Can local media encourage empire building?
Evidence from business journals

Abstract: After a local business journal enters a market, local firms' investments become more sensitive to the level of cash holdings. The increased sensitivity is driven by visible firms in low-growth industries, which are more likely to be prone to empire building frictions. The increased sensitivity is also driven by firms located in areas where managers are more concerned about social recognition in the local business community. The effects are stronger before and after hostile takeover and leveraged buyout waves, which serve to discipline managerial investment decisions. We observe evidence of more value-destroying acquisitions, specifically of public targets and diversifying acquisitions, after local business journal entry into markets. Our collective evidence suggests that local business journals, which favorably cover investment and emphasize firm scale, growth, and networking, encourage moral hazard frictions. Our findings of local media engendering agency conflicts extend a burgeoning literature on the positive effects of local media.

1. Introduction

In recent years, our understanding of the effects of local media has evolved considerably. Two core insights have emerged from the literature. First, the prevalence of local print media outlets (i.e., daily newspapers) has declined precipitously over the last thirty years (Gao, Lee, and Murphy 2020). Second, as a consequence of this decline, the local information environment weakens (Miller and Shantikumar 2015; Allee, Cating, and Rawson 2025; Kang and Nam 2025; Ma, Stice, Stice, and Zhang 2025) and firm misconduct (Heese, Perez-Cavazos, and Peter 2022), insider trading (Kyung and Nam 2023), and toxic emissions (Jiang and Kong 2024) increases. This collective evidence suggests that local media play an invaluable information and monitoring role.

We offer an alternative perspective on local media. First, it need not be the case that local media is in a consistent state of decline. Some forms of local media have flourished over time yet have received limited attention in the literature (Northwestern 2023). Local business journals emerged in the 1970s and 1980s, taking advantage of a period of sustained economic growth which put business news at the forefront. Local business journals have adapted to the shifting landscape by launching digital-only publications in new markets as recently as 2021 (Neeley 2014; American City Business Journals 2024). Our study on local business journals addresses calls to "draw from a wide range of sources that represent the full spectrum of the media" (Miller and Skinner 2015).

Second, local media's effect on firms, managers, and investors need not always be positive. Prior research documents that daily local newspapers (Gurun and Butler 2012) and specialty business publications (Reuter and Zitzewitz 2006) positively bias coverage to benefit advertisers. Yet, this research "is in its infancy" and "understanding the incentives and potential biases financial media have when making their reporting choices is an important next step." (Engelberg 2018).

Local business journals have a mandate to help "local businesses grow, network, and hire" (American City Business Journals 2024). This can encourage managers to invest more to enhance

social standing within their local business community (Dyck and Zingales 2002; Dougal, Parsons, and Titman 2015). We propose that the entry of local business journals into markets cause local managers' investments to become more sensitive to internal funding. Specifically, we predict that media support for investment engenders moral hazard by increasing investment sensitivity to cash holdings (Jensen 1986; Harford 1999; Biddle, Hilary, and Verdi 2009; Heitzman and Huang 2019).

Whereas external financing subjects managers to external monitoring, "financing projects internally avoids this monitoring" (Jensen 1986), "cash rich firms are more prone to moral hazard" (Harford 1999), "cash rich firms are more likely to over-invest" (Biddle et al. 2009). Investment inefficiency is thus increasing in the sensitivity of investment to cash holdings (Biddle et al. 2009).

We focus on the two largest collection of local business journals – American City Business Journals (ACBJ) and Crain's, which cover 44 markets (Keune, Mayhew, and Schmidt 2016). Examples include the *Boston Business Journal* and *Crain's Chicago Business*. Relative to daily local newspapers (e.g., *Boston Globe or Chicago Tribune*), these weekly local business journals are hyper focused on in-depth business news coverage and have a smaller but wealthier reader base (Hubroff 2013). These local media outlets emphasize firm scale and growth, publishing annual "Book of Lists", with the *Boston Business Journal* publishing lists such as "largest life science companies in Massachusetts" and "fastest growing public companies in Massachusetts". Business journals host regular networking events for the local business community. Jensen (1986) suggests managers are concerned about social standing within communities and that "corporate growth bolsters social prominence, public prestige, and political power of senior executives."

