THE IMPACT OF DUAL DIRECTORS ON VALUE CREATION IN SPINOFFS

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This paper examines the governance implications of dual directors on the value accrued from a corporate spinoff transaction. It is known that firms divest into independent spinoffs to create value for themselves and shareholders. However, we theorize that the governance presence of dual directors serving on both parent and spinoff board serve to contradict this value creating action. Through a study involving 135 publicly traded firms in the Fortune 500 between the years 1995 to 2016, we find support that highlight the contradicting effects of dual directors on value accrued from a spinoff transaction.

Keywords:

Governance, Value, Dual Directors, Spinoffs

As a form of corporate divestiture, spinoffs involve the creation of an independent company through the pro rata sale or distribution of new shares relating to that of an existing company (Ahn & Walker, 2007; Seward & Walsh, 1996). Firms that divest are sometimes known as “parent firms,” who create value for themselves by releasing previously controlled assets into an independent “spinoff firm.” Termed as “unlocking the hidden value” (Chemmanur & He, 2016), this typically involves the relocation of non-core assets to the spinoff firm, which is now solely responsible for the governance of these assets (Daley, Mehrotra, & Sivakumar, 1997). As a mechanism to increase corporate focus (Daley, Mehrotra, & Sivakumar, 1997), this shedding of non-core assets creates value for the parent firm through the separate governance of assets related to both parent and spinoff firms (Wruck & Wruck, 2002). This separate governance of non-core assets reduces risk in parent firms, as it involves inherently different assets that the parent firm might not be used to traditionally handling. By allowing their spinoffs to govern these assets, parent firms mitigate the risk of any failure affecting their core businesses (Shane, 2004). Similarly, spinoff firms gain by being able to focus specifically on these assets. As a result, investors typically view this divesting and separate governance of assets relating to both parent and spinoff firms as a value creating action (Rappaport, 2006; Samuelson, 2011).

As independent firms absent of parent firm control, spinoffs represent a prime example of how firm control and value creation are inextricably linked to each other. Examining the governance structures and performance of Xerox’s spinoff companies, Chesbrough (2003) has found parent firm governance to be negatively related to spinoff revenue growth and market values (Chesbrough, 2003). Further, in their study examining governance and shareholder value, Qian & Sudarsanam (2007) have found that strong parent firm governance is negatively associated with shareholder value gained from a spinoff (Qian & Sudarsanam, 2007). Similarly examining parent firm governance and spinoff performance, Semadeni & Cannella (2011) have found that having too many governance links to the parent firm negatively affects spinoff performance (Semadeni & Cannella, 2011).

Extant literature provides explanations relating the separation of corporate governance resulting from spinoffs to value creation, but is surprisingly silent regarding how this relationship may apply when the spinoff involves dual directors – directors who sit concurrently on both the parent and spinoff boards. When a spinoff occurs, a board of directors is assembled to govern the new firm, with the parent firm having influence over board appointments. Over the last 30 years, more than one third of pubically-traded spinoffs in the U.S. have had dual directors. While the placement of dual directors into the spinoff by the parent firm may at first seem innocuous, this act represents a form of parent firm governance control. In the paper that follows, we examine this phenomenon’s impact on the value produced when a spinoff is first created. Building on Feldman’s (2016) work, we suggest that the presence of dual directors sends a somewhat complicated message to the market.

Arguing that dual director governance control affects the value accrued from a spinoff transaction, we firstly focus on how the presence of a dual director may affect the value of a spinoff transaction. Next, we investigate the relationship between governance and value through the number of dual directors between the parent and spinoff firms. We then lastly take into consideration the executive power that some dual directors may hold over their peers, and examine as to how governance of an executive nature between parent and spinoff firms may influence spinoff value creation.

In what follows, we begin by providing a brief background on the literature pertaining to spinoff value creation and the dual director phenomenon. We then discuss the governance implications of dual directors as they relate to the value accrued from a spinoff transaction. Next, we test hypotheses presented in the preceding discussions using archival data from 152 publicly traded spinoffs undertaken by 135 publicly traded Fortune 500 firms between the years 1995 and 2016. Lastly, results from the analysis are discussed, and we provide a number of implications and suggestions for future research.

