Research Policy 37 (2008) 1047–1056

Contents lists available at ScienceDirect

Research Policy

journal homepage: www.elsevier.com/locate/respol

Antecedents of corporate spin-offs in Spain: A resource-based approach

Félix López Iturriaga[a,*], Natalia Martín Cruz[a,b]

[a] Business & Economics School, University of Valladolid, Avda. Valle del Esgueva 6, 47011 Valladolid, Spain
[b] Visiting Scholar, Haas Business School (IMIO), University of Berkeley, CA, United States

ARTICLE INFO

Article history:
Received 19 December 2005
Received in revised form 19 March 2008
Accepted 17 April 2008

Keywords:
Corporate spin-offs
Diversification
Knowledge
Resource-based approach
Social networks

ABSTRACT

We explore the antecedents of corporate spin-offs for a sample of 3462 Spanish firms between 1992 and 2002. Using a resource-based approach, we identify three reasons firms engage in spin-offs: (a) to create complementarities, (b) to appropriate residual rents, and (c) to focus on the core business. Specifically, we find that spin-offs are more common among firms that belong to a group able to create networks and new knowledge that can be exploited through spin-offs. In addition, we find that spin-offs are more frequent in firms that wish to exploit strategic advantages achieved through knowledge investments and in firms that increase efforts to the focus on the parent firm's core competences.

1. Introduction

During the last decades, spin-offs have garnered increasing attention in the literature, with both academia and practitioners focusing on the positive effect of spin-offs on firm value. Most previous research has attributed increased firm value after a spin-off to the elimination of asymmetric information between managers and markets (Cusatis et al., 1993; Krishnaswami and Subramaniam, 1999), the reduction of negative synergies due to an improvement in focus, the ability to exploit the firm's investments (Hite and Owers, 1983; Miles and Rosenfeld, 1983). Nevertheless, little attention has been directed to the antecedents of the creation of new spin-off entities.

The most relevant research has addressed spin-offs created by former employees, who subsequently enter into competition with the parent firm (Agarwal et al., 2004; Klepper, 2001; Klepper and Thompson, 2006) or corporate spin-offs that are created and partially owned by the parent but independently managed (Ito, 1995; Parhankangas and Arenius, 2003). Each one of these two strategies has been studied from a different theoretical approach. The corporate spin-off as competitor model requires a disagreement between employer and employee and the ability of the spin-off firm to exploit knowledge capabilities. On the other hand, in the model of a corporate spin-off as a subsidiary of the parent firm the spin-off arises as an instrument to explore and to grow the complementarities between the resources of the parent and of the spin-off. However, this last model has often been examined by employing a variety of theoretical approaches simultaneously.

By focusing on the resource-based approach, we provide a theoretical framework to examine the antecedents of corporate spin-offs. We show that the structure of resources and capabilities of the parent firm can explain why parent firms launch spin-offs. Critical to this task is the definition of the corporate spin-off (Moncada et al., 2001), which we define from a legal perspective as a pro-rata distribution of the shares of the subsidiary to the parent's shareholders,

* Corresponding author. Tel.: +34 983 423332; fax: +34 983 423899.
E-mail addresses: flopez@eco.uva.es (F. López Iturriaga), ambiela@eco.uva.es (N. Martín Cruz).

0048-7333/$ – see front matter © 2008 Elsevier B.V. All rights reserved.
doi:10.1016/j.respol.2008.04.007

thus creating a new entity that trades independently of its former parent (Desai and Jain, 1999; Van de Velde and Clarysse, 2006).

Our empirical analysis shows the potential of the resource-based approach to explain spin-offs. Specifically, we suggest three main resource-based reasons for a firm to launch a spin-off: to create complementarities, to appropriate residual rents, and to focus on the core business. Using data for 166 Spanish spin-offs from a sample of 3462 firms between 1992 and 2002, our results provide evidence that a firm's desire to develop and exploit social networks within the firm, to exploit knowledge investments, and to focus on its core activities all prompt spin-offs. These results suggest that spin-offs are responses to several managerial preferences: specifically, their desire to exploit new ideas created within the firm's network, their incentive to exploit accumulated knowledge through the rapid implementation of innovations, and managers' preference to focus on the parent firm's core business and competences.

