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Entrepreneurship through acquisition: a scoping review

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Abstract

Entrepreneurship through acquisition (ETA) is gaining momentum as a viable alternative to starting a company on one's own. However, despite its growing practical relevance, scholarly work about ETA is scarce and has not been comprehensively reviewed. To address this gap, we conduct a systematic review of entrepreneurship literature by identifying studies that examine ETA and its outcomes. Our review methodology was developed based on established guidelines for systematic reviews and protocols, which informed our scoping review process and analytical approach. Searches were conducted on three electronic databases, and inclusion/exclusion criteria were applied. For inclusion, studies must examine an entrepreneurial perspective in buying into a company. Quantitative and qualitative data were extracted for thematic analysis and descriptive statistics. ETA is an entrepreneurship model with growing appeal and relevance in practice but limited academic evidence. While there is extensive research on leveraged buyouts and family-external succession, evidence specifically on ETA is still lacking. In particular, knowledge about the entrepreneurial intent that makes ETA unique is absent from the evidence base. As ETA gains momentum, entrepreneurs need to understand the unique properties, the various approaches, and the upsides and eventual downsides of acquiring a business instead of starting one from scratch. The present work may serve as a starting point for future research as we scope existing evidence on the archetype of ETA and identify a definition, available models, and a process archetype.

Keywords Entrepreneurship through acquisition · Succession · Buy-outs · Buy-ins · Search funds · Business takeover · Mode of entry

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1 Introduction

Becoming an entrepreneur is a longstanding dream for many people. However, the harsh reality is that a majority of new ventures fail (Feinleib 2011; Headd 2003) for a variety of reasons, such as a lack of product-market fit (Feinleib 2011), legitimacy (Singh et al. 1986; Townsend et al. 2010), or resources (Holtz-Eakin et al. 1994) to name but a few. In addition, millions of businesses, representing approximately $4.8 billion net worth in the US alone, will exit the market over the next 20 years as virtually all closely held and family-owned businesses will lose their primary owner to death or retirement, often without clear succession plans (Lindsey et al. 2021; Morrissette and Hines 2015).

Consequently, we decided to examine a different approach to entrepreneurship that is often overlooked by practitioners and scholars alike: buying an existing business instead of building one. Acquisition entrepreneurs buy an existing business instead of starting one from scratch, thus changing the odds of their entrepreneurial outcome in their favor (Xi et al. 2020). Many successful companies—typically those with revenues greater than $1 million—have their business model worked out and are confronted with much less systemic risk but might benefit from a fresh approach and skillset (Deibel 2018). Moreover, acquiring an existing company could even help to solve the looming succession crisis in countries where many entrepreneurs are set to retire in the coming decades (Nows 2021). According to KfW Research, a subsidiary of the German state-owned investment and development bank KfW, over half a million small and medium-sized enterprises (SMEs) are planning their succession by 2022 in Germany alone, with the peak expected between 2023 and 2027 (Schwartz 2018). As the population of industrialized countries ages and many business owners approach retirement, demand for takeover candidates will likely increase in the coming years (Block et al. 2013).

To provide a specific example, in 2019, Stephan Grund, a business-school graduate and former strategy consultant, decided to acquire OKM detectors, a leading German SME manufacturing metal detectors (OKMDetectors 2019). After taking over the company, he started to scale their business internationally successfully, thus proving that there is indeed an alternative path to entrepreneurship (Ermisch 2021).

Such acquisitions are often conducted via dedicated search funds (Dennis and Laseca 2016), which were pioneered by H. Irving Grousbeck in 1984 and are an investment vehicle that allows “a small group of aligned investors to search for, acquire, and lead a privately held company for the medium to long term, typically 6–10 years” (Kelly and Heston 2020, p. 1). Alternative models are self-funded, sponsored, incubated, or crowd-funded searches. In a 2020 study, Peter Kelly revealed that the search fund community is “robust and growing,” and a record amount of search funds were launched in 2018 and 2019 (Kelly and Heston 2020, p. 2). Not only were they established, but their results also seem promising for entrepreneurs as well as investors. A recent analysis of 401 qualifying search funds showed that the aggregated internal rate of return is 32.6%, with a more than five-fold aggregate pre-tax return on invested capital (Kelly and Heston 2020).

However, despite its growing practical relevance, scholarly work about entrepreneurship through acquisition (ETA) is scarce and has not been comprehensively reviewed. Although ETA might serve as a "meaningful contributor to a nation's entrepreneurial capacity and business revitalization" (Audretsch et al. 2006; Hunt and Fund 2012; Wennekers and Thurik 1999) with the capacity to contribute substantially to socio-economic rejuvenation (Nows 2021), it has been mainly eclipsed in scholarly work due to its boundary-spanning nature (Meuleman et al. 2009). While most academic research has focused on publicly traded private buy-outs of entire firms (Wright et al. 2001) or new venture creation as the primary mode of entrepreneurial entry, alternative paths, such as ETA, have been mostly under-explored (Hunt and Fund 2012; Meuleman et al. 2009). Consequently, this article systematically reviews for the first time the evidence to establish what substantive understandings and approaches have been applied to grasp ETA.

As a result, our work advances both the collective understanding of ETA and entrepreneurship theory in general. We contribute to the growing literature on this relevant phenomenon by studying existing evidence in the literature. In doing so, we offer a new theoretical perspective on an alternative path to entrepreneurship. Creating and growing successful businesses has long been the focus of entrepreneurship research. While ETA is becoming an increasingly popular and important avenue for entrepreneurship, traditional theories of entrepreneurial action, such as discovery and creation, fail to fully capture its unique challenges and opportunities (McMullen and Shepherd 2006). However, the discovery theory approach could provide a helpful perspective in further comprehending ETA as opportunities may be present but require the entrepreneur to identify and act on them, thereby exhibiting agency in the face of opportunity (Alvarez and Barney 2007; Shane 2003). In addition to the aforementioned conceptual impetus, ETA is particularly relevant in the context of the tens of millions of small businesses worldwide that lack a successor (Nows 2021; Reester 2008). It is imperative that we understand the unique characteristics and challenges of this alternative mode of entry into entrepreneurship to prevent the extinction of these businesses, which could have a significant socio-cultural and economic impact. By studying ETA, we can gain a more comprehensive understanding of the entrepreneurial landscape and develop more effective strategies for ensuring the continued success and growth of businesses around the world.

The study is structured as follows. Section 2 discusses the methodology, and the findings of the research are presented in Sect. 3. Discussions, limitations, and thoughts on future research are outlined in Sect. 4.

2 Methodology

2.1 Scoping review

The body of existing literature is large and heterogeneous, not amenable to a more precise system review, and has—to the best of the authors' knowledge—not yet been comprehensively reviewed. Therefore, we chose to conduct a transparent and reproducible scoping review using the Preferred Reporting Items for Systematic reviews and Meta-Analyses extension for Scoping Review (PRISMA-ScR) tool as well as reporting guidelines for protocols.

We chose to conduct a scoping review because we aimed to discover what is known about ETA, and we expected the evidence to be varied and scattered. The scoping review approach allowed us to include all study types and nonstandard sources of information. Earlier papers have successfully used an approach similar to ours and have demonstrated its effectiveness (Matenda et al. 2021; Pertuz and Pérez 2021). Like systematic reviews, which keep gaining popularity in academia "as a result of their necessity, importance, and urgency when it comes to advancing knowledge" (Kraus et al. 2022 p. 14), scoping reviews deploy a systematic approach to searching, screening, and reporting (Tricco et al. 2018). In particular, our research used PRISMA-ScR as it offered the most up-to-date guidance for conducting scoping reviews (Tricco et al. 2018).

The purpose of this scoping review is to improve our understanding of ETA and establish it as an independent concept to prevent scholars and entrepreneurs from underestimating the (economic and societal) potential of buying an existing business. Simply put, too many startups fail (Feinleib 2011; Headd 2003), while too many entrepreneurs are looking for a successor (Block et al. 2013; Dennis and Laseca 2016; Nows 2021). With this discrepancy in mind, there is a need to understand better why, when, and how such entrepreneurial acquisitions can be beneficial to guide both scholars and practitioners.