**THEORY AND HYPOTHESIS**

**Spinoffs and Value Creation**

Spinoffs are a form of corporate divestiture that involve the creation of an independent company through the pro rata sale or distribution of new shares relating to that of an existing company (Ahn & Walker, 2007; Seward & Walsh, 1996). A typical spinoff transaction involves a parent firm which relinquishes control over a portion of its operations. In doing so, the parent firm allows for a spinoff transaction to be accomplished through the distribution of shares in the spun-off unit to the existing shareholders of the parent firm (Denis, Denis, & Walker, 2012). During a spinoff transaction, shares of the spinoff are distributed to shareholders of the parent firm. As such, shareholders in the parent firm automatically become investors in the spinoff firm through this distribution of spinoff shares (Wachtell, Rosen, Lipton, & Katz, 2014). Shareholders of the parent firm also receive equivalent shares in the spinoff firm as compensation for the loss of equity in their original parent firm stocks, but may then buy and sell stocks from either company independently. This potentially makes investment in the parent and spinoff firms attractive, as potential investors may invest narrowly in the businesses they think may result in the most growth.

The spinning off of a firm has been found to yield a number of specific benefits, such as the increasing of organizational efficiency (Seward & Walsh, 1996), the enhanced exploiting of parent firm exploratory knowledge (Clarysse, Wright, & de Velde, 2011) and the removing of underperforming business units (Shimizu, 2007). While these as well as other benefits can accrue from a spin off, the underlying reason as to why parent firms invest into spinoffs relate to the unlocking of firm value. Why this might happen involves firstly, the possession of non-core assets by the parent firm. A firm’s non-core assets reside outside the governance control of its main business lines and serve mostly to hedge revenues, contribute to financial synergies, and lower managerial risk (Bergh, 1997; Chatterjee & Wernerfelt, 1991; Hill & Hoskisson, 1987; Montgomery & Wernerfelt, 1988). Studies have documented that the core assets of a firm’s business are typically viewed by the market as increasing in value, while non-core assets are not (Berger & Ofek, 1995; Comment & Jarrell, 1995).

Because parent firms often possess assets that might not be complementary to each other, the impetus to shed away non-core assets might make sense in order to increase corporate focus (Daley, Mehrotra, & Sivakumar, 1997). Secondly, and because corporate focus and firm value have been found to be positively related to each other (Comment & Jarrell, 1995), this shedding away of non-core assets serves also to create value for the parent firm. Because assets previously parent firm owned are governed separately after a spinoff transaction, the allocation of non-core assets from the parent to spinoff firm thus results in a streamlining of parent firm corporate focus, which in turn unlocks hidden value in the parent firm (Chemmanur & He, 2016). The separate governance of non-core assets also serves to reduce risk in parent firms, as it involves inherently different and potentially radical assets that the parent firm might not be used to traditionally handling. By allowing their spinoffs to explore these assets instead, parent firms that absolve control over their spinoffs mitigate the risk of any failure affecting their core businesses (Shane, 2004). Similarly, spinoff firms absent of parent firm governance benefit from a board structure that is essentially formed from scratch. This ‘de novo’ feature of a spinoff board divorces itself from the ‘stickiness’ of ongoing boards (Denis, Denis, & Walker, 2012), and leads to the creation of new core competencies for the spinoff. As a result, some spinoffs may grow faster than their parent firms, whose main business may be in the declining stages of its life cycle (Ito, 1995). As is evident from the arguments above, the shedding of non-core assets creates value for the parent firm through the separate governance of assets related to both parent and spinoff firms (Wruck & Wruck, 2002).

**Dual Directors and Spinoff Governance**

Publicly traded firms are typically guided by a governing body of the board of directors. As individuals duly elected by and representing shareholder interests, directors serve the firm with their vast industrial experiences, advising the top management team of the firm on aspects of strategy formation as well as implementation (Denis, Denis, & Walker, 2015; Forbes & Milliken, 1999). Some other responsibilities of the board of directors also include setting board compensation, establishing strategic goals and monitoring the firm’s top management team in ensuring management action aligned with maximizing shareholders’ interests (Denis, Denis, & Walker, 2012; Eisenberg, 1997). This arrangement of directors spearheading a firm’s strategic direction, while at the same time overseeing on behalf of shareholders, holds true for most industries. During a spinoff divestiture however, directors serving on the parent firm board may be elected to serve simultaneously on the spinoff board. Known as dual directors, these individuals hail from, but are also appointed by, the parent firm to hold concurrent positions on both the parent and spinoff board (Feldman, 2016). By virtue of their intermediary role and placement on the board of both firms, dual directors are thus privy to the environments of both parent and spinoff businesses.

