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Abstract

When developing a new venture, a company is faced with the problem of balancing between its autonomy and its control. Utilizing both transaction-cost and resource-based theories, we analyze how entrepreneurial managers' perceptions of the strategic relationship between firm and corporate venture (CV) determine the choice of internalizing or externalizing the CV. The results indicate that managers would encourage externalization of a CV if its near-term profitability forecast were low; if the risks involved were high; or if the technological synergies with the firm were low. For high market relatedness, managers would encourage internalization of the CV when the importance of the new competences is high.

Keywords: Corporate ventures; internalization; spin off; strategic importance; operational relatedness

Examining the decision to spin off new corporate ventures

INTRODUCTION

Creating a corporate venture (henceforth CV) is a useful choice for firms interested in entering new businesses by expanding operations into new or existing markets (Guth &Ginsberg,1990; Zahra 1993, 1995, 1996). A CV can be an important avenue for growth and diversification, and firms with growth-oriented strategies develop CVs in order to grow a new business from the inside out (Burgelman & Sayles 1986; Burgelman 1983, 1984; Zahra, 1991). Through CVs, a company can invest in new products or technologies by funding businesses that have a fairly autonomous management team, with the goal of developing new products or services that expand the core business, enter new industries or markets, or develop breakthrough technologies that could substantially change the industry.

Yet, when developing a new venture, a company faces the problem of striking a balance between autonomy and control. Creating a CV can be accomplished in one of two ways: by building a new business as a stand-alone unit (external CV), or by building a new business inside the existing firm whose structure allows for management independence (internal CV) (Block & MacMillan, 1993; Chesbrough 2003; Ajit, Eselius, & Monteiro, 2000; Sharma & Chrisman, 1999; Stringer, 2000).

We contend that the type of organizational design that is chosen—the tie with the firm most suitable for a particular CV—depends on the characteristics of the strategic relationship

between the firm and the CV. Burgelman & Sayles (1986) cited two key dimensions for assessing the strategic elements of an entrepreneurial proposal: (1) the strategic importance to the corporation; and (2) its relatedness to current operations.

We assert that managers decide to either keep or spin off a new venture based on the venture's strategic relationship with the firm, taking into account the risks and rewards the CV represents for the firm. In this paper, we utilize both transaction-cost theory (Coase 1937; Picot 1982; Williamson 1975, 1985) and resource-based theory (Barney, 1991; Hamel & Prahalad, 1994; Penrose, 1959; Peteraf, 1993; Wernerfelt, 1984) and analyze how the assessment by entrepreneurial managers of the strategic relationship between the firm and the CV determines the choice of internalizing or externalizing the CV. More explicitly, we examine how the strategic relationship between the firm and the CV in terms of the strategic position of the CV vis à vis the firm; the competencies necessary to develop the new venture; financial risk and performance that imply the CV; product, market, and technology relatedness; influence a manager's decision to keep the CV inside the firm or spin it off.

Previous research (Burgelman, 1984, Burgelman and Sayles, 1986,)) has argued that strategic relatedness is key in the decision to keep a CV internal. This allows the firm to appropriate greater value from its core competencies by leveraging those competencies within product and market arenas that are strategically related to the firm's business (Covin & Miles, 2007; Burgelman & Doz, 2001) and by exploiting its intellectual property base in other contexts (Narayanan, Yang, & Zahra, 2009). Scholars who take a resource-based perspective contend that firm-specific resources and relatedness are important variables in the choice of growth and diversification (Mahoney & Pandian, 1992; Peteraf, 1993). However, research has never tested

the drivers of the decision to spin off or to keep the CV from the perspective of the managers who *make* these decisions. To do so, the following questions must be answered. Are the managers who make this choice driven by the strategic relationship of the CV with the firm? What role do risk and profitability play in that choice? And how do managers weight the possible threats to the existing firm against the possible benefits of the new CV? This is our main contribution, the importance that the managers give to the different factors that the theory have pointed out as relevant to the decision to internalize or externalize a CV.

