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Is business succession by the search fund model an option for Central Europe?

Jörg Freiling, Max Oestreich

ABSTRACT

Objective: Introduced in the 1980s in the USA, the search fund model as a niche financial instrument of entrepreneurship through acquisition has not yet become popular outside North America. This article responds to the question whether search fund could be an interesting model for Central European countries with an increase in business successions.

Research Design & Methods: A qualitative content analysis of interview data from eight cases from German-speaking countries allows analysing the context and experiences, as this is the region with the most cases of applications within Central Europe to date.

Findings: The results reveal the entrepreneurial intent of the searchers, the searcher's confirmation of the theoretical advantages of the search fund model, and the low popularity of the model in the German-speaking markets due to scepticism and hindering factors like the criteria catalogue, market idiosyncrasies, competition of private market investors, and lower control of choosing and running a target company. Furthermore, these markets offer well-established financing alternatives which makes searchers choose alternative models.

Implications & Recommendations: Because the search fund model as niche model does not tap its full potential, a transfer of best practices between different regions in the world is beneficial. Moreover, platforms connecting successors, funders, and predecessors may be useful in this regard.

Contribution & Value Added: The study offers first empirical insights on adoption factors of the search fund model in German-speaking markets: in so doing, it sheds light on preferences and concerns of the parties involved, with the aim to facilitate the model's future application all-over Central Europe.

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INTRODUCTION

Business successions are disruptions for the companies involved and often imply significant changes. New people and organizations come into play and allow new constellations of ownership, leadership, finance, and governance. Entrepreneurial revitalizations may come to the fore particularly in the case of external successions (Freiling & Poeschl, 2020).

Already in 1984, the search fund model (SFM) was developed (Johnson, 2014; Kelly & Heston, 2020). Tracing back to Grousbeck, a professor at Stanford University, the model lets fresh, but not liquid MBA graduates ('searchers') run a company as an entrepreneur, backed up by investors financing the acquisition ('funders'), while paving the way for predecessors to exit. While there is a bigger number of US SFM applications with 258 funds (Järvinen, 2019), research is rather silent on SFM. Current research on this topic addresses the unchanged model from 1984 in the original USA context

(Dennis & Laseca, 2016). Yoder *et al.* (2018) define SFM as a financial instrument which is brought to life by one or two aspiring entrepreneurs, who collect equity from investors. With this commitment, investors also take on a consulting role as board members which is critical to the success of search funds (SF) (Dennis & Laseca, 2016). Moreover, the investors will be first in-line to bring in further equity needed for the acquisition in the sense of a leveraged buy-out with the help of debt financing by a corporate bank. The searchers take on their new roles as the CEOs of the acquired business following the steps of a management buy-in. They create value for the investors by optimizing operation processes, increasing cashflow and, therefore, deliver a significant return on equity (Yoder *et al.*, 2018).

As succession problems are increasing, particularly in the German-speaking countries, small businesses and family firms are looking for useful succession options with more emphasis on external successions (Schwartz, 2018; Freiling & Poeschl, 2020) due to decomposing family structures in the society. This may favour the SFM. However, the numbers of active search funds (SF) in Germany, Austria, and Switzerland show a different picture: the SFM does not seem to have gained popularity in Central Europe. In 2018, Kolarova *et al.* (2018) could identify only 83 search funds outside the USA – with only four successful acquisitions in Germany between 2010 and 2016, while Austria and Switzerland counted only one formed search fund each but no acquisition in the same period. The 2020 IESE Search Fund Study already identified 132 first-time international search funds raised from before 2012 until the end of 2019 – with 50 of them raised in 2018 and 2019. Europe makes up only 24 of the recently formed search funds, with German-speaking countries counting only 10 formed search funds since 2010 and Poland counting only two (Kolarova *et al.*, 2020).

Comparing the number of successful applications of the SFM in various international markets to the numbers of North America, especially Germany-speaking countries lack behind. However, taking into account the development of the model's application in the US, the model needed almost 20 years from its first applications to get enough traction (Dennis & Laseca, 2016).

On this note and from an entrepreneurs' angle, this article addresses the following research question: „How and why does the SFM facilitate acquiring businesses in German-speaking countries to aspiring entrepreneurs? "Based on qualitative empirical research on the small number of cases in Germany, Austria and Switzerland, the article advances research by context-specific insights and particular adoption factors of the SFM. The results contribute to the understanding of this niche financial instrument for business succession all-over Central Europe.

After the conceptual foundations in the next section, we describe the development of research propositions and the methodology. Next, we present the findings and close with a discussion and conclusions.

LITERATURE REVIEW AND PROPOSITION DEVELOPMENT

Literature review and foundations

The SFM is one option among the various models of entrepreneurship through acquisition (ETA) (Fund & Hunt, 2012). Rather than founding a new business, ETA is 'the acquisition of an existing small or medium-sized business by an entrepreneur for the purpose of expanding and enhancing the business through transformational strategies that fundamentally reshape market processes' (Fund & Hunt, 2012, p. 31). This definition sees the entrepreneur in a pivotal position which animates this study to focus accordingly, as the entrepreneur predominantly provides the sense of direction for the company after succession. Transformational strategies, entrepreneurial mechanisms, and applied business innovation are key to ETA and its niche of the SFM, in which underperforming, undervalued business assets in low-/no-growth industries motivate the actors to capture value (Fund & Hunt, 2012). The concept of ETA uses an 'owner as agent' governance structure and creates value through using long-term growth and expansion into new products, services, and markets. The cash flow is deployed to growth initiatives in an operationally or strategically undermanaged target company.

There are different models of practicing ETA, namely: self-funded search, crowdfunded search, the single investor-based captive model, the accelerator approach and the SFM (Dennis & Laseca, 2016; Yoder *et al.*, 2018; Kelly & Heston, 2020). Figure 1 provides an overview of the different profile elements of each of the models and allows a first view on the 'anatomy' of the SFM. Yoder *et al.* (2018)

emphasize that the different approaches to ETA have their specific (dis-)advantages in terms of flexibility, risk, deal size, and economics for the searching future entrepreneur, all mirrored in the two arrows of Figure 1 as explained below.

