LUND UNIVERSITY
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Better off Spun Off?

Changes in operational performance after the spinoff

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Abstract

Title:	Better off Spun Off?
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Course:	Degree Project Master Level, Business Administration, 15 University credit points (UCP) or ECTS
Author:	Martin Lind, Jon Magnusson
Tutor:	Christer Kedström
Key words:	Spinoff, Rebranding, Brand identity, Operating ROA
Research objective:	The research reported in this study has the following objectives: To study how the subsidiary's operating performance is affected following a spinoff, moreover identify which factors can be defined as key impacts.
Method:	The research has been bipartite: First, a quantitative analysis has been conducted regarding the operating performance of 23 spinnoff firms. Second, a qualitative study on firms performing above average and firms performing below average has been performed. The approach has been deductive and the study initiated by developing a theoretical framework that was the foundation of the thesis.
Theoretical perspective:	The theoretical framework includes a variety of literature regarding divestitures, post-spinoff operating performance as well as change in identity.
Empirical foundation:	This study is based upon financial data from the sample firms' corresponding SEC-filings, press material released throughout test period and annual

reports.

Conclusions: The results in this study show no evidence of spinoffs neither improving nor impairing operating performance after transaction. Several key factors of success are highlighted: 'Management realizing the possibility to bring about change', 'Deliver a consistent and reliable vision', 'Build brand from the very start', and 'Thoroughly communicate the new brand identity'.

Sammanfattning

Titel:	Better off Spun Off?
Seminariedatum:	2 juni, 2008
Kurs:	Magisteruppsats, Företagsekonomi, 15 ECTS
Författare:	Martin Lind, Jon Magnusson
Handledare:	Christer Kedström
Nyckelord:	Spinoff, Rebrand, Varumärkesidentitet, Operativ ROA
Syfte:	Denna forskningsstudie har följande syfte: Att studera hur dotterbolagets operationella lönsamhet utvecklas efter en spinoff, samt ytterligare att identifiera de faktorer som demonstrerar mest inflytande.
Metod:	Studien har varit tudelad: En kvantitativ studie har utförts gällande den operationella prestationen i 23 spinoff företag. Även en kvalitativ studie har genomförts på de företag som presterat över medel samt de som presterat under medel. Tillvägagångssättet har varit deduktivt och uppsatsen inleddes genom att utveckla ett teoretiskt ramverk som lade grunden till vår studie.
Teoretiskt perspektiv:	Det teoretiska perspektivet innehåller varierande litteratur gällande divestitures, post-spinoff operationell prestation samt identitets förändring.
Empiri:	Studien är baserad på urvalsföretagens finansiella data med ursprung i SEC-arkiv, pressmaterial utgivet under test perioden, samt årsrapporter.

Slutsats: Resultaten i denna studie visar inga bevis på att spinoff företag vare sig förbättrar eller försämrar dess operationella prestation efter transaktion.

Olika nyckelfaktorer till framgång har belysts: 'Att ledningen tar vara på och realiserar tillfället att förändra', 'Konsekvent leverera en trovärdig vision', "Bygga varumärket från första början', samt 'Kommunicera den nya identiteten omsorgsfullt'.

1 The Nature of the Spinoff

Spinoff is a way to divest a subsidiary by establishing an independent company to hold a portion of the parent's assets followed by either a distribution of the subsidiary's shares to the parent's shareholders (Daley et al., 1997) or an IPO[1].

1.1 Reasons to Divest

> *"… as a firm gets larger, there may be decreasing returns to the entrepreneur function, that is, the costs of organizing additional transactions within the firm may rise."*[2]

Despite this statement, firms have tended to diversify their operations since the 1950s. The incentives for such diversification have been production and marketing economies of scope and financial synergies such as earnings smoothening and the pros of having an internal capital market. In later years, this has conversed to the opposite in a need for managements to officially highlight strategies for specialization in the core business which may lead to divestitures (Comment & Jarrell, 1995) such as spinoffs. The reason for this conversion is multifaceted. According to Cusatis et al. (1993) and Berger & Ofek (1995), firms with a lack of pure play[3] become undervalued by the market due to absence of transparency. Thus, the benefits from spinoffs in the perspective of the parent company come from improved corporate focus (Daley et al., 1997; Desai & Jain, 1999), coherent with the focus hypothesis which claims that eliminating negative synergies between the divested asset

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[1] Initial Public Offering of shares

[2] Coase, R.H., The Nature of the Firm, Economica, Nov 1937, pg 394

[3] Pure play is a term for focused firms with a single line of core business

and the remaining assets should lead to better performance for the remaining assets after the divestiture (John & Ofek, 1995). From the subsidiary's perspective there are three benefits stressed from a spinoff. First, there may be a need for a new management with specialized expertise; hence a change of management could be carried out at the time of the spinoff (Jongbloed, 2004). Second, the act of pure play leads to improvements in managerial decentralization and accountability through a more visible stock price (Cusatis et al., 1994), which should be followed by incentive plans to capture investment possibilities (Daley et al., 1997 and Jongbloed, 2004). Third, the spun off subsidiary is getting direct access to the capital market (Cusatis et al., 1994) which foremost gains firms in need for external capital and with high growth opportunities (Krishnaswami & Subramaniam, 1999).

1.2 Spinoff in practice

Too get insight regarding if those objectives and benefits really are the very objectives and benefits and moreover gain knowledge of other issues and obstacles connected to a spinoff, an interview with a company facing such a spinoff was conducted in the beginning of this study. The company is a global market leading enterprise providing high-value solutions to the food processing and airport industries, hereby called HotTech. In 2008, HotTech will be spun off from the parent, a Fortune 500 company, hereby called Mama. The respondent is the market manager of one division in the subsidiary and hereby called MM. Mama is a conglomerate known for doing business through acquisitions and divestitures and it is expressed that they want to be evaluated on a pure play basis, which would prove the theoretical reason of focus for divestment.

The first stated benefit that spinoff is an opportunity to bring in new expertise is verified by MM, confirming that new board members with expertise in the specific market will be enrolled. According to the second and third issue regarding accountability and capital access, HotTech has up to now enjoyed great access of capital through Mama which will not be possible after the spinoff. As from then on, HotTech has to generate all capital on their own but is also able to set up their own return targets, which would also claim this higher accountability. Considering the fact that HotTech actually has generated capital in previous years, they can now decide where to invest those earnings. Previous years, those retained earnings have tended to be invested in Mama.

Conclusively, new managerial expertise, higher accountability and the possibility to invest their retained earnings in for example R&D[4] will make HotTech a more specialized company and it is possible that this make employees feel more dedicated and as a result efficiency increases. It seems like the benefits could really become the very benefits in this case. But there are also some obstacles on the way to success regarding how to make this huge change. Some issues concern specifities such as how much money to put into the communication of the new brand and which brands out of the strong product portfolio should be used in the new company. Other issues are more general such as how to build and communicate the new brand to employees and the market.

[4] Research and Development of new technologies and products

1.3 General lack of practical knowledge

Consequently, it seems as the spinoff *could* be a good deal for everyone involved, though there is one difference; while the parent seems to divest in the strive for corporate focus, the organizational effect is far bigger in the subsidiary. From the perspective of the subsidiary, there is a general problem concerning lack of knowledge regarding how to perform the transition and what the critical issues are during as well as after, the spinoff to maintain or rather enhance operating performance. This lack of knowledge has nothing to do with incompetence within management, but is usually just a matter of "first-time-doing". When thinking about it, it is rather logical. For a diversified company, or a parent in a conglomerate, spinoffs are a managerial solution for certain problems and a matter of value enhancement. Thus, spinoffs are something the company can utilize more than once and through this it gains experience. Moreover, there may not be that great of a difference in day-to-day work after the spinoff. As from the subsidiary's perspective, most often you only experience a spinoff once, hence there is no know-how built in to the organization. A spinoff also affects the subsidiary to a greater extent in the day-to-day activities since, as an independent company, it is forced to take all decisions and get access to capital by themselves. In practice, the upsides of being independent may also become the downsides, as Woo et al (1992) states that benefits from spinoffs may exist but they are likely accompanied by major organizational adjustments that have to be taken care of. Since the spinoff is a one-time-offer that you cannot re-do, it is of greatest importance to do it the right way. Conclusively, since spinoffs are something that actually take place and has the possibility of enhancing general welfare, it should not be that difficult to find knowledge of critical issues and comprehensive guidelines of how to go through with it. Still, those are hard to find.

1.4 General lack of theoretical knowledge

Most studies on spinoffs are conducted from the perspective of the parent. With those studies as a reference, it could be held for certain that the parent company improves both operating performance and stock returns if the spinoff is done cross-industry and thereby increases corporate focus (Daley et al., 1997; Ofek & John, 1995; Berger & Ofek, 1995; Comment & Jarrell, 1995; Desai & Jain, 1999). Through this perspective, a spinoff is exclusively a decision made on the parents' permissive but the question remains whether it is also the best for the subsidiary. Daley et al. (1997) found evidence of operating improvements after spinoff but this improvement was located to the parent company only, and not to the subsidiary. Woo et al. (1992) even found a decline in the subsidiary's operating performance while, on the other hand, Cusatis et al. (1994) and Anslinger et al. (1999) found obvious gains in the subsidiaries operating performance. This implies doubt about what reality actually looks like in the eyes of the spun off subsidiary. Thus, there seems to be a lack of solid knowledge regarding operating performance from the perspective of the spun off subsidiary. Also, there has not been any such study the last nine years, the time frames upon which those studies are performed could be argued being short and no prior study has further investigated if performance stems from operating margin or asset turnover. This study aim to perform a new study on operating performance in spun off subsidiaries, reaching four years after spinoff. As prior stated, there are also no comprehensive guidelines in the academic world of today what factors primarily affecting the operating performance from the perspective of the subsidiary. In the aim to provide such guidelines, this study has gathered managerial theories exclusively related to spinoffs as well as theories regarding organizational change. This framework is later evaluated against top performing as well as low performing spinoffs in terms of operating performance.

1.5 Research objective

The research reported in this study has following objectives;
To study how the subsidiary's operating performance is affected following a spinoff, and moreover identify which factors can be defined as key impacts.

1.6 Disposition

Chapter 2- The methodology of this study is presented and definitions are explained.

Chapter 3- The theory used as background as well as for analysis is presented divided in two categories where the first concerns operating performance in spun off subsidiaries, the second concerns critical issues which may affect the operating performance.

Chapter 4- The empirical results from the quantitative study of operating performance is presented. Furthermore, the selection of top and low performing spinoffs is made and qualitative information regarding those companies is presented.

Chapter 5- Analysis of the quantitative result and qualitative information regarding factors affecting the operating performance.

Chapter 6- Conclusions with contributions to the academic world as well as to divisions facing a spinoff.

2 Methodology

The following section discusses the use of specific methods, explains essential definitions, as well as describes the course of action in this paper.

In ambition to present constructive answers to the research objective of this study a deductive approach has been chosen. Though this approach, through which theory and current research guides the formation of the study (Thurén, 1991), should rather be considered as a tendency than an absolute distinction. The aspiration with this paper is bipartite; initially, an extensive quantitative analysis is conducted, which provide an empirical foundation of findings and the sample upon which the later qualitative research is based. Furthermore, supported by specific theories interpret relations and patterns in the empirical information from a more qualitative perspective, hence develop generalizable conclusions and contribute theoretically. The approach is illustrated below:

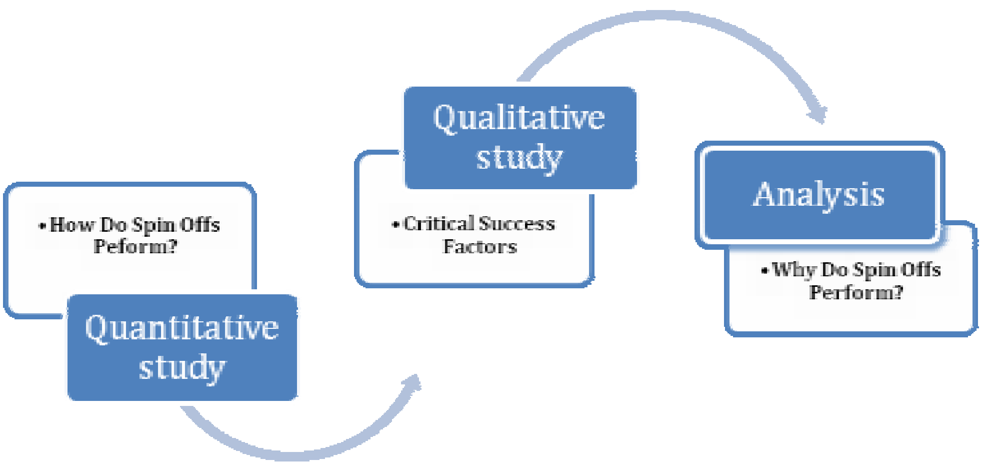

Figure 1 "Course of action"

2.1 Literature research

It was obvious that spinoffs as a phenomenon is an area far less studied than for example common M&A's[5]. The previous research conducted has been presented primarily as articles in academic business journals, hence the theory stems from this. The lack of widespread literature consequently lead to an approach where sources of the few articles primarily found was tracked down. It has therefore been easier to isolate the common knowledge due to lacking quantity, but this lack has also led to a somewhat narrow base of knowledge since the later articles are based on a few common earlier publications.

Anyhow, it was found that previous research could be classified according to what it expressed. First, there were articles suggesting why companies divest subsidiaries in general and as spinoffs in particular. Those articles primarily were conducted in a quantitative manner, analyzing performance development of divesting firms. Second, some research was made from the perspective of the subsidiary investigating how the subsidiaries´operating performance developed following the spinoff. Those articles was in contradiction to eachother providing evidence both for improving as well as impairing performance. Third, there were articles regarding organizational changes after spinoff which had a more qualitative direction. During the first interview, MM expressed the rebranding issue as a major concern. Although rebranding was the topic of some articles, this study has referred to the rebranding issue as a change of identity and recognition within an organization. Critical issues during and after spinoff are identified by the authors and represents four frequently returning issues in litterature

[5] Corporate Mergers and Aquisitions

regarding spinoffs primarily, but also rebranding and organizational identity in general.

2.2 Interviews

The first interview was held with the Market Manager (MM) of one division in the present HotTech during the early stages of this project. Although theories had been studied prior to the interview, on which MM could comment, this interview was primarily set up in order to gain more insight in the practical nature of the spinoff, faced by the subsidiary. According to this purpose of the interview, it was conducted semi-structured with some certain topics in an interview guide (appendix I) but still enough freedom to follow up the respondent's answers (Bryman & Bell, 2003). The information of this interview is used in chapter one only, to personalize and problematize the benefits and obstacles faced by the subsidiary.

To further identify some important aspects regarding corporate identity and organizational change, a second interview was conducted with Stefan Sveningsson, assistant professor of Business Administration at the School of Economics and Management, Lund University. Recent research of Sveningsson has covered leadership and identity work during restructuring in organizations. This interview was conducted in a later phase of the project. Since the purpose of this interview was to attain his view on the topic of organizational change, this interview had a more unstructured character where a single introductive question was followed up on some fundamental points found worthy, hence this could be considered as an unstructured interview (Bryman & Bell, 2003). The information from Stefan Sveningsson is presented in the theory chapter 3.3 since we consider this information as theoretical knowledge more than empirical information.

Both interviews were recorded in order to have full concentration on the respondant and keep the interviews as conversations. This added the advantage of being able to listen afterwards in detail what the respondent said and *how* the respondent said it (Bryman & Bell, 2003).

2.3 Quantitative research of operating performance

A concern especially essential in quantitative research-strategy is strong generalizability (Bryman & Bell, 2003). A requirement of generalization is that the sample selection is representative of the entire population. Appropriately defined criteria of selection as well as a proper formulated method of selection are crucial in achieving representativeness. Generalizability was strongly emphasized in how this study was conducted.

2.3.1 Sample selection

A sample of spinoff transactions announced is used to test and identify the operational effects. The transaction announcements of the sample spinoffs cover the period from January 1 1997, to 31 December 2004. U.S. listed firms have consistently been used in the sample data enabling a facilitated general comparison of the financials. The relevant data such as operating parameters has been collected mainly from EDGAR Online, a web-based database containing all SEC-filings[6]. If information related to certain transaction has proved insufficient, as for the specific execution date, press databases such as Reuters, and Bloombergs have been used. Yahoo Finance has provided useful

[6] U.S. Securities and Exchange Commission, where all listed corporations have to file registrations of financial data and statements.

information about when the spinoff in fact went public. Those later sources are used since they are well defined and can be seen as reliable.