We answered those questions by conducting a conjoint study of 83 Spanish managers. As conjoint analysis can investigate an *individual's decision making*, a sample of one is sufficient to obtain statistical power to test for significance. Obviously a greater sample size is required to generalize the study's results to a specific population. There are no hard rules on the minimum number of respondents that should be used, it depends on the purpose of the study.A general rule, a sample size greater than 50 is normally sufficient (Zacharakis and Meye, 1997; Zacharakis and Shepherd, 2001,2002). This is because conjoint analysis provides many data points within an individual allowing ***individual subject level analysis***. This technique, which allow smaller sample size, are ideal for studies requiring data from populations who are difficult to contact or who are reluctant to participate in studies. This is the case of our study, managers and business people, they are always busy and there are some difficulties to contact with them. But, while smaller sizes are permitted for conjoint analysis relative to more standard techniques, respondents must still be motivated to participate in the study and motivated to spend the necessary time (40 minutes in our study) and effort to perform the task

Our results indicate that the effect of the new venture on the strategic position of the firm is a prime determinant of the choice to internalize the CV so managers tend to *internalize CVs that may threaten the firm's strategic position and externalize those that do not*. Moreover, the results suggest that externalization is important if the near-term profitability forecast of the CV is low or the risks involved are high. In those cases, firms do decide to give the baby up for adoption..

Our paper contributes to the literature on corporate venturing by focusing on what drives managers to keep a new CV internal or to spin it off and on the role of risk and performance in making that decision. Our paper also combines transaction-cost and resource-based theories in the context of corporate venturing and provides a test of resource-based theory in the context of entrepreneurial activity. Whereas previous resource-based theory proposed that strategic relatedness is an important determinant of corporate venturing choices because it allows the firm to exploit distinctive competencies in related areas, we provide an empirical test of that relationship and include the examination of risk and financial returns, which allows us to examine how managers weight those variables when making the choice to internalize or externalize a new CV.

The article is divided in four main parts. The first part situates the literature and shows the hypothesis around the decision to spin off a New Venture. The second section describes our research methodology. Results section discloses the main finding of our research. The contrasted results and their implications are then addressed in the discussion section.

THE DECISION TO KEEP OR TO SPIN OFF A NEW CV

Current organizational theory offers two main explanations for the determination of firm boundaries and interfirm linkages: *transaction-cost (TC) theory* and *resource-based (RB) theory* .

The TC view of the firm recommends choosing the modes of organization that minimize the sum of fixed and continuous transaction costs (Hoffmann & Schaper-Rinkel, 2001). In this context, a TC explanation of the decision to spin off a CV posits that managers would weigh the cost of spinning off the firm against the cost of internalizing the venture and then decide according to those values. As McIvor (2009) states in his analysis of TC and RB theory "[under TC,] organizations should consider the level of transaction specific investments in the economic exchange as the principal determinant of whether an economic exchange should be managed internally within the organization" (p. 46). Although we agree that managers, in accordance with Coombs and Ketchen (1999) and McIvor (2009), are likely to consider cost in making those decisions, we contend that TC theory does not account for the value of the resources and the relationship with the CV. So while this may be a necessary condition in the decision, the costs of the transaction are not a sufficient condition to determine the final decision to spin off or internalize the CV.

The RB view, on the other hand, recommends that the mode of organization that offers the best opportunity for sharing and transferring resources should be the one selected. This view focuses on resources as analytical units for understanding firm-level sustained competitive advantage. Consistent with the RB view point, Teece (1982) states that a company's resources are key building blocks in the construction of an economic theory of the multi-product firm. In the case of CVs, it is important to note that a firm's human capital is usually not entirely specialized and can therefore be (re)deployed to allow the firm to diversify into new products and

services. Moreover, in his view, firms possess excess resources that can be used for diversification, but with limitations. This is because (a) resources can be indivisible (e.g. a company cannot in real life divide a machine); (b) a company's resources can be used differently under different circumstances; and (c) even under ordinary circumstances, new resources are continually being created. Teece also states that a firm has an incentive to diversify only if the external resource transfer is subject to market failure. Otherwise resources can be sold efficiently in the market system. Furthermore, transfer of resources is not easily separated from the format of the organization. The same characteristics that make resources difficult to transfer also make them difficult to imitate, which means they can be a source of competitive advantage.

The RB view essentially states that a firm's level of profit and breadth of diversification are a function of its resource stock: the more specific resources may apply only to a narrow set of industries but yield higher rents, while the less specific resources may transfer further and provide the basis for a more widely diversified firm but yield lower rents. The pressure to innovate in an intensely competitive environment forces firms to find a balance between maintaining their current activities and thereby reaping the benefits of their investment, and initiating entrepreneurial activities that will produce future benefits. There are differences in the degree to which new projects must be organizationally separate from the main business (Kanter ,1989; Spender & Kessler, 1995; Baden-Fuller & Stopford, 1995; Markides & Geroski, 2005;Barney, Wright & Ketchen, 2001). The lens of a RB viewpoint can therefore be helpful in explaining the decision to spin off or internalize a CV.

