The Reciprocal Nature of Organizational Sponsorship: How Family and Non-family Parent Firms Sponsor their Spinoffs.

Introduction

Fewer than 50% of new ventures last more than 5 years, yet entrepreneurial activity remains the life blood of economic activity among nations (Aldrich & Ruef, 2006). Governments, organizations and firms have established initiatives and incentives which foster and protect new ventures as a form of sponsorship. Yet since Flynn's (1993a,b,c) pioneering work on organizational sponsorship, relatively little work has been conducted on how parent firms, whether family owned or not, sponsor new ventures, with the exception of research on incubators (e.g. Amezcua et al, 2013).

Flynn defined 'organizational sponsorship' as "a deliberate attempt to make available a significantly higher and more stable level of resources for new organizations . . . when organizations are sponsored, their environment is enriched, providing legitimacy" (Flynn, 1993a). The premise is that resource munificence in an entrepreneurial context should always benefit new venture survival. However, recent research suggests that munificence in an entrepreneurial context does not always benefit the new venture nor protect the new venture. It depends on type and level of resource along with type of environment (Amezcua, Grimes, Bradley, & Wiklund, 2013). Amezcua et al only considered the special case of incubators. Yet most organizational sponsorship occurs when a parent firm spins off one or two new ventures. In this study, we try to address this gap.

This study espouses and extends theory proposed by Amezcua et al. (2013) from the realm of incubators to the realm of "parent firms" and "spinoffs". Using rich qualitative data from 45 interviews in 9 firms, we induce that sponsorship may vary in type and intensity depending on the nature of the parent and the level of ownership (high or low) of the spinoff by the parent firm. We observe all three types of sponsorship activities theorized by Amezcua et al for incubators: ‘networking’, ‘field-building’ and ‘direct support’, and we observe sponsorship across all four types of entrepreneurial capital: human, social, economic and symbolic (Firkin, 2001). We also induce a reciprocal relationship between the parent firm and new venture specific to forms of entrepreneurial capital. We propose that organizational sponsorship from an organization or parent firm increases certain forms of entrepreneurial capital at the new venture and as a result increases the probability of new venture survival.

Method

We chose a micro-level inductive and interpretive approach to build theory around organizational sponsorship, new venture survival and a mediating influence of ownership level (Gephart, 2004). This approach is often applied to historical events to identify ‘chronological structure’ and causal relationships over time (Kimberly & Bouchikhi, 1995; Suddaby & Greenwood, 2009). We conducted 45 interviews at 9 firms in the UK and US over a period of 3 years among CEO’s, family members, employees and industry experts. All firms we selected for case studies were in the green industry or building industry but firms varied in the level of ownership of the spinoff by the parent, and in the level of family engagement in the business. Four firms were family firms, 3 firms were non-family firms, and 2 firms were a hybrid form with non-family senior management but family ownership. All family firms were entering at least their 3rd generation in order to control for founder influence.

We used a semi-structured interview protocol which included several close-ended questions referring to founding date of firm, age, children in the business, number of employees. Open-ended questions allowed us to investigate the history of the firm, innovations at the firm, attitude towards innovation at the firm, level of activity provided for innovation at the firm, and reason for providing help to innovators within the firm. We also asked open-ended questions about transfer of skills, employees, social connections, business connections, financial and economic resources, and power of the parent brand name and reputation.

Interviews were conducted on site and usually required 60-90 minutes to complete. All interviews were transcribed and formatted. Follow-up data was acquired no later than 1 year after final interview. This information clarified previous information from core interviews. In addition we collected archival data to triangulate our research and provide accurate data on individual firms. Data was collected from various published sources. Several family firms provided published histories of their founding; several histories dated back to founding in the 17th century.

To organize and analyze all data and link it to a particular case, we used NVIVO software. We conducted our analysis in 4 steps. First, we attempted to understand which cases conducted sponsorship activities, and for this we employed textual analysis (Gephart, 2004). Following full coding of the transcribed interviews, we searched for evidence of buffering and bridging mechanisms in the codes, including sponsorship activities such as field-building, networking and direct support activities (Amezcua et al., 2013; Flynn, 1993a). We also searched for codes which related to the four different forms of entrepreneurial capital (Bourdieu & Nice, 1977; Firkin, 2001).

Results

We noticed that family firms were more prolific in their sponsorship activities. Further, we noticed that family firms were more specific in their sponsorship activities; family firms appear to develop forms of capital depending on the needs of the new venture and availability of capital at the parent firm. We found that family firms were doing more of, and more with, sponsorship activities to help the new venture but also to help themselves. Therefore acts of sponsorship were somewhat reciprocal, especially in the family firms where the nascent entrepreneurs were family members.

For example, Case study 5 and case study 2 received more human capital and social capital from the parent family firm because there wasn’t any economic or symbolic capital to offer. Case study 6 received symbolic and social capital from the parent family firm because the family firm had limited knowledge about conservation. Case study 1 and case study 3 received more human capital in the form of information and education from the parent firm because that’s what was needed at the new venture. Case study 4 received a strategic abundance of all forms of capital from the parent firm possibly because the new venture was deemed critical to succession and transition at the family firm and the parent firm was run by an outsider who understood the significance of family at the firm. Case study 7 received human capital and economic capital from the parent firm as a hostile act of separation; they received negative social and symbolic capital from the parent firm in the form of exclusion and lawsuits. Case study 8 received human capital and social capital from the parent firm in the form of vendor knowledge and customer relationships. Case study 9 received human capital and social capital given the close relationship among family, but symbolic capital and economic capital for the new spinout venture was restricted by poor performance of the parent family firm. Nothing returned to the parent family firm in the form of capital since banks called all loans and forced sale of the parent family firm shortly after new venture spinout.

We also noticed instances where the organization or parent firm invested capital in the new venture and in turn received capital from the new venture. Case study 6 returned symbolic capital, human capital and financial capital back to the parent family firm by innovating and pioneering the green movement among its hotels while saving money at each hotel. Case study 3 returned human capital and economic capital back to the parent family firm by innovating and capitalizing on industry efficiencies. Case study 3 returned economic capital and symbolic capital back to the parent family firm when it issued shares on NASDAQ and expanded operations to 15 countries.

Conclusion

This study extends research in organizational sponsorship by exploring the sponsorship by parent firms of spinoffs in family and non-family firms. Further, this study extends research in organizational sponsorship by demonstrating the types of sponsorship activities and the types of entrepreneurial capital transferred. In addition, this study demonstrates how the transfer of capital from parent firm to spinoff can be reciprocated later, thus sustaining the parent firm.

In the full paper we present a model of organizational sponsorship and firm performance which could be tested quantitatively using a longitudinal design. Future research could also investigate whether some forms of capital or sponsorship activities are more critical for spinoff survival than others (Arregle, Hitt, Sirmon, & Very, 2007; Davidsson & Honig, 2003; Pennings, Lee, & Van Witteloostuijn, 1998).