Spinoff Sample

Thomson's M&A database has been used for collecting data on spinoff cases. The choice of Thomson as source was taken after been talking to Reuters in London, advising Thomson as a reliable source and also giving the pro of finding all spinoffs in one place. A number of requirements influenced the spinoff selection; (1) Total Assets amounts to a minimum of $100 M. (2) The spinoff firm operates as a separate public company a minimum of 4 years subsequent the spinoff. (3) The spinoff firm is listed on a U.S. stock exchange. (4) The parent is neither a venture capitalist company nor a financial institution. Those requirements led to the final number of spinoff transactions for this study ended up at 23, as specified in table 1:

	PARENT	SPINOFF	TRANSACTION	INDUSTRY
1	Monsanto Co.	Solutia Inc.	1997	Speciality Chemicals
2	Rockwell	Meritor Automotive	1997	Auto Parts
3	AT&T	NCR Corp.	1997	IT Services
4	PepsiCo	Tricon Global Rest.	1997	Restaurants
5	Hewlett-Packard	Agilent Technologies	1999	Sci/Tech Instruments
6	Motorola	ON Semiconductor	1999	Semiconductor – Broad
7	General Motors	Delphi Corp.	1999	Auto Parts
8	Olin	Arch Chemicals Inc.	1999	Synthetics
9	Cabot Corp.	Cabot	2000	Semiconductor Equipm.
10	Siemens	Infineon Technologies	2000	Semiconductor – Broad
11	The Sara Lee Corp.	Coach Inc.	2000	Textile
12	Altria Group Inc.	Kraft Foods	2001	Food – Major Diversified
13	Thermo Electron	Kadant Inc.	2001	Paper & Paper Products
14	Bristol-Myers Squibb	Zimmer Holdings Inc.	2001	Medical

15	BHP Billiton	Bluescope Steel Ltd	2002	Steel manufacturer
16	Allergan Inc.	Advanced Medical	2002	Medical
17	Yellow Corp.	Saia Inc.	2002	Trucking
18	Goodrich Corp.	EnPro Industries	2002	Industrial Equipm.
19	Conexant Systems	Mindspeed	2003	Semiconductor Equipm.
20	Merck & Co. Inc.	Medco Health	2003	Drug Stores
21	Centex Corporation	Eagle Materials Inc.	2004	Cement
22	Abbott Laboratories	Hospira Inc.	2004	Drug Delivery
23	Kimberly-Clark	Neenah Papers	2004	Paper & Paper Products

Table 1 "Spinoff sample"

Test periods

To assess whether a firm is performing extraordinary in any direction after the spinoff, a benchmark must be provided against which the performance can be compared. Since the benchmark specifies expected performance in absence of the spinoff a most viable measure would be the sample firms' pre-transaction performance. In line with previous studies, such as Daley et al. (1997), this study compares post-transaction performance to the pre-transaction performance of the specific company, which is possible due to accounting rules (Daley et al., 1997).

Various overlapping test periods were formed satisfying the aspiration of generalizing the findings. Major deviations in business cycles and other non company-specific factors affecting a certain test period could therefore be taken into consideration. A test period consists of a pre-transaction period of one year and a post-transaction period of four years, that is, from t-1 to t+4:

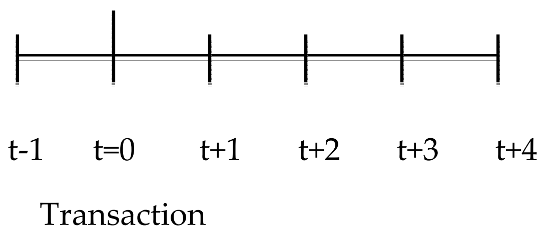

Figure 2 "Test periods"

2.3.2 Computation of Operating ROA performance

There are several measures of operating performance used in prior studies, with a majority of researches using ROA, defined as earnings divided by total assets. However, this measure cannot be classified as purely operational since it incorporates not only financial activities but also unusual, non-recurring or discontinued activities.[7] An alternate measure, taking adjustments into account for non-operating activities, would be the Operating ROA, in which net operating profit after tax, NOPAT, is a more appropriate measure of earnings as well as net assets[8] is of total assets.

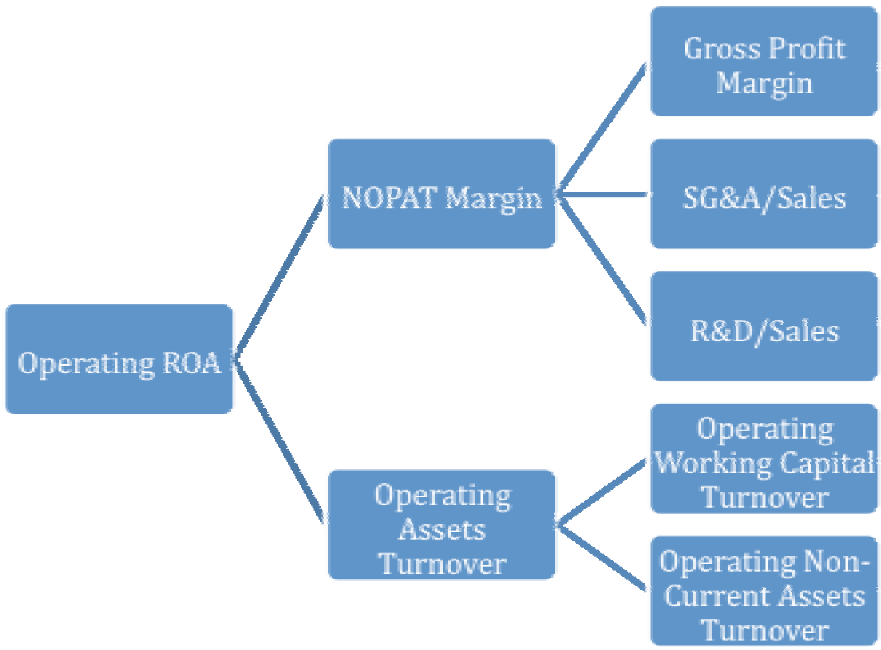

Figure 3 "Decomposed Operating ROA", Krishna G. Palepu et al. 2007

No previous research has shown any a priori basis to identify where the source of extraordinary performance may lie. This paper intend to investigate this matter and aim to provide predictions as to whether it is operating profit margin or net asset turnover that drive Operating ROA. Further

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[7] http://www.investorwords.com

[8] Net assets is also defined as *operating assets*

decomposition, resulting in a second layer of performance drivers, highlights the source even more (Figure 3).

Previous research show that performance tests based on changes provide a better platform from which to analyze abnormal performance than those based on levels (Barber & Lyon, 1996). This paper therefore examines the change in Operating ROA, hence not comparing the absolute Operating ROA. Whether variations in certain industry trends have a generalized impact on Operating ROA performance has been discussed. Although Cusatis et al (1994) showed that adjusting for specific industry growth rates in fact have insignificant impact on the result. Hence, industry adjustments are not regarded for in this paper. The performance of every sample spinoff is computed from the fiscal year preceding transaction, t-1, to the fiscal year after transaction, t+1. Thereafter Operating ROA changes are reported for intervals from year t+1 to year t+2, year t+2 to year t+3, and from year t+3 to year t+4. Consequently, the spinoff firms announcing their transactions in 2004 cannot be computed for in the last interval[9] due to insufficient reports. The change is computed as;

$\Delta OpROA = OpROA_{post} - OpROA_{pre}$

for each firm, and the median change across all spinoffs as;

$\Delta OpROA = Median\ (\Delta OpROA)$

Since the mean measure depend on the actual values in a data set, and therefore affected by a few extremities, the median is a better measure since it is only dependent on the relative position in the data sample (Körner, 2000).

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[9] Eagle Materials Inc; Hospira Inc; Neenah Paper Inc. were spun off 2004

Statistical significance

To investigate whether the computed median changes in Operating ROA prove statistical significance, and not generated by random, they are tested against zero using the Wilcoxon Signed-Rank Test with a 95 percent degree of confidence. The hypotheses are formed as following;

Null hypothesis H_0: ΔOpROA = 0

Alternative hypothesis H_1: ΔOpROA ≠ 0

2.3.3 Decomposition of Operating ROA

Whether, or not, statistical evidence is found on extraordinary operating performance after the spinoff transaction, Operating ROA is decomposed in order to investigate the sources through which performance is affected. The possibility of comparing the decomposed Operating ROA comes from four spinoff firms selected, of which two demonstrate operating performance consistently throughout the test period in the *higher level* of the sample, and of which the remaining two demonstrate operating performance consistently in the *lower level* of the sample. The selected firms are subject of an in depth financial analysis in which the operating performance measures illustrated in Figure 3, are examined throughout the test period. However, as the classifications of line items driving operating income vary across industries, comparison between the firms is restricted to comprise only a limited amount of measures.

2.4 Qualitative research of critical restructuring issues

To obtain a deeper understanding of why certain companies outperform and some other lag the market after a spinoff, an extensive qualitative study has been performed on the selected firms. In this study, annual reports have been thoroughly investigated as well as press databases such as ProQuest and Ebsco have been used. The benefits of those databases come from the broad supply of well known business press such as Financial Times, Forbes and Wall Street Journal. Hence, those databases are considered reliable. Annual reports are gathered from the companies´ home pages and with two exceptions are the very annual report. The two exceptions are the spinoff year of Coach Inc. and Cabot Microelectronics, where SEC 10-K[10] filings have been used.

2.5 Way of analysis

In the analysis this study primarily is trying to connect the financial data from the decomposed Operating ROA to more soft issues such as identity, core values, visions and strategies. It is obviously not possible to identify distinct relationships, hence in this phase the results rely on the capability of analyzing how the "soft" factors relate to the "hard" financials. In the strive to find connections between hard and soft issues, four critical restructuring issues as well as the interview with Stefan Sveningsson, will be used as a framework.

In the analysis, the annual report acts like a company-specific guide in the matter of classifying the companies' critical factors, the press articles acts as an independent source highlighting the company, and finally, the financial data is the evidence of whether the expressed values are justified or not. The measure of Operating ROA, from which the top two and bottom two companies were chosen, is derived from the financial data. The interesting,

[10] Annual report filing to the Security and Exchange Commission

aspiration in this study will be to further derive this financial data to the strategic visions and core values of the annual reports with referents in the press, with the ambition to identify important factors enabling post-spinoff success.

Furthermore, the result from the quantitative research conducted will be discussed and compared to previous research.

2.5 Criticism

Having a critical stance towards sources of qualitative and quantitative data is essential when conducting scientific studies aiming to achieve an objective analysis and to present trustworthy results (Eriksson & Wiedersheim, 1997).

Criticism of tendency refers to the question whether a specific source has self-interest in the information presented or not (Eriksson & Wiedersheim, 1997). Reliability, meaning that an independent practioner using the same research methodology would end up with the same results, is of great importance in qualitative studies (Bryman & Bell, 2003). Since the empiric of this paper primarily is based on information provided in annual reports and supplementary SEC-filings, which could be considered subjective sources, both criticism of tendency and reliability could be discussed regarding this study. However, several other impartial sources, such as earlier mentioned ProQuest and Ebsco have been used. In combination with a fairly large data sample and several verifications of the results, such as random samples in ambition to prevent the occurrence of random errors, ought to allot this paper both reliability and justification.

Time is a category of criticism that refers to the approach towards the test period, which runs from the event, in this case the transaction announcement, until it is examined and analyzed (Eriksson & Wiedersheim, 1997). Due to the fact that both test period and data originate from the identical period this requirement is considered achieved.

Validity measures the accuracy of the research, whether it actually measures the stated concept (Bryman & Bell, 2003) and is relevant for the context in demonstrating the credibility of the study. The use of Operating ROA as measurement combined with soft issues from annual reports and the press should provide validity since it is fair to believe in a relation between what the company claim they communicate in annual reports and what they actually communicate internal to employees. Still this relation cannot be granted which may be the greatest criticism to this study. However, due to the timeframe for this study, this was the best possible information to find.

3 Theoretical perspective

This chapter initially presents the theory that the quantitative study is built on and compared to. It will then provide the theory on critical issues which spun off subsidiaries should be aware of, and finally, an expert interview is presented to complete the theoretical framework.

3.1 Prior knowledge regarding performance

3.1.1 Evidence of the parent's value enhancement through focus

John & Ofek (1995) stress the hypothesis that asset sale is actually undertaken to increase focus and improve the return on remaining assets. They prove this by relating the announcement stock return to the cash flow change from remaining assets during the following three years, and also claim that increased focus can be the explanation to other forms of divestitures. Berger & Ofek (1995) emphasize the need for corporate focus when they study the effect of diversification on firm value. They found a value loss from diversification of 13-15 percent by estimating the stand-alone value of all divisions of the diversified firms, compared to the actual firm value. This loss of diversification is captured when the subsidiary and parent company are in different two-digit SIC code[11]. Comment & Jarrell (1995) further found a positive relation between stock return and focus increases and also found failures of diversified firms to exploit economies of scope.

The conclusion of Comment & Jarrell (1995) and Berger & Ofek (1995) is that firm value increases with corporate focus which is further consistent with John & Ofek (1995).

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[11] Standard Industrial Classification

This knowledge could be related to the phenomenon of spinoffs. Based on the above mentioned articles Daley et al. (1997) try the prediction that cross-industry spinoffs, where the spun off entity and parent company belongs to different two-digit SIC codes, would create more value than if they belonged to same industry code. They found a significant improvement of operating performance measured as the ratio of operating income to total assets, in cross-industry spinoffs, and none in within-industry spinoffs. Desai & Jain (1999) tried out if the stock market gains of spinoffs are related to increased focus. They found that there are abnormal returns both during the announcement period as well as in the long-run, and those returns are significantly higher if the spinoff is focus-increasing. They also found that there is a change in operating performance which is consistent with those for the stock market.

3.1.2 Stock market performance related to operating performance

Apparently, some mentioned studies are based on stock performance while other are based on operating performance. Cusatis et al. (1994) found that stock price gains are highly correlated with positive changes in operating measures; hence use this as evidence of the stock market's ability to capture future increases in operating profitability in current prices. Anslinger et al. (1999) suggests that gains in shareholder value following a spinoff stems from different factors of which one is the actual operating performance and further two are related to this performance. The findings of Cusatis et al. (1994) and Anslinger et al. (1999) are considered as evidence that excellent stock market performance is related to great operating performance. Furthermore, since the subsidiary seldom get spun off as a parent with its own subsidiaries, it is usually already focused and further spinoffs are not a managerial possibility. This means they have to improve value through enhanced operational performance which is the variabel studied in this paper.

3.1.3 What about the subsidiary?

As earlier mentioned, Daley et al. (1997) found significant improvement of operating performance after a cross-industry spinoff, measured from two years prior to spinoff to two years after spinoff (-2,+2). Though, this improvement was particularly found in the continuing parent company and not in the spun off subsidiary, meaning they provide evidence that spun off subsidiaries do not improve their operating performance.

Woo et al. (1992) have examined 51 spinoffs from two years before the spinoff through the first three years after spinoff (-2,+3). First, they stated a hypothesis that subsidiaries which were closely related to the parent company prior to spinoff would experience more extensive gains from the spinoff and the managerial autonomy which follows. Although they found some evidence to this, as unrelated (cross-industry) spinoffs reported some deterioration in performance, those were not statistically significant. Though, if this holds true, it would imply that while the parent company gains from a cross-industry spinoff, the spun off entity actually take a loss from it. Second, Woo et al. (1992) also studied operational performance among spinoffs in general. While inflation-adjusted sales didn't improve and was just as likely to decline, they found a decline in profitability, measured as return on assets (ratio of current return to book value of assets). This suggests that earlier findings of operational improvement after spinoff should be located to the divesting company and not to the spun off subsidiary.

