

Entrepreneurial acquisitions and small-cap private equity overlaps: A resource-based view

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ABSTRACT

Objective: This study examines the competitive and collaborative dynamics between entrepreneurship through acquisition (ETA) and small- and micro-cap private equity (PE) in acquiring small and medium-sized enterprises (SMEs). Focusing on the DACH region (Germany, Austria, Switzerland), it explores how both actors overlap in target firm size, compete in deals, and identify opportunities for co-investment – an area that has received limited academic attention.

Research Design & Methods: To address this gap, we used an inductive mixed-methods approach rooted in entrepreneurship theory and the resource-based view (RBV). We drew on interviews with twelve PE firms in the DACH region, complemented by eight expert interviews, to develop a theoretical model grounded in both practice and strategic intent.

Findings: The study revealed an intensifying level of competition between ETA entrepreneurs and PE firms for smaller businesses, which are frequently central to PE buy-and-build strategies. Despite this competition, there is evidence of collaboration between the two parties. Private equity firms show a willingness to co-invest with ETA entrepreneurs, provided that they retain majority ownership and that the entrepreneurs bring relevant, task-related human capital to the table.

Implications & Recommendations: These findings have practical implications for aspiring ETA entrepreneurs, suggesting the importance of strategic career planning and the development of industry-specific expertise to align with PE firms' partnership expectations. Additionally, the research encourages future studies to explore which types of SMEs are particularly attractive to both ETA entrepreneurs and PE firms.

Contribution & Value Added: This study contributes to entrepreneurship theory by offering a nuanced perspective on the relationship between ETA and PE in SME acquisitions. It presents a novel theoretical model capturing both competitive and collaborative dynamics, while also enriching the empirical understanding of the often-overlooked small- and micro-cap PE segment.

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INTRODUCTION

Entrepreneurship through acquisition (ETA) has become a notable niche in private equity (PE) investments (Hoffmann *et al.*, 2023; Kent, 2022; Morrissette & Hines, 2015). Unlike traditional entrepreneurship, ETA involves acquiring and leading existing small and medium-sized enterprises (SMEs) (Fueglistaller *et al.*, 2016; Kent, 2022). Private equity is crucial in small business finance, especially since such firms often lack access to public capital markets (Berger & Udell, 1998). Moreover, PE funds are major acquirers of SMEs (Lindsey *et al.*, 2021). Some scholars see ETA entrepreneurs as competitors to PE firms in finding target companies (di Laurea, 2018; Hoffmann *et al.*, 2023; Morrissette & Hines, 2015), while others sug-

gest they often collaborate (Dennis & Laseca, 2016; di Laurea, 2018). There are significant differences between ETA and PE, such as deal sizes and purchase prices (Johnson, 2014). Typically, PE firms retain existing management teams post-acquisition, but high management turnover is frequent (Hoffmann *et al.*, 2023; Kaplan *et al.*, 2009). In secondary buyouts, entrepreneurially minded managers often replace incumbents (Wright *et al.*, 2019). However, in the ETA context, such patterns are hard to assess, as prior research tended to treat PE as a broad category, without distinguishing between small- and micro-cap firms and large-cap investors (Puche *et al.*, 2015; Schickinger *et al.*, 2018). Still, several studies suggest an overlap between segments of the PE market and ETA entrepreneurs in terms of target firm size. For instance, Boucly *et al.* (2011) found median sales of EUR 13 million among French SMEs acquired in leveraged buyouts, which is comparable to the USD 9.5 million median revenue for ETA acquisitions cited by Kolarova *et al.* (2022). Similar patterns appear in Finland, where PE funds target SMEs also seen as ETA-suitable, with average deal sizes of EUR 5.9 million (Paaomasijoittajat, 2019), and in the UK, where the 2022 average for small business PE buyouts was GBP 3.5 million (BVCA, 2023). In Italy, authors have also reported collaborations between PE firms and ETA entrepreneurs (di Laurea, 2018), further supporting the notion of a shared investment segment. Unfortunately, empirical research on such PE involvement remains limited (Scholes *et al.*, 2008), partly due to the inherent complexity of studying business transfers, which often require a multi-level perspective – accounting for both incumbent owner-managers and incoming investors (Wennberg *et al.*, 2011). This research gap is unsatisfying because the acquisition of an existing company demonstrates an alternative entry mode into entrepreneurship and can thus act as a growth engine for economies (Kent, 2022; Pinkwart *et al.*, 2005). The ETA model can manifest in various forms, including management buyouts (MBOs) (Scholes *et al.*, 2008), management buy-ins (MBIs) (Freiling & Pöschl, 2020) or search fund (SF) models (Freiling & Oestreich, 2022; Morrissette & Hines, 2015). The latter two categories of ETA involve entrepreneurs acquiring shares in a company without prior involvement in its incumbent management, as highlighted by Vanoorbeek (2022). Recognising the significance of external entrepreneurs in the context of business succession (Freiling & Pöschl, 2020; Scholes *et al.*, 2010), strategic rejuvenation for established firms (van Teeffelen & Uhlener, 2010), or the inclination of current owners to divest their businesses (Zellweger *et al.*, 2012), our study concentrates on MBIs and SFs. In doing so, we aim to contribute to the emerging field of ETA research, which currently suffers from a notable shortage of scientific insights, as acknowledged by Hoffmann *et al.* (2023).

On this note, we set out to answer the following research question: How do small- and micro-cap PE funds and ETA entrepreneurs overlap in their effort to acquire small businesses? To respond, we adopted a qualitative, inductive approach suited for this under-researched phenomenon (Edmondson & McManus, 2007). Given the entrepreneurial nature of acquisition processes (van Burg *et al.*, 2002; Wennberg & DeTienne, 2014), we conducted multiple case studies based on 12 interviews with PE executives in German-speaking countries, complemented by eight expert interviews from Chambers of Commerce and archival data. Using replication logic, we treated cases as discrete experiments (Eisenhardt, 2021; Yin, 2018), allowing insights to emerge inductively. Our research drew on sensitising concepts from entrepreneurial resource assembly (Harrison & Rouse, 2014) and followed the resource-based view (RBV), which helps explain how entrepreneurs mobilise and coordinate resources during business takeovers (Alvarez & Busenitz, 2001; Bruining, 2018; Kellermanns *et al.*, 2016). While RBV traditionally addresses firm-level advantage, its application to individual entrepreneurs in resource-constrained environments provided a valuable lens for our study (Siqueira & Bruton, 2010). The following article sections are: literature and conceptual background, methodology, results and discussion with our theoretical model and propositions, and conclusions.

