FIRM PERFORMANCE AND BENEFITS FROM INFORMATION EXTERNALITY: A RESOURCE-BASED PERSPECTIVE

The information externality phenomenon has been widely identified by the finance and accounting literature. However, factors that explain the deviation in economic benefits from this phenomenon are largely unexplored. This study investigates how firm performance differentiates firm benefits from such phenomenon. Hypothesis is developed from the theoretical arguments of the resource-based view of the firm (RBV). Drawn from the RBV, I find the information externality phenomenon does not equally benefit firms. Shareholders of high performance non-announcing firms can achieve higher economic benefits from this phenomenon as measured by unexpected stock returns. The role of firm performance is more critical when the signalled industry trend is unfavourable. Prior studies that investigate the importance of firm performance to capital market valuations/revaluations often focus on the case where market valuations/revaluations are driven by internal firm-specific attributes. This study reveals the importance of firm performance in the case where capital market revaluations are driven by external capital market forces (e.g., information externality in this study). To the best of my knowledge, such importance has not been discovered in the literature. Moreover, researchers in the strategy and management field have long been interested in whether the RBV holds “true” (Godfrey and Hill, 1995). Judgments are made on the basis of the consistency between empirical results and the logic of RBV (Barney and Arikan, 2001). The fundamental arguments of the RBV have been widely tested using an internal perspective (Newbert, 2007). Theories must survive repeated attempts at empirical falsification before they can be accepted as “true”. Under this motivation, the testing of the RBV has been extended using an external perspective, the capital market perspective, by a limited number of studies (e.g., Cho and Pucik, 2005; Uhlenbruck et al., 2006). The actual level of empirical support for the RBV still remains uncertain (Newbert, 2007). This is especially the case in the capital market field. This study contributes to the literature by providing additional empirical evidence that supports the application of the RBV in the capital market field using information externality as the research context.