This confers upon them the unique role of acting as knowledge conduits, in sharing experiences and processes between parent and spinoff firms (Parhankangas & Arenius, 2003). As a form of director interlock, dual directors provide a means for knowledge transfer between the parent and spinoff firm, by reducing the likelihood of competitive action or manipulation of access to knowledge from the spinoff firm, which in turn reduces the uncertainty around obtaining knowledge relevant to the spinoff’s industry (Howard, Withers, & Tihanyi, 2017). While this allows parent firms to learn about their spinoffs’ new environments and potentially adds value to parent firm knowledge relating to future divestitures (Sapienza, Parhankangas, & Autio, 2004), it may allow the spinoff to benefit from parent firm experience, in initially setting up its ‘de novo’ business (Tanriverdi & Venkatrama, 2005). The initial presence of a dual director in a newly formed spinoff firm may also facilitate the spinoff in coping with new market regulation, and in doing so create competitive advantage by reducing the time required for the spinoff to market its products in a nascent environment (Clarysse, Wright, & de Velde, 2011).

Furthermore, investors who view a spinoff transaction as inherently riskier compared to the parent firm’s business may also attribute the initial presence of a dual director as a form of governance control on the parent firm’s part (Feldman, 2016). As corporate governance has been found to lead to better market valuation, these investors may then choose to further invest into a spinoff transaction (Klapper & Love, 2004). Because spinoffs have also been found to rely more on the exploitation of parent firm knowledge (Clarysse, Wright, & de Velde, 2011), dual directors who hail from parent firms may, in their serving as knowledge conduits between the parent and spinoff firms (Parhankangas & Arenius, 2003), hold the potential to positively influence the initial value of the spinoff transaction. As previously introduced, this paper examines the value implications resulting from the separation of governance control between the parent and spinoff firms, and as such focuses only on dual director influence on value created on the day of spinoff trading. Thus, our first hypothesis is as follows:

*Hypothesis 1: Dual director presence between a parent and spinoff firm on the day of spinoff trading is positively related to the value accrued from a spinoff transaction.*

While we argue for a positive impact of dual directors in Hypothesis 1, we suggest the relationship between dual direction and value creation is somewhat more complicated. Dual directors who hold board positions on both parent and spinoff firms do not owe fiduciary duties to the spinoff firm or its prospective shareholders, owing instead their duties to the shareholders of the parent firm (Wachtell, Rosen, Lipton, & Katz, 2014). As there exists no duty of fairness between the parent and spinoff firm, dual directors may structure transactions relating to a spinoff in a fashion that maximizes value for parent firm shareholders (Wachtell, Rosen, Lipton, & Katz, 2014). Because parent firms spinoff to unlock value, dual directors can be expected to contribute to this unlocking of value by virtue of their fiduciary duties to the parent firm. Due to their concurrent assignment to a divested spinoff board, dual directors may however violate this value creating notion.

As directors who hold concurrent board positions on both the parent and spinoff firms, dual directors serve as knowledge conduits in advising the spinoff board. The initial presence of dual directors allows for parent firms to learn more about their spinoff’s new industries, which adds value to the parent firm by allowing them knowledge relating to future divestitures (Sapienza, Parhankangas, & Autio, 2004). This initial presence of dual directors also allows for the spinoff firm to exploit parent firm experience in coping with new market regulation (Clarysse, Wright, & de Velde, 2011). While it may appear that the initial presence of dual directors lends itself to benefits for both the parent and spinoff firms, this might not be the case in a scenario when these directors increase in numbers. In researching the governance of dual directors and firm performance, Feldman (2016) has found that dual directors exist as a mechanism of parent firm control. When there exists a transactional relationship between the parent and spinoff firm, dual directors have been found to give the parent firm power over its spinoff. Where there exist no such transactional relationships, dual directors have been found to be more likely to contribute to spinoff firm performance instead (Feldman, 2016). In their paper on corporate governance and firm value, Carter et al. (2003) has found that higher governance, as reflected by a larger number of directors on a firm’s board, leads to lower overall firm value (Carter, Simkins, & Simpson, 2003). This view of a higher governance control as detrimental to firm value is echoed by Bruno & Claessens (2007), who have suggested that an optimal form of corporate governance is not necessarily one that involves the governance of a larger number of directors (Bruno & Claessens, 2007).

Taken together, it may thus be inferred from the arguments above that while the presence of dual directors can aid in knowledge sharing, an increase in the number of dual directors will also increase parent firm governance control. When this governance control in relation to the spinoff firm board is increased, the initial purpose of the spinoff, which was to create value for the parent firm by divesting away its non-core assets, is expected to be limited, leading to a decrease in corporate focus for the parent firm. As a result, investors might perceive the increased placement of dual directors in spinoffs as detrimental to both parent and spinoff firms’ growth, and in doing so attribute lower market value to the spinoff transaction.