Cusatis et al. (1994) study the operating performance in 161 spinoffs between 1965 and 1990. Performance improvement is measured as growth rate in net sales, operating income before depreciation, assets, and capital expenditures during the time reaching from one year prior to spinoff through three years after (-1,+3). Each of those growth rate was later subtracted by the median growth rate of all 12 000 companies listed in the database from which the spinoffs were picked. Still, after this subtraction, Cusatis et al. found that the newly independent subsidiary experienced substantial improvement in operating performance in the measured variables.

Anslinger et al. (1999) identified four factors to improved market capitalization among divestitures. Those where an improved coverage by analysts, the fact that divested subsidiaries attract new investors, increasing strategic flexibility and operating performance. In the matter of operating performance and spinoffs, a sample of 129 spun off subsidiaries were measured during the two sequent years after spinoff (0,+2). The findings were an average increase in return on invested capital from 7.4 percent to 12.9 percent (an increase of 74 percent) and a two year compounded annual growth rate in revenue of 9 percent.

The findings of Cusatis et al. (1994) and Anslinger et al. (1999) promote significant improvements of operating performance in spun off subsidiaries. Those findings are in absolute contradiction to Daley et al. (1997) and Woo et al. (1992), showing no evidence for impovement, and even a decline in the operating performance in spun off subsidiaries. Though those articles may seem somewhat old they are the most recent research in this area to which this study aim to contribute. Moreover, those studies reaches as most three years after spinoff.

3.2 Critical restructuring issues

Change is about moving from one understanding, through ambiguity, to a new way of understanding. Since a spinoff is an organizational change it should include such ambiguities (Corley & Goia, 2004). Woo et al. (1992)

further stress that benefits from spinoffs may exist but they are likely accompanied by major organizational adjustments. From the quantitative research conducted later in this study, aimed to bring light on the operating performance in subsidiaries following spinoff, two high and two low performing companies will be identified. Those companies will then be compared according to four issues likely to have an impact on the organization in change and the operating performance. The critical issues are identified by the authors and represents four frequently returning issues in litterature regarding spinoffs primarily, but also rebranding and organizational identity in general. Those issues are; management expertise and incentives, organizational identity, communicate the identity, and ability to seize the opportunity.

3.2.1 Management expertise and incentives

According to Jongbloed (2004) the first question to ask in a spinoff is; who should run the subsidiary after the spinoff? Since a spinoff can take one of many directions, hence face different challenges such as equity financing, it is not obvious that the former division manager has the right knowledge to lead the new company. There is also the question of a board. As the subsidiary become independent it will need its own board of directors. Depending on the character of the subsidiary, it may be sensible not contracting the same board members as in the former parent but bring in people with expertise in the specific business area of the spun off firm. The monitoring of management will be a key assignment of the new board and incentives plan is a great tool for this, especially if the spun off firm has many growth opportunities. Due to an absence of suitable management compensation policies in the former parent, there may have been sub-optimal fund allocation between divisions before the spinoff. Post spinoff in contrast, the policy in the subsidiary could be adjusted to give management incentives to identify profitable investments

(Jongbloed, 2004). The decreased complexity which follows a spinoff increases the performance visibility of the particular entity, hence offers improvements in managerial accountability and a possibility to incentives through more direct link between performance and results. Congruent with this assumption, that capital allocation made in larger diversified firms may differ significantly from decisions made by management responding to market based incentives, is the fact that there is a growth in capital expenditures in spun off companies (Cusatis et al. 1994). This increased accountability and new incentives to management usually improves the subsidiary's operating performance (Anslinger et al. 1999).

According to these theories a capable board of members and management as well as developed incentive plans for those managers could be considered as critical factors to improve the operating performance in the subsidiary after the spinoff.

3.2.2 Organizational Identity

When members of an organization answering questions such as: Who are we as an organization? and Who do we want to be as an organization? (Albert and Whetten, 1985), the answers represent those member's perceptions regarding what differentiates their organization from others and is also the foundation which affects how they present their organization to outsiders (Hatch and Schultz, 2002). During a spinoff, members of an organization may face a state wherein they find themselves without a good sense of who they are or where they are going as an independent organization. This question of identity is the most fundamental ambiguity when it comes to spinoffs. Hence, clarifying for the members who the new organization is and where it's going is a critical factor for a successful spinoff (Corley & Goia, 2004). Corley & Goia (2004) further point out three common triggers of identity ambiguity;

- *The loss of a social referent.* It's common that members of an organization use other companies as a comparison when finding out their organization's identity. Those referents, such as the parent company, may disappear in the spinoff and it's not certain there will be a new referent in place.
- *Temporal identity discrepancies* arise when there is a discrepancy between the present identity of the organization and what it should be in the future.
- *Construed external image discrepancies* are the discrepancy between member's perception of identity and outsider's perception of image.

During the spinoff period this identity ambiguity may also arise through internal and external documents as well as during meetings when a number of different labels are used to describe the company, but no one are sure about the meaning of those. Corley & Goia (2004) also found that multiple expected and unexpected changes taking place in the same time cause a *change overload* among employees. Furthermore, there may be tensions among employees concerning different views of what the organization is going to be.

To prevent this identity ambiguity, top management has to be realistic, send out a clear and unified message and use an understandable language when describing the new identity. Moreover, since there are organizational labels defining the identity in a symbolic way, management can tempt to change the identity through changing those labels. Instead of defining the organization as "a computer software company" it could be described as "a technology solutions company". The underlying meaning of a specific label could also be changed to signify something new (Corley & Goia, 2004).

Finally, Corley & Goia (2004) found that the cognitive aspect of identity, matters more during the launch. Later in the process those ideas have to be transformed to actions to support the change of identity. It is also fairly common that spun of subsidiaries are given new names. As the rebranding-guru Tony Spaeth (2003, page 28) states; *"Need to change the culture? Change the logo!"* In this study, consistent with the words of Spaeth, it is argued that a change of name is also a change of culture, hence a change of identity.

One could conclude that since the question of identity is one of the greatest ambiguity when it comes to spinoffs, this may also be the issue which needs greatest attention since employees need to be clear on who the organisation is and where it is going.

3.2.3 Communicating the image – gaining from the identity

The brand equity is the underlying value of a brand such as its set of associations linked to the brand name and its symbol (Aaker, 1991). In congruence with brand equity, Chernatony & Harris (2001) emphasizing reputation as the perceptions stakeholders possess about the brand. This brand equity, reputation and perceptions among outsiders, could also be referred to as image and may not be coherent with the brand identity the firm wishes to communicate.

When members of an organization interact with outsiders they get feedback concerning those outsider's perceptions of the organization, its image. As this happens, members compare the identity, as they perceive it, to the image as the outsider perceives it, and then reassess the identity based on the level of discrepancy (Elbach & Kramer, 1996). If there is a discrepancy this leads to the member trying to make sense about how to respond to this disparity. If there is an alignment between image and identity, this is strengthening to the organizational identity (Gioia et al., 2000).

Anyhow, such dissonance may create doubts in the mind of the member of the organization which further stress the importance of a clear internal identity, as argued in section 3.2.2, and there may also be a need for brand management to minimize this dissonance. According to Chernatony & Harris (2001) the corner stones' of such brand management are to implement internal consistency and congruency in the interaction between staff and other stakeholders to the firm, commitment in all communication (Ackerman, 1994), having a clear vision of the strategic direction and emphasizing this continuously (Lomax & Mador, 2006).

Since it is mostly the employees that interact with stakeholders (Mitchell, 1997) it is also essential for managers to identify mechanisms to come across diverse perceptions to resolve inconsistencies among employees. Encourage employees to give feedback about how they believe consumers' percept the brand may work as an extended coherency check. Moreover, a homogenous brand management team is more likely to have shared values, hence communicate same values for the brand identity (Chernatony & Harris, 2001). Having a consciousness of employee's concerns is important since the employees identifies with the company (Ackerman, 1994).

One could stress that if the spinoff is also a matter of a re-branding, it become even more important to anchor the name in the organization and display a conformed external communication since, as Spaeth states (2003), organizational identity is very much linked to the brand.

Although the organizational identity in itself may be the most important issue, it is worth less if it is not communicated to outsiders in the right way. Therefore, brand management and feedback are essential to performing change the right way after spinoff.

3.2.4 Seize the opportunity to change – it is a one-time offer

According to Ackerman (1994) a rebranding is the most obvious signal of change a company can give, thus an essential thing is to cease the opportunity to change strategically and organizationally in connection to this. Change done within one year from a rebranding can take advantage of the rebranding-signal and be tied back to the name change. Furthermore, since all stakeholders will wonder what implications they have to face from the change, this is a great way to get in touch with customers (Ackerman, 1994). This further builds the brand through customer’s awareness, associations and perceived quality (Aaker, 1992).

Although the theory emphasizes the change should be timely connected to the rebranding phase to be well communicated, in this study the theory will be used in a somewhat other way and relate to spinoffs as the big change. Meaning, while a spinoff in itself signals great organizational change, the company should seize the opportunity to genuinly bring about change and communicate this change in timely connection to the spinoff.

3.3 Words from an expert

This following chapter presents information gathered from the interview with Stefan Sveningsson, assistant professor at School of Economics and Management at Lund University. This information is used as theory since it is more of theoretical than empirical nature. Furthermore, a short practical example of the topic discussed with Sveningsson is presented in appendix II. All information relates to Sveningsson.

"Culture always defeats strategy" is a well known statement. Sveningsson stress the importance of a common culture that is common values, visions and goals, to succeed with organizational matters as well as external relations. A company needs to bring along its employees both cognitively and in the way they act in a unified way. Otherwise, the company can have whatever strategy without getting any impact from it. The culture of a company defines the identity to which employees' identifies.

It's naive to believe changing the culture and identity of a company is simply about giving employees' a brochure and some newly stated words. Before going through a process of change, its more than critical to clarify the present culture and values in the organization by asking questions like; what is it that defines us? What is our source of spirit, drive and energy? If the company doesn't make this diagnose before going through a change, there is a huge risk of doing something which is not in line with the actual purpose of the action. That is a discrepancy between what you do and what you want to do.

On the other hand, there is an increased possibility of succeeding with a change *if* the program is connected to how employees' understand themselves in the organization and further can connect this to localities and the known identity. It's not enough with a change that *sounds* good. The company in change has to design the program out of the present state of identity to make employees' understand what the change is about. How does it affect me? It has to get relevant to what every employee is doing every day. Otherwise the change may turn to be "Corporate bullshit" that nobody cares about; hence there will be no change. This is why diagnosing the present identity is critical.

If a company wants to create a new strong identity, it's of huge importance to know what the culture is today, what the members of the organization has in common and what they can bring about.

The question of what the culture is today and what common factors members of an organization may have, are no obvious questions but have to be thoroughly examined and deeply communicated. A way to stress this is to see it in a process way more than instrumental where a two way communication is the way to go. The company needs to anchor the change locally with returning workshops, seminars, and discussions to identify if something is going in the wrong way. Patience is the key word.

Management is often a bunch of highly motivated and driven people who usually gets things done. This is the kind of drive needed to go through with a change but employees' are usually somewhat more awaiting in terms of directions what to do. In such case, there is a need for an energy contribution. Management can serve as inspiration but energy to change has to grow from below. This is why employees' need to understand what the change is about. Just take political groups as an example. They are extremely committed; creating fellow ship and people makes an effort with no paycheck. Without getting religious, people have to feel a sense of curious. Otherwise there can be a state of *Symbolic anorexia* where there is an absence of emotion, meat and blood. The point with a vision is not the logic but what the identity is. The cognitive factors on which you define yourself in the organization further give how you act.

To make conclusion in this matter, there is the metaphor of rugby: *"The first kick is not more worth than any other. It's about someone picking up the ball, runs like hell; pass the ball to the next player who also runs like hell. It's about providing more energy to the* *game. Standing and waiting for someone else to pick up the ball doesn't work in rugby."* Not to mention, rugby is also about triggering people.

Finally, another question is when to start asking for results from the changed organization or spun off subsidiary. Of course, this is a highly individual question, but Sveningsson emphasizes that organizations usually are too impatient in this matter and asks for results too early after the change.

3.4 Theoretical framework

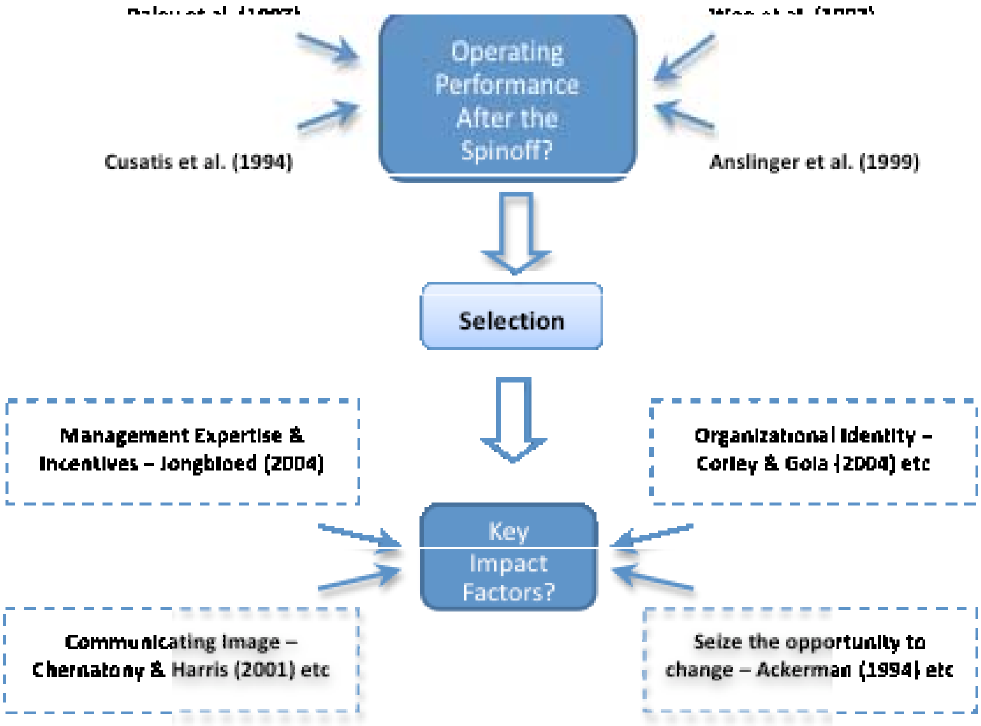


Figure 4 "Theoretical framework"

4 The Findings

This chapter demonstrates the empirics from the research conducted. The fist part reveals the results from the quantitative research, which refers to "how the subsidiary's operating performance is affected following a spinoff", as stated in the research objective. The second part involves the selection of the spinoff firms performing above average as well as below average in our sample, which thereafter is subject of an in depth study to identify obvious discrepancies. This part has consequently a qualitative viewpoint and refers to "which factors can be defined as key impacts", as stated in the research objective.

