

## Accepted Manuscript

**DOI:** <https://doi.org/10.1080/14783363.2018.1530592>

**Citation:** Pizarro-Moreno, M. I., De Castro, J., Galán González, J. L., & Palacios-Florencio, B. (2021). Breaking down the decision to externalise new corporate ventures. *Total Quality Management & Business Excellence*, 32(1-2), 76-91.

This article has been accepted for publication and has undergone full peer review. However, this version does not have the copyediting, typesetting, pagination, and proofreading processes, which may result in differences between this version and the final Version of Record.

The terms and conditions for the reuse of this version of the manuscript are specified in the publishing policy. For all terms of use and more information, please visit the publisher's website.

## Breaking down the Decision to Externalize New Corporate Ventures

**Abstract** Companies are faced with the problem of balancing autonomy and control of new corporate ventures created within the organization. Utilizing both transaction-cost and resource-based theories, we analyze what issues drive managers when making the decision of internalizing or spinning off a Corporate Venturing (CV). Our results indicate that the primary drivers of such strategic decisions are near-term profitability, the risks involved and synergies with the firm. Our results indicate that rather than the potential of the venture in itself, the main driver of decisions are the potentials benefits and/or damage that CV could cause to the parent firm.

**Keywords** Decision- Making, New Corporate Venture, Spin-off, Internalization, Externalization.

### 1 Introduction

As environments go through rapid changes, companies need to reinvent themselves to remain competitive. Sharma and Chrisman (1999) have argued that through the process of corporate entrepreneurship, an organization can instigate renewal or innovation within, or create new organizations. Corporate entrepreneurship includes the creation of new business ventures, products, services or technologies within established firms (Burgelman, 1983; Zahra, 1991; Belousova & Gailly 2013). It can also be conceptualized as enhancing organizational competencies and the development of opportunities through internally generated innovation. Therefore, corporate entrepreneurship can facilitate the efforts of organizations to innovate and effectively cope with changes that occur in both the internal and external environment (Kearney et al. 2008). However, our understanding of corporate entrepreneurship, and in particular, the process by which firms decide how to relate new corporate ventures to the main organization, needs further research (Guerrero & Peña 2013; Hack et al. 2016).

Corporate venturing (henceforth CV) refers to corporate entrepreneurial efforts that lead to the creation of new business organizations within the umbrella of an existing firm. They may follow from or lead to innovations that exploit new markets, or new product offerings, or both (Sharma & Chrisman, 1999). Creating new corporate ventures can be a useful tool for firms interested in entering new businesses by expanding operations into new or existing markets (Guth &

Ginsberg, 1990; Zahra, 1993; 1995; 1996). Over the past three decades, companies have shown significant interest in CVs, as a means of achieving strategic renewal, building organizational capabilities and creating value for shareholders. Business interest in CV has stimulated academic interest in the topic, resulting in a growing body of literature (Yang et al. 2013).

A CV can be an important avenue for growth and diversification, and firms with growth-oriented strategies develop CV's in order to grow a new business from the inside out (Burgelman, 1983; 1984; Burgelman & Sayles 1986; Zahra, 1991). However, when companies develop new ventures, they face 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 main business (internal CV) (Block & MacMillan, 1993; Sharma & Chrisman, 1999; Ajit et al. 2000; Stringer, 2000; Chesbrough, 2003).

In this paper, we contend that the type of organizational design most suitable for a particular CV would depend on the characteristics of the strategic relationship between the firm and the CV. Burgelman and Sayles (1986) cited two key dimensions for assessing the strategic elements of an entrepreneurial proposal: (1) its strategic importance to the corporation; and (2) its relatedness to current operations.

We maintain that managers decide to either keep or spin off a new venture based on the venture's strategic relationship with its main business, 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 (Penrose, 1959; Wernerfelt, 1984; Barney, 1991; Petered, 1993; Hamel & Prahalad, 1994) and analyze how the assessment of the strategic relationship between the firm and the new venture determines the decision to keep the new venture within the organization or to spin it off as an independent unit (internalizing or externalizing the CV).

Thus, we examine the importance that manager's assign to different factors, which emerge from our theoretical model, to the decision to "internalize or externalize a CV". We answer those questions by conducting a conjoint study of the decision making process of a sample of Spanish managers as they decide to keep in or spin off a new venture.