We study the entry of 44 business journals into local markets, beginning with the *Houston Business Journal* in 1971 and ending with the *Triangle Business Journal* in 1998. We test our prediction using a baseline sample period ranging from 1965 to 2002. 1965 is the earliest year for

which we have financial data and 2002 is four years after our final local media entry event. We define treated firms at the state level as historical headquarters data is available at the state, but not city, level (Bai, Douglas, and Serfling 2020).[1] Our empirical analyses employ a sample of 11,254 U.S. firms. Our difference-in-differences (DID) tests compare the post-entry change in the investment sensitivity of firms headquartered in states with entry events ("treated firms") with that of firms headquartered in states without entry events ("control firms"). We include industry and region-by-year fixed effects as well as a host of control variables. We find that investment by local managers in states in which a local business journal enters the market becomes 6% more sensitive to the level of cash holdings, suggesting that entry exacerbates cash-based moral hazard problems.

Our cross-sectional tests explore local business journals' emphasis on firm scale, growth, and networking. Jensen (2003) suggests, "Although parts of corporate America may be guilty of underinvesting— as the media continually assert— there is little doubt many of our largest U.S. companies have grossly overinvested, whether in desperate attempts to maintain sales and earnings in mature or declining businesses or diversifying outside of their core business." Consistent with this assertion, we find that the increase in sensitivity of investment to cash holdings is stronger among more visible firms and firms in low growth sectors. Dyck and Zingales (2002) note that the media can affect managers' standing in the local business community (e.g., local country club) and that this motivates managerial decisions. Consistent with this assertion, we find that the increase in sensitivity of investment to cash holdings is stronger among firms headquartered in states with greater social connectedness (e.g. higher recreation, leisure associations, and church attendance per capita) (Barrios, Benmelech, Hochberg, Sapienza, and Zingales 2021; Choi and Valente 2023).

[1] We alternatively follow Dougal et al. (2015) and use COMPUSTAT. COMPUSTAT backfills location data, thus captures firms' current headquarters and ignores headquarter changes. In Section 4.9, we link firms' zip codes to core-based statistical areas (e.g., Houston-Pasadena-Woodlands) and define treatment at the city level. We find similar inferences using this approach – sensitivity of investment to cash holdings increases after local business journal entry.

An active market for corporate control can discipline the propensity of managers to make inefficient decisions (Jensen 1986). We thus expect weaker results during the 1983 to 1991 period, during which there was a substantial increase in the number of leveraged buyouts (LBOs) and hostile takeovers (Holmstrom and Kaplan 2001). Consistent with this expectation, we find that the increase in sensitivity of investment to cash holdings after entry of local business journals is stronger before and after the LBO and takeover wave of the 1980's (Titman, Wei, and Xie 2004).

To complement our analysis on internal investments (i.e., capex and R&D), we also examine external investments (i.e. acquisitions) (Harford, Mansi, and Maxwell 2008; Hanlon, Lester, and Verdi 2015). Acquisitions are a core method by which managers can spend cash to increase the scope of assets under their control (Harford 1999). Acquisitions aid managers in enhancing their social standing within local business communities (Morck, Schleifer, and Vishny 1990). We restrict our sample to acquisitions involving cash considerations (Edwards, Kravet, and Wilson 2016). We find that after the entry of local business journals into local markets, local managers engage in more shareholder value-destroying acquisitions. We observe more value-destroying acquisitions of public firms, which are larger in scale and receive much more media attention than acquisitions of private firms (Harford, Humphery-Jenner, and Powell 2012). We also observe more value-destroying diversifying (i.e., outside of the core business line) acquisitions (Jensen 1986).

