ACQUISITION AS A GROWTH STRATEGY FOR NEW VENTURES (INTERACTIVE PAPER)

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INTERACTIVE PAPER SESSION

ACQUISITION AS A GROWTH STRATEGY FOR NEW VENTURES

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Principal Topic

Growth is a primary objective of many new ventures and is commonly viewed as a one of the best measures of new venture success (e.g. Cooper, Gimeno-Gascon & Woo, 1994; Eisenhardt & Schoonhoven, 1990; McGee & Dowling, 1994; Siegel et al. 1993). Furthermore, entrepreneurship researchers have traditionally made a distinction between "income substitution ventures" and "entrepreneurial ventures" based almost entirely on growth aspirations and growth attainment. In fact, numerous entrepreneurship scholars argue that, by definition, an entrepreneurial firm must be growth-oriented. Consequently, some have examined the growth strategies of young and small firms. However, with the exception of McCann (1991), entrepreneurship research has virtually ignored acquisition as a means of new venture growth. Therefore, we have little understanding of factors related to acquisition by new ventures and little understanding of relationships between acquisition and new venture performance. We believe that acquisition as a means of growth represents a powerful strategic option for new ventures, for which growth and the establishment of legitimacy are critical to overcoming liabilities of newness (Stinchcombe, 1965). This study addressed two basic research questions: Under what circumstances do new ventures pursue growth via horizontal acquisitions? and, Does expansion via horizontal acquisition affect firm performance?

Method

Firms were separated into those that successfully pursued acquisitions and those that did not. Logistic regression was used to examine how acquisition related to various industry, strategy, and TMT variables. Hotellings $T^2$ was used to examine performance differences between acquirers and non-acquirers. Hierarchical regression was used to further examine relationships between expansion mode and multiple performance measures.

Results and Implications

Data were collected for 214 businesses headquartered in the US that issued initial public offerings while they were still new ventures. Within the sample, 71 made at least one acquisition and 143 pursued growth exclusively via internal development. All were single businesses operating in one of 33 industries. One third of the firms pursued expansion by acquiring other firms, a phenomenon that others have suggested would be rare, and perhaps sub-optimal. Performance results indicated that acquisition was indeed a viable growth strategy for new ventures. Results also provided insights into how strategic, management, and industry factors related to acquisitions.

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