How Relatedness Promotes Exit: A Resource Redeployment Perspective

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ABSTRACT

Researchers in corporate strategy and entrepreneurship have long argued that business “relatedness” contributes to a firm’s competitive advantage by promoting economies of scope. One implication is that new entries made by a firm into businesses that are more related to the firm’s existing businesses are likely to survive longer than similar entries made into less related businesses. We offer a contrasting view in which relatedness increases the likelihood of exiting new businesses: relatedness facilitates the internal redeployment of resources, which justifies the undertaking of riskier entries and greater experimentation by the firm. Using a sample of more than 1,200 market entries in the U.S. telecommunications sector during 1989-2003, we find evidence consistent with both of these views on the benefits of relatedness.