Our sample period largely predates internet and cable news penetration, allowing newspapers to play a more critical role (Engelberg and Parsons 2011). Our sample period is also one in which systematic investment inefficiency is well-documented (Denis and Denis 1993; Harford 1999). Both features increase the power of our tests. Daily local newspapers are dependent on classified ads and the entry of *Craig's List* damaged these outlets (Gao et al. 2020). As daily local newspapers have downsized in recent decades, local business journals, which are not reliant on classified ads,

have benefited from gains in their readership base (Neeley 2014). We examine the digital-only expansion strategy pursued by *ACBJ* and *Crain's* during the 2005-2023 period. We study the entry of 40 digital-only business journals into markets, beginning with *L.A. Business First* in 2007 and ending with *Providence Business First* in 2021. These business journals are digital-only, do not publish a weekly edition, nor an annual Book of Lists, but many do sponsor networking events, and all provide coverage of local businesses on websites in the same way as predecessor local business journals that now have both digital and print presence. Consistent with evidence from the 1965-2002 baseline period, we find that investment by local managers in cities in which a digital-only local business journal enters the market becomes more sensitive to the level of cash holdings. These findings speak to the present-day impact of local business journals on firm investment.

In addition to using sensitivity of investment to cash holdings to capture investment inefficiency, Biddle et al. (2009) model the expected level of firm-specific investment based on investment opportunities (i.e., proxied by sales growth) and capture deviations from this expected level. We also use this alternative approach and find that after the entry of local business journals into local markets, the likelihood of overinvestment, but not underinvestment, among local firms with large cash holdings increases, again suggestive of media engendering moral hazard frictions.

The increased sensitivity of investment to cash holdings after entry of local business journals could capture another agency problem - adverse selection (i.e., increased financing frictions associated with obtaining external financing). The increased sensitivity of investment to cash holdings after entry of local business journals could also capture managerial overoptimism and/or overconfidence, whereby local media hype causes managers to overestimate their ability to pick investment projects and underestimate potential risks (Malmendier and Tate 2005; 2008). Our results are robust to adding a battery of control variables to account for these alternate explanations.

We use the US Postal Service (USPS) expansion as an instrument for local business journal openings (Blevins 2021). Local business journals rely on USPS for delivery and are sensitive to changes in postal rates and service (Dubroff 2013). In the first-stage regression, we find that USPS expansion in a state increases the probability of a local business journal opening, meeting the instrument relevance condition. We also expect the exclusion restriction to be met as prior research finds that USPS expansion impacts firm investment only through increased circulation of business publications (Marinoni and Roche 2025). In the second-stage regression, as expected, we find that instrumented local business journal opening increases investment sensitivity to cash holdings.

Our study offers several contributions. The decline of daily local newspapers is well-documented, with the ensuing news deserts resulting in a poorer information and governance environment (Gao et al. 2020; Kim et al. 2021; Heese et al. 2022; Kyung and Nam 2023; Jiang and Kong 2024; Allee et al. 2025; Kang and Nam 2025; Ma et al. 2025). At the same time, some forms of local media have found innovative ways to invest in journalism and developed promising new business models (UNC 2018; Northwestern 2023). Local weekly business journals have been flourishing for decades, yet we are not aware of research on their impact. We document negative consequences to local media *entry*, not *exit*, addressing calls in the literature to develop a fuller understanding of the media's impact (Miller and Skinner 2015; Engelberg 2018; Call et al. 2022).

We also contribute to the literature on the impact of media on firm investment. Prior work shows that some forms of media can induce managerial short-termism (Stein 1989), resulting in *underinvestment* in innovation (Dai, Shen and Zhang 2021), and heighten managerial reputational concerns (Dyck and Zingales 2002), resulting in *underinvestment* in employees (Baloria, Lo, and Shu 2025). Despite long-standing theory that media may encourage *overinvestment* (Jensen 2003) and descriptive evidence that media reports favorably about firms with higher investment (Jacobs

2020), empirical evidence that media exacerbates managerial empire building incentives is surprisingly scant. We leverage the powerful local business journal setting (e.g., encouraging scale and growth through "Book of Lists" and social recognition at its networking events) to provide evidence suggesting some media can exacerbate cash-based moral hazard frictions among firms.

