Discussion of

Information Externalities of Corporate Earnings Disclosures: Evidence from MSME Procurement Decisions

By

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RQ, Motivation & Contribution

- **Broad RQ**: Does disclosure have real effects?
  - Does disclosure have spillover real effects?

- **Specific RQ**:

  This study examines how micro, small, and medium-sized enterprises (MSMEs) adjust their purchasing behavior in response to earnings information disclosed by nearby publicly listed firms.

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Summary of Results

- MSMEs purchasing behavior **are positively associated** with earnings surprise of nearby public firms.
- The main effect is more pronounced if the public firms have: low online search, low media coverage, low analyst coverage, low institutional ownership
- The main effect is more pronounced if the MSMEs: have more suppliers or operate in the same industry as the disclosing public firm
- Average invoice value increase but not purchase invoices or product categories
- Purchases of fixed assets and raw materials increase but not consumables or services

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Setting

- The forecasts used in the sample include both mandatory and voluntary forecasts

- Mandatory Earnings-Forecast System in China: A firm must issue an earning forecast if any of the three criteria is met:
    1. The occurrence of a net loss
    2. A shift from loss to profit
    3. A year-on-year increase or decrease in profit exceeding 50 percent

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Place in the Literature

- Large literature on the real effects of disclosure for the focal firms：
  - Goldstein, Yang and Zuo (2023) : EDGAR implementation
  - Kim, Wang and Wu (2022) : climate change risk (CCR) reporting

- Literature on the spillover real effects of disclosure:
  - Chiu, Jiu and Yu (2022) :customer disclosure
  - Badertscher, Shroff, and White (2013): presence of public firms
  - Note: depend on how you position your story, spillover disclosure effects of disclosure is also related (Cho, Kim and Zang 2020)

Motivation & Contribution

- Badertscher, Shroff, and White (2013)
  - Public firms' disclosure have spillover effects on private firms' operations
- My suggestion: need to clearly motivate and identify your contribution
  - Your motivation: "Yet, despite these advances, prior work largely focuses on publicly traded or financially sophisticated firms, leaving open the question of……."
    - This points out importance of examining MSMEs
  - Badertscher, Shroff, and White (2013) is about the presence of public firms reduces information uncertainty for private firms.
    - Your current story also use the same "uncertainty" argument
    - Yours is more about the information signal itself not the uncertainty of the information signal

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Research Design

- Dependent variable (MSME purchase activity): daily aggregated measure for a given city
- Earnings surprise: value-weighted earnings surprise (mgmt. forecast – analyst forecast) for a given city
- Does this completely resolve the reflection problem?
  - My assessment: largely mitigate
  - My suggestion: tone it down a bit in the paper

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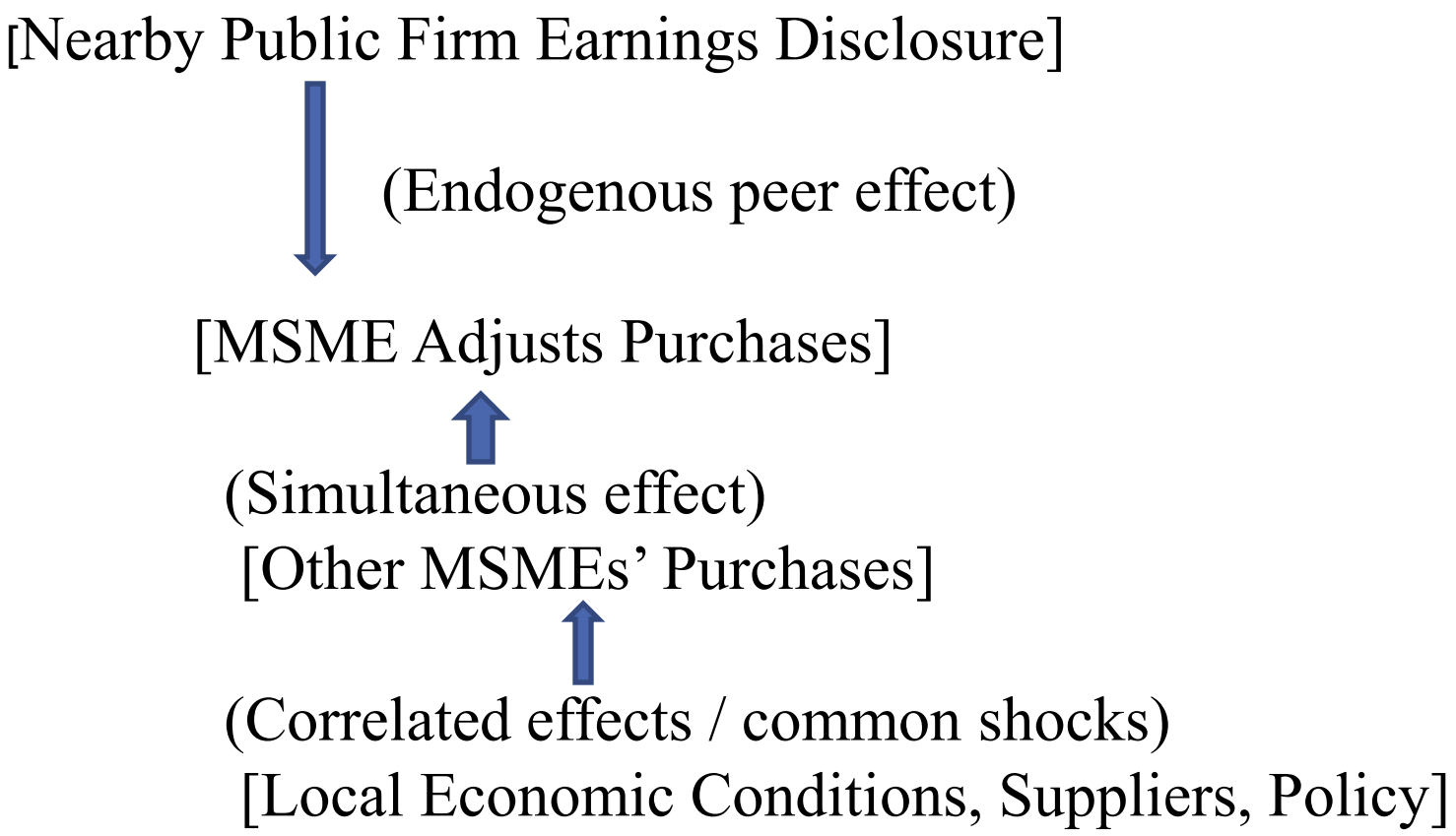
The Reflection Problem



