain control of the firm, to minimise the potentially negative influence private equity firms can have.

Effect on Financial Performance: Positive

Minority stake ownership has a positive impact on target firm financial performance. Through receiving minority stake investment from private equity, the senior management team has control over its strategic plans. However, the target firm also has the private equity firm available to help scrutinise their strategic plans. This relationship is a beneficial one as it combines the capabilities of the private equity firm, with those of the target firm, leading to positive financial performance, with rapid increases in operating profit and turnover.

Effect on the Values of the Brand: Maintains

Minority stake ownership has a positive influence on the values of the brand because the management team and founder remain within the firm and retain control over the strategy of the firm. The founder and management team have a strong connection with the values of the brand, and therefore understand the importance of maintaining them. They also have an understanding of the importance of the brand as a key asset to the business. Private equity firms seek to increase the value of the firms in which they invest. When holding a minority stake, they are unable to implement strategies that lead to rapid increases in profit although, in doing so, they may negatively influence the brand. Instead, the management team and founder retain control over the firm, enabling them to maintain the values of the brand and mitigate the effects of strategic plans that seek to maximise short-term profits.

Unleveraged Debt Structure

Private equity firms investing at this stage of growth typically invest in pure equity deals, which are deals where no leverage is used to acquire the business. Pure equity deals are beneficial to target firms as they are not acquired using debt and therefore no debt is placed on the business. In leveraged deals, debt is placed on the company, and this extra financial pressure means that the firm is driven to increase profits to service the debt. A pure equity deal has a positive impact on the values of the brand through not being driven by short-term profit considerations. The management team can maintain the values of the brand, ensuring that it remains a key intangible asset for the firm.

Effect on Financial Performance: Positive

An unleveraged debt structure has a positive impact on the financial performance of the firm. The lack of leverage means that the firm is not burdened with the associated interest payments and, as a result, financial performance is improved.

Effect on Brand Values: Maintains

An unleveraged debt structure has a positive impact on the values of the brand due to the firm not having to make interest payments, and this means that the senior management team is under less pressure to implement strategies that drive short-term profits. Consequently, the values of the brand value can be properly considered, allowing them to be maintained.

Measured Store Roll-out

Stores are important touch points for lifestyle brands and used as a means of reinforcing brand values. Importantly, stores are located in macro- and micro-locations that support brand values. For example, micro-level stores will be placed in traditional buildings that link to and support the values of the brand. At a macro-level, stores will be placed in towns that have strong associations with the lifestyle to which the values of the brand are linked. A measured store roll-out is a process by which these factors are central to the opening of new stores. If the macro- and micro-locations of stores do not support the values of the brand, then the store will not be opened. The adoption of a measured store roll-out helps maintain the values of the brand, reduces the risk of cannibalising existing channels and also reduces capital expenditure.

Effect on Financial Performance: Positive

A measured store roll-out has a positive effect on firm financial performance. Through being measured in the selection of store locations, the firm reduces capital expenditure; however, the buildings in which the lifestyle brands choose to open stores may require additional capital investment to fit out; this may present minor cost increases, but the careful selection of locations reduces capital expenditure overall.

Effect on Brand Values: Maintains

A measured store roll-out has a positive impact on the values of the brand. By carefully selecting locations that support the values of the brand, the firm can maintain and reinforce brand values.

6.4 PRIVATE EQUITY STAGE TWO

Private equity stage two is when the target firm passes into the second stage of private equity ownership. Financial performance can improve rapidly, but factors combine to have a negative influence on the brand values of the firm. These factors are leveraged debt structure, buyout, exit of the founder and management team, and rapid store roll-out. Figure 10 provides an overview of the factors affecting branded apparel retailers during private equity stage two.

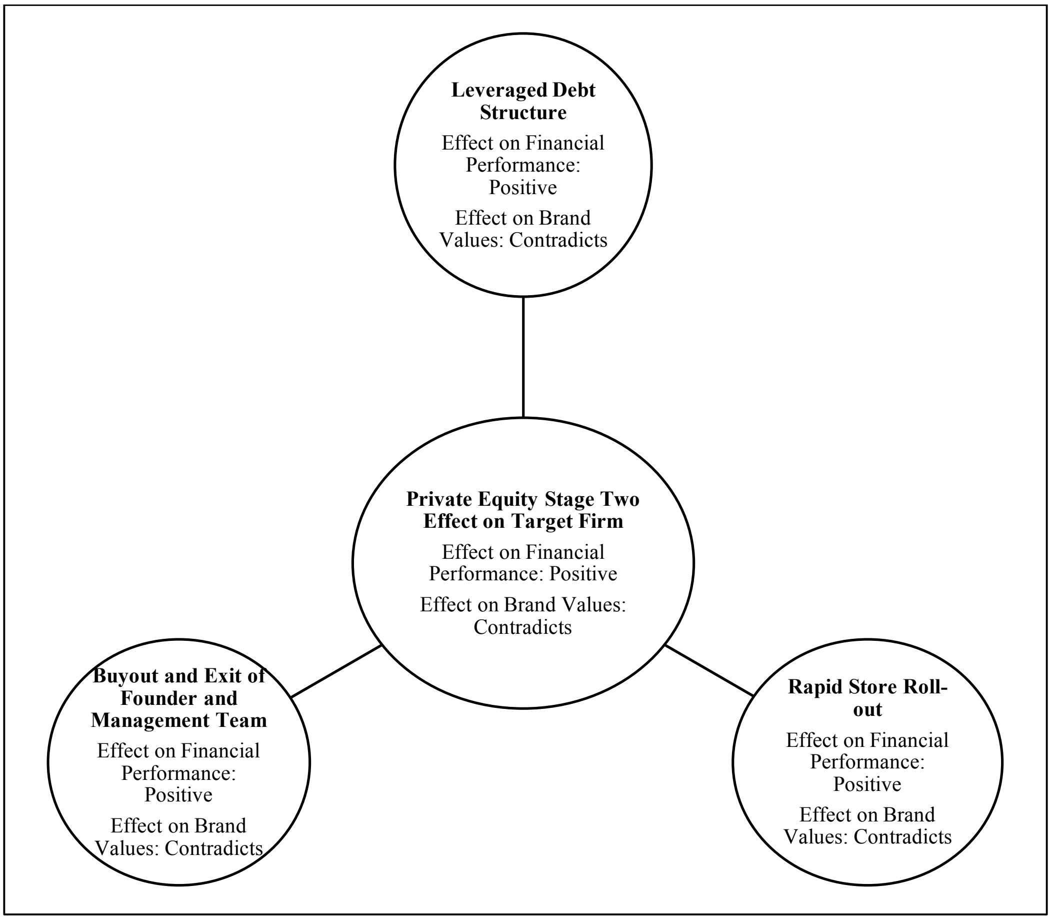

Figure 10: Private Equity Stage Two

Leveraged Debt Structure

Leveraged buyout in private equity is the process by which the firm is taken into the second period of full private equity ownership. Private equity firms engaging in full buyouts require larger amounts of capital and, as a result, leveraged finance is used to finance the deal. This enables private equity firms to increase the profit they make in deals, as the debt remains within the target firm. Leverage increases pressure on the firm's finances, as interest on the debt has to be repaid. Although leveraged finance can lead to greater operational scrutiny and cost reductions, it can have a negative influence on the brand. With the increased financial pressure, the firm is more likely to engage in activities that seek to increase profit, with a negative impact on the values of the brand.

Impact on Financial Performance: Positive

A leveraged debt structure can have a positive impact on financial performance, but this can often have a negative influence on the values of the brand. The leveraged debt structure leads to the firm aggressively pursuing increases in profits, due to pressure to make interest payments on the debt. This increase may be bought about through heavy discounting or short-term strategies. Profit after debt payments can increase as a result of the actions taken.

Impact on Brand Values: Contradicts

A leveraged debt structure has a negative impact on brand values, but this may not immediately manifest itself. The need to service interest payments leads senior managers to seek to increase profits. However, these short-term strategies, such as discounting, can lead to the values of the brand becoming contradicted. Moreover, rapid store roll-outs can be a direct result of needing to grow profits quickly. These factors combine to increase short-term profit; however, they have a negative influence on the brand because the values that made the brand successful gradually become damaged.

Buyout and Exit of Founder and Management Team

The second stage of private equity ownership sees the founder and management team exit the firm because the private equity firm engages in a full buyout to gain control. The management team and founder exit the firm at this stage and they received a substantial amount of capital through selling their shares. Furthermore, to grow the business, the private equity firm will often bring in its own senior management team to replace the people who have left. The founder leaving the firm is also significant as they have been a guardian for the values of the brand, and the protection it previously received is now gone. As a result, the brand values can become confused or damaged. Moreover, the departure of the management team means the loss of years of experience, and this can create a vacuum that can lead to confusion regarding the management of the brand.