LITERATURE REVIEW

Resource-based View

The RBV is a strategic framework that highlights the importance of a firm's resources in gaining and sustaining competitive advantage (Alvarez & Busenitz, 2001; Barney, 2001; Rumelt, 1984). In ETA, entrepreneurs leverage existing resources to exploit opportunities (Hoffmann *et al.*, 2023). According to RBV, strategically relevant resources are valuable, rare, difficult to imitate and substitute while paving the way

for firms' long-term success (Foss *et al.*, 2008). Understanding which resources contribute to competitive advantage is crucial for acquirers (Hoffmann *et al.*, 2023; Vanoorbeek, 2022), making RBV a potential foundation for this research (Vanoorbeek, 2022). Bellavitis *et al.* (2017) also support applying RBV to modern entrepreneurial finance. Human capital is often the backbone of competitive advantage, on condition that it proves valuable, rare, and difficult to imitate (Wright *et al.*, 2001). In entrepreneurship, human capital correlates with success (Marvel *et al.*, 2016; Unger *et al.*, 2011). Prior knowledge, a form of human capital, is crucial for identifying and creating opportunities (Alvarez & Busenitz, 2001; Ardichvili *et al.*, 2003; Shane, 2003), exploiting these opportunities through acquisition and venture launching (Bruns *et al.*, 2008), and accumulating knowledge (Brush *et al.*, 2002; Foss *et al.*, 2008). Based on an open system logic, this applies to both competitive and co-opetitive settings (Freiling *et al.*, 2008).

The ETA-SME Relationship

Following Hunt and Fund (2012), we define ETA as the acquisition of an existing SME by an entrepreneur or small team aiming to improve the business through transformational strategies. Entrepreneurial motivation and the pursuit of recognised opportunities (Shane, 2008) are central to this approach. Similarly, early research on PE-backed MBIs showed that smaller PE investors often engage operationally, beyond the financial structuring typical of larger deals (Robbie & Wright, 1996; Scholes *et al.*, 2008). Given that PE funds vary widely in size, experience, and specialisation (Hoffmann *et al.*, 2023), we focus on small- and micro-cap PEs, defined as those investing in privately held firms valued between EUR 500 000 and EUR 50 million (Hunt & Fund, 2012). These smaller PE firms have shown to collaborate with entrepreneurs on MBIs, especially in acquiring privately owned family firms (Scholes *et al.*, 2008), and have participated in succession processes which needed external buyers (Dawson & Barrédy, 2018; Freiling & Pöschl, 2020; Molly *et al.*, 2018; Scholes *et al.*, 2010). They are also active in secondary MBIs (Wright *et al.*, 2000). In the United States, 34% of search funders come from PE or investment banking (Kolarova *et al.*, 2022), and around 80% of SF exits involve sales to traditional PE firms (Morrissette & Hines, 2015), highlighting strong interconnections between the ETA and PE ecosystems. The similarity in target firm sizes pursued by both groups further reinforces these links. Specifically, Ruback and Yudkoff (2017) advise ETA entrepreneurs to look for target firms with up to USD two million in annual pre-tax profits but warn that at this level smaller PE businesses also 'become interested' (p. 84) in acquiring these targets. Thus, we expected to find some level of shared interest in acquiring privately owned SMEs between ETA entrepreneurs and small- and micro-cap PE businesses. As such, we asked if, why, and how small- and micro-cap PE investors targeted the same type of SMEs that seemed appealing to ETA entrepreneurs.

Research on external family firm succession showed that PE firms often invest alongside buy-in managers when acquiring privately owned family businesses (Scholes *et al.*, 2008). Similar co-investment models exist in fields like business angel investing (Avdeitchikova & Landström, 2016; Bonini *et al.*, 2018). From a resource-based perspective, combining complementary skills and knowledge through syndication can enhance investment screening and due diligence, creating greater value than individual efforts alone (Alvarez & Busenitz, 2001; Adegbesan, 2009; Mason *et al.*, 2016). In particular, ETA entrepreneurs may be valuable partners when targeting owner-centric SMEs (Freiling & Pöschl, 2020), especially where sellers prefer them or they initiate the deal flow (Ruback & Yudkoff, 2017). Given the complexity and ownership preferences in such firms (Howorth *et al.*, 2016), PE firms may not always be able or willing to acquire majority stakes outright (Battistin *et al.*, 2017). In those cases, ETA entrepreneurs bring operational expertise and networks (Vanoorbeek, 2022), while PE firms contribute deal-making capabilities (Ahlers *et al.*, 2016), rendering co-investment mutually beneficial. Since ETA entrepreneurs often lack the capital for full acquisitions, collaboration with small- and micro-cap PE firms closes this gap. Therefore, we asked whether, why, and how small- and micro-cap PE investors tended to invest alongside ETA entrepreneurs in acquiring SMEs. Entrepreneurship theory's emphasis on innovation and risk-taking individuals (Shane, 2003; Freiling, 2008) aligns with growth-oriented ETA entrepreneurs (Baumol, 1993; Covin & Miles, 1999; Hunt & Fund, 2012). Private equity firms often prioritise entrepreneurially experienced candidates for top MBI roles (Robbie & Wright, 1996), underscoring the importance of human capital. Such attributes are crucial for opportunity exploitation in areas like sales, negotiation, and problem-solving (Bruns *et al.*, 2008; Marvel *et al.*, 2016; Shane, 2003). Installing new

managers is a common PE strategy in buy-ins (Meuleman *et al.*, 2009), and search funders – often from PE, investment banking, or consulting backgrounds (Kelly, 2024; Kolarova *et al.*, 2022) – as well as experienced buy-in entrepreneurs (Freiling & Pöschl, 2020; Hoffmann *et al.*, 2023) are strong candidates for such roles. Given ETA entrepreneurs' human capital and entrepreneurial motivation (Hunt & Fund, 2012), we expected small- and micro-cap PE investors to show an inclination towards putting ETA entrepreneurs in charge of the small businesses they acquired together. Consequently, we asked if, why, and how small- and micro-cap PE investors demonstrated this inclination – not just as resource contributors, but also as co-opetitive partners in shared value creation.

