

Innovation imprinting: Why some firms beat the post-IPO innovation slump

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Researchers from Goethe University, Duke University, and London Business School published a new paper in the *Journal of Marketing* that explains why some companies remain innovative even after they go

public, while many others do not.

The study is authored by Simone Weis, Christine Moorman, and Rajesh Chandy.

Growth and innovation are primary arguments for firms to go public and access resources from the [stock market](#). However, for most firms, going public is associated with a pronounced slump in risky innovation. Why? After firms go public, managers often perceive pressures from the stock market that reduce their incentives to invest in risky innovations.

Investments may fail to pay off or to do so within a predictable timeline, and investors may impose strict quarterly earnings targets and judge firms by their short-term performance. Elon Musk captured these pressures when taking Tesla private in order to operate "free from as much distraction and short-term thinking as possible" as did Michael Dell who lamented that when striving to meet Wall Street's quarterly demands, it is "not always possible to focus on innovating for customers." Funding incremental innovation activities instead of bigger, breakthrough innovation is one way to secure the short-term performance demanded by the stock market. These pressures and this resulting strategy produce the well-documented post-IPO innovation slump, which we find affects approximately 70% of IPOs.

By examining a sample of 207 firms in the consumer-packaged goods industry that undergo an IPO over a thirty-year period, this *Journal of Marketing* article demonstrates that those IPOs that engage in innovation imprinting before they go public are able to beat this slump and keep innovating. Wies explains that "Innovation imprinting occurs when firms establish product priorities and build market capabilities associated with breakthrough innovation in the years before they go public. This imprinting establishes aspirations and routines within the company that support its ability to resist potential stock market pressure to shift priorities and capabilities away from breakthrough innovation after

going public." Moorman adds, "However, beyond maintaining innovation momentum, we show that innovation imprinting also serves an external signaling function that allows these companies to attract a segment of investors whose risk preferences are more supportive of innovation and more forgiving of short-term fluctuations in performance that can often accompany innovation." Importantly, the authors find that if they overcome this post-IPO innovation slump, publicly listed firms survive longer and experience stronger financial performance.

These findings challenge the idea that the stock market causes an inevitable death of breakthrough innovation. Instead, managers can help their firms remain innovative by planting the seeds of innovation before they go public. The research also challenges the pessimistic view of public firms' ability to innovate by studying the firms that beat these pressures and offering managers concrete actions that can allow them to manage the transition to public status. "By studying the exceptions to the generally pessimistic view about public firms' innovation—not the averages—we offer insights to help managers prevent their [firms](#) from falling prey to this effect," says Chandy. Further, Wies adds, "Our research reminds managers to consider how segmentation also applies to investors. Investors, much like consumers, are not a homogenous group. Instead, there are segments among investors who have different preferences and propensities to purchase company stocks with varying types and levels of risk." Just as marketing-related actions can attract different segments of customers, a firm's marketing-related actions in the form of pre-IPO innovation imprinting attracts a segment of investors who share its values and support [innovation](#).

More information: Simone Wies et al, EXPRESS: Innovation Imprinting: Why Some Firms Beat the Post-IPO Innovation Slump, *Journal of Marketing* (2022). [DOI: 10.1177/00222429221114317](https://doi.org/10.1177/00222429221114317)

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