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THE ROLE OF MANAGEMENT IN DEALING WITH NEW PRODUCT DEVELOPMENT FAILURES IN HIGH TECHNOLOGY NEW FIRMS (SUMMARY)

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SUMMARY

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Principal Topic

We extend new product development (NPD) literature by investigating how firm characteristics mitigate negative effects of NPD failures. Drawing on the Upper Echelon perspective we argue that the effective usage of firm resources required for recovering from failure is contingent on the experience of the firm's top management team (TMT).

Method

We employ an event study analysis to evaluate the impact of 77 NPD failures on the market valuation of publicly traded firms. Our final data set covers 50 NASDAQ-listed biotechnology firms that experienced late stage NPD failures between 1994 and 2008. We perform hierarchical moderated regression analyses controlling for within-firm error correlation. We calculate three models: the base model contains only control variables, the main effect model evaluates the direct effect of firm characteristics, and the interaction model analyzes how these effects are contingent on the experience of the firm's TMT.

Results and Implications

Consistent with our hypotheses, our results show that firms experiencing late stage NPD failures underperform the NASDAQ Biotechnology Index on average of 21.9% after the failure announcement. Our findings further demonstrate that due to disappointed investor expectations, high levels of firm R&D intensity foster this negative effect while high firm revenues mitigate it. Moreover, we find that TMT industry experience positively moderates both effects, while TMT tenure has no influence.

We make the following contributions to existing literature. First, by considering managerial and organizational characteristics interdependently, we provide a more complete picture of buffering NPD failures than studies that focus on direct effects only. Second, since managerial experience explains a significant share of variance in the impact of NPD failures on market values, this moderation effect highlights the relevance of managerial resources for explaining market reactions to negative NPD outcomes. Finally, this study has implications for managers since our results allow them to better anticipate consequences of potential NPD failures. Specifically, our results highlight the influence that investor perception of firm characteristics have on market value in this context.

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