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## Technological and Market Capabilities of Incumbent Firms as Sources of Opportunities for Spinouts

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## **Abstract**

The entrepreneurship literature suggests that increases in the level of incumbent firms' technological or market knowledge enhance the likelihood of spinout generation. In this paper we examine whether conditional on new venture spawning the imbalance between the spawning firm's level of technological and market capabilities affects the strategic direction of the new venture. Specifically, we look at whether the new venture becomes a market diversifier (spinout in a market segment different from that of the parent firm) or a technology diversifier (spinout in a technological field different from that of the parent firm). We build on the corporate coherence approach and hypothesize that if the parent firm's market dimension is narrow, market diversifier spinouts will be more likely to exploit opportunities. Similarly, we hypothesize that if the parent firm's technology dimension is narrow technology diversifier spinouts will be more likely to exploit opportunities. We extend the corporate coherence argument to predict also that market diversifier spinouts are more likely to be spawned by technologically diversified parent firms, which are active in a few product-market segments, and that technology diversifier spinouts are more likely to be spawned by technologically focused parent firms, which are active in various market segments. We analyze biotech industry data to test our hypotheses.

## **Technological and Market Capabilities of Incumbent Firms as Sources of Opportunities for Spinouts: Evidence from the Biotech Industry**

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**ABSTRACT.** The entrepreneurship literature suggests that increases in the level of incumbent firms' technological or market knowledge enhance the likelihood of spinout generation. In this paper we examine whether conditional on new venture spawning the imbalance between the spawning firm's level of technological and market capabilities affects the strategic direction of the new venture. Specifically, we look at whether the new venture becomes a market diversifier (spinout in a market segment different from that of the parent firm) or a technology diversifier (spinout in a technological field different from that of the parent firm). We build on the corporate coherence approach and hypothesize that if the parent firm's market dimension is narrow, market diversifier spinouts will be more likely to exploit opportunities. Similarly, we hypothesize that if the parent firm's technology dimension is narrow technology diversifier spinouts will be more likely to exploit opportunities. We extend the corporate coherence argument to predict also that market diversifier spinouts are more likely to be spawned by technologically diversified parent firms, which are active in a few product-market segments, and that technology diversifier spinouts are more likely to be spawned by technologically focused parent firms, which are active in various market segments. We analyze biotech industry data to test our hypotheses.

### **Keywords:**

Employee Entrepreneurship; Knowledge Spillovers; New Ventures Strategy; Biotech

<< *The full paper is available at* [aliasghar.bahoo@unibocconi.it](mailto:aliasghar.bahoo@unibocconi.it) >>