*Hypothesis 2: An increase in the number of dual directors between a parent and spinoff firm on the day of spinoff trading negatively impacts the value accrued from a spinoff transaction.*

Hypothesis 2 posits a relationship between the governance that dual directors represent, and the value created from a spinoff transaction. It is worth noting here however, that not all directors possess equal control in influencing board decisions. A board director of executive position in a firm may be perceived as holding more governance control by investors outside of the firm, as compared to the same director in a lower board position. A chairman or president of the board for example, represents a director who presides over board meetings, acts as the head of the board, and who often represents on behalf of the board to the outside world (Demb & Neubauer, 1992). Similarly, a vice-chairman or vice-president of the board assumes the duties of the chairman or president during his or her absence (Edenred, 2017). As dual directors are assigned from a parent firm board, we assume for them to be initially aligned towards the parent firm than the spinoff firm. Thus, an increase in the number of such executive dual directors between the parent and spinoff firms may indicate an increase in the executive governance control of the spinoff firm by the parent firm, and signal to the market a willingness on the parent firm’s part to hinder spinoff decision making. Because a spinoff transaction is typically undertaken to increase parent firm value by relieving the parent firm of non-core assets, this spillover of executive governance control from the parent to the spinoff firm may thus serve detrimental to the value of the spinoff transaction.

*Hypothesis 3: There will be a negative relationship between executive governance control and the amount of value created from the spinoff transaction on the day of spinoff trading.*

**METHODS**

**Sample**

The sample employed in this paper comprises of 152 publicly traded spinoffs undertaken by 135 publicly traded Fortune 500 firms between 1995 and 2016. In order to determine spinoffs associated with Fortune 500 firms during this time, we started by identifying the firms that were in the Fortune 500 at any point between 1995 and 2016, inclusive. This helped avoid survivor bias by ensuring that, even if a company entered the Fortune 500 after 1995 or departed prior to 2016, it remained in the sample (Feldman, 2016). Researching publicly available historical listings of firms from the Fortune 500 website during this time frame revealed 866 unique firms

that were in the Fortune 500 list between 1995 and 2016. To identify spinoffs and their related parent firms, we then looked through the 10-12b forms publicly available on the U.S. Securities and Exchange Commission (SEC). 10-12b forms are Initial Generation Forms required for the registration of securities and are mandated by the SEC when a company issues a new class of stock via a spinoff. The 10-12b forms contain information related to the history of the parent firm and the reason for the spinoff, statements detailing the function and structure of the spinoff, as well as financial documents that document how the spinoff would have performed in the past had it been a separate entity. During this 20-year period, 10-12b forms filed with the SEC revealed the undertaking of 619 spinoffs by their parent firms. We subsequently matched this list of spinoff and parent firms to the list of Fortune 500 firms that existed between 1995 and 2016 to identify the Fortune 500 firms that had undertaken spinoffs during this time. Doing so revealed 194 such spinoffs. Twenty-six of these transactions involved private spinoffs and were thus eliminated. Sixteen of these transactions were also eliminated because of spinoff firms losing their independence through mergers or acquisitions immediately following the incorporation of the spinoff or because the parent firm filed spinoff 10-12b forms with the SEC but terminated the spinoff prior to its inception. Thus, the final sample analyzed in this paper consists of 152 spinoff firms.

**Data**

The majority of the data employed in this paper were obtained from three sources: the 10-12b forms filed with the SEC by the divesting parent firms, equity history (day-specific stock volume and prices) via Google Finance, and company financials (balance sheets and income statements) from Mergent Online. Company 10-12b forms are publicly accessible through the SEC’s EDGAR database. Similarly, company stock price and volume can be publicly accessed through Google Finance’s database. Although Mergent Online is a private database, the same parent and spinoff company financials are publicly accessible via NASDAQ’s online website.

The 10-12b forms filed by firms with the SEC provided access to information about the parent firms, their reasons for spinning off, as well as directors serving on the spinoff firm board. Historical equity charts from Google Finance provided downloadable information relating to day-specific stock price and volume of both parent and spinoff firms. Balance sheets and income statements of parent and spinoff firms revealed information relating to firm assets, revenue and PE Ratios. Day specific firm beta was obtained utilizing the Beta Suite program through Wharton Research Data Services.

**Variables**

***Dependent variable***. Firms spinoff their businesses to unlock value. Because spinoffs exist as operational units in the parent firm prior to their incorporation, we view the unlocked value resulting from the execution of a spinoff as the difference between the value of the parent firm one day prior to a public spinoff announcement, and the combined value of the parent and spinoff firm on the day of spinoff “regular way” trading. Relatedly, value is calculated as the product of day-specific closing share price multiplied by day-specific volume of outstanding common shares. Accordingly, value created (Vt) is then defined as (Vp+Vs-Vp-1), where Vp-1 represents the value of the parent firm one day before the day of spinoff announcement, with Vp and Vs representing the value of the parent firm and spinoff firm respectively on the initial day of trading for the spinoff.

