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Firm rebirth: Buyouts as facilitators of strategic growth and entrepreneurship

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Abstract

Buyouts, especially leveraged buyouts, have been perceived historically as an organizational efficiency tool to streamline organizational processes, reduce workforces, and decrease unit costs. This efficiency approach has been especially useful with mature firms, where the structure of debt and limits to managerial spending decrease the downside risk and possible failure of the firm. This article illustrates how buyouts can also create entrepreneurial opportunities and allow upside growth. In particular, it focuses on understanding the aspects and circumstances of the entrepreneurial mindsets of managers who seek upside growth through buyouts. These entrepreneurial mindsets provide a wider view of buyouts as a vehicle for renewal that frequently leads to revitalization and strategic innovation. The article provides insights for entrepreneurs, managers, and financiers by articulating four categories of buyout opportunity--efficiency, revitalization, entrepreneurial, and failure buyouts. We specify the conditions under which each may be appropriate, including the governance and financial incentives, and give company examples for each category.

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