2.2 Data collection

After assessing electronic databases for their relevance and coverage of the literature, three electronic databases (i.e., Scopus, EBSCO, and Google Scholar) were searched using combinations of relevant search terms tailored to their particulars. We conducted a search using a combination of entrepreneurship and acquisition-related keywords, including variations of the terms "entrepreneur," "acquisition," "search fund," "buy-in," "buy-out," and "private equity." We included items in English and applied inclusion/exclusion criteria according to the PRISMA-ScR flow (Tricco et al. 2018). As this scoping review is meant to describe and synthesize evidence, no assessment of item quality was made. The evidence gathered for this study dates from 1980 to 2021 and is organized by year.

We only selected articles that include entrepreneurial perspectives. The underlying rationale for collecting evidence starting in 1980 is two-fold: first, management and leveraged buy-outs only became a phenomenon in the 1980s (Wright et al. 1992), and second, the search-fund investment vehicle was reportedly conceived in 1984 (Gustke 2006).

2.3 Descriptive statistics

Our search generated 16,252 items for screening (Fig. 1). After further processing (i.e., removal of duplicates), the 102 remaining items were title and abstract screened. Each item was evaluated for eligibility, and unclear items were discussed.

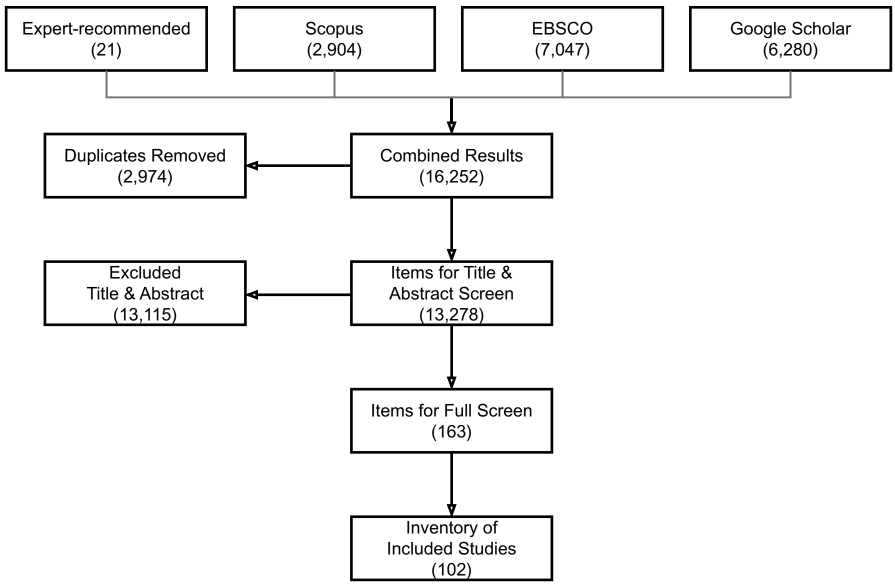

Fig. 1 Screening process

The authors screened the full text when the title and abstract failed to justify exclusion. Where questions remained, we opted for an inclusive approach. In all, 102 studies met all our inclusion criteria.

Among the countries covered in the 102 studies on ETA included in the review, more than 51 focused exclusively on the US, and four multi-country studies also included the US. The predominance of the US context in ETA studies is a reflection of the availability of data, the affiliation of the authors, and the location of funding and other resources. The majority of the studies were qualitative, with 67 using exclusively qualitative methods, while another 19 used both quantitative and qualitative methods.

Publications on ETA in the databases considered in this scoping review increased significantly since 2009, as shown in Fig. 2. Nevertheless, 2017 saw the highest number of articles produced (8 articles), followed by 2015 (7 articles).

2.4 Data analysis

To conduct a detailed content analysis, we applied the multiple-access method and clustered text segments from all items in our sample into meaningful concepts, themes, and aggregated dimensions. We followed a pattern-inducing technique to make sense of these categories (Gioia et al. 2013). While going back and forth between theory and data, we discussed how new categories emerged and how they were related (Charmaz 2014). We did not evaluate individual studies for bias as part of the scoping review.

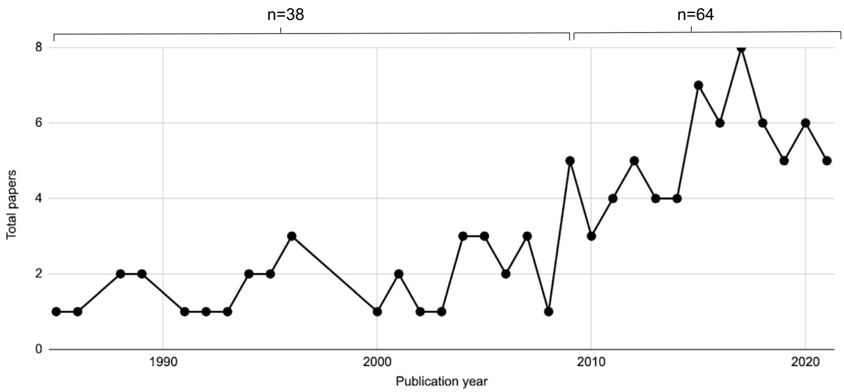

Fig. 2 Number of publications on ETA in various databases by year

This analysis aims to synthesize the evidence base and identify knowledge gaps regarding ETA. Our results are presented narratively and organized thematically using a systematic narrative synthesis.

We identified 81 first-order concepts and consolidated them into 32 aggregated themes, resulting in 5 aggregated dimensions. This scoping review is the first study on ETA to apply a pattern-inducing technique following the method of Gioia et al. (2013), which has also been used in other systematic literature reviews in related fields (Gernsheimer et al. 2021). The results are presented in Fig. 3, which includes a summary of first-order concepts, second-order themes, and aggregated dimensions, which we refer to as research dimensions.

3 Research findings

ETA is a boundary-spanning phenomenon that has historically been subsumed under explanations for parallel phenomena (Hunt and Fund 2012). However, according to Hunt and Fund (2012), the dominant conceptions (e.g., leveraged buy-outs) only have a limited capacity to illuminate ETA while simultaneously bearing the risk of situating it in a cluster of SME transactions. Hence, this scoping review paid meticulous attention to identifying sources that include the entrepreneurial perspective in

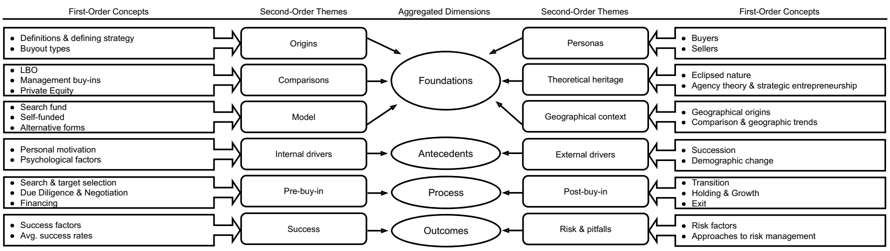

Fig. 3 Summary of first-order concepts, second-order themes, and Aggregated dimensions

SME acquisitions. Only if necessary, parallel phenomena were used to elaborate more clearly on the uniqueness of ETA through comparisons and contrasts.

The following sections describe the first-order themes, second-order themes, and dimensions (i.e., foundations, antecedents, process, and outcomes) identified using Gioia's methodology to establish a common ground for theoretical understanding (Gioia et al. 2013).

3.1 Research dimension 1: foundations

The study identified the foundations of ETA with the second-order themes of origins, comparisons, models, personas, theoretical heritage, and geographical context. A substantial body of scholarly work treats entrepreneurship as an occupational choice, focuses on it as a transition to independent business ownership, and generally frames it in terms of new venture creation (Block et al. 2013). Despite this emphasis, it is important to recognize that starting a new company is not the only way individuals can become entrepreneurs. The following section aims to examine the boundaries of and overlaps in existing research to define the shape of the ETA phenomenon clearly.

3.1.1 Origins

In the 1970s, the modern buy-out market developed with the transfer of, for example, large listed corporations or family firms to newly formed private companies, which were funded by significant debt and small amounts of equity provided by specialist investors, in which management typically obtained significant equity stakes (Castellaneta et al. 2018). In the 1980s, $1 billion buy-outs quickly replaced the $3 million buy-outs of the previous decade (Lowenstein 1986).

