SHOULD WE KEEP THE BABY OR GIVE HER UP FOR ADOPTION? EXAMINING THE DECISION TO SPIN OFF NEW CORPORATE VENTURES (INTERACTIVE PAPER)

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This study investigates the factors that lead managers to decide whether to internalize or externalize a new corporate venture (CV). Developing a CV, a company is faced with the problem of balancing between the autonomy of the CV and its control, and the type of organizational design. For this paper, we utilize both transaction-cost theory and resource-based theory, and analyze how entrepreneurial managers’ perceptions of the strategic relationship between firm and CV determine the choice of internalizing or externalizing the CV. The constructs to measure this strategic relationship are: the operational relatedness (product, market and technology relatedness) and the strategic importance (how the CV affects the strategic position of the parent firm, the importance of the new capabilities needed, the profitability, and risk).

Method

The sample of 83 managers (25.9% response rate) for this study came from Spain. We used conjoint analysis and Hierarchical Linear Modeling (HLM) to analyze the data.

Results and Implications

The results indicate that the likelihood that managers will choose to externalize the CV will be positively associated with the strategic position (coefficient = 1.379, p<.01) and risk (coefficient = .432; p<.01) providing support for H1 and H4, and the likelihood of externalizing CV diminishes with product relatedness (coefficient = -.836; p<.01); profitability (coefficient = -.498, p<.01); and technology relatedness (coefficient = -1.361, p<.01), providing support for H3, H5 and H7. However, hypotheses H2 new competences (coefficient = .637, p<.01), and H6 market relatedness (coefficient=1.175, p<.01), although significant, were in the opposite direction. In order to explore the reasons behind these results, we ran a second set of analysis. The results show that market relatedness moderates the relationship between new competences and the decision to spin off.

Our findings support Burgelman & Sayles (1986) arguments: the managers would tend to internalize CV that may threaten the firm’s strategic position, and externalize those that do not. In a similar vein, the results suggest that externalization of a CV is important if the near-term profitability forecast of the CV is low, and/or the risks involved high. In those cases they do give the baby up for adoption. Thus, our study indicates that managers tend to take the interest of the firm over those of the CV, and seem to want to err on the side of benefits of the firm rather than to the possible benefits to the CV.

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