

# High-Growth Firm Acquisition: Who is Buying the *Inc. 500*?

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## Introduction

- This paper is part of a larger project focusing attention on the developmental path followed by high-growth firms (HGFs)
  - HGFs have been argued to be outstanding job creators (Henrekson and Johansson 2010): these firms are important to study
  - **Big question:** what happens to these firms after achieving HGF status?
- HGF (here) = a member of the *Inc. 500* annual business ranking
  - *Inc. 500*: the 500 firms who have experienced the most rapid revenue expansion of all privately-held companies in the United States

## Introduction

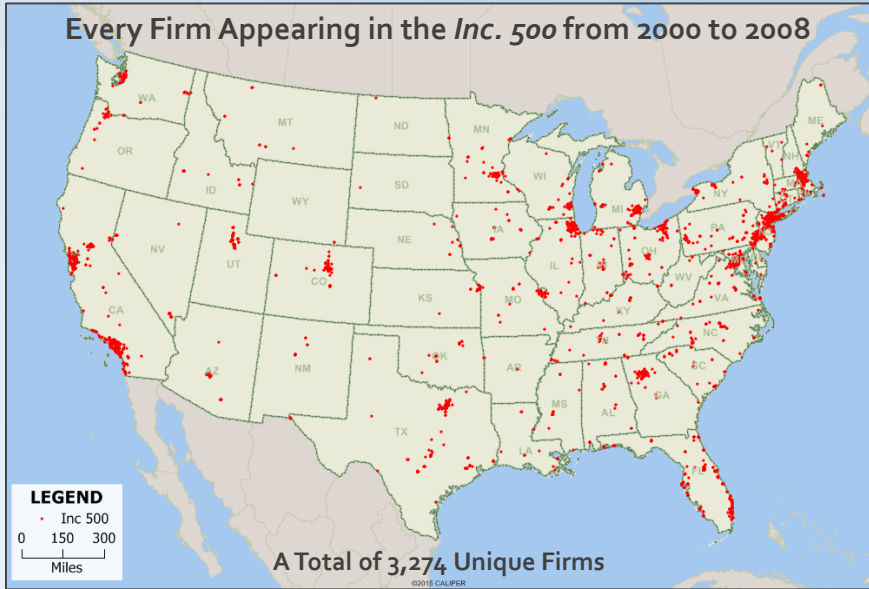
- My paper at last year's AAG meeting focused on definition of the overall developmental profile of these *Inc. 500* firms (2000-2008)

Firms by Status		Years Following <i>Inc 500</i> Appearance		
		2 Years	5 Years	10 Years
Privately-Held	Number of Firms*	2,865	2,340	1,305
	% of Total	87.6	75.2	54.3
Acquisition/Merger	Number of Firms*	117	350	601
	% of Total	3.6	11.2	25.0
Initial Public Offering	Number of Firms*	13	36	53
	% of Total	0.4	1.2	2.2
No Longer in Business	Number of Firms*	20	50	81
	% of Total	0.6	1.7	3.8
Unknown	Number of Firms*	254	331	352
	% of Total	7.8	10.6	14.7
Totals	Number of Firms*	3,271	3,112	2,402
	% of Total**	99.9	99.8	99.6

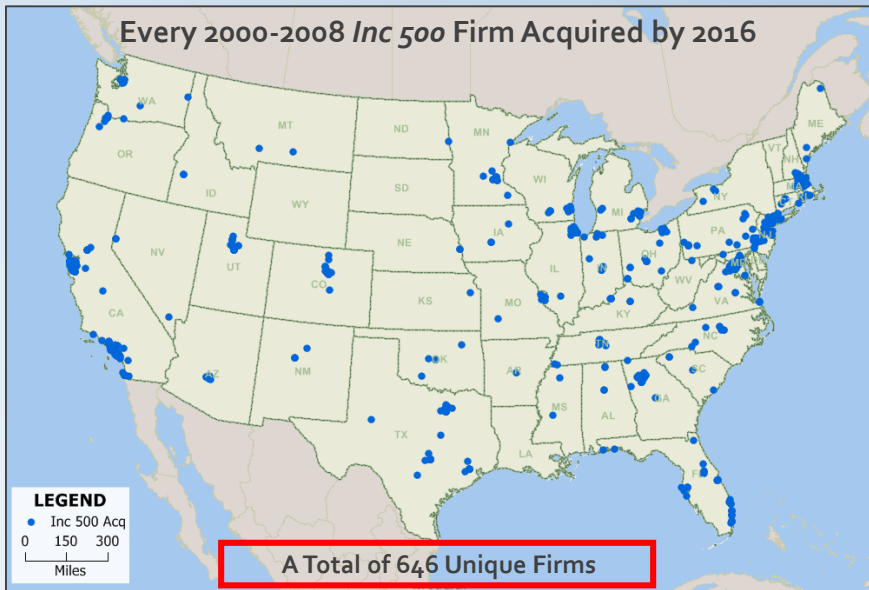
## Introduction

- **Specific issue of interest in this year's paper:**
  - The subset of 646 firms from the 2000-2008 *Inc. 500* rankings that were involved in merger & acquisition transactions by spring 2016
  - Since acquisitions account for an overwhelming 96.1% of this M&A class, for simplicity's sake we will simply refer to these transactions as "acquisitions"