4.1 How do spinoffs perform?

The following section contains the empirics of the quantitative study and demonstrates the results from the Operating ROA performance throughout the test period of each spinoff firm in the sample. It presents a package of all

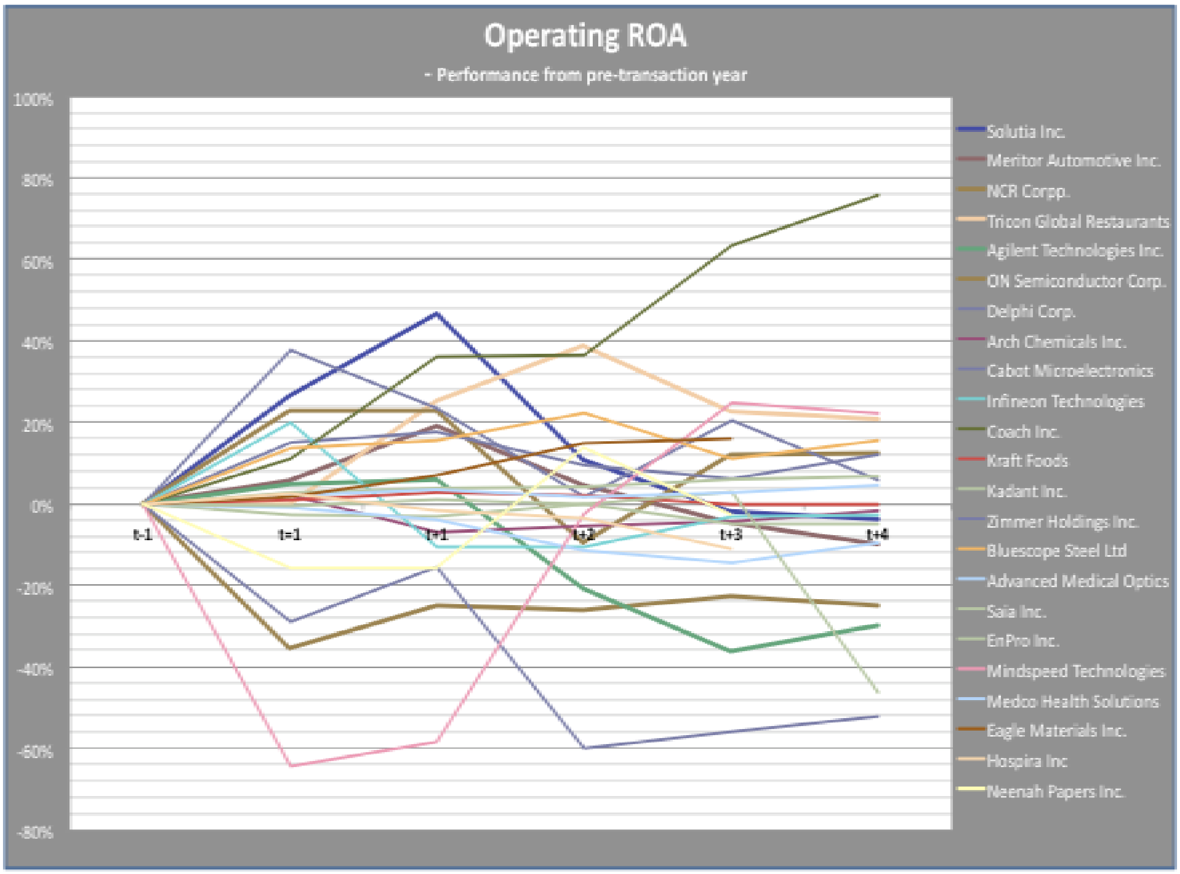


Figure 5 "Operating

data in an undemanding manner using tables, graphs, other illustrations and text.
Tables on absolute as well as relative performance, presented accumulated and yearly, are found among the appendices. The graph above illustrates the operating performance of all 23 spinoff firms.

Worth mentioning is the fact that the majority of the spinoffs seemingly fluctuate around zero. No other apparent pattern could be distinguished in the graph, thus increases vary with decreases.

ΔOperating ROA Performance

Interval	Median	Mean	z-score
$1_{t+1\ -\ t-1}$	3,6%	4,1%	0,018
$2_{t+2\ -\ t+1}$	-1%	-3,5%	-0,016
$3_{t+3\ -\ t+2}$	1,1%	0,7%	-0,002
$4_{t+4\ -\ t+3}$	0,7%	-1,6%	0,012

Table 2 "Wilcoxon Signed-Rank Test"

Table 2 present the Operating ROA progress in percentage for each interval, with the starting point in the pre-transaction year until completion five years later. The data is based on the previously stated spinoff sample (Table 1) and a test period stretching from January 1996 to December 2007.

Extraordinary performance in Operating ROA cannot be determined with statistical significance, on 95 percent degree of confidence, in any of the four intervals.

4.2 Good versus bad spinoffs

This section is divided into three parts, which altogether constitute the qualitative findings. Initially, the two firms performing above average and the two performing below average in the spinoff sample are defined. This selection is thereafter subject of an extensive financial analysis through the decomposition of Operating ROA. The final part demonstrates the findings from investigating the selected firms' annual reports and press data throughout the test period.

4.2.1 The selected spinoffs

The following results relate to the selection of the two spinoffs performing on a higher level as well as the two performing on a lower level in the spinoff sample. The ranking between the sample spinoffs is based on their relative performance (Figure 5) combined with the level of consistency in absolute terms (Appendix III).

In particular one spinoff, Coach Inc., achieved excellent results and in fact exceeded its level of Operating ROA each year throughout the test period. The spinoff improved its 6% level in the pre-transaction year to 82% in t+4. Cabot Microelectronics is another spinoff presenting improved results, consistently higher than the pre-transaction level. Overall, the spinoff improved its Operating ROA with 12,2% and the mean level

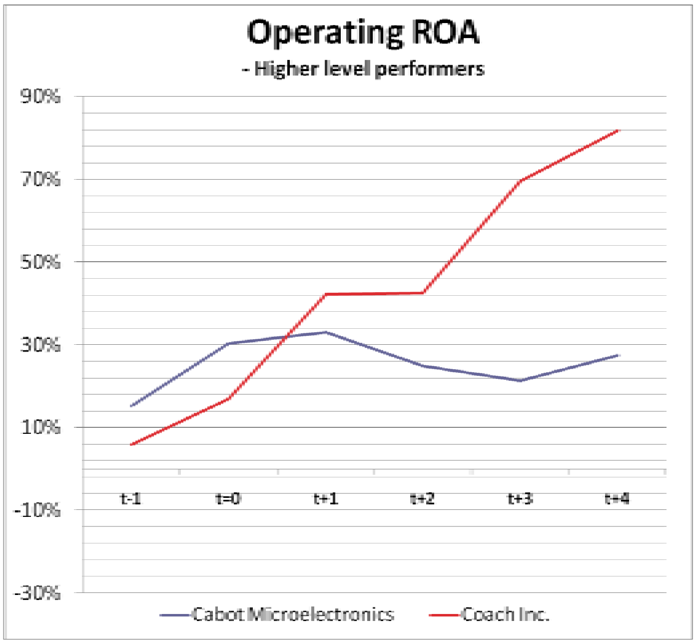
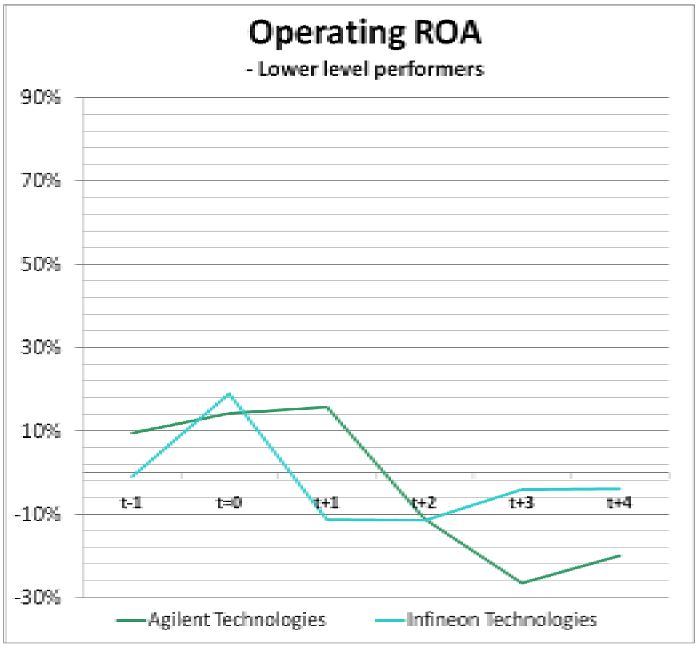


Figure 6 "High level performers"

to 12,1%.



Apart from the rise in performance in t=0, Infineon Technologies demonstrated lower results in Operating ROA the remainder of the test period. The negative results of -1% in t-1 dropped to -4% in t+4. As illustrated, Agilent Technologies also increased its Operating ROA in the beginning of the firms' independency, although marginally. Thereafter the level dropped dramatically, to -20%, and overall the mean level decreased with 15,1%.

Figure 7 "Low level performers"

Criticism could be raised regarding those lower two companies operating in the same industry, which is the technology industry in the infancy of the second millennium. As answer to this criticism, one should note that also one of the top two companies, Cabot Microelectronics, is very much related to this industry[12]. As Kumar & Beattie (2004) states; *"Because they (Cabot) are the main supplier…( )… it is easy to understand why the performance of their stock would be closely related to the performance of the semiconductor or the computer business."* Together with the general finding by Cusatis et al. (1994) that adjusting for specific industry growth rate gives the same result, this is interpreted as evidence of reliability and validity.

[12] See Table 1

4.2.2 Financial analysis

The following section illustrates the decomposition of the targets' Operating ROA and further investigates the source of extraordinary performance in each spinoff. Several results referred to are found in the appendices III and IV.

Coach Inc.

Figure 8 illustrates the constant improvement in Coach's NOPAT margin. In t+4 the company is able to retain 21,8 cents in net operating profits for each dollar of sales, compared to 2,4 cents in t-1. In other words, Coach Inc. boosts its post-transaction figures eightfold.

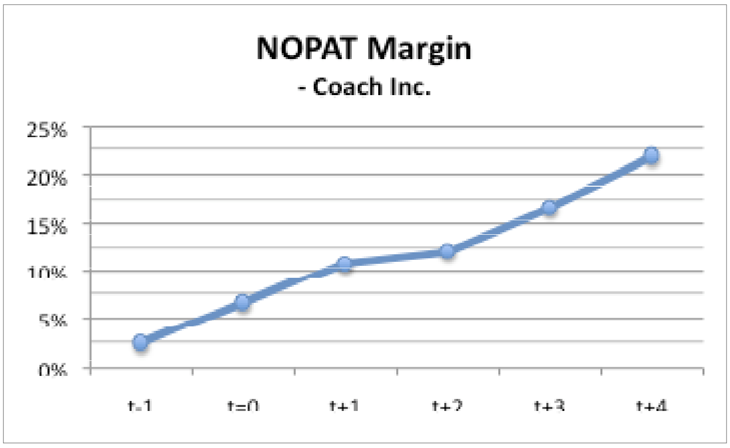
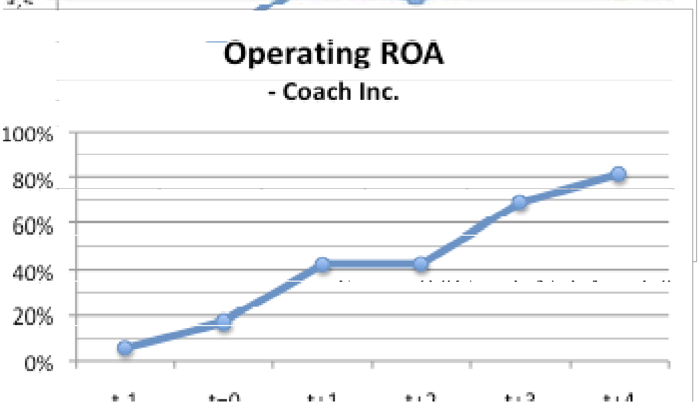


Figure 8 "Coach NOPAT"

Net asset turnover increases throughout the test period, from 2,41 to 3,74 in t+4 or in relative terms 55,2%. The net result from Operating working capital and Net non-current assets is thus improving.

Although both main drivers of Operating ROA show significant improvements, the effect from Coach's NOPAT margin heavily outweighs the effect from Net assets turnover. These results are primarily caused by the outstanding gross margin development. Simultaneously with Sales growing from $508 M to $1321 M the company achieved to lower its Cost of sales/Sales ratio to 25,1% from 44,4%. Moreover, the SG&A/Sales ratio demonstrated a



decreasing trend, which brought it to a level of 41,3% in t+4 from 50,2% in t-1. Lowered relative expenses in Distribution and customer service as well as in Advertising, marketing and design, largely caused this trend. Finally, the firm's higher efficiency in using its Net non-current assets and its Inventories management had the greatest impact on the increasing Net assets turnover.

Cabot Microelectronics

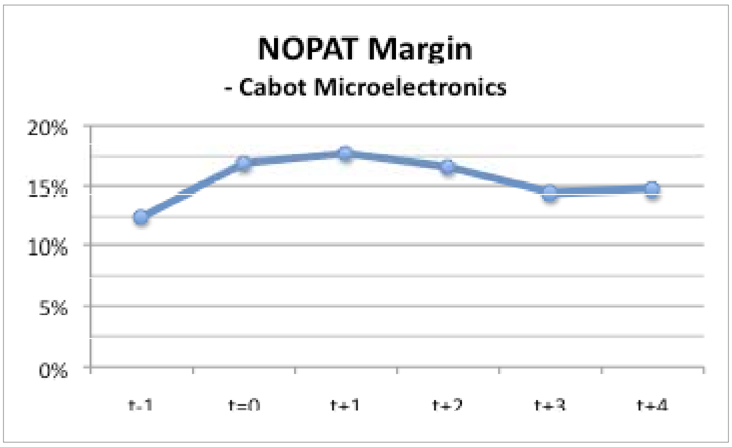


Figure 11 "Cabot NOPAT"

Cabot Microelectronics had consistently greater values in NOPAT margin subsequent the pre-transaction year, even if the trend diminished in the latter years. Compared to the level of 12,5 in t-1, one dollar of sales in t+4 would generate additional 2,2 cents in operating profit.

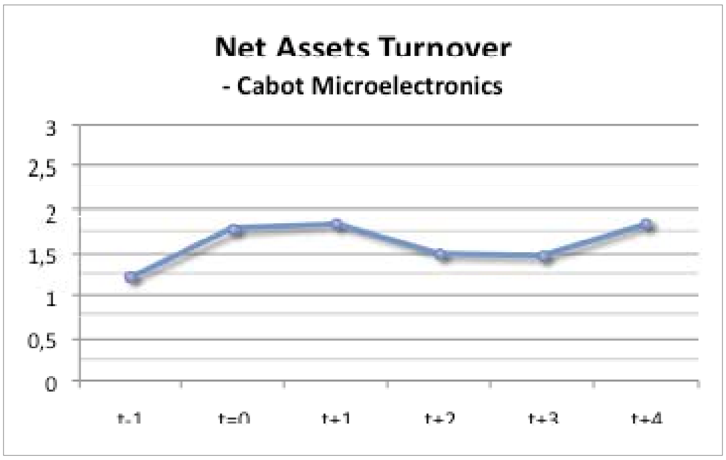
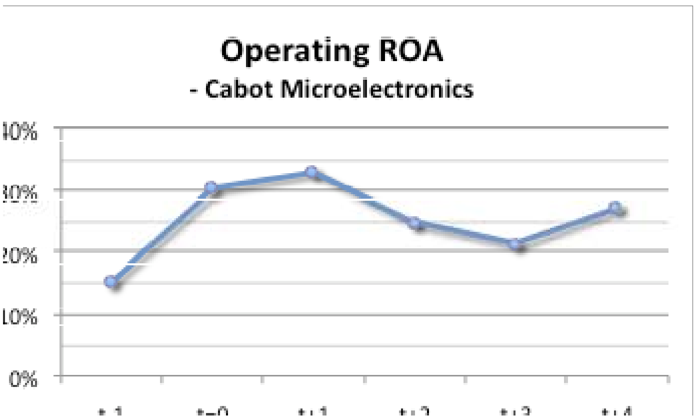


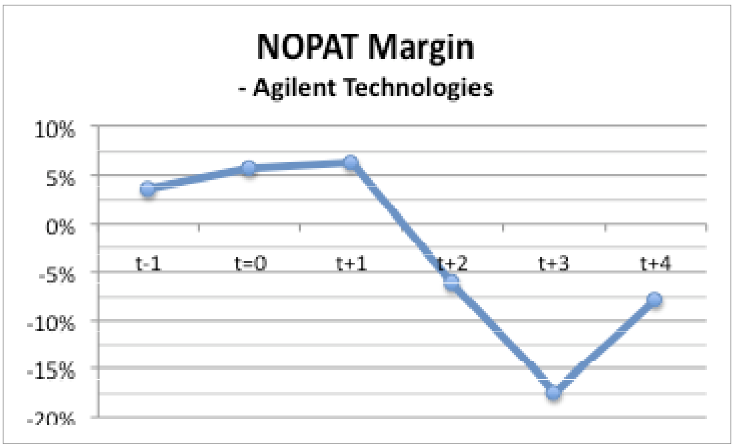
Figure 12 "Cabot Net Assets"

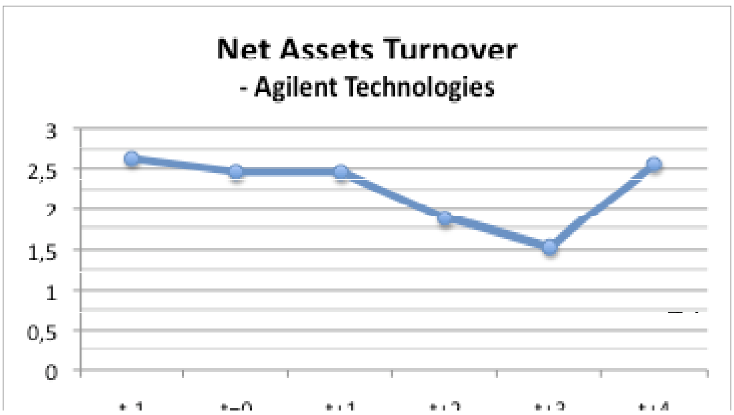
Net asset turnover too increased along the test period and moreover showed strong resemblance with the NOPAT margin trend. The pre-transaction level of 1,22 grew to 1,86 in t+4, more specific an increase of 52%.



