

Dissemination of information by small caps*

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Abstract

This study examines additionally disseminated information around earnings announcements by small cap firms listed on German and Nordic stock exchanges. Small caps are relatively resource-constrained, leading to heterogenous use of dissemination channels and may receive limited coverage by third parties. In this low information environment, firm's own dissemination is an important source of information. We contribute to the literature on disclosure and market reactions by examining how small caps use modern and traditional dissemination channels and how this affects information asymmetry. First, we find that firms that disseminate more around earnings announcements experience lower bid-ask spreads and higher abnormal volumes. Second, firms experience lower bid-ask spreads and higher abnormal volumes when information is disseminated through modern dissemination channels, like Twitter. Third, we provide evidence that this effect of additionally disseminated information is stronger if the information is financial in nature. Last, we find this effect to be mitigated when information is disseminated via Twitter and retail activity is high and only find a corresponding effect when information is disseminated via corporate news releases for a German subsample.

Keywords: Earnings Announcements, Dissemination Channels, Small Cap Firms, Social Media, Information Content

JEL classification: M41, G14, D53, D82

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