Finally, we contribute to the literature on whether managerial investment is influenced by outside information sources, either through managerial learning or changes to managerial incentives (Loureiro and Taboda 2016; Goldstein et al. 2023; Guo and Zhong 2023). We highlight the media as an external information source that shapes managerial investment decisions. In addition to serving as an information source that managers can learn from and as a monitor that improves managerial incentives, we find that the media can encourage managerial empire building.

2. Institutional Setting and Hypothesis Development

2.1 Institutional Setting

Following the tradition in the media economics literature (George and Waldfogel 2006; Gentzkow, Shapiro, and Sinkinson 2011), we examine newspaper entry into local markets. Entry events are powerful as they cause large, discrete changes to the local information environment.

The origins of local business journals date back to the post-World War II era. In 1948, the *Denver Business Journal* was established, and sought to cover news from an economic perspective. In contrast to larger daily local newspapers (e.g., *Rocky Mountain News, Denver Post*), the business journal was published only weekly and included a mix of occasional original investigative journalism coupled with more regular printed legal notices, public releases, and press releases (e.g., bankruptcies, lawsuits, or new businesses). Business journals during this period (e.g., *The Pacific Business Review* was established in 1963 in Honolulu, Hawaii) were considered upstarts. The reader base was comprised of wealthy bankers and lawyers and the editorial staff often used these outlets as a steppingstone to daily local newspapers or national newspapers (Dubroff 2013).

Local business journals emerged in the 1970s and 1980s, taking advantage of a period of sustained economic growth which put business news at the forefront. The *Houston Business Journal* was established in 1971 and its locally focused articles detailing the city's rising fortunes in energy were successful in attracting readers. This motivated others, such as *Crain's Chicago Business,* which was established in 1978, to focus explicitly on corporate strategy and business-to-business beats such as marketing and commercial real estate. Business reporting in the daily newspapers at the time (e.g., *Chicago Tribune*) amounted to little more than covering firms' press releases. Business journals innovated by gaining an appreciation for and reporting on business strategy and tactics, which resonated with its affluent readers interested specifically in business news. *Crain's* expanded in the 1980's into three additional markets – Cleveland (1980), Detroit (1985), and New York (1985). *American City Business Journals* was established in 1985 folding eight journals under one umbrella. It now operates over 40 local business journals across the U.S.[2] Figure 1 summarizes the city and states in which all *Crain's* and *ACBJ* print journals are located. Figure 2 provides a graphical summary of the year of founding for *Crain's* and *ACBJ* print journals.

The success of local business journals is driven by several factors. First, they are hyper-focused on local business news, which allows them to specialize and cater to their specific reader base relative to daily local newspapers, which cover a wide array of topics (e.g., politics) and often expand their footprint regionally.[3] Second, they cover business beats and commercial real estate more aggressively than daily local newspapers and have benefited from the rising importance of these topics (Roush 2010). Third, they compile and sell the annual Book of Lists (e.g., *Boston*

[2] Dyer, Lang, and Oh (2025) describe an increasing trend of local media consolidation into a relatively small number of large, national organizations. Merkley, Pacelli, Sun, Twedt (2025) find that common media holding companies reduce the diversity of perspective among journalists covering earnings announcements, impeding price formation.

[3] Ray Shaw, ACBJ Chairman (2005), "Where local business journals stand out, if someone looks at the corporate readership, only about 20 percent to 30 percent of their readership reads *The Wall Street Journal*. There's a whole different business audience concerned with what's happening across the street and with the local economy than what's happening on Wall Street or in Tokyo because what affects them are economic conditions where their customers are."