Researchers have considered RB and TC approaches complementary in determining a firm's boundary decisions, contending that neither theory can fully explain firm boundaries

(Coombs & Ketchen, 1999; Poppo & Zenger, 1998). They maintain that a firm's boundaries can be explained both by the costs of the economic exchange and by the capabilities of the firm, so that "those activities for which firms have cost advantages over the market—either because of superior capabilities or because of favorable governance costs—will be within the boundary of the firm" (McIvor, 2009, p.47). For the purposes of this paper, these theories will therefore be considered *complementary*, since neither one by itself provides a full explanation of the phenomenon, yet both allow for hypotheses about the appropriate organizational mode of a firm's economic activities and thus the choice of keeping or spinning off a CV.

But what determines the nature of the relationship between the firm and the CV, and how might a CV affect the firm? Burgelman and Sayles (1986) argue that the organizational design most suitable for the CV can be plotted on two dimensions: the *strategic importance* of the new venture and the *operative relationship* between the CV and the firm. The perception of *strategic importance* has special implications for the *degree of control* that corporate management wants to have over the development of the new business. A firm will control CVs more closely when its strategic position is more likely to be affected. Keeping CVs internal limits their freedom of movement, but also limits their ability to pursue their own objectives (Burgelman &Sayles, 1986). The degree of *operational relationship* has implications for a firm's *efficiency.* The assumption is that companies seek to *maximize synergies* while they minimize transaction costs (Johnson & Scholes, 2001; Grant, 2004).

Strategic position and the decision to keep or spin off a CV

Prahalad and Hamel (1994) list strategic positioning (referred to elsewhere as "competitive position") as one of the key elements of strategy. Firms adopt very different

competitive strategies across dimensions such as: business models, association with the matrix, technological leadership, cost positioning, product quality, etc. All of these dimensions make up the global strategic positioning of the firm, and with this positioning firms achieve different levels of market participation (Porter, 1999). An assessment of the viability of both the current and the future position can be made by asking whether demand will increase or decrease as a result of the development of new ventures. The question should be, then, whether the CV strengthens or threatens the current product and market position of the company in its industry sector (Burgelman & Sayles 1986).

Sometimes the venture can indeed threaten the successful current business, for example in the case of disruptive innovations (Govindarajan & Kopalle, 2006). Disruptive technologies create substantial uncertainty. CV face liability of newness while new technologies face a lack of cognitive and sociopolitical legitimacy (Aldrich & Fiol,1994). The degree and specific types of uncertainty will indicate the role and importance of linkages, appropriate organizational structure, and most effective strategic controls, given the environment of disruptive technologies. The tendency of established organizations pursuing CVs may try to offset these challenges by overly formalizing process and *internalizing the venture* (Callaway & Hamilton, 2006).

Therefore, the main driver of this decision is how the CV will affect the strategic position of the firm. Discussing the possibility that the new venture may threaten the strategic position of the firm, Cooper and Smith (1992) cite the emergent case of completely *new sectors* based on product innovation that can threaten well-established companies (for example, mechanical calculator manufacturers when electronic calculators entered the market). The top managers in the threatened firm must decide how to respond to an innovation that could alter or destroy their

existing business. The CVs that threaten the strategic position of the firm will be kept on a shorter leash by internalizing them, while those that are likely to strengthen the strategic position of the firm will be spun off.

H1: When the strategic position of the firm is threatened (strengthened) by the new venture, the company will internalize (externalize) the CV.

Distinctive competencies

Selznick (1957) used the term *"distinctive competencies"* to describe the activities that an organization does better than its competitors and that therefore lead to a sustainable competitive advantage. Ansoff (1965) referred to these competencies as the basis for the success of growth strategies.