Both drivers seem to have more or less equel effect on Operating ROA, although the Net asset turnover demonstrates a somewhat higher relative growth. Along with a strong sales growth, from $99 M in t-1 to $309 M in t+4, Cabot Microelectronics have not been able to keep down its cost of sales, thus the Cost of sales/Sales ratio has slightly increased to 50,8% from 48,4%. This implies that the improved NOPAT margin is a consequence of other more efficient relative operating expenses such as the General and administrative/Sales ratio, which decreased from 12% in t-1 to 7% in t+4. The R&D/Sales ratio decreased its level significantly in t=0 and t+1 which resulted in a higher NOPAT/margin in these years. Remaining expenses such as Selling and marketing did not show any significant deviations relative to sales. Cabot's higher efficiency in utilizing its Net assets is foremost a result of an increasing Operating working capital turnover, driven by improvements in managing receivables. As the firm's efficiency in employing Net non-current assets dropped heavily in t+2 and t+3 the Operating ROA was affected negatively. However, this trend turned the following year and Cabot completed the test period with an "all-time" high Net non-current asset turnover.

Agilent Technologies





The initial years as an independent company Agilent in fact generated increasing net operating profit to sales figures, although marginal. However, thereafter NOPAT margin plunged to hit its lowest level of -17,4% in t=3. In the final year of the test period Agilent made losses of 7,8 cents per each dollar generated, compared to the earnings of 3,6 cents in the pre-transaction year.

Net asset turnover also demonstrated a negative trend, although not even comparable to the magnitude of the NOPAT margin. The opposite trend in t=4, also witnessed in Figure X, restored the turnover to pre-transaction levels, more specific 2,56.

ıt Net Assets"

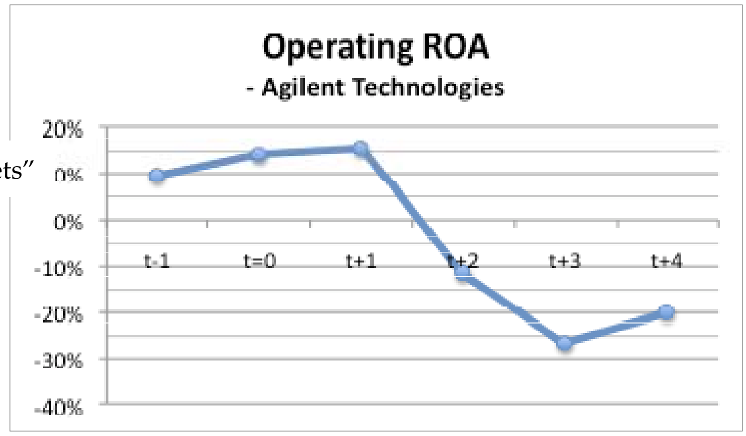
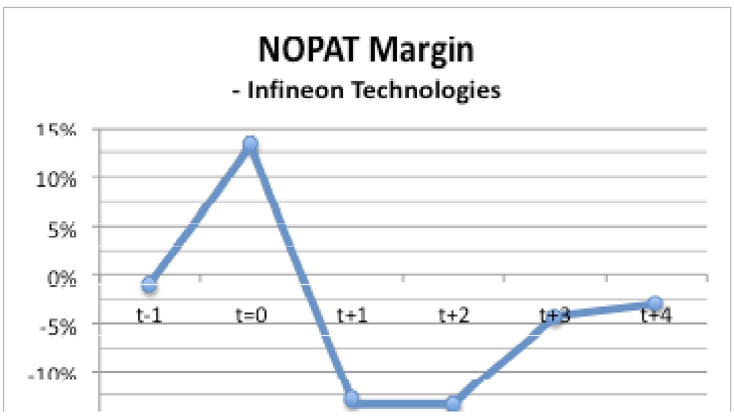


Figure 16" Agilent Op ROA"

The negative effect caused by the worsened operating profits has obviously greater impact on Operating ROA compared to the marginal changes in Net assets turnover. The increasing Cost of sales/Sales ratio is found to have the greatest impact, thus its level jumped to 62,1% in t+4 from 56,7% in t-1. Neither SG&A/Sales ratio nor R&D/Sales ratio could provide better results. The prior increased from 25,8 in t-1 to 32,5% in t+4 and the latter increased from 11,9% to 17,4% the same years. Mainly during two years, t+2 and t+3, did Net assets turnover provide poor results. The reason for these is explained by lowered efficiency with which Agilent uses its Net non-current assets. This effect is in fact eased due to the improved efficiency in Operating working capital management.

Infineon Technologies

The transaction year results in huge leap in NOPAT margin, converting Infineon's negative figures into positive. The



following year, a negative impact twice as severe reduces the margin to -12,9%. It thereafter recovers but still ends up generating losses in the amount off 2,9 cents per dollar in t+4.

The Net asset turnover develops only marginally throughout the test period, in which it remains on a level between 1,44 and 0,86. The final year it reaches a level of 1,32, a minor increase with 17,9% as from t-1.

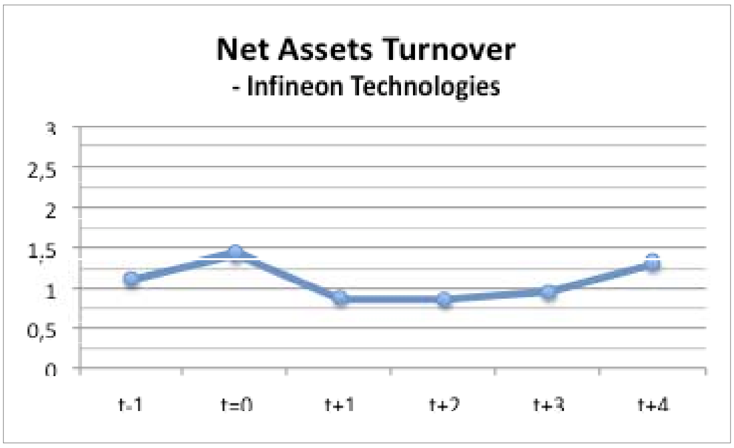


Figure 18 "Infineon Net Assets"

Also in Infineon's situation does NOPAT margin seem to have the most significant affect on Operating ROA. This affect is primarily driven by a higher Cost of sales/Sales ratio in t+1 until t+3, while an increased R&D/Sales ratio keeps it low in t+4. However sales skyrocket to $8834 in t+4 from $3744 in t-1 and SG&A expenses relative to sales in fact decreases along the test period. As for Net assets turnover once again the development in Net non-current assets turnover presents the greatest impact.

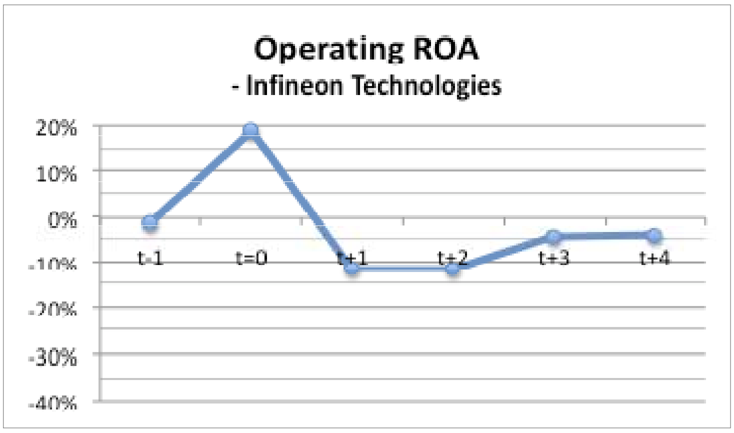


Figure 19 "Infineon Op ROA"

In t+1 and t+2 the efficiency with which Infineon uses these assets decrease nearly 50% from the transaction year, a drop which although is recovered the following years.

4.3 Annual Reports and Press Data

The following section collocate the findings from investigating annual reports and press data concerning the selected firms throughout the test period. The key strategic areas for each firm are defined as the most recurring and highlighted factors of success communicated throughout the annual reports. Additionally, quotations from specific annual reports are presented which further emphasize the specific area. Investigating business articles throughout the test period have resulted in several quotes, also representing the most recurring and stressed areas of discussion. The findings are presented firm-wise.

4.3.1 Coach Inc.

"Coach, Inc. designs, produces, and markets primarily leather goods. The Company's products include handbags, business cases, men's and women's accessories, luggage and travel accessories, leather outerwear, and gloves. Coach, together with a licensing partner, offers watches, footwear, furniture, and eyewear[13]".

Key strategic areas from annual reports:

> **Modernize the brand**: Key to success is keeping the product fresh and relevant.
>
> > *"We embrace change, we also embrace trends"* (AR 2004)
>
> **Customers**: This business is about building relationships with customers, not just selling products! Shopping experience enhancement and specialized marketing programs are recurring elements.

[13] Company profile copied from www.bloomberg.com/apps/quote?ticker=COH:US

"We treat them as if they are guests in our home" (AR 2004)

Growth: Leveraging the unique leadership position and developing from a manufacturer to an international marketer and distributor.

Operational efficiency: Refers to production in Asia and new business systems. The ambition is to operate a small business with large sales.

Employees: Performance based corporate culture with employee stock option plans. 94 percent of employees agreed with the statement;

"This company's future is very important to me" (AR 2001)

"The employees are maniacally focused on meeting and beating investor expectations" (AR 2001)

The board of the newly spun off company consisted of eight persons, out of which three had a heritage from the former parent company Sara Lee. Four years later, this number was one out of seven. The CEO has been involved in Coach Inc. for more than twenty years and was still CEO four years after spinoff.

Press sources:

2001

"Gross margin widened as the company cut production costs. Coach also reduced SG&A expenses."[14]

"The luxury accessories marketer Coach Inc. said it would form a joint venture with the Japanese trading house Sumitomo to focus on Japanese consumers."[15]

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[14] New York Times (East Coast) N.Y.: Jan 23, 2001. Pg. C.6

[15] New York Times (East Coast). N.Y.: Jun 13, 2001. Pg. W.1

"Our gross margins have significantly increased, reflecting the consistent application of our philosophy of a 365 day full price proposition," – Lew Frankfort, CEO.[16]

2002

"Sitting through "margin meetings" on the grimy fringes of New York's garment district, such is life at Coach Inc.: unfabulous, but highly profitable, as the company has transformed itself over the past years from a stodgy leather-goods company into a hip fashion brand."[17]

"Coach has no patience for styles that might sell for a season but contribute nothing to the brand's long-term image."[18]

2004

…That's the Lew Frankfort whose vulnerability endears him to the employees at Coach's mod loft headquarters on West 34th Street in Manhattan. Hardly a day goes by that he doesn't express his worry that Coach will lose its way, its edge, its status. "He's scared of failure, and he will tell you that," says his son, Sam, a 25-year-old associate at Bear, Stearns & Co. in New York...…As is often the case with successful executives, that fear is a foil to a supersize ambition……Yet Frankfort wants supremacy he wants to supplant Vuitton, the largest of them all…Frankfort has done something even more unusual for a luxury brand: He relies on a rigorous management and financial system. Frankfort is, at heart, a by-the-numbers executive, one who reserves his greatest praise for those who are "numerate." When the company's 30 top executives enter their offices in the morning, they are greeted with a voice mail providing sales figures from the day before. If managers don't know their numbers, Frankfort punishes them with even more

[16] Wall Street Journal (Eastern edition) N.Y.: Jan 11, 2001. Pg. B.4

[17] Wall Street Journal (Eastern edition) N.Y.: May 3, 2002. Pg. B.1

[18] Ibid.

exacting questions. "You need to make the numbers dance to stay invited to the party,"……Coach is set to surpass Gucci as the second-most-popular accessories brand in Japan, the world's largest luxury market. And though Coach's sales are just a fifth of Vuitton's there, they are growing at four times the rate of its rival's……At weekly meetings, he and his executives review and adjust projections for each business division, all the way down to prices of individual items. The smallest numbers may jump out at him, such as the price of certain key chains to be sold this fall.[19]

4.3.2 Cabot Microelectronics

"Cabot Microelectronics Corporation supplies slurries used in chemical mechanical planarization, a polishing process used in the manufacture of integrated circuit devices. The slurries are liquids containing abrasives and chemicals that enhance the polishing process. The polishing process itself facilitates the manufacture of smaller, faster, and more complex integrated circuit devices[20]*".*

Key strategic areas from annual reports

Employees: Personal commitment to the company is highly regarded and their intellectual property is clearly important to success. An employee stock purchasing plan and stock awards exists.

"Above all, we have a world-class team of employees whose, capabilities, diligence, loyalty, integrity and passion have greatly impressed me and given me tremendous confidence in our Cabot's future" CEO, (AR 2003)

Innovation: Investments in R&D is critical for maintaining technology leadership and achieving long-term success. Expansions globally, mainly in the Asia Pacific region, will lead to future growth.

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[19] Business Week. N. Y.: Mar 29, 2004. , Iss. 3876; pg. 98

[20] Company profile copied from www.bloomberg.com/apps/quote?ticker=CCMP:US

Operations excellence: The importance of consistent quality in products and solutions.

Customers: Develop greater intimacy with customers and enhance these relationships are obvious aspirations. Identify and address their next-generation needs.

The board is greatly influenced by the parent. Five out of seven members were former interns of Cabot Corporation. The CEO had been on the position since one year prior to the spinoff and had much experience from similar industries.

Press sources:

2001

"Technology innovation is the key in riding out one of the worst cyclical downturns in the semiconductor industry." – Matthew Neville, CEO, CM.[21]

"Mr. Neville's leadership of the company is 'visionary', he has been the energizing force behind this company, providing the direction and focus responsible for our aggressive growth and success." – Kenneth F. Burnes, former chairman of CM.[22]

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[21] Chemical Market Reporter, New York: Jun 11, 2001, Vol. 259, Iss. 24; pg. 22

[22] Ibid.

"We've added a number of new players at the senior level", "I think we have a very strong management team which has gotten stronger and broader the past years." – Johnson, CFO.[23]

"We are using the downturn to enhance our global manufacturing and supply base"…"we run our organization fairly lean. We're not closing any facilities, and we're not laying off people. We have manufacturing capacity in place for any large surge in demand".[24]

A key success was having a "product champion" who believes in the technology. In the case of CMP, it was Bruce Zwicker, who is now senior business development specialist at CMC. "It's important to have someone who is passionate and can really get behind a project." – Kennett Burner, CEO, Cabot Corporation.[25]

Cabot certainly has the resources to fund its R&D programs. Today, the company has more than $400 million on hand for its needs and is eyeing internally financed expansions of its businesses - some, perhaps, modeled on its success with Cabot Microelectronics.[26]

2004

…Cabot M seems to be well positioned in their industry with high market share and strong growth, and ability to deliver new products for what is needed by the industries they interact with. By understanding the customers' needs and the direction that the industry is going, Cabot was able to develop a product to meet those needs and that capitalizes on this trend. Working with

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[23] Ibid.

[24] Ibid.

[25] Chemical Week, New York; Dec 19 – Ced 26 2001, Vol. 163, Iss. 46; pg.21

[26] Chemical & Engineering News. Washington: Jun 4, 2001. Vol. 79, Iss. 23; pg. 19

the customers, they found that they desired a process that produced a disk with better surface quality...

…Cabot showed a great ability to understand their customers need…

…Cabot is an innovative company and does a great job in developing products for their customer base…[27]

4.3.3 Agilent Technologies

"Agilent Technologies, Inc. provides solutions to markets within the communications, electronics, and life sciences industries. The Company designs and manufactures test, measurement and monitoring instruments, semiconductors and optical components, and chemical analysis instruments, systems and services"[28].