Unfortunately, ETA has been lumped in with the broad swath of transactions that became collectively known as leveraged buy-outs (LBOs), resulting in a body of research on non–private equity-funded company takeovers that is still in its infancy (Hunt and Fund 2012). The first evidence that differentiated between and classified firm starters and firm buyers goes back to 1986 (Cooper and Dunkelberg 1986). New research soon coined the term "entrepreneurial leveraged buy-out" (E-LBO) to distinguish small company LBOs from the prevalent scholarly and popular conceptions of large LBOs fueled primarily by financial manipulation (Malone 1989).

3.1.2 Definition

A buy-out is the transfer of control of a company (or division) from its owners, typically financed with a combination of equity and debt and the involvement of specialized financial-investment companies (Berg and Gottschalg 2005). While this definition also applies to large-scale LBOs, we support the definition of ETA as the "acquisition of an existing small or medium-sized business by an entrepreneur to expand and enhance the business through transformational strategies that fundamentally reshape market processes" (Hunt and Fund 2012). In the authors' opinion, the presence of *ex-ante* entrepreneurial intent in ETA implies a focus on a growth strategy that contrasts with the harvesting strategy centered around tight management control and efficiency gains often found in large-scale LBOs (Jensen 1997). Practitioner-oriented journals often use the terms “buy-out” or “secondhand entrepreneur” to refer to ETA or suggest adopting the phrase “entrepreneurial buy-in” (Kenworthy and Greidanus 2013). Following the concept of Kenworthy and Greidanus (2013), this scoping review focuses on entrepreneurial buy-ins that are driven by outsiders (and do not involve private-equity placements).

3.1.3 Comparisons

As a result of its boundary-spanning nature, we often found evidence about ETA submerged in scholarly work related to LBOs, private equity, succession, or strategic entrepreneurship. To conceptualize ETA as a vehicle for generating value on its own, we deem it essential to outline the differences between these concepts.

3.1.4 LBO

In a typical LBO transaction, a private equity firm purchases majority control of an existing or mature firm (Kaplan and Stromberg 2009). This arrangement differs from ETA in that the owner and resulting motivations for ownership differ quite drastically. LBO and ETA contrast in more ways than merely semantically (Hunt and Fund 2012). According to Hunt and Fund (2012), not all LBOs are entrepreneurial, and the scholarly conceptions of LBOs differ strongly from entrepreneurially motivated small-business acquisitions (Meuleman et al. 2009; Wright et al. 2001). For example, private equity firms usually retain existing management or bring in new management to run the company, and incumbent managers may or may not receive equity stakes or stock options (Wright 2015). ETA, in comparison, puts the acquiring entrepreneur in control.

Another difference is that the typical time frame of a PE investment follows a hold period of 5–9 years. ETA does not have this limitation due to the nature of the funds deployed (Wang 2020). Unfortunately for ETA, empirical studies of mega LBOs typically used agency theory to describe their rise and outcomes, inadvertently obfuscating the significant heterogeneity in the forms that buy-outs can take (Hunt and Fund 2012).

3.1.5 Management buy-ins

In a management buy-in (MBI), an external party (i.e., a manager) purchases a majority or, in larger deals, a significant percentage of a firm’s voting shares (Pöschl and Freiling 2020). According to Pöschl and Freiling (2020), these managers typically take up management positions, gaining decisive control of the firms and consequently becoming new owner-managers. MBOs may appear similar to MBIs at the outset, but they are riskier as the incoming management does not have insider information about the company’s operation (Wright 2015). As a result, employee transfers tend to last longer than outside transfers (Bastié et al. 2018).

The overall process is found to be very similar to ETA, however. The management team raises the funds necessary to complete the acquisition during an MBI (Castellaneta et al. 2018). The target company is typically acquired using bank debt and buy-out fund capital, just as with ETA. After the acquisition, the buy-out fund and the new management own the firm's shares. Debt is amortized by the continuous cash flow generated by the firm. During an exit, the new management and investors are remunerated.

Technically, ETA is very similar to an MBI, but the *ex-ante* entrepreneurial intent and focus are not guaranteed. The agency and managerial intention issues may rarely—if ever—be evident in ETA because principal-agent and manager-entrepreneur roles are intentionally conflated (Hunt and Fund 2012). This, again, is a crucial difference that warrants a separate concept, as pointed out by Hunt and Fund (2012).

3.1.6 Private equity

In contrast, private equity funds share some similarities with ETA and search funds in particular, but they differ not only in terms of the size of the companies acquired but also their performance (Järvinen 2019). According to Järvinen (2019), private equity (PE) delivered lower returns and a marginal reduction in survival and exit/liquidity risks. This is also in line with further research that found that returns on private equity may be no higher than those on public equity (Moskowitz and Vissing-Jørgensen 2002).

Although PE firms differ considerably in affiliation, size, reputation, experience, industry, and stage specialization and are thus quite heterogeneous, they typically share the same goal-setting due to their fund structure (Meuleman et al. 2009). PE firms generally have a fixed lifespan (e.g., 10 years) during which they can invest their capital into companies (i.e., for up to 5 years) and then return the capital to their investors for the remainder of their lifetime (Kaplan Stromberg 2009). Therefore, PE firms must achieve their target returns and exit on time (Wright et al. 2006).

Notwithstanding, PE may have limitations in dealing with mass business successions, including a mismatch between entrepreneurs' goals for their business and some investors' need to receive regular cash flows, as well as a disconnect between some investors' nonfinancial motives and the exclusive focus of PE on financial returns (Dawson and Barrédy 2018; Lindsey et al. 2021). In comparison, ETAs—and search funds especially—tend to be more patient capital than private equity (or venture) funds given that they do not have a finite lifespan and often see a tenure of 12 years and more as many entrepreneurs keep running their businesses (Jelic et al. 2019; Moran 2011).

Because total value creation tends to be highest in small-cap transactions, the most intense competition for ETA comes from lower-middle-market PE funds as they continue to move down-market (Dennis and Laseca 2016; Puche et al. 2016). However, PE participation is decreasing as target sizes get smaller (under \$2.5 million) as sourcing in this area can be very time-consuming, and the target size might be too small for funds that have to deploy all of their capital within a set period. In addition, PE firms often seek to retain pre-acquisition management for a long time, unlike ETA, where owner-investors actively manage the acquired companies (Hunt and Fund 2012).

Despite these differences, ETA has much to learn from the traditional undertakings of a PE firm. Although PE firms might face strategic inflexibility due to high levels of debt (e.g., when conducting an LBO) and a short-term focus in regard to performance improvements, they still create a significant amount of value (Bergström et al. 2007; Wright et al. 2019). Typically, PE firms align incentives, change the governance structure, and look for operational improvements (Gompers et al. 2015). So far, there is little information in the literature about how ETA can benefit from PE value optimization, making this a promising avenue for future research.

3.1.7 Models

Entrepreneurs have an array of alternatives to consider when deciding to buy a company (Dennis Laseca 2016). Search funds have become the most popular method of raising capital for a company purchase, but self-financing is a viable alternative (Ruback and Yudkoff 2017a, b). Other alternatives include a sponsored search, an incubated search, or even a crowdfunded search (Dennis and Laseca 2016).

3.1.8 Search fund

The search fund model was originally developed in 1984 by H. Irving Grousbeck, professor of management at Stanford University's Graduate School of Business, and aimed to provide interested professionals with limited capital resources a quick path to search for, acquire, manage, and grow their own business, in which they hold a meaningful ownership position (Keil 2021). For investors, search funds fall into the traditional alternative-investment category (Morrissette and Hines 2015).