When new CVs are based on competencies that are close to the core competencies that form the competitive advantage of the parent company (Prahalad & Hamel, 1990), those competencies will naturally be considered strategically important. This type of CV, based on leveraging existing competencies, is sometimes referred to as an exploitative new venture (Covin & Miles, 2007). In these instances, the tendency is in favor of internalizing the CV so that the firm can exercise more control over its core competency (Kanter, 1989). But if the CV fits into the category of "explorative new ventures," i.e., it was developed to help the firm explore and acquire new knowledge" (Miles & Covin 2002; Zahra, Nielsen, & Bogner, 1999), it will be less related to core competencies and therefore favor externalization (Kanter, 1989; March, 1991; Miles & Covin, 2002; Keil 2002). This is consistent with Schildt, Maula, and Keil (2005), who

state that "*the uncertain nature of exploratory learning (March, 1991), and the operational relatedness of ventures geared toward explorative learning (Burgelman, 1984) might lead to a situation where corporations would choose less integrated governance mechanisms, such as CVC investments… for projects that are explorative in nature"* (p. 498). We contend that the new competencies necessary for the development of the CV will determine the degree of closeness and control that the firm seeks over the CV. Thus:

H2 When the new competencies necessary to develop the CV are of high importance (low), the company will tend to internalize (externalize) the CV.

Profitability and risk

A common source of tension between the firm and the CV is that a new CV typically requires a great deal of resources and may also have its own culture (Markides & Geroski, 2004). It may also present different criteria for profitability and require major investments and its own time horizons. Therefore, while seeking a new place in the market via the CV, the firm must also balance the costs of establishing the new venture against potential revenues (Kanter, 1989). Moreover, the uncertainty associated with CVs makes it difficult to separate expected profitability from the risk entailed in starting one.

CVs are risky, as several studies about their uncertainty in terms of expected profitability and survival have shown (e.g., Biggadike, 1979; Covin & Slevin, 1990; Cooper & Gascon, 1992; Prasad, 1998). Yet profitability is a key determinant of investment in CVs. In a study by Flynn

and Forman (2001) about the connection interest of capitalists or investors who sponsor new business units, respondents reported profitability as one of the most relevant criteria.

One of the biggest challenges in any process of strategic decision making is risk assessment (Johnson, Scholes & Whittington, 2008 ; Shepherd, Douglas,& Shanley, 2000). An experimental study by Forlani and Mullins (2000) found that risk is a core element in new venture decisions and choices. Moreover, entrepreneurs in Forlani and Mullins' study avoided ventures with high degrees of variability in their outcomes because they were unable to assess the potential impact on the firm. How the CV will affect the firm seems to be a key determinant in decision making about new ventures, not simply the potential of the CV itself.

DeSarbo, MacMillan, and Day (1987) point out that the higher the potential return on investment (ROI), the more attractive the business will be, subject to the risk involved in obtaining that return. This means that if the risk portion of the potential ROI goes up, the attractiveness of the business goes down. One way to reduce the company's exposure to risk is to find businesses that have a high gross margin; the margins serve to protect against risk. Those managing the new venture must preserve the dynamism of growth while also taking into account uncertainty. Mansfield (1969) and Hill and Snell (1989) agree that new ventures entail increased uncertainty due to the high percentage of market or technical failure associated with innovations (80 to 90 percent). It is because of this failure history that managers prefer to invest fewer resources in developing ventures when there are other, less risky, alternatives. Given that evidence, we argue that when the CV's profitability is perceived as low because of the high uncertainty of achieving the expected results, the firm is more likely to externalize the CV, since it has little strategic importance and may risk the balance sheet of the firm. Thus:

H3 When the expected profitability of the new venture is high (low), the firm will internalize (externalize) the CV.

H4 If the financial risk and uncertainty of the new venture are high (low), the firm will externalize (internalize) the CV.

Product, market and technology relatedness between the CV and the firm

Vesper (1984) and Block and MacMillan (1993) have discussed the CV as a new strategic management approach that offers a different way to do business in three areas: (1) product, (2) market, and (3) technology. Traditional theory on relatedness claims that the benefits of a CV come from its ability to appropriate the rents that accrue from leveraging firm-specific competencies in new products and markets (Covin & Miles, 2007). Those rents could arise from the exploitation of existing resources in new areas (Narayan, Yang, & Zahra, 2009). The resource profile of the firm is critical in predicting the resource characteristics of the industries it moves into (Mahoney & Pandian, 1992). Exploitation of existing resources can be managed in the context of CVs through the pursuit of synergies and the use of complementary resources. Synergy creates advantages for related business units that would not be achieved if they were acting independently (Hill & Jones, 1996; Grant 2004).

