

How does compensation affect new product valuation?

Abstract

This study attempts to investigate the hitherto unexplored role played by a key corporate governance factor (CEO-TMT pay ratio) in explaining the variance in stock market response to new product introductions. Results of an event study support the authors' hypotheses that the stock market reacts less positively to announcements about new product introductions when the firms introducing these products have high CEO-TMT pay ratio. We also find that advertising intensity and a history of greater new product introductions tend to attenuate the impact of CEO-TMT pay ratio. Having more product concerns in the past, however, tends to further strengthen the negative impact. These results have important implications for board members, investors, compensation committee members, and scholars investigating the valuation of new product introductions.

Keywords: *CEO-TMT pay ratio; compensation; new product introductions; event study; abnormal stock returns; advertising; product concerns*

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