Story and Results Interpretation

- Results are often interpreted assuming earnings surprise captures good news only
  - Appendix Table A1: consider moving it into the paper
  - "The pattern is consistent with MSMEs interpreting positive earnings news as a signal of stronger downstream demand."
    - Note, this interpretation also assumes MSMEs and disclosing public firms are in the same supply chain (Chiu, Jiu and Yu 2022)
  - "This pattern indicates that local MSMEs expand their procurement activities following the release of more favorable earnings forecast disclosures."

Story and Results Interpretation

- In cross-sectional tests, the main effect is often insignificant or negative

	(1) *Ln (Purchase)*	(2) *Ln (Purchase)*	(2) *Ln (Purchase)*	(2) *Ln (Purchase*
Earnings Surprise*POST*Low Online Search	**0.039*** (7.341)**			
Earnings Surprise*POST*Low Media Coverage		**0.009* (1.891)**		
Earnings Surprise*POST*Low Analyst Coverage			**0.038*** (6.154)**	
Earnings Surprise*POST*Low Institutional Ownership				**0.029*** (5.810)**
*Earnings Surprise*POST*	-0.004 (-1.269)	0.010*** (2.802)	-0.016*** (-2.841)	0.002 (0.703)

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Story and Results Interpretation

- Are results driven by certain industry?

Industry (Industrial Classification for National Economic Activities)	MSMEs		All firms	
	Frequency	Percent (%)	Frequency	Percent (%)
Manufacturing	23,643	35.49	4,047,228	12.17
Wholesale and Retail Trade	18,243	27.39	10,197,183	30.65
Construction	7,673	11.52	2,722,407	8.18
Transportation, Storage, and Postal Services	3,531	5.30	939,056	2.82
Leasing and Business Services	3,041	4.56	4,609,109	13.85
Scientific Research and Technical Services	2,793	4.19	2,117,795	6.37
Information Transmission, Software, and IT Services	1,370	2.06	1,695,873	5.10
Resident Services, Repairs, and Other Services	728	1.09	901,638	2.71
Agriculture, Forestry, Animal Husbandry, and Fishery	543	0.82	272,350	0.82
Accommodation and Catering Services	508	0.76	711,948	2.14
Real Estate	330	0.50	1,042,264	3.13

Story and Results Interpretation

	(1) *Ln (Purchase top5)*	(2) *Ln (Fixed Asset Purchase)*	(3) *Ln (Raw Material Purchase)*	(4) *Ln (Low Value Consumables Purchase)*	(5) *Ln (Service Purchase)*
Earnings Surprise*POST	**0.006***	**0.017***	**0.018*****	**-0.012**	**0.003**
	(1.914)	**(1.879)**	**(5.053)**	**(-1.159)**	**(0.753)**

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Other Miscellaneous Points

- Any anecdote?

- Writing more clearly
  - "……whether and how micro, small and medium-sized enterprises (MSMEs)—which form the backbone of most economies—respond to such disclosure-driven information."

  - "We investigate this question in China, where listed companies are subject to a mandatory earnings-forecast regulation requiring them to pre-announce expected annual results when performance deviates from prior guidance thresholds"

Other Miscellaneous Points

- Percent of firms that issue forecasts / voluntary forecasts?
- Percentage of forecast sample that is voluntary vs. mandatory
- Results using voluntary forecasts?
- What's the percent of MSMEs included in the sample?
- MSME purchase activities are captured by using VAT data. Is this data biased by firms that try to avoid taxes?

Other Miscellaneous Points

- Are the results concentrated in MSMEs that are connected to the disclosing public firms
- How is the same city defined?
- What the results look like if you cluster at the earnings event level?
- Do we expect to see results when we use last year's earning as the benchmark to calculate earnings surprise?
  - Given the mandatory regulation, last year's earnings information is mostly irrelevant, right?

Best of Luck!

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