

Department of Marketing



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Determinants and Financial Implications of Business Model Innovation: Evidence from Initial Public Offerings

Abstract: The innovation literature has primarily focused on product (goods and services) innovations. Empirical evidence on a prevalent form of innovation—business model innovation—remains scarce. The authors propose a model of the determinants of business model innovation and contrast them with known determinants of product innovation from extant literature. They also examine the financial consequences of business model innovation and test their predictions in the context of Initial Public Offerings (IPOs). Empirically, the authors propose a method to quantify firms' focus on product or business model innovation through text analysis of the business descriptions from firms' IPO prospectuses. The authors find that compared to firms that focus on product innovation, firms that pursue business model innovation are larger, younger, have less firm-level technical knowledge, and operate in higher-growth industries. The results also suggest that while investors value all types of innovation, they value business model innovation more than product innovation.