Influence on Firm Financial Performance: Positive

The exit of the founder and management team sees the arrival of a new and highly incentivised management team. This new team is charged with growing the firm as quickly as possible, and can deliver a rapid growth in profits.

Influence on Brand Values: Contradicts

The departure of the founder has a negative impact on the values of the brand. The founder's lifestyle is embodied in the values of the brand and, once the founder has exited, this protection of brand values is lost. Knowledge is also lost, and the values of the brand can become confused.

Rapid Store Roll-out

During the second stage of private equity ownership, private equity firms engage in a rapid store roll-out process. This process is driven by the private equity firm seeking to increase the value of the business to exit. Private equity firms view the roll-out of stores as a means of incrementally increasing the turnover of the firm. Although turnover increases, cannibalisation of existing channels occurs, and the process involves a substantial capital investment. Moreover, in the pursuit of a rapid roll-out, the selection of store locations can be less measured. The result of the rapid store roll-out is that the previously measured store roll-out strategy is abandoned and the locations of stores reflect the values of the brand less and less. This leads to a disconnect between the values of the brand and the retail locations.

Influence on Financial Performance: Positive

Rapid store roll-outs have a positive impact on firm performance. However, the capital expenditure to open stores can also negatively affect financial performance. In the short-term, rapid store roll-out greatly increases the firm's coverage of the domestic market.

Moreover, the speed of the roll-out means the company will put stores in locations that were previously deemed to be detrimental to the brand. These locations can be highly lucrative, and deliver increases in profits. However, at the same time, the short-term spike in profits can have a negative influence on the values of the brand.

Influence on the Values of the Brand: Contradicts

The rapid store roll-out process has a negative influence on the values of the brand. Through placing stores in new locations, the values of the brand become contradicted, and a gap appears between the values of the brand and the location of the store. For example, some brands may be associated with values such as country living and, through opening stores in modern city shopping centre locations, this value can become contradicted.

6.5 PRIVATE EQUITY STAGE THREE

Private equity stage three is the process whereby a firm is bought out by another private equity firm following a secondary buyout; this is also known as a tertiary buyout. The factors affecting firm performance at this stage are the arrival of new management and change in strategic direction, as well as leveraged debt structure. The factors affecting branded apparel retailers in private equity stage three are detailed in figure 11.

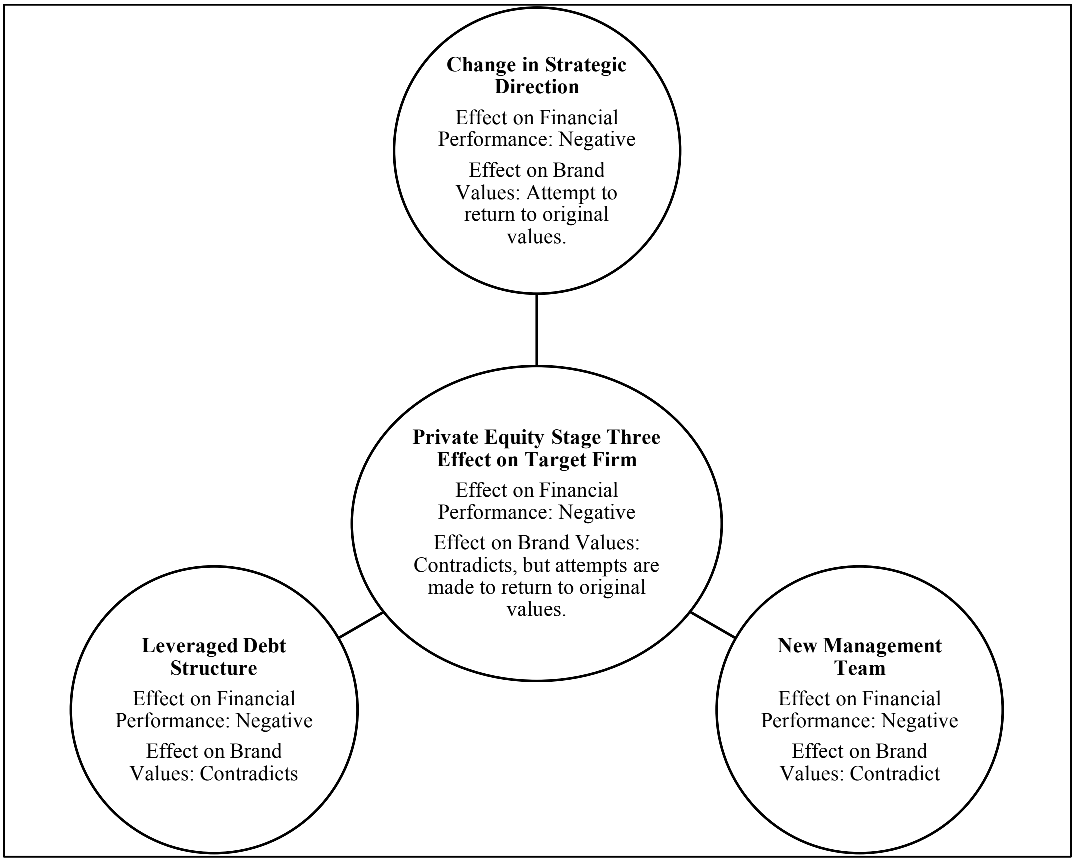

Figure 11: Private Equity Stage Three

New Management Team

During the third phase of private equity ownership, the management team involved during stage two exits the business. This exit is due to the windfall the existing management team receive from the sale of shares and the need for a new management team to take the firm to the next stage of its growth. During this stage, senior management will be recruited from larger publicly-listed organisations to help grow the firm to the level at which it can be listed. This change in management team causes further upheaval within the business.

Influence on Financial Performance: Negative

The new management team finds it challenging to influence the financial performance of the firm because it is hampered by the strategies of the previous management team. For example, the previous private equity owners have implemented strategies that contradict the values of the brand, and this means that the new team has to focus on returning the values of the brand that led to success in the past.

Influence on Brand Values: Contradicts

The arrival of the new management team leads to further confusion of brand values. The senior management team has now passed through two stages of ownership that represent significant changes in people. As a result, the original values of the brand have become confused over time. Although the new management team may understand that this is the case, it can often be challenging to recapture these brand values.

Change in Strategic Direction

Following the implementation of strategies that rapidly grew the firm during the second stage of private equity ownership, strategies are implemented that seek to negate these negative influences. The values of the brand have become confused and have moved away from the values that helped make the firm successful in the first place. The new management team has to implement strategies that can reinvigorate the brand through returning it to its original values. This change can be tackled in a number of ways. First, the firm has during phase two of private equity ownership engaged in activities that drive short-term profits, such as discounting. During the third stage of private equity ownership, the practice of discounting is reduced. Discounting can be seen as having a negative influence on the values of the brand, as the values are linked to a premium positioning strategy. Through discounting, the brand can become damaged as the product appears cheaper, and consumers wait for sales rather than buy at the regular price. Second, the management team acknowledges that the values of the brand have become confused and have moved away from the original values. As a result, the firm attempts to return to the roots of the brand, and the values that existed when the founder operated the business. This shift can involve revisiting past designs and trying to create ranges that reflect the original values of the brand in an attempt to inject authenticity back into the brand. Third, the management team also engages in a review of the firm's current store portfolio. Under the previous private equity owners, stores were rolled out in locations that did not reflect the values of the brand. The new management team analyses the current store portfolio and review the financial performance of the stores, as well as reconsidering which stores may be placed in locations that detract from the values of the brand. This process can see certain stores close, as well as an investment into the store portfolio to update other stores. These three changes represent a change in strategic direction and an attempt to recapture the original values of the brand.

Impact on Financial Performance: Negative

The change in strategic direction has a short-term negative impact on financial performance. The negative impact of the strategy of the previous private equity firm manifests itself within the third phase of private equity ownership, and this leads to a reduction in operating profit. The change of strategy for the firm requires significant investment and also contributes to a reduction in operating profit.

Impact on the Values of the Brand: Attempt to Return to Original Brand Values

The change of strategic direction leads to a positive effect on the values of the brand. The movement away from the strategy implemented during private equity phase two halts a strategy that led to the erosion of the values of the brand. The new strategic direction is centred upon rebuilding the values of the brand through returning to the original brand values. Although this change had a positive impact on the values of the brand, it can take a long time to return the brand to its original values and, in some cases, this may not be possible. If so, then the firm is likely to adopt a strategy where it moves into the 'fast fashion' area of the market.