Our results indicate that the effects of the new venture on the strategic position of the firm is a prime determinant of the decision-making 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 CV internal or to spin it off. We find that the main determinant of whether managers decide to keep in the new venture is how threatening it is for the existing business. Thus, managers are more concerned with protecting the existing business than in the potential of the new venture. This result highlights the problems of developing successful new ventures for existing firms given that their main objective is to protect the existing business. Further, we also highlight the importance of "risk and performance" role in such decision- making. The article is divided into four main parts. The first part situates the literature and shows the hypothesis around the decision to spin off a new corporate 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.

## **2. The decision-making of internalizing or externalizing a new corporate venture**

Managers are increasingly faced with the task of making complex decisions in turbulent organizational environments (Huber, 1984; Kilmann, 1989). Current organizational theory offers two main explanations for the determination of firm boundaries and inter-firm 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 costs in making those decisions, we contend that TC theory

does not account for the value of the relationship of the new venture and the main business with the resources of the firm. So while this may be a necessary condition in the decision, the costs of the transaction is 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. From a resource-based view, intangible assets are more specific than tangible ones (Vicente & Lorente, 2001). These specific resources are the ones which will largely determine the choice of growth method (Montoro-Sánchez et al. 2009). 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.

Researchers have considered RB and TC approaches complementary in determining a firm's boundary decisions, contending that neither theory can fully explain firm boundaries (Poppo & Zenger, 1998; Coombs & Ketchen, 1999). 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 decision-making of keeping or spinning off a CV.

But what determines the nature of the relationship between the main business and the CV, and how might a CV affect that? 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 operational relatedness 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 relatedness 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).

The main business strategic position and the decision to keep or spin off the 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). Therefore, the main driver of this decision is how the CV will affect the strategic position of the firm. The top managers in the threatened firm must decide how to respond to an innovation that could alter or destroy their existing business (Cooper & Smith, 1992). 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. Thus:

H1: When the strategic position of the main business is threatened by the new venture, the managers will decide to internalize the CV.

### 2.1. 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 (Zahra et al. 1999; Miles & Covin, 2002), 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 et al. (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, managers will decide to internalize the CV.

## 2.2 Profitability and risk

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. The study by Felicio et al. (2012), shows that the capacity of innovation requires a natural tendency for internal entrepreneurs to accept risks. A creative effort to develop initiatives to remain competitive means challenges that have risks associated. Successful projects must be aware of the risks and the uncertainty associated with the result of being profitable (Gartner & Liao, 2012).

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 CV is high, managers will decide to internalize the CV.

H4: If the financial risk and uncertainty of the CV are high, managers will decide to externalize the CV.

### 2.3 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. When new innovations are very different from a firm's traditional business, it is likely that the firm may not have sufficient internal resources (skills, human resources, etc.) to create a complete internal corporate venture (Kathuria & Joshi 2007). 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 et al. 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; Wernerfelt, 1984; Ito & Rose, 2004; Grant, 2004; Pehrsson, 2006). 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. 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: When the level of relatedness between the product of the main business and the one of

the CV is high, the firm will tend to internalize the CV.

H6: When the level of relatedness between the market of the main business and the one of the CV is high, managers will decide to internalize the CV.

H7: When the level of relatedness between the technology of the main business and the one of the new corporate venture is high, managers will decide to internalize the CV.

### **3. Methodology**

#### **3.1 Sample and data**

The sample for this study comprises decisions of managers who were attending an Executive-MBA program. Prior research indicates that managers that are enrolled in MBA programs are a good sample for studies related with internal entrepreneurship (Gómez-Haro et al. 2011). There is also a similar study with entrepreneurship scholars only active founders of ventures (Laskovaia et al. 2017). The managers selected in our sample had the educational background and experience to understand the importance of this study. They came from three business schools in Spain (Instituto de Empresa de Madrid (57%), Instituto San Telmo de Sevilla (15%), Escuela de Organización Industrial de Sevilla (28%)). The average age of the managers was 36 years old and they were chosen so that they had an appropriate position in their companies as to be involved with CV decisions in their firms. They were interviewed at the beginning of the MBA programs.

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). The responses of three managers were deemed inconsistent 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.

#### **3.2 Method**

For this study, we utilized conjoint analysis, a technique common in marketing research that has been used in thousands of studies over the past three decades (Green et al. 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).