As firm share price is often dependent upon investor reaction (De Bondt & Thaler, 1987), the amount of risk inherent in a firm’s business may serve to affect a firm’s share price (Pindyck, 1984). Reflecting a firm’s systemic risk as compared to that of the market’s, firm beta thus has the potential to indirectly affect a firm’s value through its share price (Lemmon & Lins, 2003). Accounting for this influence of firm beta on the value created through a spinoff, we control the value of a parent firm one day prior to spinoff announcement (Vp-1) with its related day specific firm beta value (B-1). Relatedly, the value of the parent firm on the day of spinoff inception (Vp) is similarly controlled with its relevant day specific firm beta value (B). Because beta values are not calculated for a spinoff firm until six months after its inception, we consider industry beta of the spinoff firm in the year of spinoff formation as an appropriate proxy for the measurement of investor perceived risk during spinoff inception. Thus, spinoff value (Vs) is controlled with its related industry beta (Bi). We utilize the dependent variable of *beta-weighted value* in the testing of our hypotheses to account for this influence of risk on the value created from a spinoff transaction. Resultantly, beta-weighted value (Vtb), is defined by (Vp/B)+(Vs/Bi)–(Vp-1/B-1).

***Independent variables.*** *Presence of dual directors* was operationalized as a binary variable. Resultantly, it was dummy coded as 1 if dual directors existed, and 0 if dual directors did not exist between a parent and a spinoff firm.

To quantify governance represented by the number of dual directors in a spinoff firm, we relied on the variable of *spinoff governance*, which was defined as a ratio of the number of the number of dual directors between a parent and spinoff firm, over the number of directors on the spinoff firm board.

In operationalizing executive governance control represented by the number of executive dual directors between a parent and spinoff pair, we relied on the variable of *executive governance*. A dual director was considered to hold an executive director position if he or she held the position of Chairman, Vice-Chairman, President, or Vice-President of the board. Hence, executive governance was operationalized as the number executive directors over the total number of dual directors existing between the parent and spinoff firm.

***Control variables.*** Because we relied on an industry diverse sample, we included the following control variables in our analysis, as they had the potential to influence value creation. *Firm size*, which applied to both parent and spinoff firms, was defined as the natural logarithm of a parent or spinoff firm’s total assets in the year of spinoff inception (Veld & Veld-Merkoulova, 2009). Similarly, *growth rate* was a control variable applicable to both parent and spinoff firms, and was defined as the total revenue of a parent or spinoff firm on the day of spinoff ‘regular way’ trading, subtracted by the same total revenue of a parent or spinoff firm two years prior to spinoff inception (Klein, Shapiro, & Young, 2005). The *PE ratio* reflects the perceived growth of a firm and as such may also affect investor confidence. The PE ratios of both parent and spinoff firms were included as the result of parent or spinoff firm share price on the day of ‘regular way’ spinoff trade, divided by the Earnings Per Share (EPS) of the parent or spinoff firm for the year in which trading began (McWilliams, 1996). Some spinoff transactions, such as ConAgra’s spinoff of Lamb Weston Holdings, take longer to complete as compared to others. This increase in time required to complete the spinoff transaction may also introduce external factors that can potentially influence value creation. To that end, we also controlled for the *number of trading days* between the day of spinoff announcement and the eventual day of spinoff ‘regular way’ trading. Because variability in time needed to complete a spinoff transaction also affects stock price, we also controlled for the *average stock price of the parent firm* between the day of spinoff announcement and the day of spinoff ‘regular way’ trading (King & Soule, 2007). Similarly, and in accounting for the different concentration of businesses within the spinoff transaction, we also utilized a firm revenue based *Herfindahl Index*, which was calculated as the sum between the square of the result of a spinoff firm’s revenue on the day of ‘regular way’ trading, over the total revenue of the parent and spinoff firm combined on the same day, and the square of the result of a parent firm’s revenue on the day of ‘regular way’ trading, over the same total revenue of a parent and spinoff firm (Lang & Stulz, 1994).

**ANALYSIS AND RESULTS**

 Table 1 provides descriptive and correlation statistics for the sample. We analyzed the relationship between the governance inherent in the presence of dual directors and value created by a spinoff transaction through OLS regression. Table 2 depicts the results of the regression analysis. Variance inflation factors for all regression variables fall below three, suggesting that multicollinearity was not present as an influence on the coefficient estimates of the regression (Nunnally, 1978).

