SPIN-OFF FORMATION PROCESSES IN THE CONTEXT OF ADVERSE CORPORATE EVENTS (INTERACTIVE PAPER)

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SPIN-OFF FORMATION PROCESSES IN THE CONTEXT OF ADVERSE CORPORATE EVENTS

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Principal Topic

In this paper we explore spin-off formation processes in the context of an adverse corporate event. While it is accepted that spin-off formation plays an important role in perpetuating industry evolution, we demonstrate that spin-offs resulting from adverse events do not fit into the existing typologies of spin-offs as suggested by Buensdorf and Klepper (2009) and Klepper and Thompson (2010). We argue that existing typologies should recognize what we refer to as "opportunistic spin-offs", spin-offs that occur in the wake of an adverse event but that from the perspective of the founder, the adverse event has created an unexpected opportunity to engage in entrepreneurship.

Method

We present case studies of the spin-offs that resulted from an adverse event at Élan Corporation (Élan was largest Irish public corporation by market capitalization, valued at more than US$22 billion). Data includes interviews and secondary material. Our analysis is structured around a case study of the structure of the parent firm at the time of the adverse event, and individual case studies of the process of formation for the 12 spin-offs.

Results and Implications

The spin-off formation processes identified in this research do not fit neatly into the existing typologies of spin-offs. We find that existing categorization of spin-offs resulting from adverse events as necessity spin-offs may be a simplification of how adverse events impact spin-off formation. What constitutes an adverse event for a company may not be an adverse event for all employees. While for most employees the consequences of an event such as restructuring will be beyond their control, some management-level employees may be in a position to take the initiative and acquire a product or process unit from the existing corporation. The adverse event may create unanticipated opportunities (e.g. to acquire IP or R&D assets) for those employees who are in a position to exploit them, ultimately leading to the formation of spin-offs. Contributions are an empirical description of spin-off formation processes; and a more nuanced understanding of the spin-off process by demonstrating that not all spin-offs formed in the aftermath of an adverse event are necessity spin-offs.

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