Name

Instructor's Name

Course

Date

Corporate Innovation and Capital Structure

Initial Public Offerings (IPOs) enhance firms' innovation outcomes because it increases the quality and quantity of firm innovation activity. The impact of IPO varies significantly across ownership structure, financial constraints, and corporate governance. Going on IPO induces firms to increase inventors and allow current investors' retentions on the recent stock market. An initial public offering can assist increase firms' innovation activities by issuing access to funding sources of lower costs than debt or equity financing (Simone and Moorman 698). Likewise, most organizations consider IPO as the primary road to riches. They often pursue IPOs to increase the quantity of available financing to the firm and create billions for the shareholders in the process, which increases innovation. Going on IPO can also raise cash for corporate ventures that the firm can use for design and growing its business without incurring excessive debt. With a significant infusion of money derived from public and stock sales, the firm may grow its innovative operations without borrowing from traditional or outside sources to evade additional interests. Hence, the research question is, does going IPO enhance innovation outcomes of firms?

Similarly, innovation progresses in firms with a strong capital structure. For instance, organizations that exhibit more extensive cash holdings and assets, higher profitability, and more research and development expenditure are usually more innovative. Firms are encouraged to undergo IPOs to meet the requirements or needs of capital growth in creative activities. Likewise, some reasons trigger firms to go public. For example, a firm may prefer to select an

Bidforwriting.com

IPO at particular processes in their life cycles that correspond to innovations due to internal factors such as a breakthrough of innovations (Wu 933). Going on IPO has positive consequences on firms' innovative activities, increasing a patent application's annual growth rates. IPO firms have progressive steady growth rates, patent growth, and applications, which prolong and enhance their growth stages. For instance, Wu (2012) explains that going on IPO improves a firm's innovation outcome because of the accumulated assets following the process of IPOs. It is undeniable because large companies like Deloitte, IKEA, and Cargill secure financial independence by going on IPO to possess a long term view on business development and investments that increase innovative ideas. This motivation is encouraged by improved access to capital markets since stock markets have financial benefits than debt markets because it provides flexibility in funding and creative alternatives (Wu 933). A flexible capital structure increases innovation because it enables firms to access optimal capital structures with a significant amount of external funding from diversified international markets and investors.

Consequently, Bernstein (2015) asserts that immediate cash inflows after an IPO can release an organization from a financial constraint by sharing low returns and transfer investment risks to individual investors and diversified institutions. This is correct because going on IPO enhances the investment capacities by minimizing investment risks causing reduced bankruptcy costs. Likewise, firms undergo an IPO to improve their capital structure since their market values depend on their capital structures. For instance, introducing a corporate tax causes the tax shields of debt to cause optimal capital structures of approximately 99.8% debt, and many debts hurt the firm (Bernstein 1372). Hence, organizations with high obligations often pass up significant investment chances than low-debts firms, which increase opportunities for innovation. These firms cannot afford innovative activities or financial risks if an investment fails. Therefore, the

Bidforwriting.com

marginal costs of going on IPO, considering bankruptcy costs, are lower than prices of debt (Bernstein 1378). Likewise, innovative firms choose to go on IPO to minimize the risks of innovation investment and choose to trade their equities publicly because IPO reduces investment riskiness. On the contrary, highly profitable organizations usually go on IPO because their earning ability attracts more external investors and promote their reputation to attract innovative ideas from talented staffs and employees.

Furthermore, a firm that goes on IPO finance innovation because firms with a well-operational financial market or capital structure experience substantial economic growth that spurs technological innovations (Simone and Moorman 699). This is because operational financial markets allocate capital to a firm with the highest potential to implement innovative modern procedures and commercialize new technology. Most firms choose IPOs strategies and external financing to increase funds for innovation.

In conclusion, the research proves that innovation is an uncertain process with high profitability and unexpected returns. Thus, going on an IPO can overcome the challenges since it shares valuable returns and has no regular fixed dividend requirements. Going on IPO is the best option for innovative organizations to finance innovations. It overcomes a lack of information, collateral asymmetry, and financial constraints. IPO gives economic benefits for firms' innovative activities because it improves access to capital, which causes an increase in firms' creative activities. After the IPO process, immediate cash inflows promote firms' innovations by releasing financial burden, which is a primary hindrance for firms' innovation. Going on IPO also enable diversification and capitalization on an innovative investment. IPOs also boost firms innovation because it enhances its competitiveness in product markets by enhancing reputations and recognition that strengthens its bargaining power to a supplier by spreading reliable qualities

Bidforwriting.com

to consumers. Lastly, it enhances human capital by attracting and recruiting high-skilled staff and employees. All these ideas enhance a firm's innovative activity.

Bidforwriting.com

Work Cited

Bernstein, Shai. "Does going public affect innovation?." *The Journal of Finance* 70.4 (2015): 1365-1403.

Wies, Simone, and Christine Moorman. "Going public: How stock market listing changes firm innovation behavior." *Journal of Marketing Research* 52.5 (2015): 694-709.

Wu, Geraldine A. "The effect of going public on innovative productivity and exploratory search." *Organization Science* 23.4 (2012): 928-950.

Bidforwriting.com