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THE ROLE OF THE ACQUIRER IN ENTREPRENEURIAL EXIT (SUMMARY)

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≈ SUMMARY ≈

THE ROLE OF THE ACQUIRER IN ENTREPRENEURIAL EXIT

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Principal Topic

In identifying entrepreneurial exit as a critical component of the entrepreneurial process, DeTienne (2010) posed the question, “what conditions cause an entrepreneur to choose a particular exit?” Implicit in this question is the notion that the seller is in control of exit outcomes. However, without a buyer, acquisition is eliminated as an exit outcome, leaving exit to occur by closure and/or liquidation (sometimes referred to as failure, e.g. van Teeffelen & Uhlaner, 2012). We focus this paper on the role played by the acquirer in entrepreneurial exit.

Financial and strategic acquirers are the two distinct types of acquirers noted in practitioner-focused literature, (e.g. McKaskill, 2010). In other contexts, scholars have used real options theory to explore acquisitions from the perspective of the exiting owner (McGrath 1998). We utilize real options theory to explore why entrepreneurial firms are acquired. Specifically, we focus on the following research questions:

RQ1: Between financial and strategic buyers, are there differences in real options in acquisition targets? If so, what are they?

RQ2: Among financial and strategic buyers, are there differences in real options in acquisition targets? If so, what are they?

Data and Methodology

We utilized the case study methodology (Eisenhardt, 1989) to analyze entrepreneurial exit through firm sale/acquisition. Utilizing four business brokers whose firms serve the Northeast, USA, we formed a database with 78 cases and employed rough data set analysis, a tool for analyzing qualitative data.

Results and Implications

We find that there are differences between financial and strategic buyers within the context of entrepreneurial exit as well as differences among strategic, but not financial buyers. We identify three different types of strategic buyers: buyers purchasing an option to grow, others acquiring the option to delay and a final group buying investment options. Finally, the financial acquirer is buying an open ended, non-expiring ‘lifestyle option.’

Our data suggests that the exit outcomes vary greatly depending on what real options are present. Additionally, there are differences among strategic acquirers, depending on the exclusivity and expiration of the option. Our findings suggest fertile ground for studying exit and pre-exit decisions as they relate to creating options by entrepreneurs for attracting acquirers.

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