



Born with a silver spoon of legitimacy but struggling for identity? The paradox of emerging spin-offs in a new sector



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ABSTRACT

This study examines one paradox of the spinning-off process—on one hand, a spin-off's affiliation with the parent firm provides legitimacy that it can leverage for success; on the other hand, a stronger affiliation with the parent firm makes it difficult for a spin-off to resolve identity ambiguity and develop its novel identity in a new sector. The context of this study is a spin-off created by a reputable manufacturing firm but venturing in the software sector. I highlight challenges faced by the executives in leveraging spin-off's legitimacy at the same time it seeks to move away from the parent for developing a new identity. I find that a combination of the processes of sensegiving by a proactive leadership and applied sensemaking by the members is critical in resolving identity ambiguity. The study further develops propositions that synthesize the findings and contribute to the literatures of identity, legitimacy, and entrepreneurship.

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1. Introduction

Organizational identity refers to those cognitive, behavioral, and practice-embedded aspects of an organization which its members deem most central, distinctive, and enduring (Ashforth, Harrison, & Corley, 2008; Nag, Corley, & Gioia, 2007). Identity change is a difficult process that can lead to conflict, tension, and power struggles. However, “some identity changes are so sweeping and discontinuous that they disrupt the order of the understood world” (c.f., Corley & Gioia, 2004). The creation of a spin-off presents one such context for both a new venture and its parent firm. A spin-off is a venture established by an incumbent firm as a separate legal entity, although the incumbent maintains a financial stake, or some representation on the board of directors (Agarwal, Echambadi, Franco, & Sarkar, 2004; Helfat & Lieberman, 2002).

On one hand, the spinning-off process disrupts and shakes up organizational members' identification with the parent firm, as the members of an established division are forced to leave the past for a relatively uncertain future (Ashforth et al., 2008; Corley & Gioia, 2004). At the cognitive and behavioral levels, organizational members face an ambiguous identity fraught with individual concerns and collective apprehensions about their connection to the spin-off as it shifts away from the parent firm. In this process, complexities associated with new firm formation related to cognition, behavior, and practice all converge as the newly created spin-off seeks to establish its own survival, growth, and success.

On the other hand, many spin-offs are born with a proverbial “silver spoon,” compared with new ventures such as spin-outs and start-ups without any backing from an existing firm. Their affiliation with the parent firm and continued access to valuable social networks provide them legitimacy from birth (Bitektine, 2011; Zimmerman & Zeitz, 2002). Because “legitimacy ultimately lies in the eyes of the beholder” (Zimmerman & Zeitz, 2002), the first beholder who can provide legitimacy to employee creativity exists within the firm and often plays the role of project champion (Kostova & Roth, 2002). A division's internal legitimacy within the parent firm influences its standing with external constituents by providing cognitive and socio-political legitimacy. As the division evolves into a spin-off, legitimacy offsets its liability of newness to a certain extent. In the case of a division that is technical in nature—in this context, an information technology (IT) division of a manufacturing parent firm—parental endorsement of the technology based on its potential for success in organizational contexts also provide managerial legitimacy to the spin-off (Ruef & Scott, 1998; Suchman, 1995).

Though scholars have discussed reasons for founding spin-offs (e.g., Agarwal et al., 2004; Klepper, 2001), it is surprising that the paradox faced by a spin-off, in its attempts to leverage the legitimacy conferred on it while managing identity issues that can arise, has yet to gain attention in the literature. There appears to be a gap in the literature regarding how a spin-off keeps exploiting the legitimacy gained from affiliation with the parent firm while simultaneously moving away from the parent for developing a new identity, particularly when it ventures into a radically different sector.

To address this gap, I examine the spinning-off of VirusSecure from Limo (a manufacturing parent firm) as it ventured in the software service sector to develop its own identity (all names used are

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pseudonyms). This study reveals how VirusSecure managed the paradox of leveraging legitimacy gained through parental affiliation while concomitantly struggling to resolve identity issues that arose as it moved away from Limo's strong identity. I highlight how this was accomplished through the concerted efforts of the spin-off's members and executives, and extend the literature by discussing unique benefits that accrue to the spin-offs by virtue of their birth as well as ambiguity faced by them in view of their emergence from parent firm.

I begin with a premise that spinning off, legitimacy, and identity change are intertwined: a spin-off must leverage its legitimacy for resource acquisition and address identity issues concomitantly as it builds a reputation in its new sector. I focus on VirusSecure since a single case study can provide deeper insights than other research designs (Corley & Gioia, 2004; Van De Ven, 2007). In addition, I have employed a combination of deductive and inductive approaches to discuss research questions, foundational theories, context, methodology, and emergent findings with propositions.

