

Investor Intelligence and Firm Innovation Behavior

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Abstract

Firms frequently announce their plans for future product introductions. As a consequence of those announcements, investors update their expectations of the firm's future cash flows. The authors argue that the resulting stock market reaction can be a valuable input for a firm's innovation and product launch process. Based on a sample of 1,302 new product pre-announcements made by 289 software and tech companies, there is clear evidence that products are more likely to be delayed if the market reaction to their pre-announcement is adverse. Delaying the introduction gives firms more time to rework their product or their go-to-market strategy. This relationship is less pronounced if managers have difficulties interpreting the stock market signal. We also find that "feedback-susceptible" firms outperform other firms in the long run. Our results highlight the need for all managers to listen to their investors to generate shareholder value.

Subject Areas: *Finance, Marketing Strategy, New Product Development and Launch*

Track: Innovation Management & New Product Development