RESEARCH METHODOLOGY

Given the under-researched field of small- and micro-cap PE and ETA investments, an in-depth and exploratory examination seemed warranted. In line with our research design, we deliberately approached hypothesis development as an outcome of the empirical process rather than a predetermined input (Gioia *et al.*, 2013; Maxwell, 2005). This decision reflects the limited availability of prior empirical studies on the intersection of small- and micro-cap PE firms and ETA. While foundational constructs based on RBV and human capital theory are well established, the specific relationships, investment preferences, and co-investment dynamics between ETA entrepreneurs and small- and micro-cap PE firms remain largely unexplored (Ruback & Yudkoff, 2017; Vanoorbeek, 2022). Accordingly, we adopted a theory-informed but data-driven approach (Miles *et al.*, 2014; Gioia *et al.*, 2013), using the literature to establish a conceptual frame, such as for the RBV, while developing our research propositions inductively based on informant narratives and expert validation. This approach aligns with accepted practices in inductive and qualitative entrepreneurship research, where scholars ground theory building in empirical insight – particularly when generalisable empirical findings are still scarce (Eisenhardt & Graebner, 2007; Levasseur *et al.*, 2022). As such, the propositions presented in this study should not appear as formal hypotheses for immediate testing, but rather as analytically grounded avenues for future empirical investigation. To support our exploratory aim, we used a convergent mixed-methods design, collecting qualitative and quantitative data in parallel, analysing them separately, and integrating them during interpretation for triangulation (Creswell, 2009; 2015). This approach, well suited to the heterogeneity of entrepreneurship and PE research (Levasseur *et al.*, 2022), enabled a deeper understanding of how PE firms interact with ETA entrepreneurs. We began with two expert interviews to contextualise the topic and shape our semi-structured interview guide (Flick, 2014), followed by 12 interviews with small- and micro-cap PE professionals in the DACH region. A short questionnaire captured descriptive data on investment preferences and ETA familiarity, helping to identify broader sector patterns and reinforcing qualitative insights. This integration provided a strong foundation for generating novel, grounded findings on the ETA-PE overlap.

Sampling and Data Collection

For our qualitative sampling, we purposively chose small- and micro-cap PE managers to focus on theoretical rather than representative arguments (Eisenhardt, 2021; Miles *et al.*, 2014). We identified 70 German, Austrian, and Swiss PE firms through an online search and contacted their owners or managing directors via LinkedIn. Initially, nine responded positively, and three more agreed after a reminder, totalling 12 informant interviews. This aligns with Guest *et al.*'s (2006) perspective that a sample size of at least twelve participants in homogenous groups is sufficient for data saturation, where new information minimally alters the codebook. The attributes of the interview participants and their firms appear in Table 1.

The informant group comprised 12 participants: one female and 11 males, aged 41-60 (M = 51.3), all in managerial roles – mainly partners or managing directors, and with an average professional tenure of 24.5 years (range: 12-42). Their firms specialised in micro- to small-cap PE investments via MBIs, MBOs, or carve-outs. We conducted semi-structured interviews in November-December 2023 via phone or video, guided by a protocol informed by literature (Miles *et al.*, 2014; Galletta, 2013). It included open-ended questions on target firms, competition, and collaboration with ETA entrepreneurs. Due to confidentiality concerns, most participants declined recording. To ensure data quality, two researchers took

detailed notes independently, reconciled them post-interview, and supplemented them with reflexive summaries and follow-up clarifications. Prior studies confirm that such procedures yield data comparable to recordings (Rutakumwa *et al.*, 2020; Flick, 2014). We also triangulated our data with company websites, press releases, and deal reports. In parallel, we interviewed eight business succession experts from German chambers of commerce (IHK), selected from a pool of 50 contacts. These interviews (30-45 minutes, phone/video) followed a semi-structured format (Meuser & Nagel, 2002), combining questions informed by literature (Bell *et al.*, 2022; Klenke, 2016) with flexibility for emergent themes. The focus was on perceptions of ETA and PE, competition, collaboration, and seller preferences. The expert interviews included a short quantitative module aligned with the informant survey.

Table 1. Characteristics of small- and micro-cap PE investors and their firms

Participant	Sex	Age	Job title	Work experience	Investment focus
AT PE1	Male	49	Partner/Managing Director	20 years	small- and mid-cap, succession, MBI, MBO
AT PE2	Male	60	Partner/Managing Director	35 years	medium-sized companies, succession, MBI, MBO
AT PE3	Male	47	Partner/Managing Director	20 years	growth and buy capital in medium-sized companies, succession
AT PE4	Male	48	Partner/Managing Director	20 years	medium-sized companies, succession, MBI, MBO
DE PE1	Male	56	Partner/Managing Director	30 years	medium-sized companies, succession, MBI, MBO, owner buyout, buy and build
DE PE2	Male	50	Partner/Managing Director	20 years	small-cap, medium-sized companies, succession, MBI, MBO, micro-buy
DE PE3	Male	44	Partner/Managing Director	15 years	small- and mid-cap, buyouts, MBI, buy and build
DE PE4	Male	53	Partner/Managing Director	25 years	small-cap, medium-sized companies, succession, MBI, MBO, micro-buy
DE PE5	Male	49	Partner/Managing Director	20 years	micro- and small-cap
DE PE6	Male	47	Partner/Managing Director	29 years	small- and mid-cap, buyouts, MBI, buy and build
CH PE1	Female	41	Head of Investor Relations	12 years	medium-sized companies, succession, buyouts
CH PE2	Male	60	Partner/Managing Director	42 years	medium-sized companies, succession

Source: own study.