Business Journal publishes a list of the largest accounting firms in Massachusetts, including number of CPAs, partners, total employees) which has evolved into a lucrative brand and is popular among the local business community. Fourth, their reader base are wealthy members of the local business community (i.e., The average print reader of an ACBJ paper is college-educated with a relatively high household income) who are not very price conscious.[4] Fifth, local business journals take a more positive view on business (e.g., often celebrating growing business through its Book of Lists) and seek to connect members of the business community at its networking events, which like the Book of Lists, are lucrative.[5] As a result of its wealthier reader base, advertisers are drawn to the local business journals, despite their circulation being considerably smaller than daily local newspapers.[6] Sixth, while daily local newspapers are financially dependent on classified ads and the entry of *Craig's List* damaged these outlets (Gao et al. 2020), local business journals do not have the same reliance on classified ad revenue. As daily local newspapers have downsized, local business journals have benefited from gains in their reader base and editorial staff (Neeley 2014). In sum, their business model is to focus on local topics, a niche but affluent business audience, and to cater to this local audience through providing news, events, and lists that this audience values.

As with daily local newspaper closures and mergers, it is possible local business journal openings are endogenous. Specifically, openings of business journals and changes in investment may be driven by underlying local economic conditions. In Appendix A, we follow Jiang and Kang (2024) and assess whether local economic characteristics predict local business journal openings.

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[4] Business journals describe readers as, "C-level executives, decision makers with a high level of education, salary, purchasing power, and personal assets". The *Boston Business Journal* (2024) notes its readers are top business leaders with household income of $429,636, that it has 43,975 weekly subscribers, and has 5,000 event attendees annually.
[5] Whitney Shaw, ACBJ Chairman (2009), "There are a lot of times when the media is its worst enemy. I think this is especially true of daily newspapers. The big headlines- especially the negative ones- far exceed the level of interest the general public," and "the coverage that businesses get in daily local newspapers is pretty negative." (Neeley 2014).
[6] For context, in 2024, the daily local newspaper in Cincinnati, *Cincinnati Enquirer* had 33,281 subscribers, while the weekly business journal, *Cincinnati Business Courier,* had 17,116 subscribers. In 2007, another daily local newspaper in Cincinnati, *Cincinnati Post*, closed, and at the time, had roughly 25,000 subscribers (Gao et al. 2020).

We estimate a state-level linear probability model with business journal opening as the dependent variable. *Localnews* is an indicator variable that equals 1 if a state has opened a business journal in year *t*, and 0 otherwise. We include business journal openings from 1965 onwards. We include state-level measures from year *t-1* in the model, including population density (*Population Density),* the natural logarithm of average per capita household income (*Per Capital Income*), vote share for the Republican party (*Candidate Vote*), and unemployment rate (*Unemployment Rate*). The model also includes region-by-year fixed effects. As shown in Appendix A, no state characteristics reliably have predictive power for explaining business journal opening events.[7]

In recent decades, local business journals have taken advantage of the declining cost of publishing software and advancements in technology to build sustainable news operations. Both *ACBJ* and *Crain's* have implemented a digital strategy. While *Triangle Business Journal,* in 1998, was the last local print business journal to open, both outlets have opened a total of 40 digital-only local business journals.[8] These differ from predecessor local business journals that have evolved to have both a digital and print presence. Digital-only journals do not publish a weekly edition, nor an annual Book of Lists, but many do sponsor networking events and all provide coverage of local firms.[9]The motivation behind the digital-only expansion is to extend the coverage area to a national audience in order to attract larger advertising dollars as well as to diversify revenue streams, given that their readers increasingly consume content through digital platforms (Neeley 2014). Figure 3 provides a graphical summary of the year of founding for *Crain's* and *ACBJ* digital-only journals. Figure 4 provides a graphical summary of readership growth for *ACBJ* between 2000 and 2020.[10]

[7] GDP growth rates at the state-level are only available after 1998, which is subsequent to our final opening event.
[8] In 2023, *Crain's* entered, through acquisition, a fifth local print business journal market in Grand Rapids, Michigan.
[9] *ACBJ* has gradually opened digital-only business journals in Los Angeles, New York City, Chicago, Cleveland, and Providence between 2007 to 2021. In 2016, *Crain's* simultaneously opened 35 digital-only business journals in major cities, where "daily content includes a mix of curated local and industry business news, articles and original content."
[10] *Crain's* does not provide historical readership data. For *ACBJ*, print readership increased from 3.2 to 5.2 million from 2000-2020. For all daily newspapers, print readership decreased from 55.8 to 24.2 million from 2000-2020.