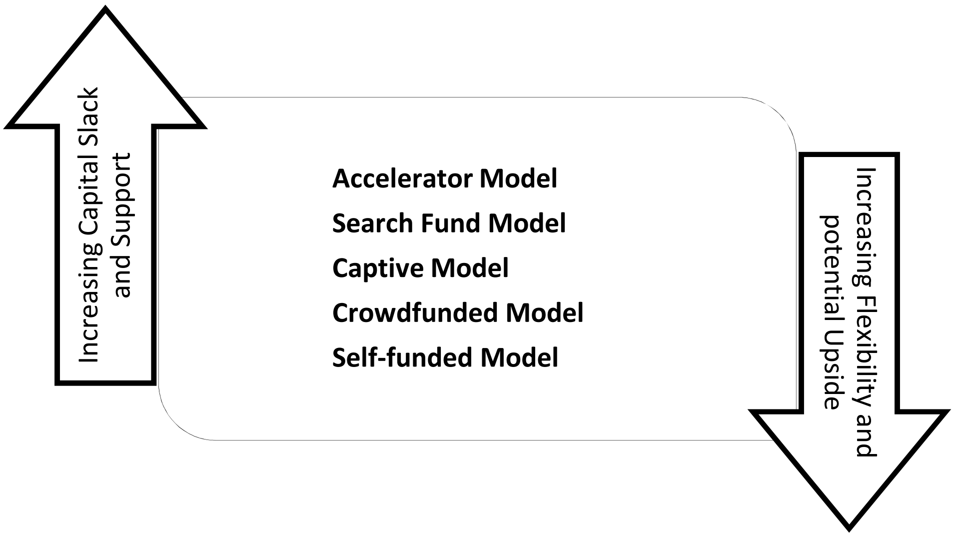

Figure 1. ETA Models in Comparison
Source: Own elaboration based on Yoder *et al*. (2018) and Dennis & Laseca (2016).

The SFM is a small but growing and highly under-researched niche of ETA and an effective exemplary of how ETA can work. Aspiring entrepreneurs 'raise capital for the sole intent of identifying and acquiring undermanaged businesses that grow in value through an infusion of entrepreneurial strategic intent' (Fund & Hunt, 2012, p. 37). It is part of the specific profile of the search fund investment vehicle that allows an aspiring entrepreneur to search for, acquire, manage, and grow a company backed up by the financial support of investors (Stanford Business School, 2013). Figure 1 suggests that the SFM may provide access to considerable amounts of financial capital, slack resources and support on high expertise levels. Li and Grousbeck (2003) introduced this concept in the upcoming era of globalization, liberalisation, and tax laws in the mid-1980s. Raising equity from investors to leverage with debt financing for being able to acquire a company, is among the core ambitions of the SFM (Yoder *et al.*, 2018; Kelly & Heston, 2020). This goes along with limiting the searchers' flexibility and the financial upside thanks to the guidance by accompanying investors. Literature suggests that the higher the support for searchers by investors through network and capital, the lower the flexibility for the searcher (Yoder *et al.*, 2018; Kelly & Heston, 2020; Stanford Business School, 2013). The SFM distinguishes itself from other models of searching for an acquisition target by raising 'search capital' from investors first to finance a diligent search for a target company, and then, in a second step, raising 'acquisition capital' from those investors for the acquisition itself (Stanford Business School, 2013). Given a potential succession wave in the future with considerable corporate values, the expertise of investors may be an asset that could bring SFM into a favourable position.

From an overall perspective, the typical SF process comprises four different stages: raising initial capital, identifying and making an acquisition, operation and value creation, and exit. The different stages are defined by different goals and strategies to be fulfilled consecutively for being able to enter the next stage and create value for all involved stakeholders (Johnson 2014; Hines & Morrissette, 2015; Dennis & Laseca, 2016; Ruback & Yudkoff, 2017; Kelly & Heston, 2020). Typically, this vesting schedule vests one-third upon deal closing, one third over-time, and one-third upon hitting defined performance targets (Yoder *et al.*, 2018; Kelly & Heston, 2020; Pohlmeyer & Rosenthal, 2016).

To a large extent, the particular profile of the SFM rests on the trilateral constellation of actors: the (often young) entrepreneurs, the investors, and the predecessors' company. Literature deals with the horse race metaphor according to Figure 2. The analogy of the 'jockey, the trainer and the horse' (Johnson, 2014, p. 5; Dennis & Laseca, 2016, p. 16) tries to suggest a triple-win perspective.

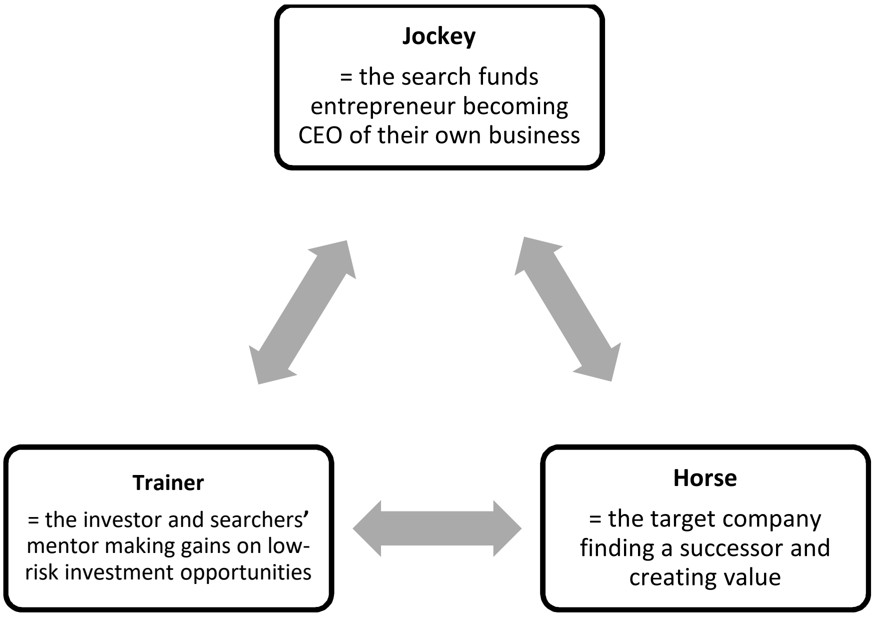

Figure 2. SFM's Trilateral Constellation
Source: own elaboration based on Johnson (2014).