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 or attributes (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.

As general rule, a sample size greater than 50 is normally sufficient (Zacharakis & Meyer, 1997; Zacharakis & Shepherd, 2001, 2002). This is because conjoint analysis provides many data points within an individual allowing individual subject level analysis. This technique, which allows 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 in our study, managers and business people, often busy and difficult to contact.

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 and 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 managerial decision to internalize or externalize an existing CV (developed by the parent company). Specifically, managers were asked, “Based upon the

above seven dimensions of this new venture, what would you decide about its organizational design?"

Managers select alternatives based upon a simplified model of a situation because decision makers as human being have severe limitations on the amount of information that they are capable of receiving and processing (Miller, 1956; Simon, 1979).

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 CV affect the strategic position of the parent firm, the importance of the new capabilities needed, the profitability, and risk. So seven are the factors or attributes (independent variables) we used in the analysis: product, market and technology relatedness, strategic position, new capabilities, profitability, and risk (Appendix 1).

#### **4. Analysis and Results**

The experiment provided 20 observations per manager. With 80 managers, there were a total of 1600 decisions for the sample (20\*80). 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 (henceforth 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 H1.a and H1.b and H4.a and H4.b. 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.a, H3.b, H5.a, H5.b, and H7.a, H7b.

However, hypotheses H2.a, H2.b (coefficient = .637,  $p < .01$ ) and H6.a, H6.b. (coefficient = 1.175,  $p < .01$ ), although significant, were in the opposite direction: the low importance of the competencies necessary to develop the new corporate 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.a y H1 b., H3.a, H3.b, H4.a, H4.b; H5a, H5b and H7.a, H7b are supported but H2.a, H2.b and H6.a, H6.b although significant, were in the opposite direction.

## 5. Discussion and conclusions

Using resource based and transaction cost theory in a policy capturing conjoint study we examined what drives a manager's decision 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 CV and its role in the firm from the actual determinants of the decision. In doing so, we have contributed to the literature on CV 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 from the CV or the potential harming effects of such new business on the firm. That is, whether the potential of the new venture would outweigh the risks to the existing business of the firm. Our results indicate that the decision to spin off or keep the CV internal is based primarily on how the decision affects the firm. So the perceived risks for the firm far outweigh the potential gains of the CV in the eyes of managers. Even though the literature has

maintained that the main reason for CV 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 result 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 managerial decision to internalize or spin off a CV is in line with the arguments presented by Burgelman and Sayles (1986): managers tend to further empower 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.

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, the results on the importance of new competences and market relatedness were especially interesting and in the opposite direction to the theory. 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, the hypothesis 2 would be 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).

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 limitation because we are not analyzing the firms managed by the people who answer the questionnaires, so we do not make any analysis to test potential common method bias. But Conjoint Analysis is a technique where you 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. 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.

An important limitation of our study is that managers making those decisions do not have that longer term 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, Govindrajana & Koppale, 2006).

Another limitation is that individuals make the decisions in an isolated way not working in groups. Ribeiro and Comeche (2007) demonstrated that managers should rely on the group to compensate for their own managerial shortcomings by sharing the decision-making process because in this way the organization obtains better ratios of communication, collaboration and problem-

solving. Managers may find it useful when facing a complex decision to gather information from several individuals who have various perceptions of a problem and different areas of expertise (Slevin, 1998).

The paper provides an empirical test of that relationship between strategic issues and CV choices and includes the examination of risk and financial returns, which allows us to examine how managers weigh those variables when making the manager's decision to internalize or spin-off a new CV. But we should consider that beside company's characteristics, there are important factors related to the environment which can influence the manager's decision for implementing corporate entrepreneurial activities (Montoro-Sánchez et al. 2009).

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.

Previous research has provided little guidance about the factors that guide the decisions in the firm to internalize or externalize a new business created inside a corporation. Our results indicate that the key driver of that decision is not the upside of the new venture, but rather the possible harm to the existing one. This result is consistent with prospect theory arguments that find that individuals are more concerned with possible losses than with likely gains (Tversky & Kahnemank, 1992). We find that managers are more concerned about the possible negative effects of the new venture on the existing one than on the possible upside of the new venture. The results show the importance that managers, that confront such business growth, give to the strategic position and technology relatedness factors. 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.

