

Want your company to remain innovative? Think twice before going public

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New companies are often successful because they are innovative. In search of new capital, these companies often go public. But does going public affect a company's ability to remain creative and at the cutting edge—the very qualities that allowed it be successful in the first place? A new study in the *Journal of Marketing Research* says yes. According to the study, when companies go public, they actually innovate more—but their innovations are far more conservative and less groundbreaking than before.

"Going [public](#) is a mixed bag for firms when it comes to innovation. After an [initial public offering](#), firms tend to introduce a larger number of innovations and a larger variety of each innovation—think different flavors, or different package sizes. But at the same time the innovations they do make are usually not the kind of breakthrough innovations that take the [company](#) in new directions and into new markets," write the authors of the study, Simone Wies (Goethe University Frankfurt) and Christine Moorman (Duke University).

The study differs from most others in that it focuses on product introductions rather than patents and R&D spending. The authors analyzed a sample of over 40,000 new product introductions by 207 consumer package good (CPG) firms undergoing an IPO between 1980 and 2011. They counted each firm's total new products introduced in a given year. They then counted the number of new products that could be considered breakthroughs: products that targeted a new market and/or offered a substantially new consumer benefit through product

positioning, merchandising, packaging, formulation, or technology.

The authors found that companies pay a price in going public: having to answer to stockholders, who generally are more interested in the short run than the long run, and having now to file cumbersome disclosure reports, companies often find that there is less room for risky and potentially revolutionary innovations.

"Our results suggest that the stock market not only absorbs information, but also generates an incentive structure that impacts managerial decision-making regarding innovation," Wies and Moorman write.

More information: Simone Wies and Christine Moorman. "Going Public: How Stock Market Listing Changes Firm Innovation Behavior." Forthcoming in the *Journal of Marketing Research*.

Provided by American Marketing Association

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