Entrepreneurs' angle ('jockey')

According to literature, in 84% of all cases, the SF entrepreneur is a graduate from an MBA programme (Pohlmeyer & Rosenthal, 2016; Dennis & Laseca, 2016; Kelly & Heston, 2020). Searchers have very diverse professional backgrounds, predominantly from management consulting, investment banking or finance, private equity, general management, and engineering (Kelly & Heston, 2020; Kolarova *et al.*, 2020). Pohlmeyer and Rosenthal (2016) point out that following the path of an SF entrepreneur implies high opportunity costs in the face of attractive careers in management consulting, investment banking, finance, or private equity, which the entrepreneurs skip (Wasserman, 2013). Therefore, on top of the 'desire to own, manage, and build a company' (Stanford Business School, 2013) and the wish for realizing a high financial upside and higher risk aversion in comparison to founding a start-up (Ruback & Yudkoff, 2017), searchers need certain skills to succeed in ETA. Basic management and accounting skills, confidence and communication skills towards investors, business brokers and sellers, and employees and customers, are among the needed skills and traits. Furthermore, they need optimism, enthusiasm, and resilience as in every search stage they will encounter hurdles (Ruback & Yudkoff, 2017).

The SFM promises searchers a low-risk and high-reward way to entrepreneurship. Looking at the 2020 study from IESE Business School on international SF outside the USA and Canada, the median equity value for current business operators (former searchers) is 1.07 mln USD and 0.54 mln USD per year of operation. This is due to SF entrepreneurs taking a 15-30% equity stake in the acquired company according to the vesting schedule which capitalizes upon exit (Stanford Business School, 2013). Generally, searchers have an intrinsic entrepreneurial motivation to choose ETA over a different professional career. Furthermore, they are looking for a less risky way into entrepreneurship than creating a new venture with a more streamlined financial upside.

Investors' angle ('trainer')

When looking at the risk profile of SF as an asset class compared to other private market investment options, SF provide a higher aggregated internal rate of return and less survival, exit and liquidity risks (Fund & Hunt, 2012). In comparison to start-up companies backed by angel investments or venture capital, which display a 35% survival rate, search funds' survival rates range at a 90% level (Fund & Hunt, 2012). Private equity buyout firms operate similarly to SF, but traditionally acquire target companies with a higher EBITDA, as SF in the US focus on targets with EBITDA below five mln USD (Johnson, 2014). Compared to traditional private equity buyout funds, SF have provided a better overall performance (Global Private Equity Report, 2020). Overall, for investors, SF are a less risky investment opportunity within the private markets than traditional private equity, angel investing or venture capital. Furthermore, in this comparison, SF have realized higher returns of investment and higher internal rates of return (Kelly & Heston, 2020; Kolarova *et al.*, 2020; Fund & Hunt, 2012; Global Private Equity Report, 2020).

Target companies' angle ('horse')

Kolarova *et al.* (2020) report that the median international SF acquisition ranges at a purchase price of 11 mln USD, providing a revenue of eight mln USD with an EBITDA margin of 23% and acquired at a purchase price to EBITDA multiple of 5.6 times with a purchase price to sales multiple of 1.3x (Kelly & Heston, 2020, for US and Canadian key figures). According to the most recent SF studies, companies out of the sectors services, software and healthcare providers, and healthcare services make up for the biggest part of successful acquisitions (Kelly & Heston, 2020). Notably, companies fulfilling traditional requirements of being asset-light, in a growing market, having mostly recurring or repeated revenue, low capital expenditure, and a high EBITDA margin (Ruback & Yudkoff, 2017; Johnson 2014; Kolarova *et al.*, 2020; Li & Grousbeck, 2003), like services, software and technology-enabled services have been on the decline, whereas education, manufacturing, and construction services have been starting to become interesting for SF (Kelly & Heston, 2020). Traditionally, manufacturing was unattractive to investors because of higher complexity and higher capital expenditures, which increases the risk in the case of management mistakes and market volatility. Similarly, investors did not provide capital for healthcare deals due to heavy regulation within this industry. However, with a rising number of deals from these industries pitched to investors, more deals are evaluated and realized on a case-by-case basis (Dennis & Laseca, 2016). Following Johnson (2014), an explanation for this trend can be that in the past many deals with very good returns have deviated from the strict SF criteria. This led investors to support more and more deals that do not fulfil all the traditional criteria (Johnson, 2014). Despite the development according to which 'business services cannot continue to be the only source of companies in search funds' (Dennis & Laseca, 2016, p. 16), the core criteria of the traditional SFM should not be altered, because they have made it an attractive asset class in the first place (Dennis & Laseca, 2016).

In German-speaking markets, succession problems are constantly increasing. In Germany, until 2022 over 842 000 business owners of mid-sized business will have retired, and another 275 000 small businesses are expected to start evaluating succession options (Schwartz, 2018). In Austria, within the upcoming years almost 90,000 companies have to deal with business succession (Wirtschaftskammer Tirol, 2017). As most of these businesses with succession problems are run by single proprietors, they often do not comply with the usual search criteria and are, thus, not among the targets for aspiring entrepreneurs utilizing the traditional SFM. Considering only the limited liability companies, limited liability partnerships and private liability companies, this leaves an indicatory pool of over 12 000 businesses. Concerning Switzerland, over 91,360 companies are facing the same problem, with 494 companies employing more than 50 people (KMU Nachfolge Schweiz, 2021) and are, thus, more likely to fit the SFM criteria.