Typically, the search-fund model follows a two-step approach. First, an entrepreneur collects funds for the search itself from a round of investors, who then—second—invest in the actual acquisition after the search has identified a promising company to acquire (Moran 2011). The initial investment usually hovers around $200,000–400,000, while the average second round of financing to acquire the company (which should cover the 2-year search phase) ranges from $5 million to $20 million (Gustke 2006). Other sources see the typical initial money raised at $550,000 and the second round between $5 million and $10 million (Ruback and Yudkoff 2012; Stock 2010). On average, 10–15 investors participate in a search (Kelley 2014). The last phase of the fund's holding period is the exit or liquidation event, in which the invested capital is returned to the limited partners (Keil 2021). Typically, an entrepreneur keeps a stake of around 30% of the company's equity, sharing the rest among various investors (Hall and Brown 2010). Typically, searchers stay on to run a company for a minimum of 6 years before selling it (Orton 2018). The results are also compelling: the historical internal rate of return (IRR) was found to be 32.6%, showing a 5.5-fold multiple of investments (Kelly 2021).

Over the years, the search fund model has become the most popular and best-understood way to raise enough capital to acquire one's own company (Ruback and Yudkoff 2017a, b). Whereas only 20 first-time search funds were identified in 1996, this number grew to 401 by 2020 (Kelly 2021). Conceptually, it fills a void between angel investors, venture capital (VC), and PE as it offers the possibility of initiating entrepreneurial activity within the parameters of an established business platform (Hunt and Fund 2012). According to Hunt and Fund (2012), search funds are, in fact, a pure example of ETA, constitute a defined pool of entrepreneurially motivated acquisitions, and, thus, are very valuable for future research as they enable the proper framing of the defining characteristics of ETA. Interestingly, and despite their popularity among business students and investors, they still face relative neglect in academia.

3.1.9 Self-funded search

In comparison, a self-funded search typically works differently. The entrepreneur seeking to acquire a business funds the search with personal savings and only eventually raises capital from investors on a deal-by-deal basis once a target company has been identified (Keil 2021; Ruback and Yudkoff 2012, 2017a, b). Overall, a self-funded search offers more flexibility and better overall economics (e.g., due to favorable deal terms) (Dennis and Laseca 2016; Keil 2021). In addition, if the entrepreneur decides to purchase a company with their own funds, they maximize their independence because there is “nobody” to ask for permission and generally no governance structure or board since there are no other equity providers (Ruback and Yudkoff 2012).

Self-funded searchers typically face a higher financial risk, however, as they put their own savings on the line (e.g., by securing loans with personal guarantees) (Keil 2021; Ruback and Yudkoff 2012). As a result, according to Ruback and Yudkoff (2012), self-funded searchers often acquire companies that are considerably smaller than traditional search funds.

Because self-funded searches are resource constrained and typically take less time (e.g., 1 year), the chances of actually acquiring a firm are relatively low (e.g., 25%), but if successful, entrepreneurs still seem to benefit most from this ETA approach (Ruback and Yudkoff 2012). The self-funded search fund is historically the least common type of search fund (Morrissette and Hines 2015).

3.1.10 Alternative forms

In addition to the models above, our research identified others, including sponsored, incubated, or crowd-funded searches (Dennis and Laseca 2016). In a sponsored search, an entrepreneur partners with one investment firm (e.g., a family office) or a (high net-worth) individual who, in return, becomes the controlling shareholder (Morrissette and Hines 2015). Entrepreneurs with more experience typically conduct such sponsored searches. The incubated search generally uses a committed capital fund for both search and acquisition, provides a strong infrastructure, and differs from PE in that it only focuses on search funds. In a crowd-funded search, an entrepreneur fundraises from many accredited investors looking for exposure in a particular asset class (e.g., via an online platform). Yet, little scholarly research has been conducted into the benefits or disadvantages of these alternatives.

3.1.11 Personas

To better understand the characteristics of the individuals involved, we examined the evidence base regarding buyers and sellers, with an explicit focus on buyer characteristics.

3.1.12 Buyers

The individuals involved in buy-ins display characteristics similar to those of entrepreneurs in general (Ennew et al. 1994; Wright et al. 1996). However, there are also significant differences. ETA, for example, involves entering an established business rather than starting one from scratch, so both managerial and entrepreneurial skills are required. Furthermore, we found that the typical acquisition entrepreneur is likely to be in mid-career, has some general management experience and a high level of education, and may even have worked in a small company (Ennew et al. 1994). Studies suggest that acquisition entrepreneurs have more work experience, financial resources, and a wider social network than entrepreneurs who create new ventures (Kenworthy and Greidanus 2013). Formal education increases the probability of starting a new business, whereas entrepreneurs from business-owning families and entrepreneurs with managerial experience are more likely to take over an existing firm than to create a new venture (Parker and van Praag 2012).

Previous research indicates that an individual's psychological characteristics play a significant role in the mode of entry into entrepreneurship (Block et al. 2013). Block et al (2013) suggest that risk-averse individuals favor business takeovers, while self-confident and risk-tolerant individuals prefer to start a business. Moreover, they find that a person's preference for takeover increase with age but decrease with risk-taking propensity and inventiveness. Even when family succession is not expected, having an entrepreneur as a role model is also found to be vital (Joensuu-Salo et al. 2021). Nonetheless, more research is still needed into the psychological factors influencing mode-of-entry decisions beyond education and age.

Since search-fund education is most prevalent in the US, searchers are often recent graduates of top MBA programs, most graduating from either Harvard or Stanford (Ruback and Yudkoff 2012). According to Ruback and Yudkoff (2012), students typically commit to ETA during the second year of their MBA programs, raise search funds during the subsequent spring terms, and begin their search in earnest upon graduation. However, in recent years, the trend has begun to spread beyond the aforementioned institutions, and searchers increasingly come from other schools and with more diverse backgrounds, including PE, general management, consulting, and investment banking (Dennis and Laseca 2016; Hall and Brown 2010; Kelley 2014).

Scholarly attempts to categorize types of buy-in entrepreneurs based on motivational and demographic factors have produced three groups: opportunists, craftsmen, and the small group who was "pushed" into the buy-in (Ennew et al. 1994; Robbie and Wright 1995). According to the authors, strong personal motivations for buy-ins, in general, include doing the type of work they want to do, being able to develop their own strategy, and building a successful organization, as well as avoiding working for others.

A closer look at the competencies required for ETA reveals the need for fundamental management skills (including finance and accounting knowledge), confidence, the ability to project optimism toward involved parties (e.g., business brokers and sellers), persistence during hardships, and aptitude for decision making (Järvinen 2019; Ruback and Yudkoff 2017a, b). Having experience in the same sector facilitates the exploration of opportunities and increases a firm's chances of survival, whereas previous work experience in small firms may not (Xi et al. 2020).

3.1.13 Sellers

In its various forms, ETA offers business owners a way to achieve liquidity or solve succession-planning problems (Dennis and Laseca 2016). We found evidence of three general owner types (Lindsey et al. 2021). The first type has one goal, which is to maximize wealth; the second type shares this goal but derives utility from the nonfinancial consequences of succession and the third type values nonfinancial outcomes over financial ones. Despite our efforts, we did not find much evidence beyond succession and its typical causes. However, we came across warnings about the need to evaluate the seller's true motives carefully and exercise extra caution when performing due diligence if a seller wants to sell very quickly or before retirement (McNeill Stancill 1988; Price 1994). In future research, we ought to ask whether a typical seller in an ETA transaction differs from a "typical" business seller and whether this potential divergence impacts the transaction's outcome.

3.1.14 Theoretical heritage

Despite its massive scope, ETA has been double-eclipsed: first, in the entrepreneurship literature, which tends to focus on new venture creation, and second, in finance research, which traditionally focuses on very large leveraged transactions (e.g., LBOs of public companies) (Hunt and Fund 2012). This suggests that a scholarly scotoma has made ETA marginal in the literature, underscoring the need for an articulation of ETA and its model. As pointed out earlier, Hunt and Fund (2012) underlined that the difference between LBOs and ETA goes far beyond "pure semantics," the core differentiator being the entrepreneurial intention.

Most research on ETA in the context of business succession concentrates on the perspective of the departing founder regarding the family-succession problem rather than that of the potential successor (Block et al. 2013; Cooper and Dunkelberg 1986). Simultaneously, conceptual work on business transfers and takeovers is scarce (Holmes and Schmitz 1990).