Data Analysis

We followed the three-step process by Miles *et al.* (2014): data reduction, display, and conclusion drawing. Coding combined deductive categories from our conceptual framework and inductive insights from the data. We used a structured coding approach, linking interview responses to thematic codes based on our research propositions. Each code reflected specific interview questions; for instance, the code ETA touchpoints captured participants’ professional interactions with ETA entrepreneurs (RP1), while Collaboration criteria addressed criteria for or against collaboration (RP2). The study reached saturation after 12 interviews (Guest *et al.*, 2006). We then clustered codes into higher-level categories (Creswell, 2017) and interpreted them using relevant literature (Gioia *et al.*, 2013). Key themes, such as sector-specific experience or co-investment dynamics, underwent further exploration through magnitude coding (Miles *et al.*, 2014) to indicate the strength and consistency of views across country contexts. We present the results as follows: Table 2 shows the magnitude-coded cross-case summary of informant perspectives on competition, overlap, collaboration, and leadership. Table 3 displays selected illustrative quotes by theme. Tables 4 and 5 show supporting quotes and expert perspectives. Finally, we triangulated findings with secondary data (Flick, 2014), and iteratively refined interpretations in line with theory-informed qualitative inquiry (Maxwell, 2005).

Table 2. Main findings including magnitude codes

PE Code	ETA seen as competition ¹	Target overlap ²	Willingness to co-invest ³	Putting entrepreneurs in charge ⁴
AT PE1	+	+++	++	++
AT PE2	+	+	++	++
AT PE3	++	+++	+++	+++
AT PE4	+	+++	+++	+++
CH PE1	+	+	++	++
CH PE2	+	+++	+++	+++
DE PE1	+	++	++	++
DE PE2	+	+	++	++
DE PE3	+	+	+++	+++
DE PE4	++	++	+	+
DE PE5	+	++	++	++
DE PE6	+	++	++	+++

Note: ¹ perception of competition; ² overlap in targets; ³ willingness to co-invest; ⁴ willingness to give leadership. Scale: + – low, +++ – high.

Source: own study.

Table 3. Selected illustrative quotes organised by analytical theme

Theme	Representative quote
Perception of ETA	'In my opinion, ETA has potential compared to other investment opportunities.' (AT PE1)
Perception of ETA	'I see the fact that the entrepreneurs may be interested in the same target companies as an opportunity for new collaborations.' (CH PE2)
Competition	'It also happens that these people take over 100 % of the company and then they do not need us at all. In other words, there is competition and sometimes they win.' (AT PE3)
Competition	'There are definitely overlaps, especially for smaller companies, but we would rather buy them as part of a buy-and-build strategy.' (DE PE5)
Co-investing	'We are happy to cooperate with people who come from precisely this sector of the company and have enough professional and management experience.' (CH PE2)
Co-investing	'We use Nexxt-Change to build up a pool of interested seekers who could act as CEO in the future with co-investment from this PE.' (DE PE3)
Leadership role	'If the entrepreneur has the necessary skills and experience and a clear and convincing vision for the company, I would certainly be inclined to put them in charge of the firm.' (AT PE1)
Leadership role	'Work and management experience is crucial. So yes, we are willing to put them in charge, given the right profile and starting position.' (CH PE1)
Leadership role	'We try to get good people if we have to install external management at a company ourselves.' (CH PE2)

Source: own study.

RESULTS AND DISCUSSION

Most respondents favoured majority ownership in investment deals (Mean = 4.08), with lower preference given to equal (1.83) and minority ownership (1.58). The idea that ETA entrepreneurs and small- and micro-cap PE firms target the same companies received a neutral response (3.08). The investors showed some openness to building pools of future managers (2.58) and were moderately neutral on placing ETA entrepreneurs in leadership roles (3.33). While most were unfamiliar with SFs (1.42), they demonstrated strong knowledge of MBIs (4.42), highlighting the relevance of buy-in structures in this investor segment.

Competition

The majority of interviewees acknowledged an overlap between ETA entrepreneurs and small- and micro-cap PE in targeting smaller firms – especially in the context of add-on acquisitions for buy-and-build strategies. While medium-sized firm deals rarely involve individual entrepreneurs due to capital

constraints, competition is more evident in small-cap transactions. Some investors, such as CH PE1 and DE PE6, reported direct encounters with ETA entrepreneurs in these smaller deals. Others, like DE PE2, emphasised that competition varies depending on entrepreneurs' financial capacity. Several informants, for example DE PE1 and AT PE1, viewed ETA entrepreneurs not as rivals, but as potential co-investors, seeing collaborative potential in certain transactions. However, DE PE2 cautioned that well-funded ETA entrepreneurs may sometimes outcompete PE firms entirely in acquiring a firm: 'It also happens that these people take over 100 per cent of the company and then they do not need us at all. In other words, there is competition and sometimes they win'.

The informants also painted a clear picture of common characteristics of typical ETA entrepreneurs. The latter are wealthy individuals with significant capital to invest, often generated through inheritance or long-term savings. They appear as experienced persons with extensive professional and management experience, looking to change careers or diversify, rather than as graduates who have just completed their studies and are new to the world of work.

In my opinion, this is a certain type of manager, or entrepreneur. Wealthy, mainly through high positions in large companies. Quite experienced, of course. ... They want to experience something other than just their previous company and previous employment, even as a CEO or similar. And if the companies are affordable, namely their purchase prices reach EUR two-three million or so, then of course these are people who can afford it, perhaps with some external capital. (DE PE6).

Collaboration

Eleven out of 12 informants expressed a preference for investing alongside ETA entrepreneurs in SME transactions. The sole exception was DE PE4, who focuses on acquiring companies as add-ons and typically utilises the existing management teams within those firms. For DE PE4, co-investment is irrelevant as they are self-financed. Among the 11 willing investors, all except AT PE3 prefer to be majority owners, with AT PE3 being open to minority ownership: 'We always want to have the majority of shares, if only for governance reasons' (DE PE6).