Leveraged Debt Structure

The third stage of private equity ownership sees the private equity firm use leverage finance to acquire the target firm. A heavily leveraged debt structure leads to similar problems as encountered in stage two, such as increasing pressure on the firm's finances, as well as motivating the team to pursue short-term increases in profit.

Impact on Financial Performance

Leverage finance during stage two has a positive influence on financial performance, but also leads to a negative influence on the values of the brand. During stage three, due to the damage to the firm's brand, leverage becomes a less effective tool in generating increases in firm value. Although the management team is under increased pressure to deliver returns because of high levels of leverage, the team is unable to improve target firm financial performance as a result of the damage to the brand's values.

Impact on Brand Values

Leverage finance creates pressure on the management team to deliver short-term increases in financial performance. Therefore, although the management team attempts to return to the original values of the brand, there is the challenge of delivering profits to service the debt.

6.6 THEORETICAL CONTRIBUTIONS

The following section will outline the theoretical contributions this study makes. First, the theoretical contribution the Three-Stage Model for private equity model has for understanding private equity parenting relationships will be discussed. Second, the researcher will outline the contribution this study makes to understanding the value adding and value subtracting behaviours identified by Campbell et al (2014). The findings of this study will be compared to their work and will focus on the following behaviours; people decisions/poor quality people decisions, strategies/misleading strategies, relationships, brand, and financial engineering. Through comparing the findings of this study to the work of Campbell et al (2014), a deeper insight into buy-to-sell parenting relationships will be developed. The theoretical implications of the Three-Stage Model will now be discussed.

6.7 <u>THREE-STAGE MODEL: PRIVATE EQUITY CONTRIBUTION</u>

The Three-Stage Model provides insight into the factors affecting the performance of branded apparel retailers under private equity ownership. Existing research has sought to understand the outcomes of private equity ownership on various metrics, such as financial performance and employment levels (Kaplan, 1989; Davis et al, 2008; Amess and Wright, 2007; Burt and Limmack, 2001). Moreover, research has tended to focus on public-to-private buyouts, with limited research focused on understanding buyouts in the middle market. The Three-Stage Model provides novel insight into the context-specific factors affecting branded apparel retailers under private equity ownership. Although previous research has identified generic factors that private equity firms are said to use to achieve growth, these factors are very broad. For example, Kaplan and Strömberg (2008) identify financial engineering, operational engineering and governance engineering as key factors that lead to success in private equity deals. The Three-Stage Model developed within this study allows for a deeper understanding of the factors affecting target firm performance. The findings of the study highlight the overly-simplistic mechanisms identified by Kaplan and Strömberg (2008), as in the example of operational engineering.

This study identifies that operational engineering can have a positive effect on target firm performance. However, in some cases, it can also be seen to have a negative effect. Moreover, operational engineering is a very broad categorisation and, within it, a wide range of different strategic options exists. For example, during private equity stage one, the private equity firm implements a number of strategies to improve the efficiency of the business. These include the recruitment of experienced professionals and development of operational systems. In contrast, in private equity stage two, the strategic changes implemented by the private equity firm can be seen to have a negative effect on target firm performance. For example, the decision to rapidly roll-out stores, which contradicts the values of the brand and affects the performance of the target firm under the next private equity owner. These contradictions are perhaps representative of the focus of private equity research, which has been on outcomes rather than the mechanisms that lead to outcomes. Moreover, research into private equity has used large data sets to draw conclusions about private equity. This study provides an in-depth analysis of a particular investment context which highlights the heterogeneity of the private equity industry, even within the middle market. For example, in stage one, private equity firms have investment strategies where they take minority stakes in target firms and work closely with management teams to deliver growth. Private equity stage three sees the more traditional private equity buyout approach in which private equity firms engage in full buyouts of the firm, using leveraged finance. Such heterogeneity within the sector further highlights the importance of this study in exploring the factors affecting target firm performance. The study provides a unique insight into the progress a firm through different stages of private equity, and this has not previously been investigated.

Kaplan and Strömberg (2008) also suggest that leverage is an important mechanism for private equity firms to use to achieve growth in their investments. Again, this research focused on the use of leverage from the private equity perspective. Jensen (1989) argues that leverage within a target firm creates financial discipline in that the senior management team is placed under financial restrictions, and this leads to more careful investment decisions. However, this study presents a far more complex understanding of leverage and its effect on target firms. During private equity stage one, no leverage is used, and this is indicative of the changing strategy of private equity firms. In the past, private equity firms were able to use high levels of leverage due to the availability of cheap credit. However, since the financial crisis, private equity firms' difficulty in obtaining cheap credit has limited their ability to use leverage as a mechanism for delivering returns. This is especially true for private equity stage one where private equity firms have to work closely with management teams to improve operational aspects of the target firm. This finding suggests that leverage as a means of achieving growth is becoming less important within the private equity industry, especially in the lower end of the market. This trend is clearly supported by the findings of the study. Additionally, the study finds that during private equity stages two and three, leveraged finance can have varying impacts on firm performance. While leverage finance benefits the private equity firm, it can create pressure on the target firm's management team to service the debt placed on the firm. The effects of this additional pressure can lead management teams to implement strategies that generate short-term increases in operating profit and turnover, but they contradict the values of the brand, taking actions such as rapid store roll-outs as observed during private equity stage two. In the case of Kimpton, which exited private equity ownership, its Managing Director stated that the lack of debt meant that it was able to focus on making decisions that considered the long-term effects of their strategy, allowing impact upon the values of the brand to be considered. This finding suggests that leverage or financial engineering in the context of branded apparel retailers can have a negative influence on the firm in the long-term. The next section will discuss the implications of the Three-Stage Model for the Heartland Matrix.

The Heartland Matrix is a management tool that provides guidance for managers to understand their potential to add or subtract value within a subsidiary. Despite the value of this model, it only provides a prediction of the potential success of the interaction between parent and subsidiary. It does not provide further insight into the process after the parent has invested in or acquired the subsidiary firm. This study provides an insight into this process and suggests the same type of parenting firm (private equity) can produce very different results over time. This thinking develops the Heartland Matrix further, as private equity firms would be unlikely to invest in a firm unless they believed there was a low risk of subtracting value, and strong opportunity to add value i.e. the firm is a Heartland Business. However, very different outcomes occur following the private equity firm's investment at different stages. During private equity stage one, various factors combine to produce a positive outcome. For example, the financial performance of the target firm is improved, and the brand values are maintained. During private equity stage two, financial performance improves further, but the strategies implemented by the private equity firm contradict the brand values of the target firm. This stage then leads on to private equity stage three. The brand at this stage is damaged, and this limits the private equity firm's ability to improve the target firm's financial performance further. This insight indicates that parenting relationships are more dynamic than the Heartland Matrix suggests; although all the initial private equity investments could be regarded as Heartland investments, the outcomes were very different over time. The Three-Stage Model, therefore, provides a valuable insight into the parenting process beyond the Heartland Matrix. Campbell et al (2014) present a list of value adding and value subtracting behaviours that parents must implement or avoid. The next section will now discuss these value adding and value subtracting behaviours in relation to the findings of this study to highlight the contributions the Three-Stage Model makes to parenting theory.

6.8 VALUE ADDING AND VALUE SUBTRACTING BEHAVIOUR'S CONTRIBUTION

Campbell et al (2014) discuss factors that can add and subtract value in parenting relationships. Ten value adding and eight value subtracting factors have been identified. The following section will discuss these behaviours in relation to the findings of this study and a private equity context. This discussion is important as within parenting theory little research has focused on understanding whether these factors apply to buy-to-sell private equity ownership. This approach to parenting is the parenting strategy adopted by private equity. The majority of research into parenting theory has instead focused on large corporate owners which acquire subsidiaries and hold them indefinitely. The Three-Stage Model has identified a range of factors within the context of this study that affects the target firm performance. This model offers a valuable insight into buy-to-sell parenting relationships and can be compared to the work of Campbell et al (2014). This comparison is well suited to a grounded theory approach because the researcher has developed the Three-Stage Model of private equity that has emerged from the data collection process. This process can be described as the development of substantive theory (Dunne, 2011; Locke, 2001). Substantive theory can then be use to revise or question other substantive theories (Glaser and Strauss, 1967). In this case, the most relevant substantive theory is the work of Campbell et al (2014). The following section will now compare the factors from the Three-Stage Model of private equity that provide an insight into the different factors affecting buy-to-sell parenting relationships. The researcher will also make reference to the wider literature on private equity research, as the three forms of engineering can also be compared to the findings of this study in more depth.