Academics have used agency theory as the primary lens through which to study buy-outs, especially buy-out value generation (Berg and Gottschalg 2005). As a result, changes in governance and incentive systems, as well as activities to increase efficiency, have been closely examined (Cotter and Peck 2001; Jensen 1989; Kaplan 1989). However, agency problems are by no means the sole impetus for buy-outs, nor for buy-ins (Wright et al. 2001), and in particular not for SMEs as they differ from their larger counterparts with their likely "amalgamation" of ownership and control (Arvanitis and Stucki 2015).

Moreover, Hunt and Fund (2012) state that the agency and managerial-intention issues usually found in management buy-outs are rarely—if ever—observed in ETAs, underscoring the need to conceptualize ETA as a value-generation vehicle in and of itself. Further research is warranted on this topic as pairing agency with an entrepreneurial perspective has been deemed the most promising avenue for future investigation (e.g., buy-out longevity and post-exit performance) (Jelic et al. 2019; Meuleman et al. 2009).

3.1.15 Geographical context

Most of the research and the underlying data about ETA are focused on the US (Kelly and Heston 2020), with minimal insights into the European market and beyond (Järvinen 2019; Kienzle and Buck 2017). Even though search funds quickly gained popularity in the US and Canada, the first fund outside those countries did not launch until 1992 (Keil 2021). From 2003 onwards, search funds also appeared in Latin America, Europe, Africa, and Asia (Keil 2021). The trend began in parallel with regular buy-outs spreading to Europe between 2000 and 2004 (Kaplan and Stromberg 2009). In 2020, over 130 first-time search funds located in 25 countries on 5 continents were tracked by IESE Business School (Kolarova et al. 2020). There were also 17 new business acquisitions in 2019. Interestingly, no search funds were identified in Nordic countries (Järvinen 2019).

While more research regarding ETA is currently absent from the literature, we found scattered evidence concerning broader buy-out/buy-in activity across various countries. The UK, France, Holland, and Sweden were the most developed European markets in the 1990s, with divestments providing the greatest opportunities for buy-outs in the UK, Holland, and Sweden, in contrast to family succession in France (Wright et al. 1994). The authors report that buy-ins also constitute a significant part of the market in the UK. In a later study, significant differences between European countries were observed, with France, Italy, Spain, and the UK reporting the highest proportion of buy-outs, while Germany exhibited a surprisingly low market share given its high proportion of family-owned SMEs (Scholes et al. 2009). Comparatively, Central and Eastern European countries continue to face significant challenges (e.g., regarding access to the financial system) and, as a result, have a private equity market that is far from having reached its full potential (Diaconu 2017).

Although individuals take entrepreneurial actions, country contexts (e.g., national entrepreneurship systems) have an important role to play (Block et al. 2013; Xi et al. 2020). Exemplary factors such as better availability of financing options and high levels of administrative and regulatory complexity on the country level might positively influence takeover preferences. Consequently, we deem it essential to better understand ETA in its geographic context.

3.2 Research dimension 2: antecedents

Little is known so far about the drivers of ETA (Joensuu-Salo et al. 2021). Our scoping review thus sought to identify a limited number of internal and external factors.

Societal and economic factors that contribute to the growth of ETA are considered external factors, whereas internal factors are related to the entrepreneur. When examining the antecedents of ETA within the realm of existing entrepreneurship theory, research has found that the strongest links to internal drivers are connected to human capital theory (Van Der Sluis et al. 2008), while the strongest external driver is conceptually linked to business succession (Nows 2021).

3.2.1 Internal drivers

Our research revealed the repeated theme that ETA helps entrepreneurial managers or mid-career professionals to escape the bureaucracy of large corporations and buy into their next career (Morais 2009; Stock 2010; Tåg 2012). In particular, MBA candidates perceive ETA as a shortcut to the C-suite, which has also been found to dominate the traditional post-MBA career path with peculiar benefits (Damast 2012; Ruback and Yudkoff 2016).

ETA allows the acquisition entrepreneur to have more independence, an immediate impact, a more flexible lifestyle, the ability to make unilateral decisions, and pay directly linked to their work, among other things (Ennew et al. 1994; Ruback and Yudkoff 2017a, b). Aside from the fact that owner-managers earn salaries, the primary motives are to be able to own an equity stake in the company and run it (Hunt and Fund 2012). They aim to build a business, not just a bank, as any entrepreneur does (Case and Murphy 1991). We found one attempt to classify buy-in entrepreneurs, which identified the majority (68% of the sample) as opportunistic, 27% as craftsmen, and the remainder as "pushed" into the buy-in (Robbie and Wright 1995).

Previous research has shown that entrepreneurs differ starkly in their motivations and goals, including their risk attitude (Block et al. 2015; Caliendo et al. 2008), innovation orientation (Cliff et al. 2006; Koellinger 2008), and human capital (Bosma et al. 2004; Shane 2000). Along with these arguments, Block et al. (2013) suggest that psychological factors such as growth ambition, risk attitude, and inventiveness influence an individual's preference for entry into entrepreneurship, which warrants further scholarly attention, particularly concerning the driving factors of ETA.

3.2.2 External drivers

As identified in our research, succession in family firms is the strongest external factor that triggers ETA (Nows 2021). As the baby-boomer generation retires, business transfers will reach their highest level in history (Dawson and Barrédy 2018). Unfortunately, only a few of these baby boomer–led companies have a succession plan in place for when the time comes for the owner to step down, creating an emerging leadership crisis (Nows 2021). The result is that many business owners choose successors outside their families or businesses (Block et al. 2013). More specifically, within the next 10–20 years, over $1 trillion of enterprise value will require some form of management transition or liquidity event in the US alone (Dennis and Laseca 2016).

Moreover, the phenomenon extends beyond the US. Finland also faces a similar succession problem. Over 78,000 of its SMEs have an owner-manager who is set to retire within a decade, with approximately 30,000 thinking about selling their company outside the family (Järvinen 2019). Germany is also affected. Over half a million SMEs searched for a successor between 2018 and 2022 (Schwartz 2018). So far, there have been either few or no empirical investigations into the process of family-external business succession by MBI or ETA and its impact on these firms' entrepreneurial behavior in particular (Poeschl and Freiling 2020).

Business succession is among the most critical issues of family business research (De Massis et al. 2008; Hatak and Roessl 2015) and its study has mostly centered around family-internal business succession (Bannò and Sgobbi 2016; Chalus-Sauvannet et al. 2016; Durst and Gueldenberg 2010; López-Fernández et al. 2016; Odom et al. 2019; Wright et al. 2007). However, a family firm's idiosyncrasies can pose challenges to external managers (Boling et al. 2016; Poeschl and Freiling 2020; Randolph et al. 2017; Royer et al. 2008). In particular, non-financial issues play an important role when selling a family business (Ahlers et al. 2017). In other words, family-internal successions (i.e., when members of the managing or owning family take over the firm) are entirely different from family-external successions (Poeschl and Freiling 2020; Wright 2018). This is yet another relative blind spot in academia.

3.3 Research dimension 3: process

Generally, the existing research splits the ETA process into pre- and post-buy-in phases (Poeschl and Freiling 2020). In the realm of entrepreneurship, it may be conceptually interesting to establish a connection between ETA and the entrepreneurial process. This process typically commences with an individual formulating intentions to pursue entrepreneurial ventures and subsequently being guided by them (Gieure et al. 2020; Lee and Wong 2004; Shook et al. 2003; Wurthmann 2014). Examining the second-order themes that we have identified, the only notable similarity between them is the shared aspect of intentions. Beyond this, the differences between the themes are striking and more closely resemble the process involved in a conventional management buy-in (Ruback and Yudkoff 2017a; b).

3.3.1 Pre-buy-in

We identified common elements during the pre-buy-in phase regardless of the actual ETA model: search and target selection, due diligence, negotiation, and financing. For the seller, the succession preparations are time-consuming and potentially even distracting from the company's day-to-day management (Poeschl and Freiling 2020). By contrast, this stage is especially crucial for entrepreneurs to mitigate the risk of potential information asymmetries.

3.3.2 Search and target selection

The classic acquisition target for ETA is seen as being in a mature sector with stable cash flow and modest investment requirements, but market trend analyses show that there are many different acquisition types based on sectors, control mechanisms, and financing structures (Wright et al. 1994). Like the targets of PE firms, non-volatile companies with stable and predictable cash flows are preferred (Ruback and Yudkoff 2017a, b; Strandberg 2010).