Several interviewees emphasised the advantages of partnering with ETA entrepreneurs, citing their professional experience, innovative ideas, and strong motivation as valuable for improving business management and accelerating growth. For example, DE PE3 actively searches for successors using platforms like Nexxt-Change.org to build a pool of qualified executives and entrepreneurs. In turn, DE PE5 described a case where they appointed an external CEO and CFO after a founder failed to find a successor, illustrating how ETA profiles can fill critical succession gaps. However, interviewees also noted potential challenges. For instance, AT PE1 and DE PE1 warned of strategic misalignment and decision-making conflicts when interests diverge. Other concerns raised included personal motives such as boredom, financial constraints, or insufficient commitment, potentially undermining collaboration. In turn, AT PE4 stressed the need for focus: 'We do not want MBI managers to do a lot of other things on the side. We want them to focus and be fully committed'. Similarly, AT PE3 highlighted agency conflicts when co-investing with external entrepreneurs. Overall, successful collaboration depends on ETA entrepreneurs bringing industry expertise, added value such as networks or specialised skills, and a clear long-term commitment, while investors remain cautious of integrity issues and conflicting goals.

They must bring strategic added value, such as network or supplier relationships. These people can also participate in the management, or at least in the supervisory board or advisory board. ... We look for emotional stability. I do not recognise a pattern; we have often been wrong. Only ex-post assessment is possible. If they are there, you have no chance of replacing them. Then it gets complicated; you have to look for new alliances, for instance on the advisory board or at the shareholders' meeting. (AT PE3)

Such potential agency dynamics and challenges are reasons why some investors (DE PE6, CH PE2, DE PE2) prefer to get to know these entrepreneurs thoroughly and vet them beforehand.

On the one hand, we try to get good people if we have to install external management at a company ourselves. That is why we try to identify people in our network who can imagine

managing a company and to have them on hand in case there is a vacancy. As we try to incentivise the management like any PE company, we naturally have to give them shares in the company. So they inevitably become co-entrepreneurs. ... But we do not just start looking for external managers when we buy a company; we start looking for them beforehand so that we have them in our network. We also check and vet them, obtain references, and so on. That takes time. (DE PE6)

The Human Capital of ETA Entrepreneurs

Apart from DE PE4, who showed little interest in collaborating with external entrepreneurs, all interviewees expressed a willingness to entrust co-investing ETA entrepreneurs with top-level leadership positions post-acquisition. However, this willingness depends on specific conditions, notably the entrepreneurs' capabilities and experience. Additionally, crucial roles belong to factors such as the entrepreneur's personality, goals, business model, and company type, and to whether the PE investor retains majority ownership. Interestingly, AT PE3 explicitly stated their firm's preference not to take charge, making the appointment of an external entrepreneur to lead the company a suitable choice.

Table 4. Indicative quotes relating to themes

Theme	Indicative quote
Collaboration	'Collaboration can lead to better business management and faster progress if the entrepreneur brings top-level experience and motivation.' (AT PE1)
Collaboration	'A fresh approach and specific experience can make a real difference.' (AT PE4)
Collaboration	'Some entrepreneurs lack long-term commitment, which poses risks for us.' (AT PE3)
Collaboration	'Joint investment offers governance benefits but may cause strategic conflicts.' (DE PE1)
Collaboration	'When scaling up, we sometimes need new external CEOs or CFOs.' (CH PE1)
Collaboration	'Joint investment depends on shared goals, capabilities, and mutual trust.' (AT PE1)
Competition	'Add-on deals are where we see some overlap with private individuals, especially when the tickets are small.' (CH PE1)
Competition	'There are definitely overlaps, especially in smaller companies, but our buy-and-build approach sets us apart.' (DE PE2)
Competition	'Private individuals compete in add-ons under EUR 10 million. Above that, they usually cannot afford it.' (DE PE4)
Competition	'In small companies, we do see individual entrepreneurs acquiring them sometimes.' (DE PE6)
Competition	'Indeed, ETA entrepreneurs might be after the same firms, but it depends on their financing.' (DE PE2)
Competition	'I view the potential overlap with ETA entrepreneurs as a chance for collaboration.' (DE PE1)
Competition	'I do not see ETA entrepreneurs as a threat; they might even lead to synergies.' (AT PE1)
Human capital	'If the entrepreneur has the necessary skills and experience and a clear and convincing vision for the company, I would certainly be inclined to put them in charge of the firm.' (AT PE1)
Human capital	'For highly professionally experienced leaders, you need companies for which there is value in being able to manage structures and processes. These are not start-up companies.' (AT PE2)
Human capital	'It is often difficult to find a suitable successor for people-centred companies. This is often easier for product-centred companies.' (DE PE5)
Human capital	'It is an advantage if these people are familiar with the industry or have at least worked for a wholesaler and understand the business (purchasing, projects, sales).' (DE PE3)

Source: own study.

Outcome from Expert Interviews

Experts consistently indicated that small- and micro-cap PEs prefer majority ownership of target companies (average: 4.71) over equal (1.5) or minority (1.64) ownership. The assumption that ETA entrepreneurs and small- and micro-cap private investors target the same companies received a neutral rating (3.17). According to the experts, small- and micro-cap PEs show high willingness to seek ETA entrepreneurs for collaboration on deals (4.57). The respondents had limited awareness of SFs (1) but moderate to high knowledge of MBIs (3.83).

Table 5. Main findings including magnitude codes from the expert interviews

Feature/Experts	EXP1	EXP2	EXP3	EXP4
ETA and PE overlap in targeting firms ¹	++	++	+	+
Perception of ETA and PE	Rarely meets ETA entrepreneurs; competition in small to medium-sized company deals; no competition in larger company deals.	Regularly meets ETA entrepreneurs; competition in small to medium-sized company deals; no competition in larger company deals.	Only meets private investors (small company deals).	Regularly meets different investors, including ETA entrepreneurs. Competition between ETA and PE depends on the sector. The situation of PEs is easier.
Sellers' preferences according to expert	Depends on company attractiveness and the level of buyer competition. Usually prefers local parties.	Depends on the seller and buyer (motivation).	Depends on their abilities, location, affordability, and sale price.	Depends on their abilities (medium-sized to large company deals) or sale price (small company deals).
Sellers' preferences according to expert	Depends on company attractiveness and the level of buyer competition. Usually prefers local parties.	Depends on the seller and buyer (motivation).	Depends on their abilities, location, affordability, and sale price.	Depends on their abilities (medium-sized to large company deals) or sale price (small company deals).

Note: ¹ perception of competition. Scale: + – low, +++ – high.

Source: own study.