Value adding and value subtracting parenting activities are set out by Campbell et al (2014). The researcher has presented the factors in such a way as to highlight where they can be both value creating and value subtracting. Not all the factors identified by Campbell et al (2014) will be discussed, because either the factor was not relevant to the context of this study and the Three-Stage Model, or not enough data was collected to compare the factor fully. As a result, the following factors will be discussed; people decisions/poor people decisions, strategies/misleading strategic guidance, relationships, brand, and financial engineering.

People Decisions and Poor Quality People Decisions

People decisions refers to the process whereby the parent firm removes underperforming managers and replaces them with more competent managers. Poor quality people decisions are when the parent firm subtracts value by making people management decisions that have a negative effect on subsidiary performance. This can include situations where individuals are appointed within a subsidiary, but they are not well suited to the new role. On the other hand, good people decisions are any decision regarding appointments that bring about success in the subsidiary. Within the context of this study, buy-to-sell private equity relationships exhibit both good people decisions and poor quality people decisions. This finding supports the work of Campbell et al (2014).

As far as this study is concerned, people decisions fall within private equity stage one under private equity-led firm professionalisation. During this stage, the private equity firm can bring in experienced managers who help implement a professional corporate structure within the firm. These new managers have experience working with similar firms previously or of working with firms at a similar stage of growth. The impact of these appointments can be seen to improve the financial performance of the firm and can help maintain the values of the brand because the founder remains in the firm as the private equity firm takes a minority stake. Additionally, the private equity firm during stage one understands that the founder can play an important role in managing the brand. The people decisions during stage one, therefore, have a positive effect on firm performance through two mechanisms. Firstly, they help professionalise the firm, making the business more efficient and providing a solid management structure within the firm for future growth. Secondly, they help maintain the values of the brand, through retaining the founder who acts to protect and inform the firm's brand values. The findings of the study support the work of Campbell et al (2014) in that people based decisions can help professionalise the firm, increasing efficiency and therefore developing a parenting advantage. Additionally, this study finds that parenting advantage can be established through people decisions by retaining key individuals. The retention of key individuals, in this case the founder, helps maintain the values of the subsidiary's brand and improve firm financial performance.

During private equity stage two, the majority of the management team and founder exits the firm. The private equity firm at this stage appoints new senior management who will be able to implement the growth strategy the private equity firm has for the target firm.

The exit of the founder leads the firm to move away from its original brand values. This represents a poor quality people decision in terms of maintaining the values of the brand. However, for the financial performance of the firm, this represents a positive people decision. With the new management team highly incentivised to deliver returns for the private equity firm, profit increases rapidly. Therefore, on the one hand, the private equity firm has made a positive people management decision in terms of the increase in financial performance while, on the other, it has made a poor quality people decision in that the exit of founder and management team negatively affects the values of the brand. This change subsequently has a negative effect on the performance of the target firm in private equity stage three.

The finding has implications for the understanding of buy-to-sell private equity parenting relationships. Barber and Goold (2007) suggest that private equity firms' activity in regularly buying and then selling businesses enables them to accumulate knowledge quicker than firms that buy-to-keep. This study supports this conclusion, as it is found that private equity firms possess a strong understanding of the characteristics required for the recruitment of new senior management into target firms. They are therefore able to appoint individuals who can help implement their strategic plans within the target firm. However, within buy-to-sell parenting relationships, this study finds that the rapid accumulation of experience identified by Barber and Goold (2007) can come at a cost. For example, as the target firm progresses through the Three-Stage Model, there is a high level of turnover amongst the senior management team. This study finds that this high turnover can lead to damage to the values of the firm's brand, as the brand values become forgotten over time. This finding represents a new insight into buy-to-sell parenting relationships, and the potential risk they pose to the values of the brand.

Strategies/Misleading Strategic Guidance

Strategies refers to when parent firms add value to subsidiaries by improving the management team's strategic plans and can include implementing systems where the parent firm engages in the improvement of strategic plans. Parent firms can also provide strategic guidance that is not suitable for the subsidiary firm. For example, the parent could pursue a strategic plan that may have worked within another sector in which they have operated, but might not be appropriate for the current subsidiary.

Within the context of this study, it is evident that during private equity phase one, private equity firms play a major role in scrutinising target firm strategy. They can draw on their experience to question the management team and founder's strategy. However, in private equity stage two, with complete ownership of the firm the private equity firm moves from a position of scrutinising strategy to determining strategy. During private equity stage two, the private equity firm can implement strategies that maximise short-term profits, such as rapid store roll-outs. These actions have a positive effect on the financial performance of the firm. However, this strategy has a negative influence on the values of the brand, brought about through the private equity firm's drive to increase short-term profits, which then manifests itself in private equity stage three. In private equity stage three, the private equity firm has to implement strategies that address the damage done to the values of the brand. The findings of this study support the work of Campbell (2014) through identifying strategic and misleading strategic guidance as means through which value can be added or subtracted in the parent's relationship with their subsidiary.

The study further contributes to parenting theory through developing a deeper understanding of buy-to-sell parenting relationships. This study finds that in a chain of buy-to-sell parenting relationships the actions of the previous parent impact the new parent's ability to generate parenting advantage. For example, between stage one and two, the private equity firm professionalises the business, allowing the second private equity firm to accelerate growth rapidly. However, between stage two and three, the private equity firm causes the firm's brand values to become damaged. As a result, the third private equity owner is unable to improve financial performance at the same levels seen during private equity stages one and two. Moreover, the third private equity owner has to change the strategic direction implemented by the second private equity parent to address this negative influence.

These processes, when positive (as seen between stage one and two), can be described as positive strategic lag, which occurs when the strategies implemented by the previous parent enable the next parent to create parenting advantage. However, when the parent implements a strategy that has a negative impact on the next parent's ability to create parenting advantage (as seen between stage two and three), this can be described as negative strategic lag. This finding relates directly to the mantra of one private equity professional, who states that it is important to 'leave something on the table' for the next private equity firm. This insight contributes to the understanding of parenting advantage as a more dynamic process, where the effects of previous parents can limit/enable the next parent's ability to create parenting advantage, especially in transactions between private equity firms.

The concept of strategic lag relates to a criticism of the private equity industry that suggests private equity firms are asset strippers which buy firms, sell assets, and then exit the investment. During the ownership period, the sale of assets leads to increases in short-term profit. However, following the exit from the investment, the target firm is left with a reduced asset base, which then causes performance to drop in the years following exit. This same process is seen in this study. For example, during stage two of private equity ownership, there is a clear difference in strategic approaches between Kimpton and Ski Bum. While Ski Bum was under the private equity ownership of Baker International, Baker International implemented strategies that rapidly increased turnover for the two-year ownership period. This rapid increase was driven by Baker International's overall business objective of increasing the value of the firms in which they invest. These strategies, however positive their impact may be on financial performance, did not take into account the negative impact they would have on the values of the brand. In comparison, Kimpton returned to the ownership of the founder of the firm and management team. Kimpton's management team understood that the Kimpton brand was a key asset of the firm. Moreover, the management team and founder were committed to remaining part of Kimpton for the foreseeable future. The Kimpton management team was, therefore, careful not to implement strategies that would contradict the values of the brand. However, during private equity stage two, the actions of Baker International can be seen as a form of intangible asset stripping, in that the strategies implemented had a negative impact on the values of the brand following exit. This observation is indicative of an opportunistic parenting approach.

The key component of parenting theory is that parent firms should seek to achieve parenting advantage, through creating more value than their rivals if they owned the same business (Campbell et al, 1995). In parenting theory, the concept of value creation is currently viewed as holistic, where value is created as part of the relationship for both the parent firm and the subsidiary. Furthermore, the idea of value creation is predominantly viewed from a buy-to-keep perspective, in which the parent and subsidiary are likely to be in a parenting relationship for a long period. Therefore, if parenting advantage is achieved, the performance of both the parent and the subsidiary will both improve, as part of a symbiotic relationship. This expectation, however, is focused on a buy-to-keep parenting logic, rather than a buy-to-sell approach. This study finds that in buy-to-sell parenting relationships, the parent firm only has to create value for the period it owns the subsidiary. This finding means that the parent firm can focus on maximising the valuation of the subsidiary during this period, to exit with a significant profit. The Three-Stage Model finds that buy-to-sell parents can, therefore, adopt an opportunistic approach in parenting relationships where the parent firm implements strategies that improve the financial performance of the firm but have a negative effect on the long-term performance of the firm.