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Insert Table 1 about here

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As predicted by Hypothesis 1, a strong significant relationship was found between the presence of dual directors and beta-weighted value (ß = 2.11, p < 0.01). Furthermore, the positive direction of this relationship supports the prediction of Hypothesis 1, which posited that initial dual director presence positively influences spinoff transaction value. Hypothesis 2 posited a negative relationship between spinoff governance, which was the number of dual directors in relation to the spinoff firm board of directors on the day of spinoff trading, and beta-weighted value, which is the value created from a spinoff transaction. As with Hypothesis 1, the results of our analysis revealed a significant relationship between spinoff governance and beta-weighted value. The negative direction found between these variables further adds credence to the prediction of Hypothesis 2 (ß = -5.19, p = < 0.05). Hypothesis 3 posited a negative relationship between executive governance, which was the number of executive dual directors in relation to the number of dual directors between a parent and spinoff firm, and the value created from a spinoff transaction. Our results revealed a negative but non-significant relationship between executive governance and beta-weighted value (ß = -0.41, p = 0.57).

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Insert Table 2 about here

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**DISCUSSION AND CONCLUSION**

The research question considered for this study involved the governance presence of dual directors and their effects on the value accrued from a spinoff transaction. It is known that parent firms spinoff themselves to create value (Daley, Mehrotra, & Sivakumar, 1997). Yet at the same time, parent firms often assign directors from their own boards as a governance mechanism in overseeing their spinoffs (Feldman, 2016). Our attempt at explaining this contradiction led us to form theories that examined as to how governance related to dual directors may impact value creation that results from a spinoff transaction. The findings from our analysis partially supported our theories formed, by firstly highlighting that the initial presence of a dual director positively influences value creation. More importantly, our findings further contribute to the literature by demonstrating that this positive relationship between dual director presence and value creation may not hold when governance, as indicated by the number of initial dual directors between the parent and spinoff firm, increases. The overall takeaway from our paper involves dual directors as a double-edged sword; that while they may initially serve the creation of value through acting as knowledge conduits between the parent and spinoff firms, an increase in this initial number of dual directors however may have the opposing governance effect of decreasing value creation instead.

In Hypothesis 1, we found for the presence of dual directors during the inception of a spinoff firm to be positively related to the overall value accrued from a spinoff transaction. Our first finding supports the notion that dual directors serve as knowledge conduits by initially facilitating the spinoff with new market regulation (Parhankangas & Arenius, 2003). In doing so, these dual directors create initial value, by reducing the time required for the spinoff to market its products in a nascent environment (Clarysse, Wright, & de Velde, 2011). It is known that parent firms spinoff themselves to create value, but in the process may assign dual directors to sit concurrently on both parent and spinoff boards. Our first finding supports this value creating notion of a spinoff and demonstrates the positive initial effect of such a practice on the overall value resulting from a spinoff transaction.

Secondly, we found a negative relation between the variable of spinoff governance, which is the initial number of dual directors in relation to the spinoff board, and beta-weighted value. As a form of governance control, dual directors have been found to lend themselves to the creation of value for the spinoff firm, but at the same time have also been found to situationally redistribute this value creation towards the parent firm when there exists a transactional relationship between parent and spinoff firms (Feldman, 2016). Our second finding further extends the governance literature by demonstrating that “too much of a good thing” – as indicated by an increase in the initial number of dual directors in relation to the spinoff board – negatively impacts the value accrued from a spinoff transaction. Besides lending itself in supporting the research question, this finding also echoes the work of Gleason et al. (2012), who have similarly found the absence of independent board governance to lead to value destruction (Gleason, Kim, Kim, & Kim, 2012). Our second finding also highlights an important practical implication; that firms considering spinning off themselves for the purpose of creating value may do well to limit the number of dual directors between the parent and spinoff firms, so as to preserve the value creating nature of the spinoff transaction.

In further investigating the governance implications of dual directors, our third hypothesis posited a negative relationship between executive governance and the overall value created as a result of the spinoff transaction. While the results of our finding align with the direction of our hypothesis, we were unable to find significance supporting this relationship (ß = -0.41, p = 0.57). We suggest a reason why significance was not found in our analysis might relate to the low sample size of spinoff firms included in this study. Out of the sample size of 152 publicly traded Fortune 500 parent-to-spinoff pairs included in the study, only 66 such pairs contain dual directors who serve both boards. Consequently, only 39 out of these 66 parent-to-spinoff pairs contained executive directors, which were essential for the analysis of Hypothesis 3. As sample size is inversely related to the amount of random and unexplained variances in a model (Marsh & Balla, 1988), a larger sample size of parent to spinoff pairs could possibly lead to an increase in the number of executive directors included for the analysis, which may then yield results that significantly support our third hypothesis.