Opportunities for greater synergy include the transfer of capabilities, lower implementation costs, and greater commitment from managers (Fast, 1979; Ito & Rose, 2004; Pehrsson, 2006; Wernerfelt, 1984; Grant, 2004). In general, the more cooperative the relationship, the more the CV will be dependent on the firm's resources, so that the survival of

the CV depends on staying connected to the firm's products, markets, or technologies. From the perspective of the firm, the greater the synergy, the greater the ability to exploit existing resources, and the more likely that the benefits of the CV will revert to the firm. The CV represents diversification based on existing *core competencies*, where *leverage* over existing competencies in the firm can be made. In this case, the firm will lean towards internalization of the venture for an optimal use of the synergies (Burgelman & Sayles 1986; Ito & Rose, 2004). A move toward internalization driven by the opportunity to capture synergies with the CV should occur in the context of products, markets, and technologies.

Yet synergies imply that the search for benefits from CVs will confer advantages on both the CV and the firm. An important question, however, is whether managers making the decision to spin off or internalize a CV will weigh more heavily the benefits to the firm or the potential of the CV. We contend that the driver of the decision to spin off or internalize will be the degree of relatedness between the CV's product, market and technology and the firm's. Thus,

H5.a), b),c) When the level of relatedness between: a) product, b) market and c) technology of the CV and the one of the firm is high (low), the firm will strive toward internalization (externalization) of the venture.

RESEARCH METHODS

Sample and data

The sample for this study comprises top managers who were attending an executive MBA program at three of the best business schools in Spain (Instituto de Empresa de Madrid (57%), Instituto San Telmo de Sevilla(15%), Escuela de Organización Industrial de Sevilla(28%)). Managers enrolled in the MBA programs were selected because they had the educational background and experience to understand the importance of the study. The managers were interviewed at the beginning of of the MBA programs. The average age of the top managers was 36 years old and they were chosen so that they had a high enough position in their companies as to be likely to be involved with CV decisions in their firms. The total number of managers that fulfilled those criteria at those three institutions was 320, of those, 114 (35.62%) agreed to participate in the study. However 31 either wanted to schedule an appointment too far in the future or missed the appointment, which left in a final sample of 83 (25.9% response rate). Three of the managers who completed the survey were deemed inconsistent in their responses and were therefore excluded from the analysis, which resulted in a final sample of 80. The test of the non-response assessment revealed no differences in age or number of employees in their firms between the managers who completed the survey and those who did not.

For this study, we utilized conjoint analysis, a technique common in marketing research that has been used in thousands of research studies over the past three decades (Green, Krieger, & Wind, 2001) to collect data as decisions are being made. Conjoint analysis requires respondents to make a series of judgments that lead to a final decision. The judgments are based on profiles or scenarios, from which their “captured” decision processes can be decomposed into its underlying structure (i.e. the significance of the attributes in the judgment and the relative importance of each attribute in the decision process). A profile is simply a combination of all attributes where

each attribute is described by one of its level (a level is an assigned value for an attribute) (Shepherd & Zacharakis, 1999; Shepherd, 1999; Zacharakis & Shepherd, 2001; Shepherd & Zacharakis, 2002).

This technique is ideal for studies requiring data from populations who are difficult to contact, reluctant to participate in studies, or simply small in number. Like most statistical techniques, conjoint analysis has a number of limitations, one of which is construct validity (Huber, 1987). In particular, a problem can arise when managers place importance on specific factors only because those factors are presented in the study. In order to minimize this possibility, every factor was theoretically justified, and we specifically checked for this situation in the pretest. Managers commented during the pre-test that they felt we had included the most important variables. Furthermore, there is evidence that, even in the most artificial situations, conjoint analysis reflects the judgment practices actually used by decision-makers (Hammond & Adelman, 1976).

Two methods of data collection were used: (1) questionnaires collected by the researcher and (2) questionnaires sent by mail. Comparison of responses to the two methods of data collection showed that they were not significantly different. More specifically, we asked managers to consider a scenario based on the seven factors (product, market and technology relatedness, strategic position, new capacities, profitability, and risk) and then decide whether they would internalize or externalize the CV. To ensure consistency across data collection, one researcher collected all of the data. In the personally collected responses, the experiment was explained at the managers' workplace; otherwise managers were sent a cover letter with instructions that guided them through the questionnaire.

Because a fully crossed factorial design involving seven factors at two levels (2^7) requires 128 profiles, an orthogonal fractional factorial design was used to reduce the number of factor combinations, thus making the decision task more manageable (Green & Srinivasan, 1990). Our orthogonal, fractional factorial design consisted of eight profiles, each one replicated to test for reliability. Pearson R correlations indicated that test-retest reliability for the sample was 97.3%, which is consistent with other conjoint analysis studies.