This opportunistic parenting approach is most prevalent during the second stage of private equity ownership. During this stage, the private equity firm drives short-term profits to rapidly grow the firm to maximise its sell-on value. However, the key intangible asset within the target firm, the brand, becomes damaged as a result of this strategy. The parent in this situation shows little regard for the target firm beyond the period of ownership. The private equity firm sees no reason to make longer-term investments whilst holding the firm, as it will not benefit from these investments. The opportunistic parenting approach identified in this study is perhaps why private equity firms have been seen as asset strippers. Once they have exited the investment, the future of the subsidiary is no longer their responsibility. This phenomenon is particularly clear in the case of Ski Bum and Baker International, where the firm was held for a short period, and strategies were implemented to increase profits rapidly. Baker International had little regard for the long-term impact of this approach on the values of the brand, as it knew it was going to be able to sell the firm after a short period and increase the value of the firm.

The identification of opportunistic parenting behaviours has important implications for understanding parenting relationships. Firstly, it shows that buy-to-keep parenting relationships are more likely to demonstrate opportunistic behaviours, as the parent firm plans to exit the investment and has little regard for business performance beyond its ownership period. The study also identifies the conditions under which opportunistic parenting is most likely to occur.

The conditions are as follows: First, the private equity firm has a majority stake in the target firm, and this means that the private equity firm can control the strategic direction of the business, allowing it to implement profit-maximising strategies. Second, the founder and the management team have exited, and this change enables the private equity firm the freedom to implement strategic change without the opposition of the founder and previous management team. Third, leverage finance can also lead to opportunistic parenting, because it places pressure on the senior management team to quickly grow profits to service the debt.

The study also finds that buy-to-sell parenting relationships are an unattractive form of parenting relationship for firms where the brand is an important intangible asset. This is especially true for brands that are likely to suffer the negative effects of rapid growth, such as branded apparel retailers. This effect comes about because buy-to-sell parenting relationships, in which parents seek to grow profits rapidly, risk damaging the brand due to the conflict that occurs between growth and the values of the brand. In this study, it can be seen that maintaining the values of the brand helps contribute to the financial performance of the firm. For example, during private equity stage one, the firms experience rapid increases in financial performance, as well maintaining their brand values. Also, Kimpton returned to the ownership of the founder and management team, and this has placed them in a position where they have been able to consider the impact that strategies have on the brand. The founder and management team can adopt a longer-term perspective due to their having no immediate plans to leave the firm.

The Three-Stage Model also has implications for the understanding of operational engineering, which is the process where the private equity firm improves the operational performance of the target firm (Kaplan and Strömberg, 2008). Research into the influence of private equity on strategy has generated a number of insights and shown that private equity ownership can have both positive and negative impacts (Gilligan and Wright, 2010). This study makes a novel contribution to knowledge through investigating the influence of private equity ownership on the brand of target firms. This study finds that private equity ownership and the strategies used vary greatly between private equity firms, making it a highly heterogeneous industry. The findings of the study show that different stages of private equity ownership have different effects on the brand of the firm. During private equity stage one, private equity can have a positive effect on the brand. The factors combine to maintain the values of the brand. During stage two, the factors affecting the firm combine to have a negative influence on the values of the brand. Overall, it would be too simplistic to say private equity has a positive or negative effect on brands. Instead, the effect depends on a number of factors detailed within the Three-Stage Model.

Relationships

Relationships refers to the process by which the parent firm leverages its relationships with other firms and uses them to create value for the subsidiary. Within this study, it is found that private equity firms use their extensive networks to help their target firms grow. This study builds on the work of Campbell et al (2014) by identifying the different ways a parent firm's network can add value in parenting relationships. Firstly, private equity firms can add value to subsidiaries through their relationships with experienced professionals. The private equity firm has experience of working with high-quality senior management as part of its previous investments and has good relationships with these individuals. From this network, it can appoint high-quality management into new investments, attracting a higher calibre of management than the target firm could itself attract. This benefit can be seen during private equity stage one, where private equity firms can help the existing management team and founder bring in new senior managers to help strengthen the team. Secondly, private equity firms often possess strong relationships with important firms within the sectors in which they invest. Omega, for example, can introduce the firms they invest to buyers in major retailers; these contacts have been built up through years of networking within the industry. This finding supports the work of Campbell et al (2014) and demonstrates that relationships play a key role in adding value in buy-to-sell parenting relationships. Additionally, the findings build on the work of Barber and Goold (2007), as the study shows that the rapidly accumulated knowledge private equity firms obtain through buy-to-sell activities leads to their developing a strong network of contacts across the sectors in which they invest. This network is an additional means through which private equity parents can create value in their parenting relationships.

Brand

Campbell et al (2014) suggest two ways in which 'brand' can be a value adding factor in parenting relationships. First, the parent firm provides a brand to subsidiaries within the company portfolio. Second, the parent firm adds value through transferring brand management capabilities to the subsidiary. These two value-adding factors have not been observed in this study. The brand of the private equity firm is a valuable asset and important for attracting investment into their funds, as well as in other business-to-business relationships. However, this brand does not translate into a consumer context. Moreover, as buy-to-sell parenting relationships see subsidiaries being bought and sold, it would not make sense for a parent to transfer its brand to the subsidiary. Therefore, in buy-to-sell parenting relationships, the parent's brand adds little value to the subsidiary.

Goold et al (2014) also suggest that the parent can add value to the subsidiary through providing brand management skills. This can be seen in the case of companies such as Unilever and Proctor & Gamble. These parenting firms possess brand management capabilities that can be transferred to their subsidiary brands. In this study, the opposite effect can be seen. During phase one, the private equity firm acknowledges that it is unable to manage brands successfully. As a result, it retains the services of the founder and focuses their attention on improving operational aspects of the business. The founder is then able to manage the brand and focus on maintaining the brand's values. During the second stage of private equity ownership, the parent's inability to manage brands is clearly demonstrated. With the departure of the founder and the management team, the private equity firm can influence the firm's strategy strongly. During this period, the values of the brand start to become damaged by the strategies the private equity firm implements, such as engaging in a rapid store roll-out process. As Ryan Baines of Kappa commented, this lack of brand management capabilities stems from the background of private equity professionals, who typically come from accountancy or investment banking. When considering a store roll-out, they see the impacts of decisions from a financial perspective, in that increasing the number of stores will proportionally increase sales. In this situation, they fail to understand the impact this decision will have on the brand.

During the third stage of private equity ownership, private equity firms realise that declining turnover and profits have been driven by a failure to maintain brand values. As a result, the private equity firm seeks to rediscover the values of the brand by attempting to return to the original brand values. Ski Bum tried to do this by reviewing its original mail order catalogues. Through the three stages of the private equity ownership, it is evident that three different approaches to brand management by the parent firm were adopted. Stage one represents a hands-off form of brand management, where the private equity firm acknowledges the importance of the brand but leaves the founder and the management team to develop and implement strategies in this area. Stage two represents a form of disregard towards the management of the firm's brand. The private equity firm at this stage is instead focused on driving increases in short-term financial performance because the private equity firm knows it will exit the investment and is, therefore, unconcerned with the long-term effect its actions may have on the brand. Stage three represents a reactive approach to brand management where the parent firm acts to restore the values of the brand due to the damage that was done under the previous private equity owners. To do this, the private equity firms implement strategies that seek to restore the values of the brand.

This study contributes to parenting theory through identifying that in buy-to-sell private equity parenting relationships the parent firm can have a negative effect on the brand of the target firm. Previously, Campbell at al (2014) have classed this as a positive influence. However, the study also finds that buy-to-sell parents are less likely to add value to a subsidiary via brand management. This is for two reasons. Firstly, parents are unlikely to use their brand within the subsidiary as they intend to buy and then sell the firm, and this would risk leaving their brand in the firm without control. Secondly, within the context of this study, the private equity firms seek to quickly increase the financial valuation of the firm first and foremost. Investment into brand management appears to be a long-term investment, and beyond the scope of private equity firms' plan. This study also makes a novel contribution to parenting theory by suggesting that parents firms adopting a buy-to-sell approach are not best suited to investing in firms with strong brands. The study finds that in the context of this study private equity firms do not possess the relevant skills to manage brands. Only when the brand values begin to become damaged, and this affects financial performance, does the parent react to address this issue. Moreover, comparing the performance of Ski Bum and Kimpton demonstrates further that firms with strong brands may not be suited to private equity ownership, and should revert to private ownership. Kimpton was able to manage its brand more carefully, whereas Ski Bum's parents damaged the brand. Despite Ski Bum making short-term profits, Kimpton has continued to see sustainable growth and has avoided the drop-off in financial performance that Ski Bum experienced in the third stage of private equity ownership.