Despite this study’s novel findings that contribute to the field, there are implications resulting from its findings. Our first finding focused on the value created by the spinoff transaction, through a variable related to the presence of dual directors. In doing so, we examined a sample size of publicly traded Fortune 500 parent and spinoff pairs through the years 1995 and 2016. In further examining the relationship between dual director presence and the value created from a spinoff transaction, future research could benefit from considering firms that exist outside of the Fortune 500. Because the behavior of dual directors in influencing value creation may be affected by the type of the firms in which they reside between, dual directors who hold concurrent positions between smaller firms that are family owned may behave differently, as compared to dual directors in larger and more corporate settings. Likewise, dual directors who reside between two private firms may experience different forms of fiduciary responsibilities as compared to their public firm counterparts. Examining the phenomena of dual directors in the context of different firms outside of publicly traded Fortune 500 ones may thus yield results that reveal interesting findings.

A second implication of our study involved the focus on governance implications inherent in the presence of dual directors. This focus led us to primarily consider variables found in the data that related most closely to governance control. Future research in the dual director literature may engage other demographical variables related to dual directors, in examining further their relationship with value creation as well. For example, education level or background of a dual director may potentially influence investor perception of a spinoff’s market value. Conversely and in the context of a new spinoff industry, investors might view a dual director’s tenure in the parent firm as unrelated to a spinoff’s growth, and may thus assign lower market value to a spinoff. The examining of value creation through other variables related to the dual director phenomenon may thus reveal interesting findings that serve to contribute to and further extend the dual director literature.

Lastly, an implicit assumption of the paper revolves around dual directors’ willingness to serve their firms. In Hypothesis 3, we took into account a dual director’s initial placement on the parent firm board, and argued that as compared to his or her peers, a dual director of executive board position possesses a high governance control over the spinoff board. While it makes sense that a dual director originally from a parent firm board may exhibit willingness in accepting an assignment to a spinoff firm’s board, this might not always be the case. Because dual directors owe fiduciary duties only to the shareholders of the parent firm (Wachtell, Rosen, Lipton, & Katz, 2014), they may feel compelled or even pressured in accepting a parent firm assignment in leading a spinoff’s board. This may result in the cultivation of a general unwillingness to serve the spinoff firm, which may be further exacerbated by hubris built over many years of parent board service. In such a scenario, the unwillingness of the dual director to serve the spinoff board is typically negated by the fiduciary duty of answering to parent firm shareholders. Resultantly, a psychological tension might be created between a dual director’s unwillingness to serve the spinoff firm board, and the fiduciary duties that he or she owes to the parent firm board. This tension may then serve to influence dual director alignment, in the creating of value for the spinoff firm. Further research examining the dual director phenomenon may consider operationalizing a dual director’s willingness to serve the spinoff firm. One way this could be done might involve the creation of a “willingness index,” which may take into account the tenure of the dual director on the parent firm as a proxy for hubris associated with the parent firm. The index may also involve the variable of related functional experience, which can be operationalized through an examination of the level of relatedness between the parent and spinoff firm’s industry. The examination of value creation through the lens of a “willingness index” might thus highlight interesting findings that involve the personal motivations behind a dual director serving both parent and spinoff firms, and in doing so reveal reasons for alignment that serve to influence value creation in either of those firms.

The results of our study supported our contention that as a form of knowledge conduit between the parent and spinoff firm, the initial presence of dual directors positively influences the creation of value that results when a parent firm spinoffs itself. Our study further extends the literature by its examination of the governance implications inherent in dual directors, through the highlighting that ‘more is not always better’ and that an increase in governance control, as indicated by an increase in the number of dual directors, results in an opposing effect of decreasing spinoff transaction value instead. Extant literature examining this governance phenomenon does so in the context of performance related to either the parent or spinoff firm but does not account for its influence on the value related to the overall spinoff transaction. It is known that firms spinoff to unlock value for themselves (Daley, Mehrotra, & Sivakumar, 1997). Yet at the same time firms divesting into spinoffs contradict this value creating notion by the practice of assigning dual directors onto spinoff boards. The results of this study contribute in shedding light on this contradiction, while in the process revealing the value affecting complications involved in such a practice.

