Are There Externalities of Private Firm News Disclosure? Evidence from Public Firms' Investment

Abstract: This study examines whether and how voluntary news disclosure made by private firms may affect the investment activities of public peer firms. We argue that greater private firm news disclosure reduces uncertainty at the industry level, facilitating public peer firms in the same industry to make more informed investment decisions. Consistent with our prediction, we find that public firm investment is more sensitive to investment opportunities in industries with more private firm news disclosures. The sensitivity of investment is further boosted if the industry is characterized by greater product similarities between private and public firms, a higher proportion of private firms, and fewer financially constrained private firms. We further show that both positive and negative news disclosed by private firms increases the investment sensitivities of public firms. Specific private firm news topics related to financing, investing, and performance generate externalities to public firms' investments. Finally, we observe a reduction in investment sensitivity for public firms residing in industries in which dominant private firms make biased disclosure, suggesting negative externalities of private firm disclosure in certain circumstances.

Keywords: Private firm news disclosure; Disclosure externality; Investment sensitivity; Positive and negative news; Negative externality
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