Financial Engineering

Financial engineering in parenting theory is the process whereby the parent firm can use its (typically) more advanced corporate finance function to helps subsidiaries utilise complex corporate finance strategies, including improved borrowing rates due to the size of the parent firm. Campbell et al (2014) state that financial engineering is a factor that can be used to add value to a subsidiary and lead to the creation of parenting advantage. Financial engineering within private equity is the process by which private equity firms use leveraged finance to deliver growth. The use of financial engineering is said to increase financial discipline within the target firm and, as a result, the efficiency of the business is improved (Jensen, 1989). Leverage is seen as a controversial aspect of private equity (Gilligan and Wright, 2008). Existing research has sought to understand whether leverage increases the risk of bankruptcy/failure (Brunner and Eades, 1992; Kaplan and Stein, 1991; Citron et al, 2003; Citron and Wright, 2008). Studies have shown that higher levels of debt are associated with higher levels of failure (Gilligan and Wright, 2008). However, limited research has been undertaken into the mechanisms that lead to leverage causing failure. Within this study, it is found that financial engineering has a negative influence on the subsidiary, although this negative influence may not manifest itself straightaway.

Private equity firms typically use leverage when acquiring target firms, and this is done by investing a small amount of capital and buying the rest of the target firm with debt.

This debt is then placed within the firm, which has to repay it. This study demonstrates that leverage placed into the target firm by the parent increases financial performance during the ownership, but this increase in financial performance leads to the brand values of the subsidiary becoming damaged. During private equity stage one, due to the size of the company and the private equity firm's taking a minority stake, no leverage is used. Leverage in this study is identified as creating pressure on senior managers to service the interest payments associated with the debt. The absence of leverage during private equity stage one means that managers are not under financial pressure to deliver short-term profits to service the debt. The management team can make decisions that take into account the values of the brand, and it can balance this with growing the profits of the firm. As a result, the values of the brand are maintained, and strong financial performance is also achieved.

During private equity stage two, the private equity firm purchases a majority stake in the target firm. Due to the deal size, the private equity firm can use leverage to acquire the firm. During this stage of ownership, the use of leverage by the private equity firm places pressure on the management team to rapidly increase profits to service the debt. This stage of ownership sees financial performance improve, and the target firm grows rapidly. However, the strategy of growing profits quickly causes the values of the brand to become damaged. During this stage, it can be seen that leverage is beneficial for the parent, as it enables the private equity firm to acquire the business with minimal capital outlay, and it creates financial discipline within the subsidiary that drives short-term profits. This stage leads to a rapid increase in turnover and profits and an overall increase in the value of the target firm. However, at the same time, the target firm's key intangible asset, the brand of the firm, is damaged. Within private equity, parenting relationships' leverage can be seen to have a negative influence on the target firm, but it benefits the parent as it can use leverage to create financial value. This finding is further reinforced when looking at Kimpton during stage two of private equity ownership. Kimpton discusses the fact that being unleveraged enabled it to make longer-term decisions, rather than considering quarterly results, and has been able to focus on benefitting the brand for the future. Kimpton has returned to private ownership and therefore does not have the high levels of debt a private equity-owned firm would have.

This study contributes to parenting theory through demonstrating that in buy-to-sell private equity parenting relationships the use of financial engineering, specifically leverage, can be a value subtracting parenting behaviour. However, the study identifies further complexity by demonstrating that private equity firms benefit from financial engineering as it allows them to quickly grow their investments and increase their ability to make a larger profit when selling the target. Financial engineering can, therefore, be seen as a value-adding activity for buy-to-sell parents because the parent is focused on buying and growing the firm to sell it for the largest possible profit. Conversely, within the context of this study, leverage is a value subtracting mechanism for the target firm/subsidiary because it causes managers to focus on strategies that are aimed to increase short-term financial performance at the expense of the values of the brand of the firm and ultimately the firm's long-term performance.

6.9 CONCLUSION

To conclude, the objectives set out at the start of this chapter will now be reflected upon. Objective 1) was achieved through presenting the Three-Stage Model, which details the factors affecting the performance of branded apparel retailers through three stages of private equity ownership. The model demonstrates how the factors combine to affect the performance of the firm financially, as well as discussing the effect these factors have on the firm's brand values. Objective 2) is achieved through highlighting the contribution the Three-Stage Model makes to the understanding of private equity as well as the Heartland Matrix. The chapter does this through highlighting the in-depth understanding the model brings to how private equity firms affect the firms in which they invest. These findings question the simplistic forms of engineering presented within the literature (Jensen, 1989; Kaplan and Strömberg, 2008). Moreover, the Three-Stage Model contributes to a deeper understanding of the Heartland Matrix. The model indicates that parenting relationships are far more dynamic than the static Heartland Matrix suggests and that under the same form of parenting relationship (buy-to-sell parenting relationships) very different outcomes are seen. Objective 3) is achieved through comparing the factors affecting the performance of branded apparel retailers under buy-to-sell parenting ownership with the value adding and value subtracting behaviours identified by Campbell et al (2014). First, the study finds that in buy-to-sell parent relationships private equity firms can make good and bad parenting decisions, supporting the work of Campbell (2014). However, this study finds that private equity firms' buy-to-sell approach can lead to a higher level of turnover within senior management positions. In the context of this study, this can be seen to result in the values of the firm's brand becoming confused over time.

Second, the study finds evidence of positive as well as misleading strategies in buy-to-sell parenting relationships. However, the study identifies that in chains of buy-to-sell parenting relationships strategic lag can occur. This is the process whereby the previous owner of the firm can implement strategies that do not manifest themselves until the next stage of private equity ownership. This can be seen to have either a positive or negative effect on firm performance. Moreover, the study finds that, under certain conditions, buy-to-sell parenting firms are more likely to engage in opportunistic parenting activities where the parent firm creates value for itself at the expense of the target firm. This scenario occurs as buy-to-sell parents seek to maximise the value of the firm while invested, and do not consider the performance of the target firm after they have exited. Third, the study identifies that private equity firms leverage their relationships to help improve the performance of their investments, supporting the work of Campbell et al (2014). Fourth, the study finds that, under certain conditions, buy-to-sell private equity firms can have a negative effect on the values of their subsidiary's brand. This finding contrasts with the view the Campbell et al (2014) who suggest that parent firms can create value through brand management practices. Fifth, the study finds that in buy-to-sell parenting relationships, financial engineering in the form of leveraged finance can have a negative effect on target firm performance. This finding contradicts the work of Campbell et al (2014) who suggest that financial engineering is a value adding activity. The next chapter will conclude the study by summarising the theoretical contributions the study makes and providing the limitations of the work, as well as explaining the managerial implications of the study.

CHAPTER 7: CONCLUSION

7. CONCLUSION AND IMPLICATIONS

7.1 INTRODUCTION

The following chapter will conclude the study. The aim of this chapter is to summarise the contributions to theory that this study makes. The chapter will also discuss the limitations of the study, future research opportunities and the study's managerial implications. To achieve these goals, the chapter is structured as follows. First, in Section 7.2 , the theoretical contributions of the study will be discussed, and this will include the theoretical contribution the Three-Stage Model makes, as well as the studies contribution to parenting theory. Second, in Section 7.3, the limitations of the research will be detailed, as well as suggested potential future research to address these limitations. Third, in Section 7.4, the managerial implications of the study will be discussed, focusing on the managerial implications of the Three-Stage Model to private equity and branded apparel retailers, and then discussing additional managerial implications specific to private equity and branded apparel retailers.

7.2 THEORETICAL CONTRIBUTIONS

The following section will discuss the theoretical contributions that this study makes. This section will be structured as followed. First, the theoretical contribution the Three-Stage Model makes in understanding the effects private equity has on target firm performance will be discussed. Second, the section will discuss the contribution the

Three-Stage Model has to understanding the value adding and value subtracting behaviours identified by Campbell et al (2014). The behaviours discussed are structured as follows; people decisions and poor quality people decisions, strategies and misleading strategic guidance, relationships, brand, and financial engineering. The contributions made to explaining these behaviours enable a deeper understanding of buy-to-sell private equity parenting relationships.

The Three-Stage Private Equity Model was developed from the grounded theory process used within the study. The model contributes to a deeper understanding of private equity through identifying the factors affecting target firm performance under three different stages of buy-to-sell private equity ownership. Existing research has identified broad mechanisms that are said to lead to success in private equity investments. These are financial engineering, operational engineering and governance engineering (Jensen, 1989; Kaplan and Strömberg, 2008). Although these three forms of strategy provide a general perspective on how private equity firms increase the value of target firms, they are too simplistic. Within this study, the Three-Stage Model contributes to a more in-depth perspective of the context-specific factors that combine to either positively or negatively affect target firm performance. Moreover, the Three-Stage Model provides further insight into the effects of private equity on target firm performance through identifying how private equity affects the brands of the firms they invest in; this is a novel contribution and has not previously been investigated. Additionally, the Three-Stage Model makes a contribution to management, through providing a tool that managers can use in practice.