When evaluating a target company, the assessment criteria naturally focus on the health and sustainability of the business and its revenue (Kessler 2012). It is recommended to analyze whether and how profitable the company is, whether it is an established business that has revenues and cash flow within the desired range, but also whether one has the skills needed to manage it, and whether it matches one's lifestyle goals (Ruback and Yudkoff 2017a; b).

Other desirable company-related factors include competitive advantage, recurring revenue, cash-flow history, a seller motivated by non-business reasons, and multiple avenues for growth, whereas turnaround situations, high customer concentration, churn, and competitive auctions are considered undesirable (Kelly 2021). According to the authors, it is favorable if the industry is fragmented, growing, and sizable, shows straightforward industry operations, is early in its life cycle, has many companies in the desired size range, and has healthy profit margins.

3.3.3 Company size and valuation

In ETA, the target company's size is a critical factor. There is a consensus that small companies (e.g., $1 million in earnings before interests taxes, depreciation, and amortization [EBITDA]) have a very thin margin for error and might not have sufficient profits to grow, but companies that are too big (e.g., $7 million in EBITDA) may be too complex for an inexperienced manager to handle (Kelly 2021).

The value of a company is typically determined by a multiple of its earnings (Mixon 2014). It is generally the case that smaller firms sell for substantially lower multiples than larger ones in similar businesses (half to one-third less), which provides enormous opportunities for earning great returns (even without leverage). We have not yet seen upward pressure on those multiples, and several evidence points indicate that the average enterprise value/EBITDA multiple is between three- and five-fold (Kelly 2021). In other words, if an entrepreneur holds a company that they bought for 4 times its earnings for 4 years, they will have their money back, receiving an implied annual return of 25% (Wang 2020). We found mixed evidence regarding the absolute range of company valuations, varying from $500,000 to $50 million (and beyond). The average deal size of non-PE-backed family-firm buy-outs was about $7 million (Scholes et al. 2009). When it comes to search fund targets, the acquired companies have a median revenue of $10 million (Kelly and Heston 2020).

3.3.4 Industry

In the past, search funds typically acquired firms that offer business services more than other types, but recently acquired companies have been coming from other industries (Dennis and Laseca 2016). Favored industries are services, manufacturing, distribution, and manufacturing/service (Hunt and Fund 2012). A recent search fund study lists services, software, tech-enabled services, and healthcare provision as some of the most popular industries for acquisitions (Kelly and Heston 2020).

Growing, fragmented, and sizable industries are desirable, especially when they are relatively early in the industry life cycle, have straightforward operations, and have many companies in the target range (Järvinen 2019). According to Järvinen (2019), undesirable characteristics are highly consolidated or declining industries with high competition, high customer pricing power, and unpredictable exogenous factors.

3.3.5 Deal sources

We identified two primary deal sources: brokers and proprietary deal flow. Other potential sources include but are not limited to industry contacts, conferences, referrals from partners (e.g., accountants, lawyers), reputation, newspapers, trade magazines, chambers of commerce, state or county economic development agencies, and bankruptcy listings (Price 1994; Wang 2020).

Due to the number of buyers that brokers possibly have access to, opportunities via brokers tend to be more competitive and, therefore, more costly (Dennis and Laseca 2016). Yet, the use of a broker might be a good sign that the seller is ready to sell, resulting in an often quicker process than a proprietary target search (Ruback and Yudkoff 2017a, b). It is common for brokers to circulate a one-page description of a company and work with the seller to provide a more detailed description to qualified buyers (Ruback and Yudkoff 2012). Furthermore, a broker may manage all aspects of the process, including negotiating terms and price, and actively help the buyer determine whether a business is a match for them (Buying a Business 2008). In addition, business brokers are incentivized to close deals since they are usually compensated through success fees. The commission fee ranges from 8 to 12% of the total purchase price; smaller transactions entail a minimum commission fee of \$10,000–\$20,000 (Wang 2020).

Proprietary deal flow, however, appears to be the most appealing route for acquisition entrepreneurs because it implies a less competitive bidding process. This involves searching for businesses that are not actively being marketed (Wang 2020). This could rely on a cold call or an opportunity through an acquaintance. Cold calls are often unsuccessful, so acquirers frequently conduct large-scale campaigns, seeing average response rates of between 0.5 and 1% (Ruback and Yudkoff 2012). Conducting an industry deep dive is one common method of scouting for proprietary deals, focusing on three to four sectors at a time and reaching out to business owners (Dennis and Laseca 2016). While practitioners often claim the advantage of a proprietary deal flow, support from longitudinal studies is scant in the wider private equity field and non-existent when it comes to ETA (Castellaneta et al. 2018).

Castellaneta et al. (2018) describe how, apart from anecdotal evidence, a proactive proprietary deal source leads to substantial returns but is less effective when coming from intermediaries or a personal network.

3.3.6 Due diligence

The purpose of due diligence is to gain an understanding of a potential target's business, performance, and prospects. Although financial statements are generally the cornerstone of the due diligence process for larger companies, most smaller companies do not have audited statements, and their accounting systems are much weaker (Ruback and Yudkoff 2012). Consequently, the due diligence for smaller companies is often perceived as more difficult, costly, and less complete, leaving more uncertainty in the transaction (Robbie and Wright 1995; Ruback and Yudkoff 2012).

In particular, as the risk of bilateral adverse selection problems is high, it appears vital for ETA entrepreneurs to perform their due diligence as thoroughly as possible (Poeschl and Freiling 2020; Wright et al. 2001; Wright and Desbrières 2014). If not done correctly, many deals die during the due diligence phase (Worth 2014). We found that due diligence is often split into two phases: an initial screening (or preliminary due diligence) and the actual confirmatory due diligence.

3.3.7 Preliminary due diligence

In preliminary due diligence, an acquisition entrepreneur should ultimately look for any reason not to buy the business (Ruback and Yudkoff 2017a, b). As many businesses might not meet the acquisition criteria (i.e., due to cyclicality, owner risk, or even willingness to sell), the acquisition entrepreneur must build a repeatable screening process to quickly filter out such properties (Wang 2020). The authors believe that an introductory call can provide sufficient information to estimate the capital intensity and owner reliance, determine whether it is worthwhile to move forward, and write a letter of intent (LOI). An LOI typically includes a non-binding valuation (or valuation range) and the major terms of the deal (Kelly 2021).

3.3.8 Confirmatory due diligence

If the LOI is accepted, confirmatory due diligence begins and typically takes around 90 days, which tends to be a nerve-racking time for both the buyer and seller (Ruback and Yudkoff 2017a, b). It is imperative that the searcher thoroughly vets the organization itself, its products/services, operations, customers, suppliers, assets, liabilities, financial results, prospects, and legal aspects (Kelly 2021). Based on what the acquisition entrepreneur finds (together with attorneys and accountants), the deal proceeds, the deal terms are changed, or the deal is stopped altogether (Nows 2021).

3.3.9 Negotiation

In particular, as information asymmetry plays an essential role in ETA, negotiation is crucial. We found evidence that in ETA, typical negotiations last between 1 and

6 months on average and cover the object of the transfer, the seller's role after the transfer, the timing of the transfer, the price, and other terms of a business transfer (Matalamäki et al. 2020). Typically, this process begins with a formal letter (LOI), setting out the initial offer's most important terms (Ruback and Yudkoff 2017a, b). We found the terms of the offer to be crucial, much more so than the selling price (Price 1994). In particular, and as will be explained in greater detail in the section on risk mitigation, seller financing is one of the most important elements for mitigating risk due to asymmetric information.

3.3.10 Financing

When the LOI is accepted and the acquisition process moves forward, the entrepreneur will need to arrange financing to cover the purchase price, which may include a bank loan, seller financing, investor equity, mezzanine debt, or some combination thereof (Dennis and Laseca 2016; Nows 2021; Wang 2020).