## References

- Ajit, K., Eselius, E., & Monteiro, K. A. (2000). Fast venturing: The quick way to start web businesses. *Sloan Management Review*, 41(4), 55-67.
- Ansoff, I. (1965). *Corporate Strategy*. Harmondsworth, UK: Penguin Books.
- Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal Management*, 17(1), 99-120.
- Belousova, O., & Gailly, B. (2013). Corporate entrepreneurship in a dispersed setting: actors, behaviors,

- and process. *International Entrepreneurship and Management Journal*, 9, 361-377.
- Block, Z., & MacMillan, I.C. (1993). *Corporate venturing: Creating new businesses within the firm*. Boston, MA: Harvard Business School Press.
- Burgelman, R.A. (1983). A process model of internal corporate venturing in the diversified major firm. *Administrative Science Quarterly*, 28, 223-244.
- Burgelman, R.A., & Sayles, L.R. (1986). *Inside corporate innovation, strategy, structure, and managerial skills*. New York, NY: The Free Press.
- Chesbrough, H.W. (2003). *Open Innovation: The new imperative for creating and profiting from technology*. Boston, MA: Harvard Business School Publishing.
- Coase, R. (1937). The nature of the firm. *Economica*, 4(16), 386-405.
- Combs, J.G., & Ketchen, D.J. (1999). Explaining inter-firm cooperation and performance: toward a reconciliation of predictions from the resource-based view and organizational economics. *Strategic Management Journal*, 20, 867-888.
- Cooper, A.C., & Smith, C.G. (1992). How established firms respond to threatening technologies. *Academy of Management Executive*, 6(2), 55-70.
- Covin, J.G., & Miles, M.P. (2007). The strategic use of corporate venturing. *Entrepreneurship Theory and Practice*, 31(2), 185-209.
- Fast, N.D. (1979). *The rise and fall of corporate new venture divisions*. Ann Arbor, MI: UMI Research press.
- Felício, J.A., Rodrigues, R., & Vítor R.C. (2012). The effect of intrapreneurship on corporate performance. *Management Decision*, 50(10).
- Gartner, W., & Liao, J. (2012). The effects of perceptions of risk, environmental uncertainty, and growth aspirations on new venture creation success. *Small Business Economics*, 39(3), 703-712.  
<http://dx.doi.org/10.1007/s11187-011-9356-1>
- Gómez-Haro, S., Aragón-Correa, J.A., & Cerdón-Pozo, E. (2011). Differentiating the effects of the institutional environment on corporate entrepreneurship. *Management Decision*, 49(10), 1677-1693.
- Govindrajn, V., & Kopalle, P.K. (2006). Research notes and commentaries. Disruptiveness of innovations: Measurement and an assessment of reliability and validity. *Strategic Management Journal*, 27(2), 189-199.
- Grant, R. (2004). *Contemporary strategy analysis*. New York, NY: Wiley-Blackwell.

- Green, P.E., & Srinivasan, V. (1990). Conjoint analysis in marketing: new developments with implications for research and practice. *Journal of Marketing*, 54(4), 3-19.
- Green, P.E., Krieger, A.M., & Wind, Y.J. (2001). Thirty years of conjoint analysis: Reflections and prospects (part 2 of 2). *Interfaces*, 31(3), 56-73.
- Guerrero, M., & Legazcue, I.P. (2013). The effect of intrapreneurial experience on corporate venturing: Evidence from developed economies. *International Entrepreneurship and Management Journal*, 9, 397-416.
- Guth, W.D., & Ginsberg, A. (1990). Guest Editors' Introduction: Corporate entrepreneurship. *Strategic Management Journal*, 11, 5-15.
- Hack, A., von Bieberstein, F., & Kraiczy, N. D. (2016). Reference point formation and new venture creation. *Small Business Economics*, 46(3), 447-465. <http://dx.doi.org/10.1007/s11187-015-9694-5>
- Hamel, G., & Prahalad, C.K. (1994). *Competing for the Future*. Cambridge, MA: Harvard Business School Press.
- Hoffmann, W.H., & Schaper-Rinkel, W. (2001). Acquire or ally? -- A strategy framework for deciding between acquisition and cooperation. *Management International Review*, 41, 131-159.
- Ito, K., & Rose, E.L. (2004). An emerging structure of corporations. *Multinational Business Review*, 12 (3), 63-83.
- Johnson, G., & Scholes, K. (2001). *Exploring Corporate Strategy*. New York, NY: Prentice Hall.
- Kanter, R. (1989). *When giants learn to dance: Mastering the challenge of strategy, management and careers in the 1990s*. New York, NY: Simon & Schuster.
- Kathuria, R., & Joshi, M.P. (2007). Environmental influences on corporate entrepreneurship: Executive perspectives on the internet. *International Entrepreneurship and Management Journal*, 3, 127-144.
- Kearney, C., Hisrich, R., & Roche, F. (2008). A conceptual model of public sector. *International Entrepreneurship and Management Journal*, 4, 295-313.
- Laskovaia, A., Shirokova, G., & Morris, M. H. (2017). National culture, effectuation, and new venture performance: Global evidence from student entrepreneurs. *Small Business Economics*, 49(3), 687-709. <http://dx.doi.org/10.1007/s11187-017-9852-z>
- Mahoney, J.T., & Pandian, J.R. (1992). The resource-based view within the conversation of strategic management. *Strategic Management Journal*, 15(5), 363-380.
- March, J.G. (1991). Exploration and exploitation in organizational learning. *Organization Science*, 2, 71-