Looking at these numbers, the prognosis of Hines and Morrissette (2015) that the SFM is likely to benefit from the rising opportunities for acquiring small businesses within the next years seems to be applicable for Central Europe and, particularly, the German-speaking markets, too. It is also evident that SFM provides sound replies to the upcoming problems in case of successions. This article targets the respective context, aims particularly at a critical assessment of SFM's practicality in the German-speaking markets and fills the research gap of understanding the factors allowing an adoption of the SFM by providing empirical evidence. The empirical fieldwork is framed by a set of research propositions to be developed below and guided by the following research question: how and why does the SFM work for aspiring entrepreneurs to acquire businesses in German-speaking markets?

Propositions

The conceptual foundations and prior research inform this study with first insights in the light of the research question. The following considerations seek to condense prior knowledge and to develop research propositions that undergo a first reality check by data from the field.

The first consideration is about the awareness of the SFM. It is evident that in the US, many actors around the 'horse race triad' are rather familiar with the SFM (Ruback & Yudkoff, 2017; Johnson 2014; Kolarova *et al.*, 2020; Li & Grousbeck, 2003). Johnson (2014) states, that even though European SF are benefitting from experiences, factors and criteria set for and by the traditional SFM, some cultures might be better suited for SF, because of not having a strong tradition of handing down businesses within the family as is a usual case in Europe (Julia *et al.*, 2010). Therefore, actors in certain cultures are more willing to back an external, young, less-experienced person. One can expect that entrepreneurs, investors, and predecessors in the German-speaking countries are simply not aware of and not familiar with the SFM. Thus, we propose:

Proposition 1: The lacking awareness of the SFM in the actors' minds and the still strong commitment to family-internal successions hinder SFM adoption in the German-speaking markets.

Particularly graduates and professionals may have chosen not to pursue the path of entrepreneurship due to perceived downside risk or limited profit. However, according to recent data, the SFM offers a way to exploit entrepreneurial opportunities with comparably low failure and exit risk (Fund & Hunt, 2012; Kelly & Heston, 2020; Kolarova *et al.*, 2020), mainly due to the guidance of experienced investors involved in the transaction (Dennis & Laseca, 2016). On top of reduced risk, the SFM may offer higher expected returns than different professional careers. These findings lead to the question whether the financial upside hand in hand with low risk may really outweigh the loss of equity and control in the target company for searchers in the German-speaking markets. Hence, we propose:

Proposition 2: Searchers from German-speaking countries favour the SFM structure and guidance to create financial upside with low risk.

Proposition 3: Searchers from German-speaking countries decide against the SFM because of a comparably lower equity stake and lower control.

The extensive list of prerequisites to decide whether to take an acquisition opportunity or not, ensures the SFM's success (Ruback & Yudkoff, 2017; Johnson 2014; Kolarova *et al.*, 2020; Li & Grousbeck, 2003). Thus, the model became an attractive asset class for investors in the first place (Dennis & Laseca, 2016). Johnson (2014) argues that although the strict criteria set for evaluating an acquisition target ensures the success of the SF entrepreneur and reduces the risk for the investors, there are not many small companies that comply with the criteria. However, industries and business opportunities can deliver unique value propositions despite a complicated business model or other shortcomings (Johnson, 2014). Dennis and Laseca (2016) admit that with a rising number of pitched deals deviating from the traditional focus on business services, investors need to be more open for industries outside the traditional SFM focus and evaluate unique opportunities on a case-by-case basis (Dennis & Laseca, 2016).

Proposition 4: Searchers not finding enough target companies fulfilling the strict SFM criteria hinders SFM adoption in the German-speaking markets.

Proposition 5: Searchers from German-speaking countries decide against the SFM because of low flexibility in choosing acquisition targets.

As Figure 1 reveals, different approaches to ETA have evolved as efficient alternatives to SFM (Yoder *et al.*, 2018; Dennis & Laseca, 2016). Depending on the searchers' needs for external capital, guidance and infrastructure, each approach to ETA has its own profile and related dis-advantages. Depending on the searchers' capacity and willingness to finance the search for and the acquisition of a target company with private capital, SFM can be an attractive option (Dennis & Laseca, 2016; Yoder *et al.*, 2018; Kelly & Heston, 2020). Thus, we conclude:

Proposition 6: Searchers from German-speaking countries choose SFM as a way into entrepreneurship for its low need for personal equity investment.

Proposition 7: Searchers from German-speaking countries decide against SFM because of a well-established debt financing infrastructure for business succession.

RESEARCH METHODOLOGY

Methodology

Due to its early research state, a considerable complexity of the research topic and the anatomy of the research question, the application of a qualitative research design based on the development of case studies deems useful (Yin, 2018; Eisenhardt & Graebner, 2007). Another reason for not employing quantitative research is the simple fact that the number of SFM applications in Central Europe still rests on a rather low level. Kolarova *et al.* (2020) could identify only 10 formed SF since 2010 in German-speaking countries and two in Poland (Kolarova *et al.*, 2020). Besides that, qualitative research is advantageous as it allows deeper dives into reality.

Building on prior research, the procedure was deductive and confronted developed causalities with reality. However, to be open for new insights from reality, the cases rest on semi-structured interviews – as prime data source – with an interview guide that starts with narrative parts prior to the reality check of the propositions. This allowed gathering data beyond the set of propositions by additional inductive research that could add to a more comprehensive understanding. After the narrative interview part, the structured section followed the research question and the developed research propositions directly. The questions were tested prior to the first interview to ensure comprehensibility by the interviewees. Following the suggestions by Yin (2018) and Eisenhardt (1989), observations made by the interviewer and secondary data analysis (websites, press releases, reports) were additional, supplementary methods for the sake of triangulation (Ndofor *et al.*, 2015).