Takeovers, including ETAs, see a higher prevalence of bank loans than for other modes of entry, such as new venture creation, due to a favorable risk assessment given that they have longer track records and are less opaque than newly created companies (Block et al. 2013). This gives ETA a particular advantage, as entrepreneurs often face credit rationing (Wright and Desbrières 2014). In the US, Small Business Administration loans have a crucial role, with one study showing that 73% of searchers used them to fund their acquisition (Keil 2021).

Seller financing plays an important part in ETA and is often seen as the lowest cost of funds available (Price 1994). Payments for seller financing can either be triggered by pre-set events or in the form of future installments (Järvinen 2019). In seller financing, the business and its related assets secure the loan and bring advantages to both the buyer and the seller (Worrell 2007). According to Worrell (2007), the buyer benefits as banks (which might be required for additional loans) see such transactions as favorable because the seller shoulders some of the risks. This is particularly helpful if the company to be acquired has, for example, a high customer concentration factor or limited assets or the business is not easy to understand for a bank (McNeill Stancill 1988). The seller benefits as well because they might achieve a higher total offer at an increased purchase speed while simultaneously achieving tax advantages and even collecting interest on the outstanding amount (Detamore-Rodman 2004).

Search funds generally include two financing rounds: a first phase in which search capital is raised to cover modest salaries and travel, administrative, and deal-related expenses for approx. 2 years while the entrepreneur seeks potential acquisition targets, and a second phase (Keil 2021). According to Keil (2021), the median amount of initial search capital is $429,000. This amount is typically split among 10 to 20 investors, who receive the right (without the obligation) to invest *pro-rata* in the equity required to finance the company that is later identified. To account for the high risk taken by the investors at such an early stage, the initial search capital generally converts on a stepped-up basis (e.g., 150% of the actual investment) into securities issued as acquisition capital (Rozenrot 2005). Fundraising traditionally takes 1 to 12 months, with a median value of 3.1 months (Kelly and Heston 2020).

3.3.11 Post-buy-in

The post-buy-in phase consists of the actual transition of the business from the previous to the new owner, the actual holding and growth phase, and the ultimate exit from the business.

3.3.12 Transition

In the post-buy-in phase of a transaction, a stable organizational and entrepreneurial balance is established (Poeschl and Freiling 2020). Because SMEs often depend on a single decision-maker, this process must be carefully managed to prevent serious managerial disruptions (Freiling and Pöschl 2020).

Searchers risk getting so engrossed in the search itself that they might lose sight of the fact that acquiring a business is only the first step (Dennis and Laseca 2016). In this regard, the authors recommend following a few best practices: first, conveying a feeling of security to the employees; second, refraining from making significant changes too fast; third, fostering open communication. A strong transition plan and the wisdom of the company's owner are crucial for the acquirer to succeed (Ruback and Yudkoff 2017a, b; Schnuer 2011). It is, therefore, of particular importance to ask the seller early on to work with the buyer for at least the first 6 months after the sale, even if there has been no agreement on seller financing (Price 1994). This can be achieved in a transition agreement that is negotiated in parallel to the purchase agreement: it includes a short period, 1 to 3 months, during which the seller continues to work full-time at the company and is paid as a salaried employee (Ruback and Yudkoff 2017a, b, p 270). Afterward, the seller is available on an hourly basis and receives compensation for consulting services for a longer period, usually 1 year. However, it is often best for the founder if the seller leaves entirely after 6–12 months to avoid employee confusion and allow the new owner to take charge (Dennis and Laseca 2016).

3.4 Holding and growth

When investigating the value-generation approach, we found conceptual overlaps between ETA and regular buy-outs. Following earlier research, we identified four main value levers in buy-outs, which can be applied to ETA: financial, operational, strategic, and governance improvements (Berg and Gottschalg 2005; Jensen 1997; Kaplan and Stromberg 2009).

After the holding period, SMEs and large PE-backed buy-outs can achieve higher revenue and margins thanks to operational improvements, even if the managerial skills and capabilities required are not comparable (Bergström et al. 2007; Lahmann et al. 2017). As Lahmann et al. (2017) noted, the governance mechanisms serve as a further lever of value generation in all types of buy-outs since it is common practice in PE firms to overcome the problem of information asymmetry between portfolio firms and investors. Interestingly, MBOs carried out by insiders seem to increase employment, while outsider-driven acquisitions (e.g., via ETA) are associated with a decline (Wright et al. 2019). The holding and growth phase during ETA endeavors remains largely unexplored, suggesting the need for further research.

3.4.1 Exit

In general, search fund–acquired companies are held for an average of 7 years, which is longer than typical PE holding periods and reflects investors' willingness to hold strong assets for the long term (Dennis and Laseca 2016). However, the timing of exits can vary greatly and is ultimately up to the new owners. Overall, the evidence on the longevity of MBIs is inconclusive (Jelic et al. 2019). Since funds with institutional investors have to return capital within a set period, they typically experience some type of liquidity event within 5–7 years, while those with flexible capital can remain invested indefinitely (Dennis and Laseca 2016). Some of the best-performing companies backed by search funds have been around for over 10 years.

Investors rarely expect the ETA owner-operator to have a well-defined exit plan from the beginning as with VC-sourced limited partner agreements and investor pools (Kaplan and Strömberg 2003). Without a liquidity event, VC-backed companies are unlikely to achieve any investment returns on this portfolio component, but that is not the case for ETAs (Hunt and Fund 2012).

3.5 Research dimension 4: outcomes

After conducting a comprehensive review of the existing literature, we identified both the successes and potential risks associated with acquiring small companies via ETA.

3.5.1 Success

We found evidence of various types of potential upsides of ETA in the existing literature, which underlines the growing appeal of this model of entrepreneurship (Case and Murphy 1991).

In particular, the search-fund vehicle seems to offer, on average, an aggregate return on investment greater than 8 times, an internal rate of return above 35%, and less survival and exit/liquidity risk than a startup (Hunt and Fund 2012; Järvinen 2019; Morrissette and Hines 2015). This seems to be aligned with the overall PE literature reporting that smaller deals (below $100 million) deliver higher value creation than larger ones (Graebner and Eisenhardt 2004; Puche et al. 2016). A recent study shows that success related to ETA in a search-fund model has increased in recent years (Kelly and Heston 2020). In the study, 75% of entrepreneurs who made acquisitions achieved a gain in equity value, up from 71% in 2018.

In addition to financial success, buy-outs are a vehicle for strategic innovation, supporting entrepreneurial growth opportunities (Meuleman et al. 2009). As an asset class, search funds appear to outperform angel, early-stage VC, and PE investments (Järvinen 2019). As with other risk capital portfolios, a small number of highly successful search funds disproportionately increase aggregate returns (Kelly and Heston

2020). A notable trend identified by Kelly and Heston (2020) is that there have been more high-return funds (i.e., with a return on investment greater than 5x) than before.

3.5.2 Risks and pitfalls

Overall, the risk when taking over a new business is found to be lower because the business has already survived the early startup phase, in which the survival rate is the lowest (Block et al. 2013; Price 1994). However, ETA still involves significant risks that are even found to lead to higher failure rates than buy-outs (Wright et al. 1996). Moreover, those risks exist throughout the entire process of buying a company: some entrepreneurs fail to find a suitable company (Damast 2012; Morrissette and Hines 2015), some pay too much for the company (and find themselves in court even years later) (Reed et al. 2007), others mismanage the transition (Matalamäki et al. 2020), and some face severe issues during the holding and growth stage of their endeavor (Morrissette and Hines 2015).

Taking a closer look at the underlying drivers of these risks, we often find links to information asymmetry as a cause (Castellaneta et al. 2018; Dawson and Barrédy 2018; Ragozzino and Reuer 2007). More specifically, these information asymmetries exist between the buyer and seller, for example, in the form of bilateral adverse-selection problems (Wright et al. 2001), but also between buyer and financiers (Wright and Desbrières 2014). The latter might lead to credit rationing (Stiglitz and Weiss 1981), and the former to opportunistic or competitive negotiation behavior in the pre-buy-in phase (Dawson and Barrédy 2018), as well as issues with restructuring in the post-buy-in phase (Poeschl and Freiling 2020; Robbie and Wright 1995). The existing entrepreneurship literature has shown that the relevance of adverse-selection issues is particularly severe in a Mergers & Acquisitions setting when the company is entrepreneurial as such firms offer little codified information about their historical performance and prospects, but also because the value of the company is often closely linked to the entrepreneur, who may be incentivized to inflate the firm's value and seek personal gains upon receiving new capital (Ragozzino and Reuer 2007). Furthermore, they exist not only for the buyer but also for the seller. In some instances, these issues have even led the seller to buy the company back (Worrel 2004).

