Local newspaper coverage improves information about public companies

June 9 2023

Caleb Rawson, University of Arkansas. Credit: University of Arkansas

Accounting researchers at the University of Arkansas are deepening their understanding of the effect of shrinking newsrooms on the financial information of public companies.

A new study, to be published in *Review of Accounting Studies*, shows that local newspaper coverage significantly improved the general information about public companies, as measured by lower stock volatility and more accurate forecasts by financial analysts. Conversely, when local newspaper coverage declined, stock volatility, information asymmetry and illiquidity increased, the researchers found.

A sign of stock stability, information asymmetry refers to the difference or gap between two parties in their knowledge of relevant factors and details about companies' value. Illiquidity simply means a security or asset that cannot be exchanged for cash or sold easily.

"Employment at newspapers has declined more than 75% since 2000," said Caleb Rawson, assistant professor of accounting in the Sam M. Walton College of Business. "Researchers in other fields have already shown how this has a negative impact on local government, in terms of transparency and accountability of elected officials. We're finding the same is true for businesses and public companies. These changes—that is, the decrease in local newsroom employment—have had a detrimental effect on the information environment of local firms."

Using data from the Bureau of Labor Statistics, Rawson and co-authors Kris Allee, professor of accounting at the U of A,, and Ryan Cating, assistant professor of accounting at the University of Central Arkansas and a U of A doctoral alumnus in accounting, measured the level of local news intensity in each city (technically, each metropolitan statistical area, or MSA) as the percent of local jobs in the newspaper publishing industry. They compared this data to key indicators of firms' financial information.

The researchers found that the above effect—reduced news intensity leading to less or poorer quality of information—was exacerbated when a given firm was more important to the local economy. For these firms, less local newspaper intensity was associated with significantly lower analyst accuracy and fewer, or more dispersed, forecasts.

Rawson and his colleagues also investigated how stakeholders respond to declines in local news coverage of firms. Firm managers increased the number of forward-looking financial disclosures and analysts increased their own coverage. Following decreases in newspaper employment, investors increased their own data-gathering activities as well.

"We think these results provide insights into the methods by which stakeholders attempt to improve firms' information environments when local news coverage fades and highlight the important role that local newspapers play in the economy," Rawson said.

Allee is the Doyle Z. Williams Chair of the Walton College's Department of Accounting.

Provided by University of Arkansas

Citation: Local newspaper coverage improves information about public companies (2023, June 9) retrieved 2 May 2024 from
https://phys.org/news/2023-06-local-newspaper-coverage-companies.html

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.