The Three-Stage Model also has implications for the Heartland Matrix. The Heartland Matrix is a useful tool for understanding whether or not a parent will create parenting advantage through analysing the risk of subtracting value against the potential to add value. The Three-Stage Model offers further insight into this process through providing an insight into what happens after the parent has acquired a target firm/subsidiary. The Three-Stage Model demonstrates that the propensity of a parenting relationship to develop parenting advantage depends on a range of factors that change as the firm passes through different stages of ownership. The following section will discuss how the factors affecting firm performance identified within the Three-Stage Model can be compared to the value adding and value subtracting parenting behaviours identified by Campbell et al (2014). The following section will discuss the contribution this study makes to this area of parenting theory and will answer the following research question set out in the literature review;

- How do the value-adding and value-subtracting mechanisms identified by Campbell et al (2014) compare to factors affecting branded apparel retailers under private equity ownership?

The first contribution to parenting theory is that within private equity parenting relationships there are examples of good people decisions and poor quality people decisions. During private equity stage one, the private equity firms made good people decisions, as they were able to bring in new senior management to help professionalise the firm, and they also retained the founder. During private equity stage two, private equity firms bring in new managers following the departure of the founder and the previous management team. This stage represents a poor quality people decision. These findings support the work of Campbell et al (2014) but also provide a deeper insight into people decisions and poor quality people decisions within the context of buy-to-sell private equity parenting relationships.

The second contribution to parenting theory is that private equity parenting relationships demonstrate both positive strategies within target firms as well as misleading strategies. The study finds evidence of both positive and negative strategies within private equity parenting relationships, supporting the work of Campbell et al (2014). The study further builds on this work by identifying context-specific factors that affect target firm performance under private equity ownership, contributing a deeper understanding of how specific strategies affect performance. For example, the study finds that strategies which deliver operational improvements within the target firm are highly beneficial, whereas a rapid store roll-out is representative of a misleading strategy. These findings contradict the work of Kaplan and Strömberg (2008) who suggest operational engineering positively affects the performance of the target firm. Additionally, the study identifies that in buy-to-sell private equity parenting relationships, the issue of strategic lag arises, where the strategies of a previous private equity parent manifest themselves under the ownership of the next private equity parent with either a positive or negative effect on target firm performance. This is an important contribution, as private equity firms seek to increase the value of the firm during the time they own it. Private equity is, however, unconcerned with the effect this time-limited approach has on the performance of the firm after they have exited the business. This can be described as opportunistic parenting.

Opportunistic parenting has not been discussed within parenting theory, but observed within this study. Opportunistic parenting is the process whereby the parent seeks to grow a target firm rapidly, with little regard for future impact. This study finds that parent firms involved in buy-to-sell parenting relationships are more likely to engage in opportunistic parenting. This is because they are focused on increasing the value of the firm during a predefined ownership period, after which they exit the firm. In contrast, buy-to-keep parents hold firms in perpetuity. The study also identifies conditions under which private equity firms are likely to engage in opportunistic parenting, as follows. First, the parent firm has control of the subsidiary through majority ownership, enabling it to control the strategic direction of the firm. Second, the target firm has seen the departure of the founder and senior management team, allowing the parent to appoint a new management team which is incentivised to deliver rapid growth. Third, where leverage finance is used, this creates financial pressure to deliver short-term profits. The concept of opportunistic parenting provides a novel contribution to parenting theory.

The third contribution to parenting theory relates to relationships as a value adding behaviour within private equity. Supporting the work of Campbell (2014), the study finds that, for private equity firms, relationships are an important value-adding factor. This study provides a deeper insight into how private equity firms use relationships to create value within their target firms. For example, private equity firms can use their network of contacts to attract experienced managers to the business. Private equity firms leverage their relationships with buyers at large firms to enable their target firms the opportunity to access lucrative deals. Additionally, the findings of the study support the work of Barber and Goold (2007) who suggest that buy-to-sell firms can accumulate experience quickly due to the number of firms they invest in during relatively short time periods. This effect is observed in this study. Private equity professionals stated that they possessed accumulated experience of recruiting finance directors and a had a good understanding of what constitutes a good finance director. Moreover, this also means that private equity professionals develop large networks of contacts which they could then use to help their target firms.

The fourth contribution to parenting theory is made through providing a deeper insight into how private equity parenting relationships impact the brands of subsidiaries. Campbell et al (2014) argue that parent firms bring benefits to the subsidiaries through either providing brand management capabilities or through transferring their brand to the subsidiary. The findings of this study contradict this view. The Three-Stage Model suggests that in private equity stage one, the private equity parent has a positive effect on the brand of the firm, in that the values of the brand are maintained. The following conditions lead to the positive effect on the firm's brand; retention of the founder, private equity firm professionalisation, measured store roll-out, unleveraged debt structure and a minority stake ownership position. Although these factors combine to have a positive impact on the brand, this is largely due to the founder being able to return to managing the brand of the firm, with the private equity firm adopting a hands-off approach to the firm's brand. Instead, the private equity firm focuses on driving operational improvements within the target firm. However, during private equity stage two, the private equity parent has a negative influence on the brand, through implementing strategies which contradict the values of the brand. These are a leveraged debt structure, rapid store roll-outs and the buyout and exit of the founder and management team. This stage represents a disregard for the brand. In private equity stage three, the private equity firm seeks to restore the values of the brand, as a reactive approach to managing the brand. Their attempts to restore the brand's values are hampered by the strategy of the previous private equity owner. This is a novel contribution to parenting theory as it demonstrates the conditions under which a parent firm can have a positive/negative effect on a subsidiary's brand. Moreover, the finding suggest that the same type of parenting relationship (buy-to-sell private equity parenting relationships) can produce very different results over time, based on the factors identified within the Three-Stage Model.

The fifth contribution to parenting theory concerns financial engineering. Campbell et al (2014) suggest that parenting firms can create value for their subsidiaries through using various forms of financial engineering. This study finds that financial engineering in the form of leverage can have a negative influence on the subsidiary and also that during private equity stage one no leverage is used. As a result, the management team is not driven to rapidly increase revenue to service the debt, and so can make decisions that consider and maintain the values of the brand. In contrast, in private equity stages two and three, leverage finance is used by the private equity firm to acquire the company. This leads to the management team having to rapidly grow revenues to service the debt and causes the management team to implement strategies that contradict the values of the brand to achieve rapid growth in profit. This finding contributes a deeper understanding of parenting theory through demonstrating that financial engineering, in the form of leverage finance, can actually be seen as a value subtracting behaviour. This also develops an understanding of the effects leverage has on a firm's strategy, whereas existing research has focused on the effects of leverage on bankruptcy risk (Brunner and Eades, 1992; Kaplan and Stein, 1991; Citron et al, 2003; Citron and Wright, 2008; Strömberg, 2008).

7.3 LIMITATIONS AND FUTURE RESEARCH

A limitation of this study is the approach used to understand the effect private equity firms have on the values of the brand. While understanding the effect on these values provides an insight into firm performance, future research could attempt to use a brand valuation methodology. However, in this study, this was not possible due to the lack of available data. To address this limitation, future research could adopt a quantitative approach to understanding the effect private equity firms have on the brands of the firms in which they invest. Datasets from large public-to-private deals could be used to see the effect private equity firms have on brands. The study could compare a brand valuation metrics before and after private equity ownership. This method could further develop an understanding of whether private equity firms positively or negatively affect the brand of the firms in which they invest.

Another limitation of this study is the focus on one particular investment context; branded apparel retailers. The model developed within this study has identified factors that are specific to branded apparel retailers. Therefore, future empirical studies should seek to understand a wider range of private equity investment contexts, to provide an insight into the factors affecting firms within these sectors. For example, a manufacturer under private equity ownership would face different challenges to a medical devices company. Therefore, future research should seek to understand these contexts, and doing so will provide valuable insights for private equity managers and target firm managers working within these industries to help reduce the risk of subtracting value.

Future research can also look at other forms of funding for firms. For example, crowd funding has emerged as a popular means of funding businesses. This is the approach whereby a firm raises capital through selling shares to a large number of people, typically via an online platform (Mollick, 2014). Crowd funding has risen in popularity over the past decade (The Telegraph, 2016). Central to this approach is the premise that the firm can retain control, rather than bring in an external investor, such as with business angels of private equity. Further research could look into the benefits as well as the drawbacks of this approach. Additionally, within the UK, there has been the emergence of a group of small banks known as challenger banks (KPMG, 2016). These challenger banks have been labelled as such due to the challenge they are making to the established retail banks. Within a banking climate of tighter credit restrictions post-recession, challenger banks can lend money to smaller firms, which otherwise would not be able to obtain credit from a high street bank. Further research could be undertaken to understand how these banks operate, and the strategic impacts they have on the firms they lend to. This work could help build a taxonomy of different funding options available to firms and provide insight into how different forms of funding affect the firm receiving investment.