Key strategic areas from annual reports:

Core business areas: Maintain and focus on market share in core areas to enhance growth potential.

Flexibility: To make the company faster and more cost-effective. Match against the size of the business.

Globalize: Capture opportunities in emerging markets such as Asia. Global presence in high-growth markets.

Our people: Accelerate the work to develop a culture in which people embrace change, lead rather than manage and are rewarded for results through stock option programs.

Innovate technologically: Invest substantially in R&D and forge strategic partnerships to develop breakthrough technologies that make fundamental contributions to industries and customers.

[27] Industrial Management & Data Systems, Volume 104 - Nr 1, 2004. Pg 5-15

[28] Company profile copied from www.bloomberg.com/apps/quote?ticker=A:US

Press sources:

2000

> *"Agilent plans to quadruple its fibre optic component manufacturing capacity over two years. The investment reflects the global shortage in fibre optics and rapidly increasing demand."*[29]
>
> *"Industry-wide component shortages have forced shipment delays that in turn will hit Agilent's bottom line."*[30]
>
> *"We have, literally, entire conference rooms in Sonoma County stacked full of products that are almost ready to ship, but which are just missing one component on a PC board."*[31]
>
> *"Agilent's diverse mix of technologies stands in sharp contrast to the pure-play orientation of most of its competitors."*[32]

2001

> *"Economic conditions are very uncertain, and we are very cautious about 2001. We continue to look for cost-cutting measures."*-- Robert Walker, CFO[33]
>
> *"The speed and severity of the downturn were like nothing I've seen in my 34 years in business, excess inventory and capacity were almost universal across the company's customer base."* – Ned Barnholt, CEO[34]

2002

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[29] Electronic Times, London: Jun 19, 2000, Pg. 3

[30] Electonic Times. London: Jul 31, 2000. Pg. 6

[31] Ibid.

[32] Electric Buyer's news Manhasset: Oct 16, 2000. Iss. 1233; Pg. 5

[33] Wall Street Journal (Eastern Edition) N.Y.: Feb 21, 2001. Pg. 8

[34] Wall Street Journal (Eastern Edition) N.Y.: May 18, 2001. Pg. 5

"One thing about Agilent's businesses is certain: there are many of them. The company has three core markets: tests and measurements, semiconductor products and life sciences and chemical testing".[35]

"Agilent switched over to the new management system, but in a way that could hardly be called seamless. The hiccups included problems with customers' placing orders and employees' trying to track them."[36]

2003

"The layoffs, announced Friday, are on top of the 8,000 positions fiscal year ended Oct. 31 and 2,500 more reductions disclosed in November. The company has about 35,000 employees world-wide. The job cuts were an effort to return to profitability later this year after seven straight quarterly losses."[37]

4.3.4 Infineon Technologies

"Infineon Technologies AG designs, manufactures, and markets semiconductors and related products. The Company's products include microprocessors, memory components, microcontrollers, integrated circuits, digital and analog sensors, and fiber optics. Infineon markets its products to the communications, automotive, industrial, and consumer electronics sectors"[38].

Key strategic areas from annual reports:

Expand: Create further value by winning market share in less cyclical high margin businesses. Concentrate on China, Japan and USA.

Partnership networks: To increase flexibility and improve cost structure.

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[35] New York Times (East Coast) N.Y.: Aug 26, 2002. Pg. C3

[36] Ibid.

[37] New York Times (East Coast) N.Y.: Feb 22, 2003. Pg. C.4

[38] Company profile copied from www.bloomberg.com/apps/quote?ticker=IFNNF:US

Employees: The key to success. A variety of ways is used to recruit and retain the most talented, most innovative and most valuable people possible worldwide. To increase the motivation of its employees a stock option program is used aligned with other world-class awards. Retain senior management and other highly qualified personnel.

Customers: Support global customers in the industries they operate.

"It's not just what we thin; it's what our customers think that matters"
(AR 2001).

Press sources:

2001

"Infineon said it has introduced a series of cost-cutting measures, including a short work week, and will lay off 5,000 workers in response to slowing demand for its products."[39]

2002

"The strategic partnership in the Asian growth market successfully extends our offensive in the worldwide market, and we are expanding our position as top three semiconductor manufacturer." – Ulrich Schumacher, CEO.[40]

2003

"Fiscal year 2003 Infineon posted a profit, its first in more than two years, amid a revival in memory-chip prices and cost cuts."[41]

"Schumacher was driving the company like an owner, convinced he was doing the best for it. But maybe he didn't listen enough to what people were saying

[39] EBN. Manhasset: Jul 30, 2001, Iss. 1273; Pg. 16

[40] EBN. Manhasset: Nov 18, 2002, Iss. 1339; Pg. 4

[41] Wall Street Journal (Eastern Edition) N.Y.: Nov 11, 2003 Pg. 1

that it is impossible to drive a company in such style." – Dr Jurgen Knorr, former president.[42]

2004

"Infineon said it will invest $1 B to expand its U.S. plant, the latest in a series of moves to adopt a technology that reduces manufacturing costs and improve margins."[43]

"Infineon was afflicted by a "winner's curse," since a rebound in the memory market caused the company to go against its earlier declared intention to decrease its dependency on DRAM."[44]

"Schumacher's one big frustration was his inability to offer true stock options to incentivize his workers, to bring to bear management practices that would really let Infineon do a little open-field running."[45]

"Schumacher's treatment of workers was "polarizing", said Infineon workers' council chairman Harald Biedermann. For instance, he introduced a program to evaluate every staff member annually and would have those receiving the worst assessment leave the company."[46]

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[42] Electronics Weekly Sutton: Mar 31, 2004, Iss. 2140; Pg. 3

[43] Wall Street Journal (eastern Edition) N.Y.: Apr 26, 2004 Pg. 1

[44] Electronic Engineering Times Manhasset: Apr 26, 2004, Iss. 1318; Pg. 10

[45] Electronic Engineering Times Manhasset: Apr 5, 2004, Iss. 1315; Pg. 58

[46] Electronic Engineering Times Manhasset: Mar 29, 2004, Iss. 1314; Pg. 8

4.4 Empirical Framework

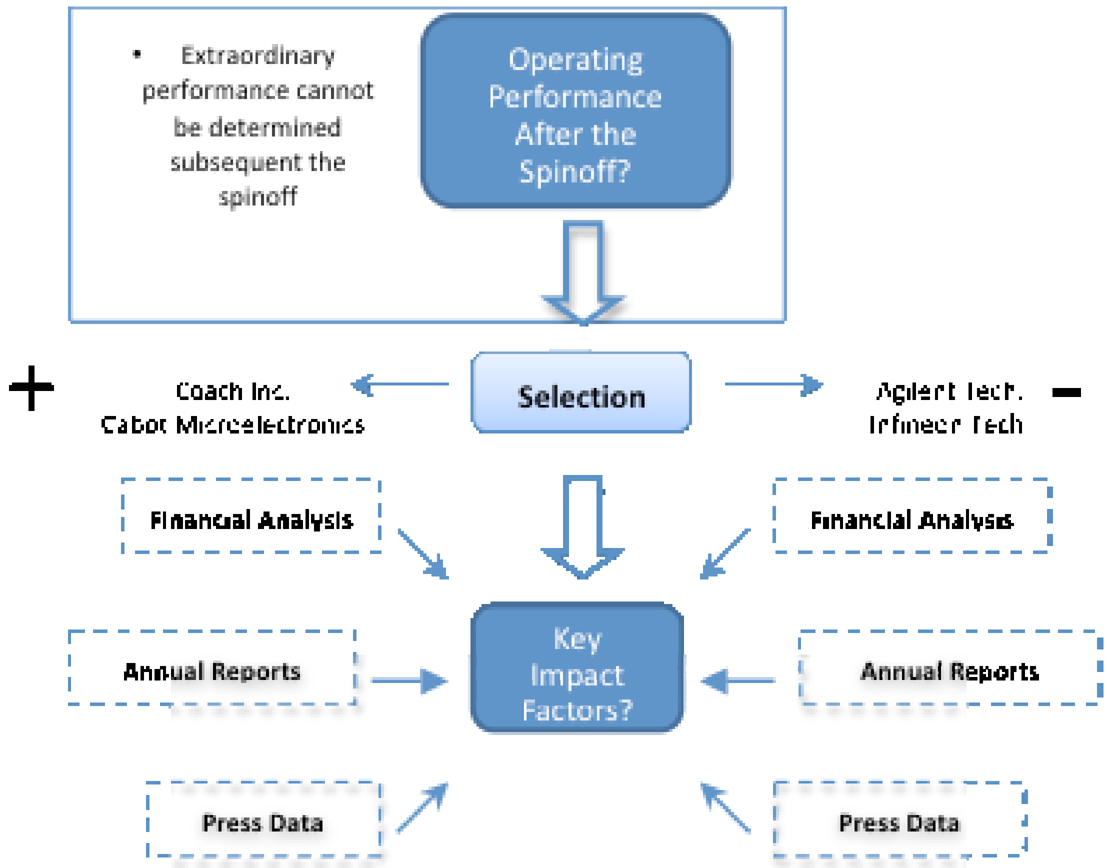

Figure 20 "Empirical Framework"

5 Analysis

In the following chapter the findings in this paper are interpreted against underlying theories previously presented. Initially it is discussed whether evidence could be found in spinoff firms moving in any extraordinary way after the transaction. Subsequently, two spinoffs performing above average and two performing below average are tested against the critical restructuring issues presented in previous chapter.

Whether or not a firm changes its level of operating performance is a topic heavily disputed in previous studies. Although this paper support the flank in which Daley et al. (1997) make the foundation, meaning that *evidence could not be provided that reveals a post-spinoff trend in operational performance in any direction.* Thus, all four intervals tested against, failed to accept the hypothesis of scores differing significantly from null. This paper consequently contradict the findings of Cusatis et al. (1994) and Anslinger et al. (1999), where both studies argument for operating performance improvements in the spun off entity. Consequently, it is nor in line with the studies of Woo et al. (1992), which implicates that the spun off subsidiaries in fact deteriorate their operating performance. The test period examined in this study, from the pre-transaction year through four years after spinoff, may still be to emphasizing too short of a time period to study. Still, since the operating performance among the spun off subsidiaries does not differ significant from zero, there is no evidence presented in this study supporting that would be the fact. Furthermore, there are no clear evidence of whether performance is mainly derived from the operating margin or asset turnover which may be interpreted as industryspecific.

Although it is naturally not possible to create a framework of success factors that considers the specific demands in each end every spinoff firm's business environment, this paper previously compiled the general opinions from theory. Though the findings in this study show no common rise in operational efficiency among spinoff entities, the absence of such a generally employed framework to success could be argued.

Figure 21 " Framework of analysis"

Analyzis through the theoretical framework of critical restructuring issues:

Concerning the management of **Coach Inc.,** the CEO has been in the company for twenty years. Though it could be a good thing to bring in new expertise, it is certain that the CEO has good experience of the business. The big difference in the company the years around spinoff is the conversion from "leather manufacturer" to "fashion distributor". This conversion has led to less factory ownership and more contracting in manufacturing which has further led to higher margins and a new more fashion concentrated market segment. As the CEO states, *"The basis of our business is the product"*[47], which together with the brand, is the central part of Coach Inc.'s vision. As he further states

[47] Coach Inc. Annual report 2000, p. 14.

that he wants to supplant the great brand Vuitton, one could argument that Coach Inc. is building the brand for the future. Turning to the organizational identity, it's obvious this is deeply related to the product too. As the company is running concept stores and has developed a more focused fashion niche, which the company clearly communicated at the time of the spinoff, it may have decreased the impact of a loss of referent and further made it easier for the employee to identify with the company and knowing who they are as an organization. Furthermore, employees have incentive programs which have supported that 94 percent of the employees agreed to the statement that the future of the company is really important to them which again leads to the conclusion that employees knows who they are as an organization.

Evidence of the CEO's drive for the brand and the business is something which comes through also in the business press with references to the CEO as ambitious and a by-the-number executive running margin meetings. This is also something that is clearly visible in the financial data as costs related to sales steady decreases. Communicating the brand has become easier and more efficient since Coach now operating a niche market, hence makes it possible to do more directed campaigns. The fact that marketing expenditures relative to sales has decreased can be derived to this more efficient marketing and maybe also to the stronger brand which in turn may have led to a stronger organizational identity among employees. Relative costs for customer service has also decreased which may be evidence of more satisfied customers. An increasing inventory turnover is evidence of more efficient inventory management, which is probably derived from better knowledge concerning the customer and what they want. As net asset turnover is fairly stable, it seems like Coach is growing with a fast but healthy pace after the spinoff. It is obvious that Coach. Inc. was very much informed of what kind of company they were before the spinoff and also what they wanted to become after the spinoff. This could further be interpreted as Coach Inc. made a quick, clearly communicated and visible organizational change that employees understood and could relate to, which should definitely have had an impact on the operating performance.

The amount of clarity with which guidelines concerning the company’s core assets and strategies are communicated, is essential for brand building. In **Cabot Microelectronics’** case, management has already from the start of the independency been emphasizing the importance of their employees and their commitment to the company. The fact that Cabot’s intellectual property is critical for their success goes hand in hand with the importance of communicating the brand as in terms of building customer relationships and innovations addressing next generation needs. Investment in R&D is hence a factor that is thoroughly highlighted in the annual reports. A strive to expand globally and attain leadership is stressed early which demonstrate the awareness of the opportunities Cabot Microelectronic is facing.

An essential component in the model of critical restructuring issues is management and in which manner it provides sufficient guidelines and encouragement to employees. This area of subject is frequently recurring in business articles written on Cabot Microelectronics. The company seems to have streamlined management expertise, including members of the board, rather efficiently and the leadership is referred to as “visionary” and “energizing”. The large increases in revenues followed by the independency could very well be a consequence of Cabot taking advantage of the new possibilities as a stand-alone company. In line with the emphasis expressed towards innovation, investments in R&D have rationally increased relative to sales. Business articles also affirm the innovative power in Cabot by expressing the company’s greatness in understanding customers and in delivering towards industry needs. The period of independency has further experienced consistent improvements in working capital management, mainly deriving from receivables and thus Cabot's credit facility towards customers has been subject of improvement. Thus it is justified to say that communication of the brand obviously played a significant role in Cabot's success. Moreover, the organization has apparently experienced a total makeover in terms of efficiency and cost awareness since general and administration expenses were reduced heavily in relation to sales. This demonstrates the awareness off Cabot's independency and its resultant opportunities from which a comprehensive refurbishment has been done.

The first annual report states **Infineon Technologies'** mission; to make the most advanced solutions in the industry, build on core competencies and technological strength, attract and retain the best talents and reward those, and never stop thinking. According to this statement, employees and innovation is the core of the company. Other core values in Infineon are to support global customers with their needs, creating partnership networks and expand globally. All those values symbolize the strive for higher focus which should lead to more flexibility, lower costs and higher margins. Infineon's CEO had prior knowledge from the business since he was also the CEO for the Siemens division which Infineon stems from but he was exchanged three years after spinoff.

The overall opinion from press gives a gloomy impression of Infineon's expressed values, although the company consistently put across a strive for focus and strategic partnerships to enhance margins. The press further points out that the CEO tended to act like an owner and may not have listened to people asking him if that was the right way of doing it, which contradict the theoretical standpoint suggesting the importance of management awareness of what employees think and how the change affects employees. It is obvious that members of management and board had differentiating opinions on core strategies and as a result two conflicting sides emerged, which further would imply that communication within the company may not have been as congruous as it should and therefore employees may not have picked up the real values. Whether employees identifies with any of the Infineon's stated values is hard to assess but the investments in R&D and a general feeling of team spirit could be a measure of this identity since it should be important to feel supported in accordance to those values. The inability to give employees economical incentives plans together with harsh employee evaluation programs and a declining R&D ratio, may lead to the conclusion that the organization had no ability to create a strong organizational identity. After the change of CEO the R&D ratio increases, although it's ambiguous to state that this change would be the only reason for this. In a high tech industry, communicating the image is about stay ahead of competition in innovations. To do this, R&D is critical, hence once again the decline in this ratio, except for the last year, may indicate on a weak ability to communicate the image, although this is not held for certain. Furthermore, a low asset turnover and liquidity together with unstable sales indicates that sales are volatile which could further be interpreted as partnerships and customer relations are weak.