Data sourcing

To get a thorough first overview of the SFM application, the perspective of the 'jockey' was chosen. As the aspiring entrepreneurs are the first and foremost binding element within the SFM, they are in close contact with all the stakeholders involved and hence experience the benefits and limitations of the model first-hand.

A keyword search in public press and forums sought to identify potential interview partners. Within the German-speaking countries, 10 former or still active SF could be identified and four searchers with knowledge of SFM who eventually decided to pursue a different ETA model. Eight of them (A-H) were willing to share their experience. The number of identified SFM-based ETA and their distribution over the German-speaking countries coincides with Kolarova *et al.* (2020).

Hence, the prime data source were eight interviews conducted in November and December 2020 with German, Austrian, and Swiss searchers, all of them male and between 25 and 40 years of age and familiar with SFM. The interviews lasted between 20 and 60 minutes. All interviews were held in the native language of the interviewees to avoid translation problems. The interviews were recorded and transcribed. As the data collection could unveil sensitive data on the investment process which could be subject to a nondisclosure agreement and likewise to allow the interviewees to speak frankly about their experience, the interviews had to be transcribed anonymously.

Four interview partners raised SF to search for and acquire a company. One more searcher had just started out and was in the fundraising stage when interviewed. Three interviewees followed an alternative model: A and D did a self-funded search and E decided to go with a single investor to finance multiple searches. Overall, six searchers were successful in searching for and acquiring a company. Interviewees B, C and H successfully went through all stages. Only C has successfully exited so far. Interviewees B and H are still operating their acquired targets. Table 1 provides an overview of the interviewees and SFM-related issues.

Data analysis

Supported by QCA software, data analysis followed the structuring qualitative content analysis according to Mayring (2021) based on deductively formulated categories. In detail, the method of contextually structuring content allows filtering common topics, content, and aspects from the underlying material (Mayring, 2021). Structuring according to the content helps to filter out predefined content (Mayring, 2021). As for coding, the procedure started by coding first-order data. The codification focused on the single interview first, based on individual paragraphs. In the second step, codification was applied on all interviews simultaneously using the paraphrases of the single interviews. According to the deductive category forming procedure, seven main categories and a total of 18 subcategories were identified out of the available SFM literature and the theoretical considerations in accordance with Mayring's (2021) approach. In this vein, the single interviews were reviewed by the help of the category system, single statements translated and paraphrased and then assigned accordingly to the subcategory system. After this, the abstracted material was summarized according to the categories.

RESULTS AND DISCUSSION

Results

To check the research propositions one by one, we identified and specified categories. The categories were defined deductively out of the available literature on the SFM and the abducted theoretical considerations, condensed within the set of propositions (Mayring, 2021). The propositions were confronted with the empirical findings. As the empirical research allowed both open response and structured feedback on the propositions, category development had to take this into account. Insofar, the developed categories are an umbrella to connect the literature-based structure of the propositions with field data. This explains why the terms used in the category system are similar but not identical with the factors of the propositions. Moreover, the sub-categories allowed considering all relevant factors from the field that sometimes go beyond prior research.

The further procedure rested on the three-step approach according to Mayring (2002). The first step was about defining major (sub-)categories and allocating statements to them. The second step rested on providing anchor examples with a prototypical function out of the transcribed material, while in the third step, the definition of coding rules for a guideline to assign statements to the categories took place.

Table 2 portrays the (sub-)categories and related findings in overview. For example, *P1* is about the acceptance of the SFM among relevant stakeholders in the German-speaking markets. Lacking knowledge and scepticism are typical for this category. Along the single propositions and the related constructs, all the categories were developed in this vein.

Proposition check

According to *P1*, the SFM is not yet sufficiently known among stakeholders and, hence, not accepted as a concept for business succession in the German-speaking markets. The statements of the interview partners principally supported this. Six of eight interviewees stated German-speaking markets are unfamiliar with the model and/or that they faced scepticism about SFM, particularly regarding the value proposition. Four out of eight searchers named a lack of knowledge among company owners or investors and among young graduates trying to find a way into entrepreneurship. Interviewees B, F, and G saw business schools and universities responsible for this situation.

> The smaller markets are the reason why the SFM is not as well-known as in the USA. … Another reason for this is the missing culture of MBA graduates. … In Germany, your professional career does not get interrupted by an MBA (B, ll. 342-343, all translations by the authors).
>
> You cannot tell SME owners that you are doing a SF, as they do not know the concept …. This is why we did not use the term 'search fund' but 'business succession entrepreneurship' when introducing ourselves. (C, ll. 225-119)
>
> Germany has not been an active market for search funds (F, l. 60).

> Only very few institutions are currently promoting the model. Classic business schools must promote the model more intensely (G, ll. 207-208).

