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SUMMARY

RELATED OR UNRELATED? A BEHAVIORAL AND ENTREPRENEURIAL ACTION PERSPECTIVE OF CORPORATE VENTURING LOGIC

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Principal Topic

We conceptualize corporate venturing as an outcome of search where firms pursue new business through diversification into new markets. Research has generally concluded that ventures related to the current business outperform unrelated ventures. Yet, businesses often pursue opportunities that are divergent from their core business. We know little of why firms search across a broad spectrum of relatedness in their diversification decisions and why some firms enter unrelated businesses despite the documented performance hazards.

We develop a means-motive-opportunity model building from behavioral theory and an entrepreneurial action perspective to explain a firm’s venture search logic. Based on a firm’s prior performance relative to social and historical aspiration levels (motives) and available slack resources (means), the firm makes choices regarding new products or markets (opportunities). In contrast to arguments that suggest the search for solutions to problems and slack search are independent actions, we examine whether combinations of problemistic and slack search reveal four distinct venturing logics. By combining high and low levels of the search dimensions, we create four combinations that operate as different logics of relatedness/diversification in venturing decisions. The logics that emerge are efficiency, expansion, experiment, and escape.

Method

Our sample consists of 660 single-industry firms that completed an IPO between 1996 and 2000 identified in the SEC’s EDGAR database. The sample firms were six years old or less at IPO. We obtained data on firm operations, product market diversification, size, and organizational slack from Compustat and acquisition data from Thompson’s SDC M&A database. We model the degree of relatedness between the acquirer and the target by developing a unique modification of the widely-used entropy calculation. We investigate whether the interaction of the acquiring firm’s slack and performance relative to aspirations are associated with varying levels of acquisition relatedness.

Results and Implications

This study explains relatedness in firms’ venturing decisions using a theoretical framework—behavior theory and performance feedback—that has not previously been used to address this question. We consider how slack search and problemistic search work in tandem. We identify four distinct logics to help explain the varying degrees of diversification that are observed in corporate venturing.

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