It is natural and often necessary to develop a company's strategic guidelines along with changes in the business environment, although, the company's core values should not be gambled with. **Agilent Technologies** express among many key factors flexibility and global expansion as most critical, while maintaining and focusing on their core areas. As an independent entity the opportunity is given to make the company faster and more-cost-effective but also to become globally present in every high-growth market. To build this new platform from which to communicate the brand a culture in which employees' embrace change is required. Much emphasis is directed to the Agilent people and performance based reward systems are highlighted.

Although there are many articulated aspirations as a stand-alone company these have not been met financially. Initially the large increase in sales and gross margin hinted that big changes had been made. However sales dropped dramatically and so did gross margin, while sales, general and administration costs jumped in relation to sales. An obvious sign of Agilent employing too much assets in its portfolio than the company can handle, is the plunged Net-noncurrent assets turnover. To continuously express an aspiration of focusing on the firms core assets and to become flexible is therefore questionable. Agilent being too diversified is hence a matter frequently discussed in the business press. Ambitions were set high from management but having three core markets resulted in huge organizational issues. Examples such as customers' placing orders and employees' not finding them were many. Presumably this might have been prevented if management expertise been better streamlined and therefore better positioned towards the pure-play orientated competitors. It is moreover difficult for an independent entity building its brand identity when recurring contradictions, regarding what the company really aims to do, face employees. The employee base doubled two years subsequent of the spinoff; still, after another two years it was down to pre-spinoff figures yet again.

When summing up, several resembling features from earlier presented critical issues can be distinguished among the spun off subsidiaries:

Perhaps the most obvious distinction between the performing companies and the struggling companies is the matter of consistency of which the brand is built. The failure to succeed as an independent company is indeed connected to this fact, namely, the failure in sharing the same vision.

Agilent Technologies as well as Infineon Technologies both had difficulties putting across their core values and strategies since these were contradictive to the financials and management decisions, hence a lack in faith among employees was developed. In contrast it was evident that Coach Inc. and Cabot Microelectronics consistently lived up to their emphasized values. Management clearly put across their vision and strategic goals in a way that was understood and appreciated among employees.

This mutual perception of the brand and its identity was most likely essential in the development of the customer-orientated culture recognized in these companies and further minimizes the discrepancy between how employees understand their identity and outsiders perceptions of image.

The ability to evaluate and streamline their assets portfolios and hence focus on core assets has further nurtured a sound growth, which evidently has been the opposite within the struggling companies. This effort together with a general organizational makeover supports the idea of seizing the opportunity as a stand-alone company to bring about change.

All together, emphasizing these key factors has been a winning concept for increasing margins, long-term brand building and healthy growth in spun off entities.

	Coach Inc.	Cabot Micro.	Agilent Tech.	Infineon Tech.
MANAGEMENT-STREAMLINE EXPERTISE	• CEO: ambitious, by-the-number • New influences in the board	• CEO: visionary, energizing force behind the company • Number of new players at senior	• Too diversified → no focus	• CEO: Didn't listen enough to what people were saying • "Polarizing" treatment of workers
ORGANIZATIONAL IDENTITY	• Clearly visible identity • Maniacally focused employees • Long-term brand image	• Employees personally committed • Organizational makeover	• Contradictions in core values • Massive lay-offs	• No stock options to incentivize workers • Harsh evaluation programs • Declining R&D
BRAND EQUITY	• Building relationships • "Guests in our house"	• Great ability to understand customers need • Intimacy	• Customers' orders disappearing • No flexibility	• Partnership networks • Supply global customers
SEIZE THE OPPORTUNITY	• From manufacturer to marketer • Strive to supplant Vuitton • Luxury productsonly	• Well positioned • Technology innovation is the key • Expand in Asia Pacific	• Become flexible and cost effective • Expand globally, without success	• Expand in Asian growth market

Table 3 "Critical restructuring issues"

6 Conclusions

The research reported in this study had two objectives;

To study how the subsidiary's operating performance is affected following a spinoff, and moreover identify which factors can be defined as key impacts.

The results in this study show no evidence of spinoffs neither improving nor impairing operating performance after transaction. This is determined with a statistical significance on 95 percent degree of confidence.

This study further provides evidence that several key factors need to be thoroughly emphasized in order to succeed as an independent company. Though, a spinoff firm cannot rely on simply one of these success factors as the greatest challenge seems to be appreciating every each one of these issues. Thus, the companies demonstrating an above average performance seems to have taken these factors under careful consideration, and in respect to this a few are principally highlighted. An essential issue is to have a management team realizing that the spinoff is a great possibility to bring about change and create something better. This study shows that the general opinion of the management and how they achieve to deliver a consistent and reliable vision is closely linked to the success of the spinoff firm. It has been found that lack of faith in a company among employees, and perhaps foremost in management, is connected with operational inefficiency, which would confirm the need of a clear and understandable vision communicated to employees. The importance of communicating and building the brand from the very start cannot be stressed enough. Through this, organizational identity is built within the company and is further reinforced by treasuring the intimate relationships with external stakeholders. Conclusively, this study supports the critical issues previously presented primarily in terms of the need for a management which is able to identify core values and communicate those to the employees and in this way build the identity against which every employee can identify.

6.1 Thoughts along the way

It can be considered interesting that one of the low performer companies were included in the rebranding and corporate identity guru Tony Spaeth's (1999) hit list of rebrandings for that specific spinoff year. This may further be interpreted, as it does not matter how great the actual logo is. If the employees are not "on the train", the logo will not leverage. When it comes to bringing employees on the train, this paper has primarily focused on the critical issues in more general terms and not how to actually make this happen. Concrete suggestions regarding this may be to introduce a corporate blogg where employees have the possibility to anonymous communicate what they think and what they don't think. Ackerman (1994) suggested that, when rebranding, the company should physically break down walls between different units to visible communicate the change in something that is apparent to everyone every day. Although group meetings where one person get information to further communicate "downwards" in the organization may be a way to communicate to the mass, this puts a lot of responsibility on this very person. Thus, if this person is not "on the train" or simply does not have the rhetorical capability to communicate the information in a good way, the identity conversion will fail to come. Instead there could be a decision committee with mixed levels, which may increase the involvement among employees since more hierarchical diversity is present in decisions. Conclusively, it is stated that it is of great importance that employees genuinely feels the new organizational identity when communicating with externals. While identity partly grows from the interrelation with externals and those peoples' perceptions of the company's image, it may be difficult to build this identity from the ground and at the same time communicate it outwards. Therefore it should be considered wise to establish a foundation for this new identity before the spinoff actually takes place.

6.2 Guidelines for subsidiaries to be spun off

Since this study show no evidence of general improvements among spun off subsidiaries but a possibility to improve, guidelines for subsidiaries to be spun off is considered essential to make this improvement. These following guidelines are formulated out of existent theories, findings in this study and thoughts brought up along the way.

- First, clarify the existent culture, visions and values in the subsidiary to determine what the the organization is and what it stands for prior to spinoff. If this is properly done, it makes the process and strategy of communicating the new identity much easier since management then knows what there is to change. To get insight of the present culture some kind of organizational forum is needed. Interviews with employees, group meetings or corporate blogs are a few ideas, where everyone can make their voice heard.
- After clarifying the present culture management has to gain understanding of discrepancies in how *they* interpret the corporate identity and how *employees* understand it. Out of this information, a new strategy and maybe also new visions and core values can be born. This is where management has to realize the power of seizing the opportunity with the change.
- When management has made the new strategies, visions, and core values, clear for themselves, they need to communicate thourougly to

employees. In this phase, it is not enough with a brochure of the new values. This information has to be communicated in a clear, realistic and understandable way which makes it possible for everyone involved to relate to the change and how it will affect them personally. To visualize this step it could be a good thing to bring about just visible changes in the environment, such as physically break down walls.

- Since the cognitive perspective of the identity matters more during the launch, it should be serious taken care of even before the launch to minimize discrepancies when communicating to outsiders. As this happens and moreover during the coming years, it is of absolute importance to always be aware of employees´concerns by getting feedback from them regarding their experiences and communication with outsiders. Here once again, a forum like corporate blogs or periodic briefings is needed

Finally, prior to spinoff, the management can not be too aware of the need for someone to pick up the *ball of change*. If management just pushes the information down to the next level to implement it, there is a great chance there will be no change. As recognized in the difference between high and low performing spinoffs, employees have to be engaged all the way and feel responsibility to pick up the ball and run. Incentive programs may be the tool for such deployment, together with a culture where it is allowed to fail if one tries.

6.3 Criticism and suggestions to further research

The limited time frame to come to a conclusion in this study has led to some weaknesses. Although the rather small sample of companies may be all too small in terms of generating generelizable outcomes, this outcome was proved statistically significant. Also, the lack of time and resources made it necessary to rely on annual reports when analyzing the internal communication and culture. Although it is possible to believe in a fairly strong relation between what is written in those documents and the manner undertaken in the very internal communication, there has not been any ambition to prove this topic. Instead, press sources have been used as referents, which proved to give the same impression as the partial documents.

Overall, there is a lack of cross-over-research in the academic world where financial studies tend to be strictly quantitative in evaluating the actual "hard" outcomes, while the strategic studies focus more on qualitative "soft" values which could have, or may be, influence the financial result. This study's ambition to cross over between those subjects may be all too ambitious considered the academic level. Still, despite the general problem of deriving numbers down to specific strategic decisions and culture, some significant relation was found between financial results and identified critical issues. As this relation was fairly distinct, the contribution of this paper can be considered relevant.

Since the nature of being spun off is that companies usually go through it one time only, there is a great need of knowledge what really makes the difference in this great organizational change. Although this paper may show the direction of such knowledge, there sure is a requirement of more solid ones. Hence, a similar study with more resources to conduct a quantitative study with a bigger sample and conduct a more case-like deep study of the top and low performing companies would be a suggestion to increase knowledge in the subject and with that increase the possibilities of success in this matter.

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Appendices

Appendix I

Guide during interview with MM, 2008-04-18.

1. To what extent are the employees´ involved?

2. What information has been communicated to your customers?

3. Will HotTech take the chance to conduct a total makeover regarding profile?
4. What is your strongest resource?
5. Do you believe a company loose more in term of brand equity when changing name in a B-2-B industry related to a B-2-C industry?
6. Did you think this spinoff was expected?
7. The fact that Mama has as a goal to enhance shareholder value, how does that effect your demands on returns in terms of profit?
8. Has HotTech communicated you want to break free
9. Do you think HotTech and Mama act in the same industry? (Regarding SIC-codes)
10. The estimated value from this spinoff, does it come from elimination of negative synergies?
11. Do you see any down-sides from this spinoff?
12. Is the R&D function financed in-house in HotTech today?
13. What is the greatest benefit from the spinoff?
14. Research has shown no evidence of spinoff firms increased operating efficiency. What do you believe regarding this fact?
15. What factors are considered as drivers of the operating development in HotTech?

16. When does the planning of the post-announcement process take a start?
17. Is it easier to communicate to existent customers?

Appendix II

Stated example from the interview with Stefan Sveningsson

Sveningsson states the example on this matter from the book *Changing organizational culture: Cultural change work in progress* (Alvesson & Sveningsson, 2008). The case was a global high tech organization that was about to set apart a sub-unit from the parent company to further exploit the capability of this unit selling its products not only intern but to competitors. The problem was to create a culture that could support the independence in itself and relations with stakeholders. Since this unit looked at itself as an entrepreneurial, creating, on-going organization; top management made the guidelines for the vision, goals and implementation and after that handed it over to middle level management to implement it. But it came to surface that although those people where creative and energetic in their technical profession, they had no knowledge of organizational change and didn't possess the bigger picture of the organization, hence didn't know how to go through with this change. In fact, in this matter the organization acted in a very bureaucratic way. Everyone was waiting for someone else to do the actual job. Since the organization was more bureaucratic than they first believed and no energy was put into this issue, in practice the change never evolved to more than a thought. They made the mistake of not investigating and knowing the real culture before starting a change like that. The bureaucratic gene that no one talked about before, here became the dominating behavior. Moreover, they never examined which common factors they could have with other divisions.

Appendix III

Operating ROA - Absolute growth						
	t-1	t=0	t+1	t+2	t+3	t+4
	1996	***1997***	*1998*	*1999*	*2000*	*2001*
Solutia Inc.	0,033	0,297	0,501	0,140	0,013	-0,003
Meritor Automotive Inc.	0,162	0,217	0,355	0,206	0,113	0,065
NCR Corpp.	0,314	-0,039	0,065	0,055	0,088	0,066
Tricon Global Restaurants	0,056	0,057	0,309	0,445	0,284	0,262
	1998	***1999***	*2000*	*2001*	*2002*	*2003*
Agilent Technologies	0,095	0,142	0,156	-0,113	-0,266	-0,199
ON Semiconductor Corp.	-0,107	0,122	0,123	-0,200	0,014	0,016
Delphi Corp.	-0,057	0,321	0,178	-0,038	0,148	0,004
Arch Chemicals Inc.	0,073	0,095	0,005	0,021	0,034	0,056
	1999	***2000***	*2001*	*2002*	*2003*	*2004*
Cabot Microelectronics	0,152	0,302	0,330	0,248	0,213	0,274
Infineon Technologies	-0,011	0,190	-0,114	-0,115	-0,041	-0,039
Coach Inc.	0,059	0,169	0,422	0,425	0,696	0,818
	2000	***2001***	*2002*	*2003*	*2004*	*2005*
Kraft Foods	0,072	0,084	0,101	0,095	0,073	0,078
Kadant Inc.	0,083	0,056	0,056	0,084	0,035	0,044
Zimmer Holdings Inc.	0,669	0,379	0,514	0,070	0,112	0,149
	2001	***2002***	*2003*	*2004*	*2005*	*2006*
Bluescope Steel Ltd	-0,013	0,126	0,145	0,211	0,099	0,145
Advanced Medical Optics	0,177	0,168	0,138	0,066	0,034	0,084
Saia Inc.	0,039	0,065	0,078	0,081	0,100	0,108
EnPro Inc.	0,056	0,052	0,070	0,057	0,087	-0,405
	2002	***2003***	*2004*	*2005*	*2006*	*2007*
Mindspeed Technologies	-0,607	-1,250	-1,193	-0,630	-0,358	-0,382
Medco Health Solutions	0,062	0,083	0,099	0,078	0,089	0,109
	2003	***2004***	*2005*	*2006*	*2007*	
Eagle Materials Inc.	0,114	0,133	0,186	0,263	0,276	N/A
Hospira Inc	0,161	0,188	0,146	0,126	0,053	N/A
Neenah	0,095	-0,061	-0,053	0,234	0,070	N/A

Operating ROA - Relative growth					
(as from t-1)	t=0	t+1	t+2	t+3	t+4
Solutia Inc.	0,264	0,468	0,107	-0,020	-0,036
Meritor Automotive Inc.	0,056	0,193	0,044	-0,049	-0,097
NCR Corpp.	-0,353	-0,249	-0,259	-0,226	-0,248
Tricon Global Restaurants	0,001	0,254	0,389	0,228	0,207
Agilent Technologies Inc.	0,047	0,061	-0,208	-0,361	-0,294
ON Semiconductor Corp.	0,229	0,230	-0,093	0,121	0,122
Delphi Corp.	0,379	0,235	0,020	0,205	0,061
Arch Chemicals Inc.	0,022	-0,068	-0,053	-0,040	-0,017
Cabot Microelectronics	0,150	0,178	0,096	0,060	0,122
Infineon Technologies	0,201	-0,103	-0,104	-0,030	-0,028
Coach Inc.	0,111	0,364	0,366	0,637	0,759
Kraft Foods	0,012	0,029	0,023	0,000	0,005
Kadant Inc.	-0,027	-0,027	0,001	-0,048	-0,039
Zimmer Holdings Inc.	-0,289	-0,155	-0,599	-0,557	-0,520
Bluescope Steel Ltd	0,140	0,159	0,224	0,112	0,158
Advanced Medical Optics	-0,009	-0,039	-0,111	-0,143	-0,093
Saia Inc.	0,027	0,039	0,042	0,061	0,069
EnPro Inc.	-0,004	0,013	0,001	0,031	-0,461
Mindspeed Technologies	-0,642	-0,586	-0,022	0,250	0,225
Medco Health Solutions	0,021	0,036	0,016	0,027	0,047
Eagle Materials Inc.	0,019	0,072	0,149	0,161	N/A
Hospira Inc	0,027	-0,015	-0,035	-0,108	N/A
Neenah	-0,156	-0,148	0,140	-0,024	N/A

