

RECALLS OF INNOVATIVE PRODUCTS AND FIRM MARKET VALUE AND FIRM STOCK RISK

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Abstract

This study examines the effects of innovative products' recalls on both short- and longterm stock returns and firm unsystematic equity risk. Drawing upon signaling theory, we argue that specific recall (i.e., recall time, recall volume, recall severity, and recall initiator) and innovation characteristics (i.e., innovative product's life and innovation type) influence firm market value and unsystematic equity risk due to recalls of innovative products. The results of a sample of 232 recalls of innovative products show that equity holders punish the recalling firms in the short and long-term. Recall volume negatively influences stock market returns in the short-term. Recall severity exerted a negative effect in the short-term; however, the effect switched to positive in the longterm. Moreover, voluntary recalls have no impact on short-term abnormal stock returns; however, they lead to lower stock market returns in the long term compared to involuntary recalls of innovative products. Innovation type positively affects the stock market returns in the short-term. Recall volume and severity are positively associated with increases in unsystematic risk, while innovative product's life reduces unsystematic risk.

Track: Marketing Strategy and Marketing Mix