### Every Firm Appearing in the *Inc. 500* from 2000 to 2008



### Every 2000-2008 *Inc 500* Firm Acquired by 2016



## Two Research Questions

- 1. How important is geography in shaping the *Inc. 500* business acquisition network?
- 2. How helpful is a core/periphery conceptualization in accounting for the geography of acquisition outcomes?

## Components of Analysis

- Three basic components of this geographic analysis
  - **1. Acquired Firms:** which metropolitan areas see the highest rates of acquisition of their locally-developed HGF populations?
  - **2. Acquiring Firms:** which metropolitan areas are most active in driving acquisition activity?
  - **3. Interurban Network of Acquisition Flows:** what is the overall configuration of the spatial network of *Inc. 500* firm acquisitions?
    - Analysis by metropolitan region (MSA)

## Research Context

- The conceptual foundation for this study is the entrepreneurial ecosystems (EE) literature (Isenberg 2014; Mack and Mayer 2016)
  - **EE:** an interconnected, local complex of
    - *Entrepreneurial Actors, Organizations, and Processes* (Mason and Brown 2015)
  - **One focus of EE research:** firm creation – some EEs are especially proficient at this (Isenberg and Brown 2014)
    - But which of these regions are good at scaling up these new businesses? (Brown and Mason, forthcoming)
    - Which of these regions have their HGF development disrupted (e.g., due to firm acquisition/relocation)?

## Research Findings

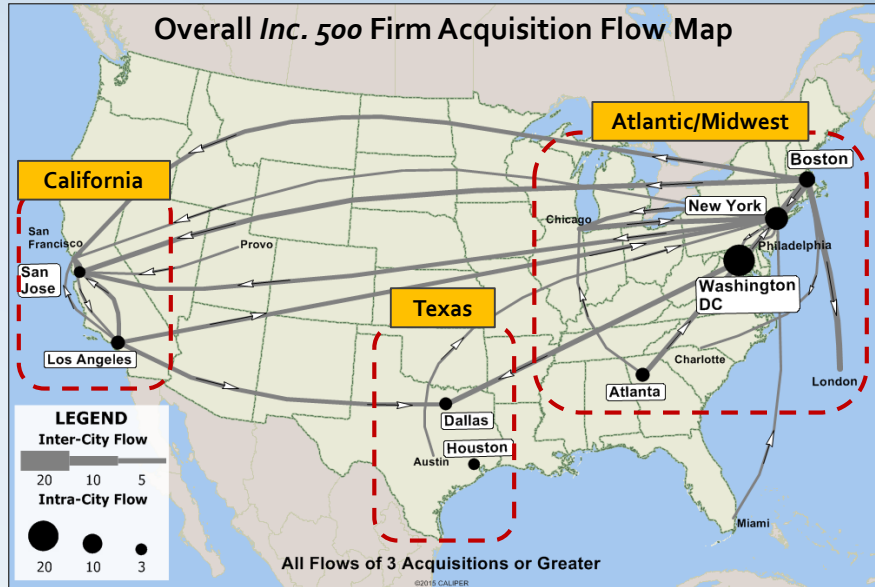
## 1. How Important is Geography in *Inc. 500* Acquisitions?

- Of all acquisition activity involving *Inc. 500* firms from the years 2000-2008,
  - **72.4%** of transactions involved an acquiring firm from a different MSA and state within the US
  - **13.0%** of transactions involved an acquiring firm from outside of the US
- Thus, a total of **85.4%** of *Inc. 500* acquisition activity involved a substantial geographic relocation of corporate control

## 2. Core-Periphery Structure in Acquisition Outcomes?

- Two parts to investigation of this question
  - 1. Examination of overall acquisition network structure
  - 2. Analysis of acquisition outcomes by MSA

This network effectively defines a three-part core structure for further consideration



## 2. Core-Periphery Structure in Acquisition Outcomes?

### Top Net Gain Regions

By Acquisition/ Acquired Ratio, Minimum 10 Acquisition Transactions

Included in 3-part core (all 10 MSAs)

MSA	Acquisition Total	Acquired Total	Acquisition/ Acquired Ratio
London, United Kingdom	19	0*	Infinity
Charlotte, NC	10	2	5.000
San Jose, CA	35	11	3.182
New York, NY	70	34	2.059
Milwaukee, WI	8	5	1.600
San Francisco, CA	36	25	1.440
Philadelphia, PA	18	13	1.385
Chicago, IL	24	21	1.143
Dallas, TX	25	22	1.136
St. Louis, MO	6	6	1.000