7.4 MANAGERIAL IMPLICATIONS

The following section will discuss the managerial implications of this study and will be divided into three parts; first, the managerial implications of the Three Stage-Model will be discussed. Second, the managerial implications for private equity firms will be introduced. Third, the implications for branded apparel retailers will be given.

The Three-Stage Model has clear implications for private equity firms as well as for branded apparel retailers. The model represents a useful tool for private equity managers to better manage their investments. During private equity stage one, private equity managers should seek to develop the firms they are investing in operationally. They should attempt to reduce costs and drive efficiencies. The private equity firm should also leverage its network of contacts to make appointments within the target firm that will help improve upon any weaknesses. Additionally, during private equity stage one, the founder is key in helping maintain the values of the brand. Therefore, private equity firms should attempt the retain the services of the founder and place the founder in a position whereby they can manage the creative or brand-related aspects of the firm.

For the businesses seeking investment from private equity, the management of the firm should attempt only to sell a minority stake in the firm to private equity. Doing so will enable them to retain control over the strategic direction of the firm, and avoid making decisions that go against the values of the brand. Moreover, with a minority stake, investment leverage is unlikely to be used, and this benefits the firm as it does not put the management team under pressure to grow the firm rapidly to service the debt. Finally, during the early stages of their growth, branded apparel retailers should engage in a measured store roll-out, only opening stores in locations that have synergies with the values of the brand. This focus will help enable the retail outlets to reinforce the values of the brand and will reduce the risk of opening stores in locations that contradict these values.

The model becomes most relevant to private equity firms during the second stage of private equity ownership when it is important to retain the services of the founder and management team. The exit of the founder and management team has a negative effect on the values of the firm's brand. To prevent this negative effect from occurring, the private equity firm should implement a succession plan. Rather than having the founder and management team exit, the private equity firm should make this a gradual process. The brand management skills that the founder possesses are critical, and so the founder should be retained in an advisory role or as a creative director. Additionally, during this stage, the private equity firm and the branded apparel retailer should be careful not to rapidly roll-out stores. Rapid roll-out can have a detrimental effect on the firm’s brand, and can also be an expensive strategy to implement. Instead, the private equity firm should seek to grow the firm using other strategies; for example, developing alternative channels, such as online or wholesale, or implementing a carefully planned internationalisation strategy. This approach was successfully employed by Omega and Kimpton. During stage two, the private equity firm should attempt to limit the amount of leveraged finance, as this places a financial burden on the firm and can lead the pursuit of short-term profits. Ultimately though, private equity firms set out with the objective of maximising the value of the target firm to achieve as high as possible a sale price. Implementing strategies that are concerned with generating value after they have exited the business may not be that important to them. However, with competition within the industry increasing, the reputation of a private equity firm will become more important, and this will now be discussed.

Private equity firms should consider the long-term influence they have on the firms in which they invest. Many commentators would argue that this is not the responsibility of the private equity firm and could blame future owners for drops in performance. However, with the increased competition when bidding for investment into firms, the historic records of private equity firms will become more significant, not least as an indicator for owners of firms in selecting investment partners. Certain firms already adopt this approach; for example, Omega has an extensive ‘alumni' network, through which it seeks to develop long-term relationships with the firms in which it has invested. This strategy will become increasingly important within a highly competitive private equity sector.

Private equity firms should start recruiting individuals with a wider range of industry experience. Private equity firms tend to be made up of former accountants and investment bankers, predominantly with Oxbridge or Ivy League backgrounds. More diversity is required within these firms to develop a deeper insight into certain sectors and to highlight the impact that private equity decisions may have on the firms in which they invest. Although some private equity firms are doing this, the diversity appears only to extend to the recruitment of professionals from strategic consultancy firms. Firms do use advisors who have previously worked within the sector, but there is a need to bring these individuals into the firm, as they can offer a deeper insight on the industry. This shift is particularly significant given the rise in the importance of operationally-driven growth, ahead of financially-engineered growth in the UK middle market.

Private equity firms need to be wary of entering into highly competitive bidding processes. Inflated valuations increase pressure on a target firm and the private equity firm to deliver returns on investment. Valuations have in part been driven by the rapid rise in the total value of assets under management (the amount invested globally into private equity funds) which in 2000 was $0.6 trillion and in 2015 was $2.4 trillion (Bloomberg, 2015), leading to private equity having large amounts of capital to invest. This additional pressure encourages private equity firms to increase the value of the firms they invest in quickly in order to make the deal financially viable. This issue is a challenging one to address, as the firm receiving investment will want to sell equity for the highest possible amount. Moreover, corporate financial advisors are incentivised to increase the sale value of the target firm, through having in place bonus fees linked to increases in deal size. One possible strategy could be for private equity firms to have funds that specialise in different growth stages of firms. In this way, the private equity firm could pass its investment between funds, avoiding paying over the odds in competitive bidding processes. Alternatively, private equity firms could create strategic alliances, passing businesses as they grow through a chain of private equity firms. This approach may solve the issue of inflated purchase prices; however, legal issues may arise from competitive bidding processes, and conflicts of interest could occur when attempting to sell minority stakes in firms.

Private equity firms, when investing into firms where brands account for a significant amount of the firm's overall value should consider alternative performance metrics. Private equity firms track the financial performance of the firms they invest in; however, they have limited measures for tracking the value of the brand. This may in part be linked to the issues around brand valuation as discussed by Salinas and Ambler (2009). Private equity firms should adopt metrics to measure brand value throughout the investment process. Not only will this show whether or not damage to the brand is occurring, but it will also provide a valuable metric for the new owners of the firm to assess accurately the value of the brand. This is an inherent issue within the financial sector, where the valuation of intangible assets is challenging. Through developing a metric to track brand value, private equity firms can make more informed investment decisions and can avoid damaging an important value-generating asset.

Branded apparel retailers, when seeking private equity investment, should be highly selective in their choice of partners. Due to the lack of viable investments within the consumer sector, brands are ideally positioned to adopt this approach. Private equity firms conduct due diligence into the firms they invest in, and branded apparel retailers should consider doing the same. Extensive research should be undertaken into the past investments firms have made, such as speaking to managers from previous investments. Moreover, the duration of the investment should be considered. Brand-led businesses should seek to obtain investment from private equity firms that want to develop a long-term relationship. They should avoid a short investment period as this reduces a firm's stability and encourages opportunistic private equity ownership. Evidently, private equity can be highly beneficial in helping professionalise a firm and provide an injection of capital. However, firms could consider implementing their own strategies, a form of ‘auto-private equity'. Brands could bring in experienced professionals to help to professionalise their businesses. This option could be viable, especially if the founder does not need to release capital.

The financial value of branded apparel retailers is largely underpinned by the intangible value of the brand. When seeking to grow, the firm should consider the impact that strategic decisions have on the brand. The brand should be placed at the centre of strategic decision-making processes. Extensive store roll-outs are a factor that has the potential to damage the brand. Brand-led firms should view retail outlets as vehicles through which consumers can experience the brand. Rather than attempting to create an extensive retail network, branded apparel retailers should develop brand experiences that promote sales through other channels, such as online. This strategy would help maintain brand value and also save on investment in expensive retail locations. The strategy may not generate the same short-term financial value as a rapid store roll-out, but it would create long-term sustainable value.

Branded apparel retailers are positioned within niche markets which, by their very nature, present limited growth for the firm. One private equity professional questioned whether the market could accommodate four or five branded apparel retailers with turnovers in excess of £100 million. There is evidently limited growth potential for branded apparel retailers. Inappropriate levels of growth take the branded apparel retailers out of its niche market and place it in direct competition with major retailers such as Next or M&S. Such growth can destroy brand value and have long-term negative impact on a firm's performance. Branded apparel retailers positioned in niche markets should acknowledge their limited growth potential rather than pursue value-destroying strategies.

7.5 CONCLUSION

In conclusion, this study has provided an insight into the factors affecting branded apparel retailer performance under private equity ownership. A grounded theory approach was used and a Three-Stage Private Equity Model developed. The model makes three contributions to parenting theory. First, the Three-Stage Private Model provides an insight into the factors affecting the performance of branded apparel retailers under private equity ownership, a previously under-investigated and under-theorised context. Second, this study questions the static nature of the Heartland Matrix. This study highlights that parenting relationships are far more dynamic than the Heartland Matrix suggests. Third, the Three-Stage Private Equity Model contributes to an understanding of the value adding and value subtracting mechanism proposed by Campbell et al (2014) in the context of buy-to-sell parenting relationships.

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