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| --- | --- | --- | --- | --- | --- | --- |
|  | **TABLE 1** |  |  |  |  |  |
|  | **Descriptive Statistics and Correlations** |  |  |  |  |  |
|   |  |  |  |  |  |  |  |   |   |   |   |   |   |   |   |
| **Variable** | **Mean** | **S.D.** | **(1)** | **(2)** | **(3)** | **(4)** | **(5)** | **(6)** | **(7)** | **(8)** | **(9)** | **(10)** | **(11)** | **(12)** | **(13)** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| (1) Beta-Weighted Value (Ln) | 4.80 | 2.80 | 1.00 |  |  |  |  |  |  |  |  |  |  |  |  |
| (2) Presence of Dual Directors | 0.42 | 0.50 | 0.13 | 1.00 |  |  |  |  |  |  |  |  |  |  |  |
| (3) Spinoff Governance  | 0.09 | 0.14 | 0.01 | 0.74 | 1.00 |  |  |  |  |  |  |  |  |  |  |
| (4) Executive Governance (Ln) | -0.52 | 0.70 | 0.11 | -0.12 | -0.61 | 1.00 |  |  |  |  |  |  |  |  |  |
| (5) Parent Size | 9.29 | 1.39 | 0.20 | -0.17 | -0.12 | 0.03 | 1.00 |  |  |  |  |  |  |  |  |
| (6) Spinoff Size | 7.74 | 1.69 | 0.29 | -0.04 | -0.02 | -0.07 | 0.40 | 1.00 |  |  |  |  |  |  |  |
| (7) Parent Growth Rate (Ln) | -1.89 | 1.58 | -0.28 | -0.28 | -0.43 | 0.47 | -0.05 | 0.08 | 1.00 |  |  |  |  |  |  |
| (8) Spinoff Growth Rate (Ln) | -1.75 | 1.81 | -0.01 | -0.02 | -0.03 | 0.08 | -0.18 | -0.18 | -0.02 | 1.00 |  |  |  |  |  |
| (9) Parent PE Ratio (Ln) | 2.28 | 1.49 | 0.06 | -0.04 | -0.02 | 0.20 | 0.13 | 0.04 | 0.21 | -0.03 | 1.00 |  |  |  |  |
| (10) Spinoff PE Ratio (Ln) | 3.03 | 0.96 | 0.14 | -0.05 | -0.02 | 0.25 | 0.09 | 0.00 | -0.10 | 0.24 | 0.13 | 1.00 |  |  |  |
| (11) Trading Days (Ln) | 4.73 | 0.99 | 0.14 | -0.10 | -0.13 | 0.12 | -0.02 | 0.13 | 0.24 | 0.14 | -0.08 | 0.05 | 1.00 |  |  |
| (12) Average Stock Price (Ln) | 3.18 | 1.42 | 0.23 | -0.16 | -0.13 | 0.32 | 0.18 | 0.06 | 0.01 | 0.08 | 0.12 | 0.08 | 0.10 | 1.00 |  |
| (13) Herfindahl Index | 0.69 | 0.15 | -0.22 | -0.02 | -0.03 | -0.04 | 0.17 | -0.41 | -0.06 | -0.04 | 0.15 | 0.07 | -0.22 | 0.05 | 1.00 |
|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
|  |

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| --- |
| **TABLE 2** |
| **OLS Regression Analysis** |
|  |  |  |
| **DV: Beta-Weighted Value** | **Model 1** | **Model 2** |
|  |  |  |
| Presence of Dual Directors |  | 2.11 \*\*\* |
|  |  | (0.68) |
| Spinoff Governance |  | -5.19 \*\* |
|  |  | (2.53) |
| Executive Governance (Ln) |  | -0.41 |
|  |  | (0.71) |
| Parent Size | 0.22 | 0.28 |
|  | (0.18) | (0.18) |
| Spinoff Size | 0.26 | 0.25 |
|  | (0.16) | (0.16) |
| Parent Growth Rate (Ln) | -0.54 \*\* | -0.54 \*\* |
|  | (0.24) | (0.25) |
| Spinoff Growth Rate (Ln) | -0.03 | -0.03 |
|  | (0.16) | (0.16) |
| Parent PE Ratio (Ln) | 0.12 | 0.13 |
|  | (0.15) | (0.14) |
| Spinoff PE Ratio (Ln) | 0.31 | 0.34 |
|  | (0.26) | (0.26) |
| Trading Days (Ln) | 0.26 | 0.27 |
|  | (0.22) | (0.22) |
| Average Stock Price (Ln) | 0.37 \*\* | 0.42 \*\*\* |
|  | (0.15) | (0.15) |
| Herfindahl Index | -3.48 \* | -3.37 \* |
|  | (1.77) | (1.73) |
| Constant | -1.50 | -3.03 |
|  | (2.39) | (2.40) |
| Observations | 150  | 150  |
| R² | 0.20 | 0.26 |
| Δ R² |  | 0.06 |
| F | 3.97 \*\*\* | 3.99 \*\*\* |
| Δ F |  | 3.45 \*\* |
|   |   |   |
| *\* p < 0.10* |  |  |
| *\*\* p < 0.05* |  |  |
| *\*\*\* p < 0.01* |  |  |