The expert interviews largely confirmed the insights from the informants. Except for EXP1 and EXP7, most experts reported regular interaction with ETA entrepreneurs, and about a half noted limited competition between PE and ETA, mostly in smaller deals. Specifically, EXP1, EXP2, and others stressed that private individuals often lack the financial capacity to compete for larger firms. Still, EXP4, EXP5, and EXP6 highlighted PE’s advantage in financing and pointed out that competition varies by industry and region. Three experts (EXP5, EXP6, EXP8) observed cases of ETA entrepreneur collaboration with other investors, suggesting diverse market dynamics. According to the experts, buyer characteristics influence seller preferences more than the investor type does. For instance, EXP7 and EXP8 noted that sellers often favour private individuals due to perceived continuity and employee preservation, sometimes even accepting lower prices as a result.

The MBI candidate should do the same as the transferor did in the past. For PE firms it is more difficult. There is a lot of persuasion work to do here because the PE image in Germany is quite poor. With strategic buyers, the sellers are more willing, but competitive thinking is present because it is difficult to hand over companies to competitors. (EXP7)

I feel that sellers favour private individuals because afterwards they worry less about keeping the company alive and preserving jobs. That is different from financial investors or strategic buyers. Then, they are also prepared to accept purchase price reductions. ... Sellers have different motivations. The one who needs the money for retirement goes purely by purchase price and is more likely to go to financial investors or strategic buyers. (EXP8)

Discussion

Targeting Similar SMEs

Evidence from informant interviews and expert validations revealed a shared interest among ETA entrepreneurs and small- to micro-cap PE investors in acquiring smaller – though not medium-sized

– firms. This overlap is particularly evident in competition for add-on acquisitions within buy-and-build strategies, which involve scaling a platform company through successive small firm acquisitions (Hammer *et al.*, 2022). Such firms are typically owner-centric (Freiling & Pöschl, 2020; Kammerlander, 2016), aligning with the entrepreneurial opportunities sought by ETA entrepreneurs. Due to limited data on private small add-ons (Cohn *et al.*, 2022), empirical research on these strategies remains scarce (Castellaneta *et al.*, 2019). Still, smaller fund sizes among PE firms targeting private companies (Cohn *et al.*, 2022; Hotchkiss *et al.*, 2021) suggest a segmented PE landscape that aspiring ETA entrepreneurs must navigate. These dynamics can guide both ETA and PE strategies when pursuing similar targets. Finally, as buy-and-build strategies thrive in fragmented industries (Hammer *et al.*, 2022), entrepreneurs operating in such markets may face intensified competition from small-cap PE investors. This competition underscores a central tenet of the RBV: entrepreneurial actors, including ETA entrepreneurs and PE investors, pursue the acquisition of firms whose underlying resources – organisational structure, customer relationships, and niche expertise – are both valuable and hard to replicate (Barney, 2001; Alvarez & Busenitz, 2001). In fragmented industries and owner-centric firms, these resources often remain deeply embedded in the target company's informal routines or human capital, making them especially attractive to entrepreneurial acquirers (Brush *et al.*, 2002; Foss *et al.*, 2008). Thus, both ETA entrepreneurs and PE investors may compete not just for ownership, but also for privileged access to idiosyncratic resource bundles. This insight extends RBV thinking to competitive dynamics in ETA. We received feedback for this reasoning through our expert interviews. As a result of this discussion, we propose the following for further empirical validation:

Proposition 1: Small- and micro-cap PE investors target the same type of small firms that also appeal to ETA entrepreneurs, with heightened competition observed during smaller add-on transactions associated with buy-and-build strategies.

The Inclination of PE Firms Towards Co-investments

Eleven out of 12 informants expressed their openness to co-invest and collaborate with ETA entrepreneurs, with a notable trend towards preferring majority ownership in the acquired firms. Our expert interviews corroborated this observation. This tendency also aligns with the exploratory research by Scholes *et al.* (2008), suggesting that PE companies have actively teamed up with individual entrepreneurs in MBIs, reinforcing the inclination for collaborative ventures. The acknowledged benefits of co-investment and collaboration, such as the expertise and innovative perspectives brought by ETA entrepreneurs, align with the literature on PE engagement in ETA, such as the exploration of hybrid buy-in/buyout transactions by Meuleman *et al.* (2009). They also confirm our resource-based reasoning that small- and micro-cap PE investors perceive the sharing of resources with ETA entrepreneurs as worthwhile when acquiring small firms (Alvarez & Busenitz, 2001; Bruns *et al.*, 2008; Marvel *et al.*, 2016; Unger *et al.*, 2011). Consequently, our study shows that whereas large-cap PE businesses typically co-invest with institutional investors (Flor *et al.*, 2023; Meuleman *et al.*, 2009), small- and micro-cap PE firms appear to be open towards co-investing with private entrepreneurs. These co-investments reflect what the RBV describes as resource complementarity (Adegbesan, 2009): PE firms bring financial and transactional expertise, while ETA entrepreneurs contribute entrepreneurial human capital – such as operational know-how, market insight, and local networks (Marvel *et al.*, 2016). Seen through the lens of entrepreneurship theory, this co-investment logic echoes Alvarez and Busenitz's (2001) view of entrepreneurs as opportunity enablers who leverage asymmetric information and embedded knowledge. The collaborations we observed show that small- and micro-cap PE firms do not merely tolerate entrepreneurial partners – they actively seek entrepreneurial resource configurations that improve due diligence, target firm fit, and post-acquisition value creation.

Furthermore, PE's strong preference for majority ownership in small target firms is not surprising, as PE acquisitions of privately held firms typically involve the purchasing of majority stakes (Kaplan & Strömberg, 2009). Also, the logic of buy-and-build strategies basically requires full control of the target firms' strategic direction (Castellaneta *et al.*, 2019; Cohn *et al.*, 2022). From an agency standpoint (Jensen & Meckling, 1976), this discovery presents an intriguing aspect, since it hints at a principal-agent

dynamic potentially existing between the PE firm as a majority owner and the ETA entrepreneur as a minority-owning manager. As such, our findings also relate to recent empirical evidence on agency problems in ETA settings (Ener & Dávila, 2023). Thus, we propose the following:

Proposition 2: Small- and micro-cap private investors exhibit a preference for collaborating with ETA entrepreneurs when acquiring a firm, with a distinct inclination towards securing majority ownership in the joint venture.