The dependent variable in this study is the decision to internalize or externalize an existing CV. Specifically, managers were asked, "Based upon the above seven dimensions of this new venture, what would you decide about its organizational design?" The dependent variable was measured on an 11-point Likert scale that ranged from "High probability to Internalize" to "High probability to Externalize." A higher score reflects a greater likelihood to externalize the CV and a lower score reflects a greater likelihood to internalize it. There are two constructs to measure strategically a new venture, the operational relatedness and the strategic importance. Product, market and technology relatedness show the three possibilities of operational relatedness, therefore the synergies of the CVs with the parent firm. The strategic importance is measure by how the NV affect the strategic position of the parent firm, the importance of the new capabilities needed, the profitability, and risk. So seven are the factors (independent variables) we used in the analysis: product, market, technology relatedness, strategic position, new capabilities, profitability, and risk (Appendix 1).

Analysis and results

The experiment provides 20 observations per manager. With 80 managers, there are a total of 1600 decisions for the sample. While this means that there are a large number of degrees

of freedom for the subsequent analyses, there may be autocorrelation because the 1600 observations (level 1 data) are nested within 80 managers (level 2). We used hierarchical linear modeling (HLM) to analyze the data because HLM can test models at level 1 (by accounting for variance among managers, such that the decisions of each manager are independent) and level 2 separately. For all analyses, the variables are standardized and group centered. HLM accounts for variance among individuals such that the 1600 observations can be considered independent. .

Results are reported in Table 1 below. Presented in this table are the coefficients from HLM standardized values, as well as standard error, t-ratio and level of significance. The intercept model represents the likelihood of the sample to externalize the CV, standardizing where possible individual differences such as age. This model explains 73.2% of the variance in the individual decisions within the sample of managers, across all factors.

"Insert Table 1 Here"

The results indicate that the likelihood that managers will choose to externalize the CV is positively associated with strategic position (coefficient = 1.379, p<.01); and risk (coefficient = .432, p<.01), providing support for H1and H4. The likelihood of externalizing the CV diminishes (is negatively associated) 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.a, and H5.c.

However, hypotheses H2 (coefficient= .637, p<.01) and H5.b . (coefficient=1.175, p<.01), although significant, were in the opposite direction: the low importance of the competencies

necessary to develop the new venture and low market relatedness were related to internalizing the CV. These results are particularly striking because they fly in the face of both theory and previous findings.

To summarize: H1,H3, H4; H5a and H5c are supported but H2 and H5b although significant, were in the opposite direction.

DISCUSSION AND CONCLUSIONS

This paper examined what drives a manager's choice whether to keep a new CV internal or to spin it off, and the role of risk and performance in that choice. By taking the perspective of the managers who make this decision, we were able to decouple rhetoric about corporate venturing and its role in the firm from the actual determinants of the decision. In doing so, we have contributed to the literature on corporate venturing by examining the specific drivers of the spin off decision.

We were especially interested in whether managers are more concerned with the potential benefits that could accrue to the CV or the potential effects of the CV on the firm. Our results indicate that the decision to spin off or keep the CV internal is based primarily on how the choice affects the firm. Even though the literature has maintained that the main reason for corporate venturing is to develop new areas of growth (Roberts, 1980), managers seem to base their decision on how the CV affects the firm's competitive and *financial position*, and they seem to hold the view that the CV is first and foremost a *resource* for the firm. This results are in accordance with RB view and TC approaches which allow for hypotheses about the appropriate organizational mode of a firm's economic activities and thus the choice of keeping or spinning

off a CV. Both theories are complementary in determining a firm's boundary decisions. The firm's boundaries can be explained both by the costs of the economic exchange and by the capabilities of the firm, so that "those activities for which firms have cost advantages over the market—either because of superior capabilities or because of favorable governance costs—will be within the boundary of the firm" (McIvor, 2009, p.47).

The finding that the strategic position on the firm is connected to the choice to internalize or spin off a CV is in line with the arguments presented by Burgelman and Sayles (1986): managers tend to *further strengthen the strategic position of the firm by internalizing new CVs that threaten it, and by externalizing CVs that strengthen it.* Thus, the first objective of managers in making the decision to spin off a new venture is to protect the strategic position of the firm.