Table 2. Categories in overview

Category (C)	Sub-categories	Condensed findings
C1 Unfamiliarity	11 Knowledge	Stakeholders do not know SFM.
	12 Scepticism	Stakeholders do not see the value surplus compared to other models, *e.g.* management buy-in or private equity.
C2 Attractiveness	21 Acceptable risk	Searchers perceive low risks with the SFM.
	22 Experience	Searchers perceive the investor's experience and guidance as helpful in making an acquisition.
	23 Upside	Searchers perceive a comparably predictable and high upside of the SFM.
C3 Disadvantages	31 Limited control	Searchers perceive lower control over the company due to lower equity share by the SFM.
	32 Limited upside	Searchers perceive lower financial upside due to lower equity share with the SFM.
C4 Available targets	41 Search criteria	Searchers perceive the search criteria of SFM hindering in finding a target.
	42 Narrow market	Searchers perceive the German-speaking markets low on targets fulfilling traditional search fund criteria.
	43 Competition	Searchers perceive competition for targets due to the criteria of SFM.
C5 Limited flexibility	51 Freedom	Searchers perceive more freedom in choosing their target outside the SFM.
	52 Regionality	Searchers perceive more regional flexibility with choosing a target outside the SFM.
C6 Capital slack	61 Low private capital	Searchers perceive the low need of personal equity investments within the SFM beneficial for their search.
	62 Slack resources	Searchers perceive the slack resources within the SFM beneficial for their search.
C7 Financing alternatives	71 SME bank	Searchers perceive a combination with SME bank financing, *e.g.* KfW bank, a sufficient alternative for their deal financing.
	72 Bank debt	Searchers perceive traditional bank financing a sufficient alternative for their deal financing.
	73 Seller note	Searchers perceive a combination with a seller note a sufficient alternative for their deal financing.
	74 Guarantor bank	Searchers perceive a combination with a guarantor bank, *e.g.* Bürgschaftsbank, a sufficient alternative for their deal financing.

Source: own study.

Five out of eight interview partners encountered situations which relate either to scepticism of the stakeholders towards them or were sceptics themselves. Young age and lack of experience were core hindrances.

> There was some uncertainty, because nobody knew who I was and why I am so young. … They asked themselves if I am another corporate raider (A, ll. 380-382).
>
> Nobody would take us seriously, as we have never bought a company before and because we have no money to bring into the deal. They said that it could not work (C, l. 88).
>
> The sourcing depends on your credibility if you really have the money. This is difficult to indicate as a searcher. … As an investor, I prefer not to pay for the search of the searcher. Because in such a case, I carry the risk of the searcher not finding a suitable target (E., ll. 319-334).
>
> It is not easy to sell a company to something as random as a search fund. … The seller will tell you that … your search fund is nothing else than a traditional private equity fund. … The seller believes that … you also just want to make a quick buck by flipping his business (F, ll. 369-370).

All in all, the interviewees shared how unfamiliar and, thus, sceptical German-speaking markets are when it comes to deciding on SFM adoption. On this note, we alter *P1* moderately.

> P1 new. Considerable unfamiliarity of actors with SFM hinders its adoption in the German-speaking markets.

Next, *P2* points to factors why young aspiring entrepreneurs favoured the SFM and ETA. The SFM seems to offer entrepreneurs low entrepreneurial and financial risk, a clear structure, and support of experienced investors to realize an attractive upside. For this reason, *P2* seeks to find out whether searchers see these advantages and decide for SFM accordingly, keeping in mind that *P3* targets disadvantages. Therefore, *P3* tries to elaborate reasons for pursuing alternative ETA models. On this note, only B, C and F, G and H had actual SFM experience, whereas A, D, and E chose alternative models. The searches of A, B, C, D, E, and H were successful, F has not found anything, and G was just starting out at the time of the interview. For six of eight interviewees low risk was one of the advantages of following the SF.

> You have a clear risk structure (A, l. 163).
>
> A SF is more risk averse than a self-funded search. … Your downside is also low (D, ll. 74-76).

Both F and G were not successful, yet, in following SFM. These two were the only ones not confirming the advantage of low risk.

Seven searchers found the experience of investors and their guidance helpful in going through the steps of the SF process and making an acquisition, even though two of them did not pursue the SFM track.

> And you get a lot of due diligence experience and external professional experience. … The investors are your sparring partners (A, l. 165 and 299).
>
> It is like a founding board to whom you can talk (B, l. 480).

Half of the interviewees confirmed the factor of financial upside as a key decisive factor for choosing SFM. Three of them pursued the SFM track.

> You receive 30% equity stake of a very good company. … The terms are reasonable the way they [were] originally designed (B, ll. 334-335).
>
> It does not work every time, but when it works, it is awesome. … You will be an established entrepreneur after five years and will have built up wealth (F, ll. 390-395).

Most searchers agreed on the factors making SFM attractive. The subcategories of low risk, experience, and upside can be found with a total number of seventeen out of twenty-four possible times. These advantages were seen by searchers with SF experience and those without. Hence, we see a need to modify P2 slightly by speaking of acceptable rather than low risks. All the developed sub-categories of C2 find high levels of support so that they should remain in P2.

> P2 new. Searchers from German-speaking countries favour the SFM structure and guidance to create financial upside at an acceptable risk level.

When it comes to *P3*, it addresses the lower equity share in the case of SFM and related issues of limited control and upside. In fact, half of the interviewees confirmed lower control because of a lower equity stake. They considered this lower control off-putting, as the paraphrases reveal.

> The disadvantage is your minority equity position in the SF. … You report to the investors, not only yourself (A, ll. 170-172).
>
> With a search fund, you only own 25-30%; self-funded you own 100%, which frees you in your decisions (B, l. 475).
>
> Especially on the investor’s side, there are people, that must get involved in every detail and tell the searcher to check this and that (C, l. 710).

While not explicitly stated, the inconvenience effect of SFM is apparent. Besides that, interviewees stated a higher financial upside without the need to fulfil the financial expectations of investors, who otherwise would have an equity stake in the target company.

> You do not have to fulfil the investors' growth and return expectations. … This is a kind of freedom (A, ll. 173-179).
>
> If you buy the company on your own with debt-financing, your personal upside is higher than with a search fund (B, l. 474).

While the interviewees were rather unanimous regarding the factors causing the SFM attractiveness, only half of all interviewees confirmed the factors leading to low attractiveness and the final choice of alternative ETA models. The subcategories of higher control and higher upside outside SFM play a role but obviously only limited so and depending on context. It takes more empirical work to specify these contingencies. Insofar, it deems useful to formulate *P3* more cautiously.

> P3 new. Lower equity stake and lower control in the case of SFM make searchers from German-speaking countries more alert of other ETA models.

Next, *P4* addresses the availability of a sufficient number of target companies. The related subcategories of C4 are (strict search) criteria, (narrow) markets and competition. Four interviewees addressed the strict criteria sets.