Interval growth				
	t-1 - t+1	t+1 - t+2	t+2 - t+3	t+3 - t+4
Solutia Inc.	0,468	-0,361	-0,127	-0,016
Meritor Automotive Inc.	0,193	-0,149	-0,093	-0,048
NCR Corpp.	-0,249	-0,010	0,033	-0,023
Tricon Global Restaurants	0,254	0,136	-0,161	-0,021
Agilent Technologies	0,061	-0,269	-0,153	0,066
ON Semiconductor Corp.	0,230	-0,324	0,215	0,001
Delphi Corp.	0,235	-0,215	0,186	-0,144
Arch Chemicals Inc.	-0,068	0,016	0,013	0,023
Cabot Microelectronics	0,178	-0,082	-0,036	0,061
Infineon Technologies	-0,103	-0,001	0,074	0,003
Coach Inc.	0,364	0,003	0,271	0,122
Kraft Foods	0,029	-0,006	-0,023	0,005
Kadant Inc.	-0,027	0,028	-0,049	0,009
Zimmer Holdings Inc.	-0,155	-0,444	0,041	0,037
Bluescope Steel Ltd	0,159	0,065	-0,112	0,046
Advanced Medical Optics	-0,039	-0,072	-0,032	0,050
Saia Inc.	0,039	0,003	0,018	0,008
EnPro Inc.	0,013	-0,012	0,030	-0,492
Mindspeed Technologies	-0,586	0,563	0,272	-0,025
Medco Health Solutions	0,036	-0,021	0,011	0,021
Eagle Materials Inc.	0,072	0,077	0,012	N/A
Hospira Inc	-0,015	-0,019	-0,074	N/A
Neenah	-0,148	0,287	-0,164	N/A

Appendix IV

NOPAT Margin						
	t-1	t=0	t+1	t+2	t+3	t+4
	1996	***1997***	*1998*	*1999*	*2000*	*2001*
Solutia Inc.	0,007	0,063	0,089	0,068	0,005	-0,001
Meritor Automotive Inc.	0,030	0,036	0,051	0,052	0,054	0,019
NCR Corpp.	0,012	-0,002	0,010	0,008	0,022	0,020
Tricon Global Restaurants	0,025	0,016	0,079	0,103	0,079	0,083
	1998	***1999***	*2000*	*2001*	*2002*	*2003*
Agilent Technologies	0,036	0,058	0,064	-0,060	-0,174	-0,078
ON Semiconductor Corp.	-0,052	0,086	0,084	-0,131	0,009	0,009
Delphi Corp.	-0,005	0,037	0,053	-0,010	0,025	0,001
Arch Chemicals Inc.	0,043	0,045	0,004	0,016	0,019	0,025
	1999	***2000***	*2001*	*2002*	*2003*	*2004*
Cabot Microelectronics	0,125	0,169	0,178	0,166	0,144	0,147
Infineon Technologies	-0,010	0,132	-0,129	-0,134	-0,043	-0,029
Coach Inc.	0,024	0,066	0,108	0,121	0,166	0,218
	2000	***2001***	*2002*	*2003*	*2004*	*2005*
Kraft Foods	0,098	0,094	0,134	0,126	0,093	0,091
Kadant Inc.	0,064	0,047	0,042	0,057	0,023	0,040
Zimmer Holdings Inc.	0,167	0,137	0,190	0,154	0,166	0,209
	2001	***2002***	*2003*	*2004*	*2005*	*2006*
Bluescope Steel Ltd	N/A	-0,016	0,076	0,092	0,113	0,067
Advanced Medical Optics	0,095	0,082	0,065	0,029	0,056	0,129
Saia Inc.	0,013	0,023	0,026	0,027	0,043	0,037
EnPro Inc.	0,051	0,035	0,049	0,037	0,064	-0,176
	2002	***2003***	*2004*	*2005*	*2006*	*2007*
Mindspeed Technologies	-5,424	-1,401	-0,504	-0,358	-0,102	-0,102
Medco Health Solutions	0,013	0,014	0,016	0,017	0,016	0,024
	2003	***2004***	*2005*	*2006*	*2007*	
Eagle Materials Inc.	0,147	0,137	0,170	0,187	0,218	N/A
Hospira Inc.	0,098	0,113	0,089	0,087	0,057	N/A
Neenah	0,058	-0,034	-0,027	0,184	0,044	N/A

Net Assets Turnover						
	t-1	**t=0**	**t+1**	**t+2**	**t+3**	**t+4**
	1996	***1997***	*1998*	*1999*	*2000*	*2001*
Solutia Inc.	4,54	4,68	5,66	2,07	2,60	2,40
Meritor Automotive Inc.	5,37	6,12	7,00	3,95	2,08	3,48
NCR Corpp.	25,88	20,72	6,40	6,71	3,95	3,22
Tricon Global Restaurants	2,24	3,52	3,92	4,32	3,60	3,15
	1998	***1999***	*2000*	*2001*	*2002*	*2003*
Agilent Technologies	2,63	2,46	2,46	1,87	1,53	2,56
ON Semiconductor Corp.	2,05	1,41	1,47	1,53	1,61	1,73
Delphi Corp.	11,35	8,58	3,34	3,59	5,89	4,34
Arch Chemicals Inc.	1,71	2,12	1,27	1,34	1,80	2,25
	1999	***2000***	*2001*	*2002*	*2003*	*2004*
Cabot Microelectronics	1,22	1,79	1,86	1,50	1,47	1,86
Infineon Technologies	1,12	1,44	0,88	0,86	0,95	1,32
Coach Inc.	2,41	2,55	3,92	3,51	4,18	3,74
	2000	***2001***	*2002*	*2003*	*2004*	*2005*
Kraft Foods	0,73	0,90	0,76	0,76	0,78	0,86
Kadant Inc.	1,31	1,19	1,34	1,47	1,50	1,09
Zimmer Holdings Inc.	4,00	2,77	2,71	0,45	0,67	0,71
	2001	***2002***	*2003*	*2004*	*2005*	*2006*
Bluescope Steel Ltd	N/A	0,82	1,67	1,57	1,86	1,47
Advanced Medical Optics	1,87	2,05	2,12	2,28	0,60	0,65
Saia Inc.	2,89	2,89	3,01	2,99	2,31	2,91
EnPro Inc.	1,11	1,49	1,42	1,55	1,37	2,30
	2002	***2003***	*2004*	*2005*	*2006*	*2007*
Mindspeed Technologies	0,11	0,89	2,37	1,76	3,51	3,76
Medco Health Solutions	4,97	5,93	6,20	4,59	5,40	4,61
	2003	***2004***	*2005*	*2006*	*2007*	
Eagle Materials Inc.	0,78	**0,97**	1,10	1,41	1,26	
Hospira Inc	1,65	**1,66**	1,63	1,44	0,92	
Neenah	1,64	1,82	1,93	1,27	1,60	

Appendix V

Drivers of NOPAT Margin						
$ M	t-1	t=0	t+1	t+2	t+3	t+4
Coach Inc.						
Sales	508	549	616	719	953	1321
Cost of sales	226	220	219	236	276	331
Ratio	*0,44*	*0,40*	*0,36*	*0,33*	*0,29*	*0,25*
Absolute growth		-0,04	-0,05	-0,03	-0,04	-0,04
Gross profit	0,56	0,60	0,64	0,67	0,71	0,75
SG&A	255	273	291	346	434	546
Ratio	*0,50*	*0,50*	*0,47*	*0,48*	*0,46*	*0,41*
Absolute growth		0,00	-0,02	0,01	-0,03	-0,04
Selling	152	155	178	229	295	386
Ratio	*0,30*	*0,28*	*0,29*	*0,32*	*0,31*	*0,29*
Absolute growth		-0,02	0,01	0,03	-0,01	-0,02
Advertising/marketing/des	43	50	52	52	57	64
Ratio	*0,08*	*0,09*	*0,08*	*0,07*	*0,06*	*0,05*
Absolute growth		0,01	-0,01	-0,01	-0,01	-0,01
Distribution and customer	26	25	26	27	30	32
Ratio	*0,05*	*0,05*	*0,04*	*0,04*	*0,03*	*0,02*
Absolute growth		-0,01	0,00	0,00	-0,01	-0,01
Administration	33	42	35	39	52	64
Ratio	*0,06*	*0,08*	*0,06*	*0,05*	*0,05*	*0,05*
Absolute growth		0,01	-0,02	0,00	0,00	-0,01
Cabot Microelectronics						
Sales	99	181	227	235	252	309
Cost of sales	48	86	108	113	124	157
Ratio	*0,48*	*0,48*	*0,48*	*0,48*	*0,49*	*0,51*
Absolute growth		-0,01	0,00	0,00	0,01	0,02
Gross profit	0,52	0,52	0,52	0,52	0,51	0,49
Selling and marketing	4,6	7,6	8,8	9,7	11	16
Ratio	*0,05*	*0,04*	*0,04*	*0,04*	*0,04*	*0,05*
Absolute growth		0,00	0,00	0,00	0,00	0,01
General and admin.	11,9	20	21,1	17,5	18	22
Ratio	*0,12*	*0,11*	*0,09*	*0,07*	*0,07*	*0,07*
Absolute growth		-0,01	-0,02	-0,02	0,00	0,00
R&D	15	20	26	34	42	44
Ratio	*0,15*	*0,11*	*0,11*	*0,14*	*0,17*	*0,14*
Absolute growth		-0,04	0,00	0,03	0,02	-0,02
Agilent Technologies						
Sales	7952	8331	10773	8396	6010	6056
Cost of sales	4512	4388	5522	5166	3694	3762
Ratio	*0,57*	*0,53*	*0,51*	*0,62*	*0,61*	*0,62*
Absolute growth		-0,04	-0,01	0,10	0,00	0,01
Gross profit	0,43	0,47	0,49	0,38	0,39	0,38
SG&A	2050	2205	2940	2659	2754	1968
Ratio	*0,26*	*0,26*	*0,27*	*0,32*	*0,46*	*0,32*
Absolute growth		0,01	0,01	0,04	0,14	-0,13
R&D	948	997	1258	1349	1169	1051
Ratio	*0,12*	*0,12*	*0,12*	*0,16*	*0,19*	*0,17*
Absolute growth		0,00	0,00	0,04	0,03	-0,02

Infineon Technologies						
Sales	3744	6436	5160	5144	7167	8934
Cost of sales	2663	3632	4462	4550	5375	5799
Ratio	*0,71*	*0,56*	*0,86*	*0,88*	*0,75*	*0,65*
Absolute growth		-0,15	0,30	0,02	-0,13	-0,10
Gross profit	0,29	0,44	0,14	0,12	0,25	0,35
SG&A	486	592	715	635	791	892
Ratio	*0,18*	*0,16*	*0,16*	*0,14*	*0,15*	*0,15*
Absolute growth		-0,02	0,00	-0,02	0,01	0,01
R&D	653	906	1082	1047	1269	1513
Ratio	*0,25*	*0,25*	*0,24*	*0,23*	*0,24*	*0,26*
Absolute growth		0,00	-0,01	-0,01	0,01	0,02

Appendix VI

Drivers of Net Assets Turnover						
$ M	t-1	t=0	t+1	t+2	t+3	t+4
Coach Inc.						
Net non-current assets	155	162	105	135	143	262
Net non-current assets turnover	*3,28*	*3,39*	*5,87*	*5,33*	*6,66*	*5,04*
Absoulte growth		N/A	2,48	-0,54	1,34	-1,62
Operating working capital	56	54	52	69	85	91
Operating working capital turnover	*9,07*	*10,17*	*11,85*	*10,42*	*11,21*	*14,52*
Absolute growth			1,68	-1,43	0,79	3,30
Trade receivables	N/A	16	21	31	35	56
Trade receivables turnover		*34,31*	*29,33*	*23,19*	*27,23*	*23,59*
Absolute growth		N/A	-4,98	-6,14	4,04	-3,64
Inventories	101	102	105	136	144	162
Inventories turnover	*5,03*	*5,38*	*5,87*	*5,29*	*6,62*	*8,15*
Absolute growth		0,35	0,48	-0,58	1,33	1,54
Trade payables	N/A	8	14	26	27	45
Trade payables turnover		*68,63*	*44,00*	*27,65*	*35,30*	*29,36*
Absolute growth		N/A	-24,63	-16,35	7,64	-5,94
Cabot Microelectronics						
Net non-current assets	44	76	100	124	130	124
Net non-current assets turnover	*2,26*	*2,38*	*2,28*	*1,89*	*1,94*	*2,49*
Absoulte growth		0,12	-0,10	-0,38	0,05	0,55
Operating working capital	18	25	22	25	41	42
Operating working capital turnover	*5,41*	*7,27*	*10,13*	*9,51*	*6,15*	*7,36*
Absolute growth		1,86	2,86	-0,62	-3,37	1,21
Trade receivables	20	31	27	26	38	41
Trade receivables turnover	*4,97*	*5,92*	*8,50*	*9,00*	*6,63*	*7,54*
Absolute growth		0,94	2,59	0,50	-2,37	0,91
Inventories	5	14	17	22	24	24
Inventories turnover	*18,68*	*12,93*	*13,51*	*10,68*	*10,50*	*12,88*
Absolute growth		-5,75	0,58	-2,83	-0,18	2,38
Trade payables	1	12	14	12	13	13
Trade payables turnover	*99,00*	*15,60*	*16,69*	*20,09*	*20,16*	*23,59*
Absolute growth		-83,40	1,09	3,39	0,07	3,43
Agilent Technologies						
Net non-current assets	1546	1525	2368	2862	3078	1991
Net non-current assets turnover	*5,14*	*5,46*	*4,55*	*2,93*	*1,95*	*3,04*
Absoulte growth		0,32	-0,91	-1,62	-0,98	1,09
Operating working capital	1476	1857	2011	1633	855	376
Operating working capital turnover	*5,39*	*4,49*	*5,36*	*5,14*	*7,03*	*16,11*
Absolute growth		-0,90	0,87	-0,22	1,89	9,08
Trade receivables	1215	1635	2201	977	1118	1086
Trade receivables turnover	*6,54*	*5,10*	*4,89*	*8,59*	*5,38*	*5,58*
Absolute growth		-1,45	-0,20	3,70	-3,22	0,20
Inventories	1485	1499	1853	1491	1184	995
Inventories turnover	*5,35*	*5,56*	*5,81*	*5,63*	*5,08*	*6,09*
Absolute growth		0,20	0,26	-0,18	-0,56	1,01
Trade payables	435	510	857	386	305	441
Trade payables turnover	*18,28*	*16,34*	*12,57*	*21,75*	*19,70*	*13,73*
Absolute growth		-1,95	-3,76	9,18	-2,05	-5,97

Infineon Technologies						
Net non-current assets	2931	4024	5893	5987	5636	6188
Net non-current assets turnover	*1,28*	*1,60*	*0,88*	*0,86*	*1,27*	*1,44*
Absoulte growth		0,32	-0,72	-0,02	0,41	0,17
Operating working capital	404	451	-53	-8	662	555
Operating working capital turnover	*9,27*	*14,27*	*-97,36*	*-643,00*	*10,83*	*16,10*
Absolute growth		5,00	-111,63	-545,64	653,83	5,27
Trade receivables	1547	927	844	749	1021	1311
Trade receivables turnover	*2,42*	*6,94*	*6,12*	*6,87*	*7,02*	*6,81*
Absolute growth		4,52	-0,83	0,75	0,15	-0,20
Inventories	598	882	803	880	1116	1192
Inventories turnover	*6,26*	*7,30*	*6,43*	*5,85*	*6,42*	*7,49*
Absolute growth		1,04	-0,87	-0,58	0,58	1,07
Trade payables	851	1081	1173	1182	1022	1363
Trade payables turnover	*4,40*	*5,96*	*4,40*	*4,35*	*7,01*	*6,55*
Absolute growth		1,55	-1,56	-0,05	2,66	-0,46