

THE HONG KONG POLYTECHNIC UNIVERSITY DEPARTMENT OF MANAGEMENT AND MARKETING

Departmental Research Seminar



Entrepreneurial Orientation: A Double-Edged Sword in Balancing Innovation and Idiosyncratic Risk By

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Date : 6 Sep 2023 (WED)
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Venue : M802

Abstract

Our study explores the extent to which entrepreneurial orientation (EO) impacts post-IPO firms in achieving innovation milestones, as indicated by patent, and the related equity market consequences. We find that a stronger emphasis on EO leads to a larger volume of patents. Interestingly, this positive relationship between EO and patents is stronger in older firms and when firm founders do not have a science or engineering background. However, a more pronounced EO focus, a soft signal, escalates firm-idiosyncratic risk. This risk is counterbalanced by patents, a hard signal, which tend to reduce the effect. In our analysis of a large firm-day panel (N=1,079,421), high-value patents enhance the relationship between EO levels and abnormal returns of post-IPO firms, implying that patents amplify stock return growth for high-EO firms who signaled their risk-taking and innovative behavior prior to obtaining these patents. To assess the long-term effects of EO, we implemented a one-month buy-and-hold portfolio strategy over a 19-year period (2002–2020). This strategy resulted in significant returns, an annualized excess return of 20% (Annualized FF-UMD alpha as 10%). Our research contributes substantively to the marketing-finance interface by integrating EO rhetoric with signaling theory, and we offer managerial implications.

Dr Kehan Xu is an adjunct professor at City University of Hong Kong. Dr Xu's research focuses on the marketing-finance interface, marketing intervention effectiveness, entrepreneurship, and portfolio strategies of innovative industries (e.g., quantitative long/short, event-driven). Dr Xu has published in leading scholarly journals, such as *Journal of the Academy of Marketing Science*, *Journal of Management Accounting Research*, *Journal of Management*, and *Academy of Management Perspectives*. Dr Xu has also presented research findings based on quantitative models to the American Marketing Association Annual Conference on the topics of product innovation, brand asset disposal and acquisition, and short-selling. Dr Xu received his PhD in strategy from the Mays Business School at Texas A&M University and his MBA in investments from the University of Miami. Dr Xu is the co-founder of AD BioPharma, which focuses on innovative monoclonal antibody (mAb) drugs of cardiovascular diseases and tumors. He served as the CFO and executive director for Dawnrays Pharmaceutical (Holdings) Limited, a company listed on the Hong Kong Stock Exchange, before starting his PhD.

All interested are welcome.



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