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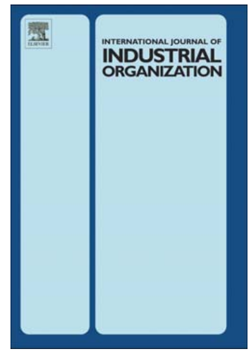

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Complementary Assets, Start-Ups and Incentives to Innovate ☆

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Abstract

We examine to what extent market conditions facilitating start-up formation affect firms' R&D investment and profits. We consider a model in which R&D efforts of an incumbent firm generate partly tacit technological know-how embodied in a key R&D employee, who might use it to form a start-up. The availability of complementary assets influences whether new firms are created and determine expected profits for start-up's founders. A large availability of complementary assets has the *direct effect* that the generation of start-ups is fostered. However, as a *strategic effect*, the incentives of incumbents to invest in R&D may be reduced because of the increased danger of knowledge loss occurring through start-up formation. We characterize the effects of an increase in the availability of complementary assets, showing that counter-intuitively there are cases in which it induces an increase in incumbents' R&D investment.

JEL classification: L20, M13, O32

Keywords: Tacit Knowledge, Complementary Assets, Technological Change, R&D Effort, Start-Up Creation

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