However—and this is an important limitation of our study—since the decision-making scenarios were all presented with a short fuse for decision making and with short-term actions, we are less comfortable arguing that the decisions would have been similar if the new CV had proven very profitable in the longer run or a disruptive innovation for the entire business arena. On the other hand, managers making those decisions do not have that information either. They are presented with similar information and choices and with similar uncertainty about the long-term prospects of the CV, yet they still prefer short-term gains for the firm over big plays in the future. This behavior may prove harmful in the long run, since it precludes the firm from enjoying the benefits of disruptive innovations that could be beneficial over time (see, for example, Govindrajan & Kopalle, 2006).

In a similar vein, the managers in this study would encourage externalization of a new CV if its near-term profitability forecast were low; if the risks involved were high; if the product, or

technological synergies with the firm were low. The confirmation of these hypotheses highlights managers' preference for the interests of the firm and their willingness to err on the side of benefiting the firm rather the new CV.

Finally, a result specially remarkable is the one obtain from the hypothesis of the importance of new competences and market relatedness that go in opposite direction to the theory that support them. In analyzing product-, market-, and technology-relatedness, researchers have paid little attention to potential interaction effects. In our case, market relatedness interacted with new competencies. To explore this further, we ran a second set of analyses that included market relatedness as a moderator of new competencies. This interaction was significant (coefficient= -1.507, $p<.01$)

"Insert Figure 1 Here"

Figure 1 presents the results of the interaction analysis. They show that market relatedness moderates the relationship between new competencies and the decision to spin off. Whereas the results do not change for low levels of market relatedness, for high levels, the relationship between new competencies and the decision to externalize the CV is in the hypothesized direction and significant. Thus, market relatedness moderates the relationship between new competencies and the decision to spin off or internalize CVs. Consequently the hypothesis 2 is supported when the market relatedness is high. Companies seek to create value from economies of scope by sharing activities and transferring skills (core competencies). This can be accomplished when there is high market relatedness between the firm and the CV, and when the

CV is kept inside the firm to ease the transfer of know-how and skills (Markides & Williamson 1996).

Although our sample comprised managers who make decisions about CVs, the hypotheses should also be tested in other cultures. Hofstede's cultural studies (1984) contend that Latin cultures (such as Spain) are risk-avoidant and cautious decision makers. Thus, it is possible that decision makers in other cultures have a different profile, in particular with regard to risk and profitability. However, most of the managers we interview work for either multinational corporations or large Spanish firms that compete globally. It is unlikely that their decision making in this matter would deviate significantly from that of other non Spanish managers in their organizations. Nevertheless, further research should explore the cultural aspects of decision making in the context of corporate venturing.

As reported above, the study method might also create limitations because the managers were asked to take the perspective of *managers of hypothetical firms*, which may over-emphasize risk-avoidance and tendency to take the firm's position. It could be also a limitation because we are not analyzing the firms managed by the people who answer the questionnaires. But Conjoint Analysis is an experiment where in this case we do not ask to the managers about the companies that they really manage, we ask about *hypothetical new ventures* (with 7 attributes with 2 levels each one that change in each of the 20 scenarios) where they have to take the decision to internalize or to spin off them. However, the managers who actually make the decision to spin off or internalize a CV are acting from the same perspective, and it would be important to determine whether in this contest they would overemphasize risk avoidance.

The paper examines the drivers of decisions about corporate venturing from the perspective of managers, combining transaction-cost and resource-based theories in the context of corporate venturing and provides a test of resource-based theory in the context of entrepreneurial activity. The paper provide an empirical test of that relationship between strategic issues and CV choices and include the examination of risk and financial returns, which allows us to examine how managers weight those variables when making the choice to internalize or externalize a new CV. The use of transaction-cost and resource-based theory seems to be borne out by the results of the study. Decisions about whether to spin off or internalize are based, according to our results, on those costs and on how resources affect the firm.

There are few studies about the importance of the factors which guide the decisions in the firm to internalize or externalize a CV. The results show the importance that the managers give to these factors in particular to the strategic position and technology relatedness. Particularly important is the interaction between market relatedness and the importance of new competences, further research must go into the different possible interactions between all the factors which moderate the decision to externalize a CV.