Putting ETA Entrepreneurs in Charge of the Acquired Firms

The majority of respondents demonstrated readiness to confer leadership responsibilities onto ETA entrepreneurs following the joint acquisition. However, this inclination seems significantly dependent on several conditions. The informants underscored the crucial requirement of ETA entrepreneurs engaging in co-investing to possess pertinent professional expertise, particularly in leadership roles and within the specific industries where target firms operate. These findings align with those of Gompers *et al.* (2023), reinforcing the notion that PE firms prioritise industry-specific expertise when engaging external executives for leadership roles within their acquired companies. Our findings transfer this discovery to the realm of smaller-scale ETA transactions. Yet, the findings indicated that PE investors heavily favour ETA entrepreneurs' task-related and specific human capital (Unger *et al.*, 2011). Relatedly, our evidence raises the question whether German, Austrian, or Swiss small- and micro-cap PE firms would co-invest as part of a second-stage SF transaction. According to Kolarova *et al.* (2022), a large part of SF entrepreneurs in the United States possess only a few years' worth of professional experience. Given our findings, we assume that such limited professional experience and presumably only limited industry-specific expertise would be problematic for German, Austrian and Swiss PE investors. From a resource-based angle, this suggests that specific human capital, as opposed to general leadership potential, is strategically more relevant in ETA-PE collaboration. This finding expands the entrepreneurship literature that links prior experience and domain knowledge with successful opportunity recognition and exploitation (Shane, 2003; Unger *et al.*, 2011). For small- and micro-cap deals in particular, PE firms appear to interpret entrepreneurs' human capital through an RBV lens: they consider leadership delegation as viable only when the entrepreneur's experience aligns with the firm's value-generating processes.

On a more general level, the evidence substantiates the existing literature on PE's established practice of introducing new managers to acquired firms (Meuleman *et al.*, 2009). Taken together, our findings highlighted the strategic criteria PE investors employ in their selection of ETA entrepreneurs as investment partners and collaborators. Consequently, we propose the following for further investigation:

Proposition 3: Small- and micro-cap private investors tend to entrust ETA entrepreneurs with leadership roles in the businesses they acquire together, expecting the entrepreneurs to possess relevant professional and industry experience.

Our findings confirmed that the RBV is a valuable lens for understanding both competitive and collaborative dynamics between ETA entrepreneurs and small- and micro-cap PE investors. Whether competing for strategic resources in the form of attractive target firms or sharing them through co-investment, both actors engage in building unique resource configurations to sustain post-acquisition advantage. At the same time, insights from entrepreneurship theory, particularly those emphasising human capital and opportunity exploitation, help explain why ETA entrepreneurs are appealing to PE firms in the first place (Alvarez & Busenitz, 2001; Shane, 2008; Gompers *et al.*, 2023; Bruns *et al.*, 2008; Marvel *et al.*, 2016; Unger *et al.*, 2011). To synthesise the patterns emerging from our data and to extend the existing theory, we developed a theoretical model grounded in our findings. It outlines key constructs and their relationships to explain the interaction and overlap between ETA entrepreneurs and small- and micro-cap PE firms. The model begins with target firm characteristics – especially small size and industry fragmentation – which create entrepreneurial opportunities attractive to both groups (Freiling & Pöschl, 2020; Castellaneta *et al.*, 2019; Cohn *et al.*, 2022). Fragmented industries prove especially well-suited for buy-and-build strategies involving sequential acquisitions of smaller add-on firms (Hammer *et al.*, 2022), shaping acquisition strategies and often leading to competition for similar targets.

The model also reflects collaborative dynamics, including co-investment ventures where ETA entrepreneurs and PE firms combine resources and expertise (Meuleman *et al.*, 2009). It incorporates PE investors' typical preference for majority ownership, which serves to ensure strategic control and reduce agency problems, especially in joint acquisitions (Jensen & Meckling, 1976; Kaplan & Strömberg, 2009; Ener & Dávila, 2023). Finally, the model emphasises the human capital of ETA entrepreneurs as critical to building trust and adding value, aligning with the RBV. It visually represents these interrelationships, particularly in terms of competitive overlap, co-investment preferences, and human capital considerations (see Figure 1).

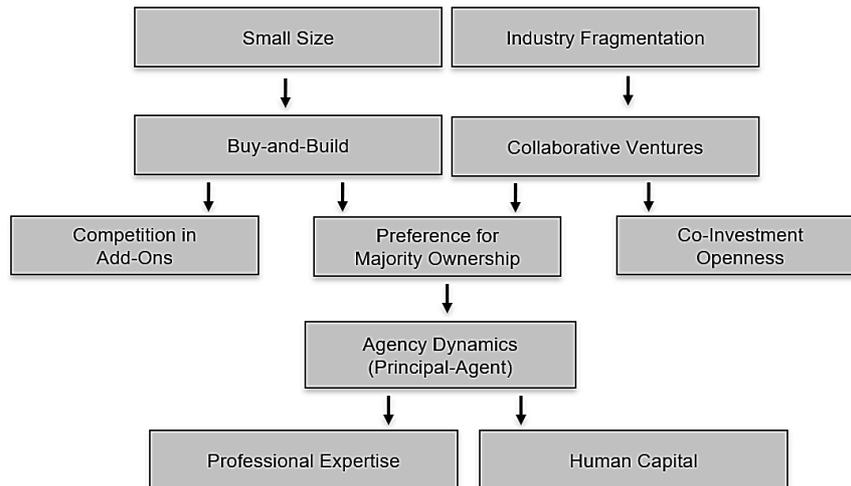


Figure 1. Theoretical model based on the findings

Source: own elaboration.

CONCLUSIONS

We set out to answer the research question of how small- and micro-cap PE funds and ETA entrepreneurs overlap in their effort to acquire small businesses. Our findings illuminated the intricate relationship between ETA entrepreneurs, small- and micro-cap PEs, and the types of firms targeted in the acquisition process. By setting sail to this under-researched topic and utilising elements of the RBV as a heuristic device, we discovered evidence that might be useful for practitioners and researchers.