- Markides, C.C., & Williamson, P.J. (1994). Related diversification, core competences and corporate performance. *Strategic Management Journal*, 15(2), 149-165.
- McIvor, R. (2009). How the transaction cost and resource-based theories of the firm inform outsourcing evaluation. *Journal of Operations Management*, 27, 45-65.
- Miles, M.P., & Covin, J. (2002). Exploring the practice of corporate venturing: Some common forms and their organizational implications. *Entrepreneurship Theory and Practice*, 26, 21-40.
- Montoro-Sánchez, A., Ortiz-de-Urbina-Criado, M., & Romero-Martínez, A. (2009). The decision to use alliances as corporate entrepreneurship: The role of resources and skills. *Group Decision and Negotiation*, 18(5), 431-448.
- Narayanan, V.K., Yang, Y., & Zahra, S.A. (2009). Corporate venturing and value creation: A review and Synthesis. *Research Policy*, 38(1), 58-76.
- Pehrsson, A. (2006). Business Relatedness and performance: A Study of Managerial Perceptions. *Strategic Management Journal*, 27, 265-282.
- Penrose, E.G. (1959). *The theory of the growth of the firm*. New York, NY: J. Wiley.
- Peteraf, M.A. (1993). The cornerstones of competitive advantage: A resource-based view. *Strategic Management Journal*, 14, 170-181.
- Picot, A. (1982). Transaktionskostenansatz in der organisationstheorie: Stand der diskussion und aussagewert. *Die Betriebswirtschaft*, 42, 267-284.
- Poppo, L., & Zenger, T. (1998). Testing alternative theories of the firm: transaction cost, knowledge-based and measurement explanations of make-or-buy decisions in information services. *Strategic Management Journal*, 19(9), 853-877.
- Porter, M. (1999). *Estrategia Competitiva: Técnicas para el análisis de los sectores industriales y de la competencia*. Mexico: Ed. Continental, S.A.
- Prahalad, C.K., & Hamel, G. (1990). The core competence of the corporation. *Harvard Business Review*, May-June, 79-91.
- Ribeiro, D., & Comeche, J.M. (2007). Transmitting the entrepreneurial spirit to the work team in SMEs: the importance of leadership. *Management Decision*, 45(7), 1102-1122.
- Roberts, E. (1980). New ventures for corporate growth. *Harvard Business Review*, July-August, 134-142.
- Schildt, H., Maula, M., & Keil, T. (2005). Explorative and exploitative learning from external corporate