2. Overview of theoretical foundations

2.1. Organizational identity, identity change within the unique context of spin-off creation

Organizational identity is a person's perceived connection with an organization such that the person feels situated within the given organizational context, experiencing a set of cognitions that influence subsequent feelings, actions, and behavior (Ashforth et al., 2008; Nag et al., 2007). An individual's existence can become intertwined with that of the organization, and the member becomes a microcosm of the organization. Based on members' understanding about what is central, distinctive, and continuous about their organization, organizational identity also includes an operational understanding based on day-to-day work practices: for example, what members do together as a group (Corley & Gioia, 2004; DeConinck, 2011; Nag et al., 2007).

Identity change often occurs in conjunction with such major changes such as mergers and acquisitions (Corley & Gioia, 2004; Nag et al., 2007), or strategic renewal. This process is complex and demands strategic flexibility, and adjustments that can transcend the boundaries of a single organization, as it reflects members' responses to threat, commitment, culture, and change (Ashforth et al., 2008; Nag et al., 2007).

Spinning off is one such context—it shakes up identity at the cognitive, behavioral, and daily practice levels, and in the case of members situated in an established department of a large corporation, spinning-off can evoke mixed emotions and identity ambiguity. Spinning off also challenges both the new venture and the parent firm to accept that they are separate legal entities in an equity relationship—this involves complexities associated with new firm formation and identity change simultaneously (Corley & Gioia, 2004).

2.2. Legitimacy by birth

Such complexities can be moderated by a spin-off's prior affiliation with the parent firm that provides legitimacy from birth. For a new venture, legitimacy reflects the acceptance of the organization by its environment, validated through the lens of potential stakeholders and broader publics, that the venture's activities are socially acceptable and desirable. Legitimacy endorses a new venture's plans, routines, and structure to meet broader societal expectations (Bitektine, 2011) and helps spin-offs overcome their liability of newness by providing access to the resources they need to survive (Zimmerman & Zeitz, 2002).

Spin-offs are born with internal legitimacy, that is, with internal audiences that include project champions, corporate entrepreneurship divisions, and top management teams (TMT). Internal actors confer legitimacy at the local level, since technical breakthroughs and social

innovations need to gain internal endorsement prior to their diffusion outside the firm's boundaries (Kostova & Roth, 2002; Ruef & Scott, 1998). Over time, gaining external legitimacy in the new sector becomes a key objective, as the spin-off pursues actions that are appropriate given the new sector's norms, values, beliefs, and definitions (Bitektine, 2011; Suchman, 1995).

2.3. The paradox—legitimacy by birth but identity challenges

Integrating the insights of legitimacy and identity literatures, I begin with the premise that spin-offs from reputable parent firms are born with legitimacy that can be leveraged for growth, but they paradoxically face greater challenges in developing a new identity than other types of ventures because high-status parents leave a strong imprint on members (Ashforth et al., 2008; Nag et al., 2007). As such, identity transition can take longer and be more difficult given the parent firm's strong imprint, even though affiliation with the parent firm endows them with the silver spoon of legitimacy.

3. Context of the study and methodological overview

3.1. Research context—case for spinning-off, legitimacy and identity issues

The phenomenon of identity change was examined within a unique context: the creation of a spin-off, VirusSecure, ventured in the service software sector (specifically IT network security solutions). VirusSecure was created by parent firm Limo, a highly reputable Fortune 1000 manufacturing firm in a sector related to transportation (Bearce, Jones, Adlhoj, Burkey, Garrett, 2004). Limo spun off part of its successful IT division as VirusSecure, focused solely on delivering software security solutions to its client firms.

Traditionally, Limo has followed a strategy of focusing narrowly on core areas, which meant the possibility of overlooking advances in peripheral areas and losing sight of employee creativity. An extreme focus on core competencies contributed to a lack of appreciation for employee creativity in peripheral divisions, even though these employees were arguably the brightest in their areas, holding numerous patents.

In light of this, creative employees in peripheral areas of Limo became disenchanted, left their divisions and often started their own firms (i.e., spin-outs) (Agarwal et al., 2004; Bearce et al., 2004; Klepper, 2001). However, by the late 1990s, the CEO and TMT finally recognized that the employees from Limo's peripheral divisions had developed substantial knowledge capital that was valuable across industries, and the lack of a corporate entrepreneurship program was costing the company dearly. Limo decided to follow the strategy of spinning off successful projects by engaging in corporate entrepreneurship (Bearce et al., 2004). Subsequently, the TMT founded a corporate entrepreneurship division to retain its creative employees, capitalize on its pool of intellectual property, and support innovation initiatives in peripheral areas. This division oversaw and mentored the creation of spin-offs in a way as to benefit both the parent firm and its progeny.

Next, I present a brief narrative of revelatory research design in the context of this study.

3.2. Research approach and methods

To examine the processes of spawning at Limo and identity change at VirusSecure, I used a revelatory case-study-based research design. This approach may be characterized as "revelatory" (Sarker, Sarker, Sahaym, & Bjørn-Andersen, 2012; Yin, 1994) for several reasons: 1) it represents a situation with the potential to reveal unique insights regarding the processes of spinning off and emergent identity change; 2) both the parent and progeny were fairly restrictive in terms of providing researchers access to specific information about their strategic

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