Theoretical Contributions

Following the recommendations to distinguish between PE segments (Puche *et al.*, 2015; Schickinger *et al.*, 2018), our research focused on small- and micro-cap PE's relationship and overlap with ETA entrepreneurs. Previous studies often treated PE as a general term, neglecting the various types of PE firms. By providing evidence of the overlap in target firm size between ETA entrepreneurs and small- and micro-cap PE investors, we offer a nuanced understanding of the PE landscape.

Next, our study sheds light on a question that has so far split the ETA research community: what relationship and overlap exists between PE and aspiring ETA entrepreneurs? While some authors argued that PE and individual entrepreneurs compete for target firms (di Laurea, 2018; Hoffmann *et al.*, 2023; Morrissette & Hines, 2015), others stressed situations where the two parties work together (Dennis & Laseca, 2016). Our findings revealed circumstances, PE investment strategies, and transaction details that put ETA entrepreneurs in competition with small- and micro-cap PE firms, such as in the case of smaller firms that might act as add-ons in PE's buy-and-build strategies. Yet, our findings also pointed towards the collaboration potential between these two parties.

Moreover, our research contributes to the understanding of small- and micro-cap PE firms' inclination towards co-investments and collaboration with ETA entrepreneurs. The evidence indicated a trend towards preferring majority ownership in the acquired firms, specifying the findings by Kaplan and Strömberg (2009) for small- and micro-cap PE firms. This insight is relevant for understanding the

dynamics of collaborative ventures, supporting recent evidence hinting at the potential principal-agent dynamics in ETA transactions (Ener & Dávila, 2023).

Finally, our findings provide valuable insights into the leadership dynamics of firms acquired by small- and micro-cap PE firms jointly with ETA entrepreneurs. While the majority of PE investors interviewed expressed readiness to confer leadership responsibilities onto ETA entrepreneurs, this inclination is contingent on specific conditions. The study identified the crucial requirement of ETA entrepreneurs possessing relevant professional expertise, particularly in leadership roles and within the specific industries where target firms operate.

Implications for Practice

Our findings underscore a key tension: as the deal size increases, individual ETA entrepreneurs often lack the financial capacity to compete with PE investors. Meanwhile, small- and micro-cap PE firms tend to focus on smaller entities, especially add-ons in buy-and-build strategies, which are more accessible to entrepreneurs. This creates a strategic opportunity: ETA entrepreneurs can avoid direct competition by targeting firms in less PE-saturated industries or niches, such as those with lower fragmentation or outside typical buy-and-build segments. Rather than competing head-to-head, collaborating with PE firms may offer a more viable path to ownership, especially if entrepreneurs bring relevant experience and sector-specific skills. Aspiring ETA entrepreneurs should therefore approach their careers strategically, building deep expertise that makes them attractive co-investors. This aligns with PE firms' preference for majority control but allows entrepreneurs to contribute value through leadership, networks, and operational insight. Given the cost and complexity of acquisitions – due diligence, legal structuring, and governance – partnering with PE firms provides practical advantages. However, entrepreneurs should be mindful of power imbalances and prepare for minority roles in these partnerships. On the seller side, we found that growth-oriented owners may favour PE buyers, viewing them as better positioned to scale the business. This creates a risk of adverse selection, leaving ETA entrepreneurs with less desirable targets. We therefore recommend they carefully assess the sellers' past deal history and expectations. For PE firms, avoiding bidding wars with well-prepared entrepreneurs may be preferable. Forming strategic partnerships with experienced entrepreneurs who can co-invest and assume leadership offers dual value. We recommend that PE firms build and maintain networks of entrepreneurial talent as a resource for future transactions.

Implications for Research

Our study unveils specific attributes of SMEs that make them attractive to small- and micro-cap PE firms, notably their suitability as add-on firms in buy-and-build strategies. While this insight can guide aspiring ETA entrepreneurs away from direct competition with PE, further research is imperative to delineate the specific types of firms appealing to both parties. Investigating the alignment of SMEs with PE investment strategies represents a promising avenue for future research. This exploration may better guide ETA entrepreneurs towards businesses less likely to attract PE competition.

Additionally, our findings highlight potential agency challenges when entrepreneurs and PE firms collaborate, especially when the entrepreneur assumes a managerial role in the acquired business. With PE typically holding majority ownership, misalignment of interests may lead to agency issues, underscoring the need for future research in ETA settings where such collaborations occur.

Moreover, the evidence indicates a strong preference among German, Austrian, and Swiss small- and micro-cap PE firms for partnering with industry-experienced entrepreneurs. Comparing this with evidence from the United States, where SF entrepreneurs exhibit limited professional experience (Kolarova *et al.*, 2022), suggests a potential regional difference in attitudes and investment behaviour. Future research should explore whether this discrepancy poses a general obstacle for PE investors in co-investing in SFs or whether it is specific to regional contexts, such as the United States and Western Europe. Furthermore, this finding suggests that PE and ETA collaborations might be more realistic in the form of MBIs compared to SFs.

Limitations

While our study offers valuable insights into the under-researched intersection of small- and micro-cap PE and ETA, we should also note several limitations. First, the geographical focus and the small sample size limit the generalisability of our findings. Regional differences in legal, financial, and cultural contexts may yield different dynamics elsewhere. Second, our targeted sampling of small- and micro-cap PE managers resulted in a relatively homogeneous dataset, which aligned with our theoretical focus but may limit the breadth of perspectives. Third, we could not record most interviews due to confidentiality concerns, relying instead on detailed notes. While we took steps to ensure accuracy, one cannot exclude some interpretive bias. Fourth, the quantitative component remained limited in scope and sample size, offering only descriptive insights. Fifth, the study primarily reflects PE managers' views, omitting direct input from ETA entrepreneurs, which future research should incorporate for a more balanced understanding. Sixth, we collected the data in late 2023, so they may not capture evolving market dynamics or regulatory shifts. Finally, the exploratory nature of our design precludes causal inference; the study aimed to build understanding, not to test hypotheses.

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Use of Artificial Intelligence

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Conflict of Interest

The authors declare that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.

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