- ventures. *Entrepreneurship Theory and Practice*, 29(4), 493-511.
- Selznick, P. (1957). *Leadership in administration*. New York, NY: Harper & Row.
- Sharma, P., & Chrisman, J. (1999). Toward a reconciliation of the definitional issues in the field of corporate entrepreneurship. *Entrepreneurship Theory and Practice*, 23(3), 11-27.
- Shepherd, D.A. (1999). Venture capitalists' assessment of new venture survival. *Management Science*, 45(5), 621-632.
- Shepherd, D.A., & Zacharakis, A.L. (1999). Conjoint analysis: A new methodological approach for researching venture capitalists' decisions. *Venture Capital: An International Journal of Entrepreneurial Finance*, 1(3), 197-217.
- Shepherd, D.A., & Zacharakis, A.L. (2002). Venture capitalists' expertise: A call for research into decision aids and cognitive feedback. *Journal of Business Venturing*, 17(1), 1-20.
- Stringer, R. (2000). How to manage radical innovation. *California Management Review*, 42, 70-88.
- Teece, D. (1982). Towards an economic theory of the multiproduct firm. *Journal of Economic Behaviour and Organization*, 3, 39-63.
- Tversky, A., & Kahneman, D. (1992). Advances in prospect theory: Cumulative representation of uncertainty. *Journal of Risk and uncertainty*, 5(4), 297-323.
- Vesper, K.H. (1984). *Three faces of corporate entrepreneurship: Pilot study*. University of Washington.
- Vicente-Lorente, J.D. (2001). Specificity and opacity as resource-based determinants of capital structure: evidence for Spanish manufacturing firms. *Strategic Management Journal*, 22(2), 157-177.
- Wernerfelt, B. (1984). A resource-based view of the firm. *Strategic Management Journal*, 5, 171-180.
- Williamson, O.E. (1985). *The economic institutions of capitalism*. New York: Free Press.
- Williamsson, O.E. (1975). *Markets and Hierarchies: Analysis and antitrust implications*. London, UK: The Free Press/Collier MacMillan.
- Yang, Y., Nomoto, S., & Kurokawa, S. (2013). Knowledge transfer in corporate venturing activity and impact of control mechanisms. *International Entrepreneurship and Management Journal*, 9, 21-43.
- Zacharakis, A.L., & Shepherd, D.A. (2001). The nature of information and overconfidence on venture capitalists' decision making. *Journal of Business Venturing*, 16(4), 311-332.
- Zahra, S.A. (1991). Predictors of financial outcomes of corporate entrepreneurship: An exploratory study. *Journal of Business Venturing*, 6, 259-285.
- Zahra, S.A. (1993). A conceptual model of entrepreneurship as firm behavior: A critique and extension.

*Entrepreneurship Theory and Practice*, 17(4), 5-21.

Zahra, S.A. (1995). Corporate entrepreneurship and financial performance: The case of Management Leveraged Buyouts. *Journal of Business Venturing*, 10(3), 225-247.

Zahra, S.A. (1996). Governance, ownership, and corporate entrepreneurship: The moderating impact of industry technological opportunities. *Academy of Management Journal*, 39(6), 1713-1735.

Zahra, S.A., Nielsen, A.P., & Bogner, W.C. (1999). Corporate entrepreneurship, knowledge, and competence development. *Entrepreneurship Theory and Practice*, 23(3), 169-189.

TABLE 1 Results

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***

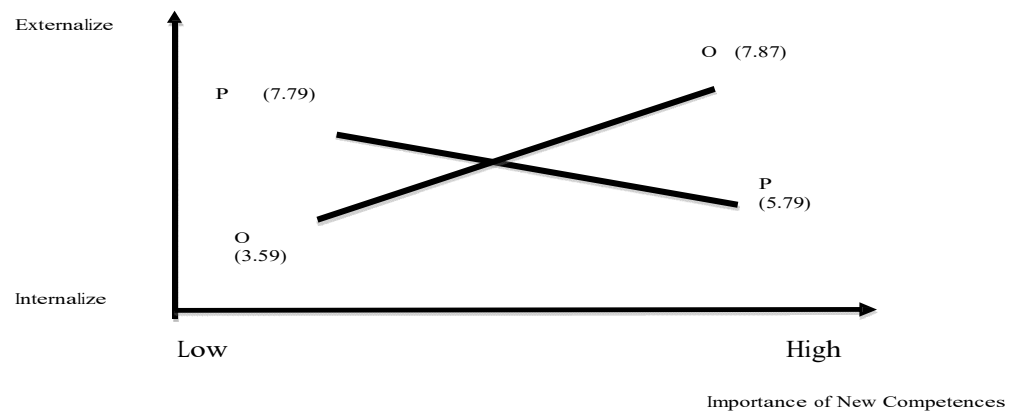


FIGURE 1 Interaction of distinctive competences and market relatedness

## 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