\* No firm included in the Inc. 500 list can be located outside of the United States

## 2. Core-Periphery Structure in Acquisition Outcomes?

### Top Net Loss Regions

By Acquisition/  
Acquired Ratio,  
Minimum 10  
Acquisition  
Transactions

Outside of 3-part  
core (6 of 10 MSAs)

MSA	Acquisition Total	Acquired Total	Acquisition/ Acquired Ratio
Provo, UT	1	9	0.111
Portland, OR	2	9	0.222
Miami, FL	6	17	0.353
Salt Lake City, UT	3	7	0.429
Denver, CO	7	14	0.500
Baltimore, MD	6	11	0.545
Boston, MA	29	53	0.547
Atlanta, GA	17	31	0.548
Tampa, FL	4	6	0.667
Nashville, TN	4	6	0.667

## 2. Core-Periphery Structure in Acquisition Outcomes?

- Beyond net gain/loss figures, what is the overall configuration of the *Inc. 500* acquisition network?
- Does this network configuration provide insight into the business fortunes of American metropolitan areas and their function as entrepreneurial ecosystems?



## 2. Core-Periphery Structure in Acquisition Outcomes?

- A Principal Components Analysis further illustrates the structure of the *Inc. 500* acquisition network
  - Varimax rotation on the acquisition network flow matrix resulted in **37 components** with eigenvalues greater than unity: highly complex
  - For comparison: Wheeler and Mitchelson's (1989) classic national FedEx package network analysis (also using Varimax rotation) resulted in **5 components** with eigenvalues greater than unity

### Explained Network Variance: Top 5 Components

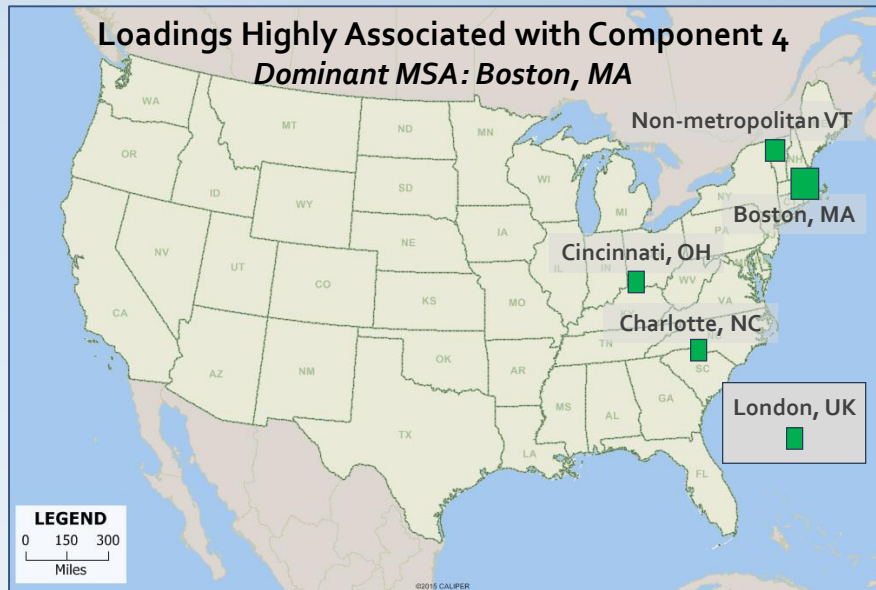
Component	1 Washington DC	2 Atlanta GA	3 No Dominant MSA	4 Boston MA	5 Los Angeles CA
Individual Variance	5.9%	5.8%	5.5%	5.0%	4.6%
Cumulative Variance	5.9%	11.7%	17.2%	22.2%	26.8%

**Relatively weak components: complex structure in the acquisition network**

Some components:  
reflect a national  
scope of  
organization



Other components:  
a more regional  
scope of  
organization



## Conclusion

- This exploratory analysis indicates that
  - Geography is a defining factor in the U.S. HGF acquisition network
  - Core-periphery structure is evident in the organization of this network
- Core MSAs appear to have an advantage in retaining their HGFs and acquiring more from other places: “net acquirers” of HGFs
- However, there remain some interesting issues

## Conclusion

- **Key Question:** is there a difference in the “net seller” environment observed in
  - **Core:** Boston, Atlanta, & Baltimore
  - **Periphery:** Provo, Portland, & Denver
- **Related:** in what ways is being a “net seller” a negative indicator for an EE (Provo)? Can it be positive (Boston)?
  - Links to further evidence (Nick Phelps/Ivan Turok) suggesting firm acquisitions have implications for long term metropolitan status
    - “**Second tier cities as satellite contributors to core regions**”

## Acknowledgments

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