Still, we find that the issues related to buying in require more scholarly attention. When buy-ins succeed, they usually do so considerably; at the same time, many buy-ins struggle to survive, as was already the case in the late 1980s (Ennew et al. 1994).

3.5.3 Risk management

Although the entire field of ETA is, from a scholarly perspective, still in its infancy, we identified certain strategies that help mitigate at least some of the risks associated with buying a business.

First, as asymmetric information generates most issues in the post-transaction phase, the process of due diligence must be thoroughly applied (Price 1994; Wright and Desbrières 2014). Second, seller financing is another prevalent approach to mitigating potential risk (Dennis and Laseca 2016). With seller financing, the purchase price can be paid in future installments based on predefined events (Järvinen 2019). In particular, given that information asymmetries between entrepreneurs and a bank may have negative consequences on credit rationing, seller financing is most often used when acquiring a company (Keil 2021; Wright and Desbrières 2014) and is seen as the lowest cost of funds available (Price 1994). Third and last, we find evidence that specific warranties may aid in protecting the purchase of a company. For example, a holdback period might be agreed upon, during which the buyer may deduct from the loan agreed with the seller any undisclosed liabilities or claims against the company (Detamore-Rodman 2004).

4 Discussion

Overall, it is imperative for policymakers to consider the entrepreneurial mode of entry given the growing potential for business transfers due to an aging population coupled with a marked decline in the proportion of firms being taken over by family members in several countries (Parker and van Praag 2012). If not executed properly, underinvestment in the acquisition of small firms can have negative implications for social welfare, which is particularly concerning because a significant proportion of economic value is tied up in privately-owned companies. Despite the small number of studies defining ETA explicitly, there is still a wealth of information to be gleaned from the evidence base. Here, we analyze the methodological and substantive implications of our study and identify the areas in which further evidence is needed to enhance our understanding of ETA.

While previous research identified entrepreneurial buy-outs, it failed to recognize the importance of ETA (Kelly et al. 1986; Malone 1989). Following earlier calls for a stronger research agenda, our study contributes to the entrepreneurship literature by identifying the boundaries of ETA, establishing it as a viable alternative to new venture creation (Kenworthy and Greidanus 2013) or even an alternative career path for the entrepreneurial-minded (Damast 2012; Morais 2009; Ruback and Yudkoff 2016).

Overall, entrepreneurial buy-outs represent an important segment of the wider buy-out market, with important effects on performance that were impossible under the previous ownership regime. This perspective has important implications for the literature on entry-mode intentions and entrepreneurship education, in particular because students' entry-mode intentions are not necessarily well-informed and may change as knowledge concerning the options improves (Scholte et al. 2015).

Based on our scoping review, we identified multiple gaps in our knowledge and understanding of ETA. Geographically, most of the evidence is from high-income countries, with a significant majority of the studies coming from the US. ETA evidence from low- and middle-income countries is limited to findings about a few well-developed countries.

Moreover, we know very little about the substance of ETA. Despite the large amount of evidence on the search-fund model, relatively little has been done to explore what makes ETA unique (e.g., entrepreneurial intent), what drives the decision to choose ETA over other methods of entry into entrepreneurship, whether the process of selling a company to an acquisition entrepreneur is different from a regular business sale (i.e., from the seller's point of view), how success in an ETA transaction can be ensured, and what happens during the holding and growth phase.

From a methodological perspective, the potential drawbacks and risks associated with the acquisition of a company within an ETA framework remain largely unexplored. The limited evidence base suggests that further downsides likely limit ETA from being more successful. To fortify ETA's credibility as a valid concept, it is imperative to gain a more comprehensive understanding of its drawbacks.

In addition to the theoretical implications and gaps identified, there are numerous practical implications for both prospective and retiring entrepreneurs, policymakers, and investors. First, the evidence shows that buying a business rather than creating one from scratch has the potential to be a very successful entrepreneurial endeavor. Given the impending succession crisis, entrepreneurs should consider ETA as a viable alternative form of entrepreneurship when making career decisions, and policymakers ought to prioritize it on their agenda. Second, investors should take a closer look at this alternative investment vehicle as search funds have generated substantial returns for a small but growing number of investors (Morrissette and Hines 2015). Morrissette and Hines (2015) believe that the search-fund model aligns investors and entrepreneurs better than almost any other form of PE. Third and last, family businesses in dire need of a successor should embrace this special class of entrepreneurs and support them in overcoming family-external succession hurdles to sustain their legacy instead of letting it falter.

In recent years, ETA has experienced a notable surge in popularity and growth. In addition to discovering search funds, entrepreneurs also take classes, join search networks, and prepare to embark on this entrepreneurial journey (Kelly and Heston 2022). It is time for the academic community to follow suit and embrace ETA as a concept in its own right. In particular, because the ETA principles are unlikely to change over time (Kelly and Heston 2022), there is significant potential for scholars to acquire enduring insights.

4.1 Limitations of this study

As with any study, our scoping review is limited in its purview. Most notably, it excludes conference proceedings and relevant literature published in languages other than English. A second limitation is the researchers' subjectivity regarding the definition of first-order concepts, aggregated themes, and the interpretation of the results. Our consensual method of mapping the main findings of each study in each cluster significantly reduced subjectivity. Despite these limitations, however, our research has revealed many geographical, substantive, and methodological gaps in the existing research and, thus, underscores the critical importance of further understanding the ETA phenomenon.

4.2 Future research

ETA is a topic of special interest to scholars, policymakers, and entrepreneurs alike because of its predicted relevance in the coming decades. Despite the significance of ETA at both the societal and individual levels, there remains a dearth of knowledge about and understanding of the concept.

First, we follow Block et al.'s (2013) call for a more in-depth investigation of the dynamics of preferences and intentions regarding the mode of entry into entrepreneurship. To date, only MBA programs have approached the concept of ETA, but anyone with access to investors and a deep understanding of a specific industry could apply it (Gustke 2006). The reasons why more individuals are not pursuing this promising alternative career path must be better understood.

Second, comparative studies of the longer-term impact of management buy-ins and buy-outs are still missing (Wright et al. 1996). Although business takeovers have a higher survival rate and a longer lifespan than new venture startups, there is still much to be learned about the factors that influence ETA and account for the observed differences in survival probability (Dyke et al. 1992; Xi et al. 2020). Additionally, this research would offer a fresh perspective and valuable insights into existing studies on the impact of entrepreneurial orientation and small-business performance (Boling et al. 2016; Covin and Wales 2012; Wiklund and Shepherd 2005). An analysis of the longevity of an ETA undertaking would be particularly insightful in exploring how ETA can benefit from the value-generation methods employed by PE firms. Although there are notable differences, it stands to reason that there may be some common levers and strategies that could be applied to ETA.

Third, it is worth noting that acquisition entrepreneurs are often confronted with greater risks of information asymmetry. Therefore, it would be highly beneficial to further explore and comprehend potential strategies for risk mitigation, such as warranties and seller loans, particularly in the context of ETA. Gaining a deeper understanding of these strategies would help to improve the effectiveness and overall success rate of ETA-based entrepreneurial ventures.

Lastly, future research on ETA should consider the lens of discovery theory as a potential avenue for better understanding the opportunity recognition and exploitation processes in ETA (Alvarez and Barney 2007; Shane 2003). This could shed light on how entrepreneurs navigate the challenges and risks associated with acquiring existing firms and help identify the factors that contribute to the success or failure of ETA endeavors. By exploring the role of agency and opportunity in the ETA context, scholars can gain new insights into this promising form of entrepreneurship and contribute to a deeper understanding of the broader entrepreneurial landscape. We anticipate that other researchers will continue to observe, quantify, and document the advancements and trends in ETA in future studies over the coming years.

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Declarations

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