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APPENDIX 1

New Venture Profile

1. The New Venture have a PRODUCT relation with the corporation: *LOW*
2. The New Venture have a MARKET relation with the corporation: *LOW*
3. The New Venture have a TECHNOLOGY relation with the corporation: *HIGH*
4. With the New Venture, the STRATEGIC POSITION of the corporation will be: *THREATENED*
5. With the New Venture, the corporation can develop NEW CAPACITIES for the future of the corporation: *NOT IMPORTANT*
6. With the New Venture, the corporation can get a PROFITABILITY: *HIGH*
7. The New Venture has a RISK: *HIGH*

1	2	3	4	5	6	7	8	9	10	11

HIGH PROBABILITY — HIGH PROBABILITY

INTERNAL — **EXTERNAL**

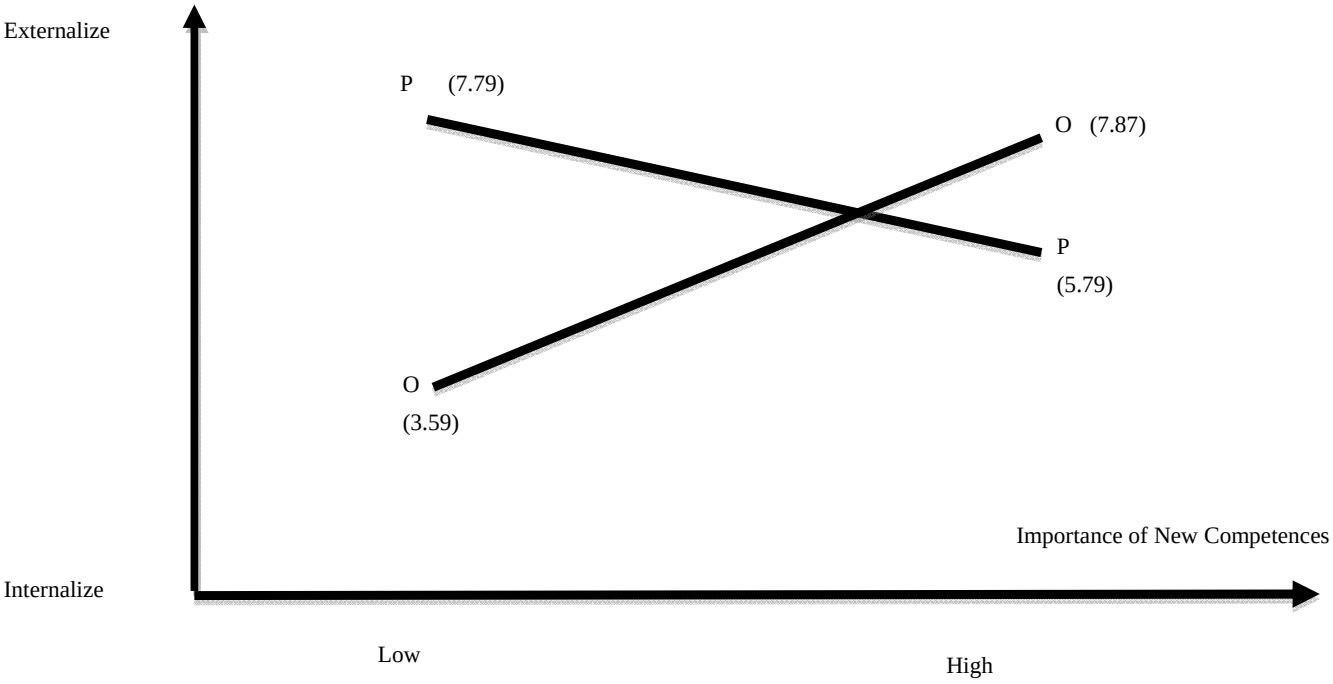
TABLE 1

Model			
	Coefficient	**Standard Error**	**T-Ratio**
Strategic position	1.3797	0.1668	8.268 ***
New competencies	0.6373	0.1336	4.770***
Profitability	-0.4985	0.1509	-3.304***
Risk	0.4327	0.1564	2.766***
Product relatedness	-0.8360	0.1370	-6.100***
Market relatedness	1.1751	0.1293	9.082***
Technology relatedness	-1.3613	0.1277	-10.659***
Intercept	6.57	0.11402	57.683***

***p<.01

FIGURE 1

Interaction of distinctive competences and market relatedness



Interaction of distinctive competences and market relatedness:

.

Positions marked with P represent the high market relatedness situation: High importance of new competences is related with internalization of CV. H2 is supported

Positions with O represent the low market relatedness situation. High importance of new competences is related with externalization of CV. H2 is not supported (The lines in the figure are drawn only to illustrate the change in externalization decision of the managers, and do not suggest a linear correlation.)