> No production industries fit the criteria because they are too capital- and labour-intensive and have too low margins (A, l. 217).
>
> But of course, there are many filter criteria like asset-light and others which make the search phase difficult (C, l. 299).

Only three of eight interview partners directly touched on the German market size.

> In Europe, markets are smaller. It is relatively more difficult to find a good deal than in America with a five-times bigger market. … It is a high risk that you do not find a company (B, ll. 337-353).
>
> Good companies, that are for sale, do not hang like apples on trees, ready to pick (F, l. 131).

However, six of eight interviewees pointed to competition-based hurdles as restriction of SFM adoption.

> In Germany, there are a lot of small-cap family offices, which are competing against you (B, II. 408).
>
> Because if somebody has a good business, he will be asked to sell it, not the other way round. … But a typical searcher can also just call a PE fund and start as a manager and receive equity instead of salary. (E, l. 194 and 375).

The considerations of this section require a specification of *P4*.

> P4 new. Strict search criteria, ETA model competition, and to some extent limited market size hinder SFM adoption in the German-speaking markets.

As for *P5*, it addresses the limited flexibility of SFM in choosing acquisition targets with considerable opportunities. Freedom in choosing their target outside SFM and regional alternatives beyond SFM explain this limited flexibility. All interviewees voiced downsides of SFM in terms of flexibility. Some of them perceived more freedom in choosing a target company outside SFM.

> With a self-funded search, you can also buy [smaller companies], which you cannot with a search fund (B, l. 465).
>
> There may be investors that tell you not to buy an IT company because they already own several IT companies and want to diversify their portfolio (C, ll. 509-514).
>
> For some deals, you need two years. You cannot do this with a search fund, because until then the fund will have expired (E, ll. 242-243).

Four searchers mentioned higher flexibility in searching regionally beyond SFM. This downside about the freedom of choice in terms of staying regional is relevant to searchers with actual SFM experience.

> If you do not want to or cannot move, a self-funded search is better for you (B, l. 462).
>
> Most searchers also have life partners or spouses. … you have to move to where your target company is situated (C, l. 556).

Half of the interviewees mentioned the perception of higher flexibility in following unique opportunities, which does not comply with traditional target criteria of SFM like carve-outs, turnarounds, spin-offs, or start-up ideas.

> You have lower decisive power because you have to stick to the SF statutes (A, l. 306).
>
> We have asked the investors, but they said that we cannot do the deal in that way we and the sellers wanted. … But sometimes you have to look for unusual solutions and make compromises. … Normally, the traditional SF way would fail because some people have their own idiosyncrasies (B, ll. 269-296).

Interviewees stressed the obstacles related to the trilateral constellation of investors, searchers, and predecessors that can make situations complicated. Insofar, there is no need to modify P5.

According to *P6*, searchers choose SFM for the low level of personal capital investments. This holds over time for the investments in the initial search and later for the acquisition itself. Moreover, it allows the availability of slack resources. Data reveals searchers' willingness to finance the search and the acquisition by themselves as decisive factor for the decision on choosing SFM. Half of the interviewees saw a clear advantage of SFM in terms of limited equity investments.

> [B]ecause you as an individual need to invest less capital (D, l. 75).
>
> Right after my MBA, a self-funded search was out of question for me (F, l. 38).

Six of eight searchers considered the availability of financial resources for the search and due diligence (including broken deal fees), and committed investor capital, which can be used in the acquisition financing, an SFM advantage over self-funded ETA.

> With a search fund, the financial resources are higher, so that you can look at larger deals (A, l. 167).
>
> As a search funder, you are financed in advance, you have all the time in the world to find a good business (F, l. 391).
>
> I was concerned that if I finance the search myself, I would not be as objective in my decision making (H, l. 181).

On this note, we can leave P6 unchanged. The statements suggest interesting backgrounds associated with capital availability future research can build on to refine the causal background.

As for *P7*, the well-established debt financing infrastructure for business succession comes into play that may be disadvantageous for SFM adoption and privilege financial alternatives. Four searchers explicitly mentioned special SME bank loans of the KfW Bank being available in German markets allowing debt financing at a low interest rate for ETA purposes.

> In Germany, there is the KfW founder's debt financing, where you can get up to 500,000 Euro at a very low interest rate (D, l. 101).

In this vein, four searchers stated that deal financing with bank debt is possible in German-speaking markets and can replace venture capital of investors.

> In Germany, you can easily finance an SME deal with your house bank (A, l. 66).
>
> Until … a deal size of five million Euro, I recommend doing a self-funded search if you have between 5 to 10% own equity capital. (D, l. 132).

Three searchers mentioned the possibility of a seller note, meaning financing by the seller directly to the buyer. This financial capital can be used as equity in financing the deal with a bank. Furthermore, three out of eight interview partners pointed to guarantor banks as a helpful tool to secure debt financing with banks.

> In Germany, there is the guarantor bank Bürgschaftsbank. … They help with guarantees …. In fact, this is a credit default swap. They partially cover the default risk (A, ll. 83-86).

Against this background, as most of the interviewees confirmed, also P7 holds. When it comes to the individual combination of financing instruments, less statements were given. It appears, that the instruments of a seller note and the guarantor bank, which reduce personal liabilities and risks, are not commonly known among searchers. This can also be subject to future inquiries.

Discussion

This study is the first one dealing with a Central European background and specifying the peculiarities of SFM adoption in German-speaking countries. The findings deviate from those concerning other regions of the world (Dennis & Laseca, 2016; Kelly & Heston, 2020; Kolarova *et al.*, 2020). Particularly, the results from this qualitative research reveal that SFM is an attractive model for niches in the regional market. However, despite this finding there is still a long way to go to become an established and recognized model of ETA. Among the prime factors hampering SFM adoption, we found unfamiliarity. Moreover, the particular profile and the advantages of SFM are not evident enough to make this model more popular in the German-speaking countries. While insiders perceive SFM's pros (low risk, available experience and guidance, attractive financial upside, limited investments of searchers) and cons (lower control, reduced upside, inflexibility, limited number of targets) with the according impact on model attractiveness, the contingencies for SFM in Germany are not favourable in all regards. Market structure and competition of alternate models cause a slow adoption.

