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## DISENTANGLING THE LINK BETWEEN PRODUCT RELATEDNESS, PARENTAL HOSTILITY, AND SPIN-OFF PERFORMANCE (SUMMARY)

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## ≈ SUMMARY ≈

**DISENTANGLING THE LINK BETWEEN PRODUCT RELATEDNESS,  
PARENTAL HOSTILITY, AND SPIN-OFF PERFORMANCE**

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**Principal Topic**

Prior studies emphasize the benefits of parental support for spin-offs (Chatterji, 2009; Semadeni and Cannella, 2011), yet little is known about parental hostility – a parent firm disapproving of the spawning of a spin-off. Our limited understanding of this phenomenon of parental hostility suggests that it happens frequently and is detrimental for corporate-spin-offs' performance (Walter et al., 2014).

If this is indeed the case, an important question becomes whether corporate spin-offs can strategically influence parents' reaction to their establishment. As literature on competition and retaliation demonstrates, an incumbent's reaction to a new entrant depends heavily on that entrant's product strategy. Spin-offs commercializing products or services that are similar to their parents offering embody a greater share of their parents' tacit knowledge (Klepper and Sleeper, 2005), and therefore present a greater threat to their parents' viability (Phillips, 2002). Therefore, we propose that a spin-off's decision to enter the market with a related product strategy will induce parental hostility, and thereby affect spin-off performance. By integrating insights on resources and capabilities, we further argue that this latter effect of parental hostility on performance is not necessarily negative as previously assumed, as hostility may stimulate a spin-off's autonomous decision-making and the development of novel competences that contribute to performance. Taken together, our study aims to disentangle the factors influencing parents' negative reaction towards spin-offs' establishment and its consequences for spin-offs' performance.

**Method**

Our analysis employs a pooled dataset of 982 corporate spin-offs in Germany. These data allow us to construct measures for parental hostility and for the degree of relatedness between the spin-off's and its parent's product offering, as well as to control for parent, spin-off and founder characteristics. As the dependent variables, we use spin-offs' innovation and economic performance. Because of possible reverse causality between parental hostility and spin-off performance, we apply a Two-Step IV approach controlling for this endogeneity.

**Results and Implications**

Results show that spin-offs producing products related to their parents' offering are more likely to face parental hostility, which in turn positively affects their economic and innovation performance. Taking both direct and indirect effects into account, a related product strategy positively affects spin-offs' economic performance, but negatively affects their innovation performance. These results advance the literature on corporate spin-offs and have important practical implications for corporate spin-offs trying to optimize their product strategy, and for their parent organizations.

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