Spinning out? What you're able to take with you to your new company will determine how well you do

October 29 2015

To "spin out," you better have a big team with lots of experience.

When it comes to leaving a company to start your own, whether you sink or swim could depend on how many good people you can bring with you.

According to new research by U of T Scarborough and Rotman School of Management Professor April Franco it's a founder's ability to attract a large and experienced team of colleagues that will determine success of a spin-out company.

"A founder's individual characteristics are important but what's more important is that person's ability to bring a bigger and more experienced team with them," she says. "And the bigger that team the more likely the firm will succeed."

Spin-outs are start-ups created by employees who leave one company to form another in the same industry. Quite often it's the charismatic founder who is given disproportionate attention when a company "spins-out." In fact, existing research looks at the "founder effect" and the value of a team as separate factors when considering spin-out performance. But the two, Franco says, are closely related.

Franco along with colleagues Rajshree Agarwal from the University of Maryland, Ben Campbell from Ohio State University and Martin Ganco from the University of Wisconsin, used U.S. census data on employers in the legal services industry to look at the pattern of spin-outs. The legal services industry provides an ideal example because there are no restrictions on non-compete rules; employees are free to pack up and leave whenever they want to start a competing company.

They were able to track high-earning lawyers who left to start a new firm including data on who left with them and how long those individuals had been with the parent firm. Lastly, they were also able to track how well the new firm performed in terms of revenue.

The results showed that new firms performed best when their high-performing founder was able to bring with them an experienced team of former colleagues. "If you have experienced employees who have worked together for a long time it will boost a spin-out's ability to start quickly and operate smoothly. They will be able to really hit the ground running," says Franco.

It's important information to know because spin-outs are often drivers of innovation within an industry, notes Franco

A classic and well-known example is Fairchild Semiconductor during the late 1950's and 1960's. Several employees left to start their own tech companies in Silicon Valley and become known as "Fairchildren." This phenomenon drove Andrew Grove, a former Fairchild employee who helped start Intel and eventually became CEO, to proactively prevent employees from starting up new firms.

"He was keenly aware of the value of human capital in their industry and didn't want spin-outs to compete with Intel the same way they had with Fairchild."

Franco says while many companies are now concentrating on retaining the talented team that surrounds top performers as well as offering incentives to their top performers who may one day leave to start their own firm, many are also looking at acquiring top teams through firm acquisitions. This helps to explain the acquisition of firms with little sales or revenue, but have talented teams of employees.

The findings will be published in the upcoming edition of the *Academy of Management Journal*.

Provided by University of Toronto

Citation: Spinning out? What you're able to take with you to your new company will determine how well you do (2015, October 29) retrieved 25 April 2024 from
https://phys.org/news/2015-10-youre-company.html