Abstract

This study explores the impact of knowledge relatedness with parent organizations on the performance of start-ups founded by former employees of these incumbent firms. Building on the entrepreneurship literature on spin-outs, I argue that the degree to which spin-outs' technological and market knowledge bases overlap with their parent organizations has a nonlinear impact on their performance - innovativeness and survival. Knowledge relatedness is beneficial to spin-outs because it reduces the uncertainty surrounding the early steps of a new venture. However, excessive overlap with the parent's technological and market capabilities may hamper the search for new combinations in areas distant from the core knowledge of the parent organization. Moreover, substantial market overlap may spark the parent's hostile reaction, giving rise to disruptive competition. These two effects in turn reduce the spinout's likelihood of survival. Also, I argue that the overlap-performance relationship is moderated by the founders' hierarchical position in the parent firms. The analysis of 131 biotech spin-outs spawned by 116 industry incumbents supported my hypotheses. The results contribute to the literature on the genealogical perspective on firm formation, knowledge inheritance, and spin-outs performance.
The Double-Edged Sword of Knowledge Inheritance: Knowledge Relatedness and Spin-Outs’ Performance

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ABSTRACT
This study explores the impact of knowledge relatedness with parent organizations on the performance of start-ups founded by former employees of these incumbent firms. Building on the entrepreneurship literature on spin-outs, I argue that the degree to which spin-outs’ technological and market knowledge bases overlap with their parent organizations has a nonlinear impact on their performance – innovativeness and survival. Knowledge relatedness is beneficial to spin-outs because it reduces the uncertainty surrounding the early steps of a new venture. However, excessive overlap with the parent’s technological and market capabilities may hamper the search for new combinations in areas distant from the core knowledge of the parent organization. Moreover, substantial market overlap may spark the parent’s hostile reaction, giving rise to disruptive competition. These two effects in turn reduce the spinout’s likelihood of survival. Also, I argue that the overlap-performance relationship is moderated by the founders’ hierarchical position in the parent firms. The analysis of 131 biotech spin-outs spawned by 116 industry incumbents supported my hypotheses. The results contribute to the literature on the genealogical perspective on firm formation, knowledge inheritance, and spin-outs performance.

Keywords:
Genealogical Lineage; Parental Inheritance; Knowledge Relatedness; Spin-outs