Regarding the question how and why does the SFM facilitate acquiring businesses in German-speaking countries to aspiring enterpreneurs, there is evidence from data that the trilateral constellation of searchers, investors, and predecessors provides opportunities that are absent in the case of alternate ETA models. However, the set of propositions developed from literature does not entirely hold when confronting it with data from the field. Insofar, four out of seven propositions underwent at least slight adaptations. Moreover, field data helped specifying the background of the causalities derived from prior research (Ruback & Yudkoff, 2017; Dennis & Laseca, 2016; Johnson 2014; Fund & Hunt, 2012; Kelly & Heston, 2020; Kolarova *et al.*, 2020; Li & Grousbeck, 2003). The involvement of investors enables young searchers to go for ETA with a specific opportunity/risk profile. While there are evident perspectives of realizing rents, searchers are to some extent framed by the investors with considerable discretion regarding decisions to be taken. Limited, shared profits on the one hand side and limited risks on the other may look like a somewhat 'fair' compromise. In fact, investors allow opening doors that would be shut otherwise, as young searchers need guidance and advice as much as financial support when trying to make successions happen. This unveils the enabling role of SFM that is still not fully realized in German-speaking ETA settings. On this note, the response to the 'how and why' question rests on (i) the trilateral governance constellation with its steering potential, (ii) the additional financial resources brought in by the investors, (iii) the higher level of expertise and motivation, and (iv) the potential match of the triad's actors. Over and above the findings are in line with typical contextual factors of entrepreneurial behaviour in German-speaking countries, particularly when it comes to risk-related issues, other studies deal with by pointing to the extraordinary fear of failure or 'German Angst' (Berger & Freiling, 2017).

CONCLUSIONS

On this note, the study contributes to prior research as follows. Firstly, the study specifies factors that favour or hinder SFM adoption. With the sub-categories, 18 constructs underwent a first empirical test that revealed specific relevance. Secondly, the study allows insights regarding the SFM profile *vis-à-vis* competitive ETA models. Thirdly, the study sheds light on the situation in Central Europe, exemplified by the German-speaking countries with their strongholds in family business and small- and medium-sized entities.

As the awareness of SFM is low even in the entrepreneurship and investor scenery, it is necessary to inform actors more comprehensively than before. This may be a task for both academicians (studies and courses) and practitioners. Certain platforms connecting successors and predecessors may be useful in this regard. The impact of role-models and benchmarks should be considered to increase awareness.

Another issue is the transfer of best SFM practice between different regions in the world. The US experience is already very comprehensive due to the early launch and the bigger number of SFM cases. Experience from other regions may also be useful. Moreover, we need to understand the contingencies of SFM more comprehensively to tailor regional SFM models. As for next steps of SFM development, interviewees explicitly suggest a further refinement of the model for a better support of searchers with infrastructure, guidance, and experience and accessibility to investor capital. This could work within the framework of an incubator or accelerator model. Like this, searchers experience more flexibility and can take advantage of a stronger focus on a single role within the process.

The cases rest on triangulated data from different sources. While employing typical means of assuring the data quality in qualitative research, prime information sources are the interviews for the cases. In every case, we conducted only one interview. Although meaningful and rich data could be sourced this way, this procedure is prone to key informant bias.

Another limitation is the focus on the searchers' perspective. The point of view of the other stakeholders in this three-sided relationship, like the seller and the investor, might render different results and a more holistic view on the underlying research topic.

Interview and other data stem from different points in time. However, the interviews as prime source were conducted at one point in time. One can argue that ETAs as SFM are dynamic phenomena with the need to analyze developments. The snapshot view can, thus, be myopic. Finally, we followed primarily a deductive procedure. However, we conducted semi-structured interviews allowing for searchers' narrations that were not influenced by the interviewer. Nevertheless, it is possible that the results of a purely inductive procedure may deviate from the findings of this study.

There are many options to build on the findings of this study. Future research may go for modelling the factors influencing SFM's adoption process. The different sub-categories inform future endeavours by providing constructs for modelling.

Future studies could have a closer look at why the identified factors hinder the model's application. Related to this, it could be of interest how SFM could be adapted to decrease or circumvent these hurdles. As already shown (*P6*), it could be interesting to look behind the causalities of the research propositions more comprehensively. This study was a first dive with results that range both on the descriptive and analytical level.

It would be useful for a better understanding of the SFM adoption processes to increase the analytical depth.

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Authors

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Jörg Freiling

PhD (Dr. rer. oec.), Full Professor and Head of the Chair in Small Business and Entrepreneurship, University of Bremen, Germany. His research interests are transnational entrepreneurship, entrepreneurial ecosystems, entrepreneurial support systems, incubators, accelerators, business model innovations, corporate entrepreneurship, and small firm governance.

Correspondence to: Prof. Dr. Jörg Freiling, LEMEX, Faculty for Business Studies and Economics, University of Bremen, Enrique Schmidt Str. 1, D-28359 Bremen, Germany, e-mail: freiling@uni-bremen.de

ORCID http://orcid.org/0000-0001-6922-9805

Max Oestreich

MBA Graduate at Johannes Kepler University Linz, Austria – LIMAK Austrian Business School. His research interests have so far been in the fields of new venture creation, mergers & acquisitions, entrepreneurship through acquisition, and business succession.

Correspondence to: Max Oestreich, MA MBA, Eben 29a, A-4202 Kirchschlag bei Linz, Austria, e-mail: m.oestreich@mci4me.at

ORCID http://orcid.org/0000-0002-2027-9980

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