This study contributes to the literature in three ways. First, we show that a resource-based theoretical approach, which describes the structure of resources and capabilities of the parent firms, can provide significant insight into the factors that contribute to a firm's decision to spin-off. Second, our sample covers several industries; therefore, our results can be easily generalized. Third, we analyze spin-offs as a strategy to create new firms in Spain, a country historically less dynamic than others in terms of entrepreneurship and start-ups.

Our results have implications in several fields. First, our research sets out the debate about whether spin-offs based on firms' complementarities or asymmetries. In addition, we provide evidence that suggests that spin-offs are one of the best strategies to promote entrepreneurship. Second, we find that entrepreneurship is not limited to highly intensive R&D industries but can be fostered in any industry that includes highly intensive R&D firms. Third, we can also infer that spin-offs are good means to bridge the gap between creativity and innovation and to bring new ideas into the market. They may be complementary means to publicly funded research, which may yield innovations that generate economic and social benefits (Martin and Tang, 2007).

The remainder of the paper is organized as follows. Section 2 presents the theoretical framework on which the hypotheses are based. Section 3 describes the sample, variables, and method. In Section 4, we report and discuss the results of the empirical analysis from both an explicative and descriptive perspective. Section 5 concludes and provides directions for future research.

2. Resource-based view of corporate spin-offs

According to the resource-based view, a firm's resources are the critical factor in the design and implementation of the firm's strategy.[1] In spin-offs, the parent firm can exploit its resources and capabilities and generate rents by launching a new firm. The positive financial effects of spin-offs have been well documented (Cusatis et al., 1993; Gertner et al., 2002; Krishnaswami and Subramaniam, 1999; Miles and Rosenfeld, 1983), and, therefore, we use the resource-based view to examine the parent firms' structure of resources and capabilities that lead them to create corporate spin-offs. This purpose is closely linked to Klepper and Thompson's (2006) assertion that "the greatest challenge in studying spin-offs is to get inside the firms that spawn them to understand the circumstances behind their occurrence" (p. 3).

By employing a resource-based theoretical approach, we are able to examine the boundaries of the parent firm and the requirements to capture the rents from its resources using outbound strategies (Peteraf, 1993). Firms that generate unique and valuable resources should retain their value (i.e., they must hold the knowledge quasi-rents); parent firms retain value by holding the property rights of the resources of the corporate spin-off. At the same time, parent firms can implement their strategies without losing either core competences or returns.

In the following discussion, we explain three main postulates of spin-offs from the resource-based approach. First, we examine how social networks develop a structure of resources and capabilities and promote spin-offs. Second, we consider the impact of innovative knowledge as related to spin-offs. Finally, we argue that spin-off activity is affected by a manager's ability to limit the extent of diversity and focus on the firm's core competences.

2.1. The creation of social networks

A parent firm that develops corporate spin-offs has successfully linked individuals who create new knowledge and exploit new ideas (Agarwal et al., 2004). Because firm capabilities consist of knowledge, their "wellspring" is a learning process inside the organization (Verona, 1999). Learning processes require social networks for the continuous conversion of tacit knowledge into explicit knowledge (Nonaka, 1994). Therefore, to create new ideas, acquire new knowledge, or identify new opportunities, individuals must interact within the boundaries of the firm (i.e., social networking).

As knowledge is developed by the interaction among individuals, these relationships contribute not only to the expeditious recognition of business opportunities but also to the implementation of new ventures (Grandi and Grimaldi, 2003; Lamoreaux et al., 2005). Therefore, the ability to create social networks facilitates spin-offs (Debackere and Veugelers, 2005; Malecki, 1981; Clarysse and Moray, 2005; Romijn and Albaladejo, 2002). These network structures, managed by the parent firm, can reduce the high volatility of the rents coming from the exploitation of new ideas. Thus, spin-offs allow the parent firm to preserve the property rights and sustain the social networks

[1] A resource-based view has been used most often for diversification strategies (Montgomery and Hariharan, 1991; Montgomery and Wernerfelt, 1988; Teece, 1982; Wernerfelt, 1984; Wernerfelt and Montgomery, 1986) and less often for mergers and acquisitions (Barney, 1988), alliance formation (Colombo et al., 2006) or spin-offs (Agarwal et al., 2004; Ito, 1995; Lockett et al., 2005; Landry et al., 2006).