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From a corporate venture to an independent company: a base for a taxonomy for corporate spin-off firms

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Abstract

This paper proposes a taxonomy of corporate spin-off firms by exploring the nature of parent firm–spin-off firm relationship. Relying on the resource-based and the resource-dependence theory, special attention is paid to the complementarity of the resource base of the parent firm relative to its spin-off, the intensity of collaboration between the parent and the spin-off, and the dependence of the spin-off firm on the resources provided by the parent organization. Based on cluster analysis, we were able to identify three distinct groups of corporate spin-off firms: spin-offs developing new technologies, spin-offs serving new markets and restructuring spin-offs. These groups differ from one another in terms of the intensity of resource sharing linkages and knowledge transfer between the parent and the spin-off, timing of separation, as well as the direction and breadth of their new product development activities.

Keywords: Corporate spin-off firms; Inter-organizational relationships; The resource-based theory; The resource-dependence theory; Corporate diversification

1. Introduction

Subsequent waves of corporate diversification and corporate refocusing have increased the number of divestments made by large, established corporations during the past decades (Hoskisson and Hitt, 1990; Markides, 1992; Ruigrok et al., 1999; Chapman and Edmond, 2000). These divestments also include the formation of spin-off firms the business idea of which is based on the knowledge and competencies developed within the parent firm. Besides corporate refocusing, economic growth seems to promote the formation of spin-off firms by encouraging venture managers to leave their employment at a large corporation and to establish a company of their own (Garvin, 1983).

Previous literature reports spin-off firms being important agents of knowledge transfer from established corporations to new businesses, thus, promoting the prosperity and well-being of regions, industry clusters and nations (Roberts and Wainer, 1968; Lindholm Dahlstrand, 1997, 2000; Dorfman, 1983; Pavitt, 1991). Spinning off ventures often results in the emergence of networks where the parent firms and their spin-offs engage in varying degrees of resource sharing. By preserving the relationship with its parent, the spin-off may combine the advantages of maintaining the entrepreneurship of a small firm and utilizing the existing assets of a large corporation (Teece, 1988). The vast asset base of the parent organization may serve to buffer the spin-off firm from initial risks of failure.

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Spinning off businesses may benefit the parent firm by decreasing the administrative burden, releasing funds for the development of core businesses, and serving as a means for exploring new, revolutionary ideas at arm's length from main stream businesses (Ito and Rose, 1994).

Relatively little is known about the nature of relationship between the parent firm and its spin-offs (Ito and Rose, 1994; Lindholm, 1994; Puia, 1993). In a similar vein, there is some confusion in the usage of the term corporate spin-off firm. In some previous studies, this term is used to denote embryonic ventures (for instance, see Roberts and Wainer, 1968; Cooper, 1970, 1971; Roberts, 1991), while some other studies reserve the term for the divestment of mature businesses (for instance, see Woo et al., 1989, 1992; Ito, 1995; Ito and Rose, 1994). Previous research has put forward a classification of university spin-off firms (Autio, 1997) and corporate spin-off firms (Lindholm, 1994). The work of Lindholm, representing the most extensive classification of corporate spin-off firms until this date, classifies corporate spin-off firms in terms of the type of transfer of ownership rights from a parent firm to its spin-off. In a divestment spin-off, the majority of the voting power is transferred from an existing legal entity to a new body or to another firm. In an entrepreneurial spin-off, there is usually no formal transfer of ownership rights. Most typically, an entrepreneurial spin-off occurs when an entrepreneur leaves his previous employment to start a firm of his own.

However, previous classifications of corporate spin-off firms are not very helpful in explaining the antecedents of the spin-off decision and its implications for the newly founded firm. As we perceive it, the decision to form a spin-off firm is deeply rooted in the nature of interaction between the venture to be spun-off and its parent firm. This study aims at fulfilling some of these gaps in existing knowledge by proposing a taxonomy of corporate spin-off firms based on the nature of their relationship with the parent corporation. This relationship is contemplated through the resource-based and the resource-dependence perspectives, i.e. by exploring the knowledge and resource transfer between the spin-off and the parent. In addition, we are interested in the implications the parent firm–spin-off firm relationship for the direction and breadth of competence development activities within the spin-off firm. The results of this study are based on a survey of 50 technology-related spin-off firms from large Finnish industrial firms. The spin-off firms operate in seven industrial sectors and were founded during the years 1987–1997.

2. Definition of a spin-off firm

To avoid confusion resulting from various definitions of spin-off firms found in previous literature, it is necessary to define what we mean by a spin-off firm in this particular study. This study focuses on new business formation based on the business ideas developed within the parent firm being taken into a self-standing firm. An additional qualification of the study was to include only spin-off firms the establishment of which was initiated, or at least allowed, by the parent firm. This was done by excluding hostile or competitive spin-offs. The definition used in this study is in line with the definition provided by Lindholm (1994).[1]

3. Theoretical considerations

The principal objective of this study is to create a taxonomy of corporate spin-off firms based on the nature of the parent firm–spin-off firm relationship prior to and after the separation from the parent firm. In this paper, we are mainly interested in the dependence-resource complementarity-collaboration aspect of this relationship, simultaneously looking for links between the nature of the relationship and the renewal of the competence base of the spin-off venture. Regardless of the exploratory and descriptive nature of our research endeavor, we use the resource-based theory and the resource-dependence theory as a starting point for our inquiry.

The choice of these theoretical perspectives may be justified in the following way. The resource-based approach is fundamentally concerned with the internal accumulation of assets, with asset specificity, and less

[1] In the wider context of corporate diversification, we see the creation of a spin-off firm as one possible option available for the parent firm to deal with the outcomes resulting from its diversification processes. Other options available for parent firms include continued internal development, sell-offs, or termination of the new project, just to mention a few.