2.2 Hypothesis Development

The use of internal funds is central to agency conflicts between managers and shareholders. As cash reserves increase, managers can use cash holdings for internal investments, external acquisitions, distributions to shareholders, or continue to hold cash (Jensen 1986). Firms with large cash balances face more moral hazard frictions and tend to overinvest in negative NPV investment projects (Blanchard, Lopez-de-Silanes, and Shleifer 1994; Harford 1999; Richardson 2006; Biddle et al. 2009; Nikolov and Whited 2014; Heitzman and Huang 2019; Ye, Zheng, and Zhu 2023).

The media can exacerbate the moral hazard arising from cash holdings as it routinely provides negative coverage of what it perceives as firm underinvestment (e.g., in new technologies, modern plant & equipment, and its workforce) but rarely criticizes firm overinvestment (Chew 1993). Jensen (2003) notes that, "Curbing corporate inefficiency is not the story told by our mass media" while Chew (1993) speculates on a possible reason, "We seldom hear from the media, however, that much of Corporate America has long had a chronic (overinvestment) problem. Major inefficiencies in cash-rich companies may be difficult to detect by outsiders." This view of the media is consistent with naivety, in which journalists offer simplistic economic analysis (e.g., investment growth is good) that satisfy collectivist (e.g. local community) interests (Jensen 1979).

Jacobs (2020) analyzes the tone of firm-specific articles from 1989-2010 for four national (i.e., *New York Times, Wall Street Journal, Washington Post,* and *USA Today*) and forty-one local newspapers and finds that the media reports more favorably about firms with higher capital and R&D investment. This is consistent with media sometimes conducting simplistic economic analyses that favor investment growth (Jensen 2003). Jacobs (2020) concludes, "journalists might overreact to past firm growth rates or incorrectly assess managers' empire building tendencies".

Local business journals are especially prone to favoring investment growth and discounting

managerial empire building incentives due to their more positive view of local firms and their emphasis on firm scale and growth. Local business journals focus on economic growth within the local business community and have a mandate to help local "businesses grow, network, and hire" (American City Business Journals 2024). Local business journal's emphasis on scale, growth and networking within the local business community can incentivize local managers to invest more to achieve greater social standing within the community (Dyck and Zingales 2002).[11] Business journals can exacerbate managers' empire building tendencies by motivating them to pursue status and prestige (Jensen 1986). Correspondingly, we predict that the entry of local business journals into local markets cause local managers' investments to become more sensitive to the level of cash holdings.[12] This prediction is consistent with agency conflicts, more specifically moral hazard frictions, causing greater investment inefficiency. These arguments lead to our primary hypothesis:

H1: After the entry of local business journals into markets,

local firms' investment becomes more inefficient.

Our prediction is not without tension. First, given that circulation (i.e., the number of readers a newspaper reaches) is a determinant of managers' responsiveness to media outlets and weekly local business journals have lower circulation than daily local and national newspapers, it is possible that after the entry of local business journals into markets, local firms' investment inefficiency is unchanged (Dyck and Zingales 2002; Dyck, Volchkova, and Zingales 2008).

Second, the local media has been proposed as a monitor of managers, and it is possible

[11] In 1992, an activist placed a newspaper describing Sears executives as, "The non-performing assets of Sears". The executives were responsive to this because, "they did not want to feel embarrassed when they went to church or to their country club. At their local country club, they are still laughed at as a result of the ad."(Dyck and Zingales, 2002).
[12] Biddle and Hilary (2006) find that in countries characterized by higher accounting quality, investment in capex is less sensitive to internally generated cash flows. Biddle et al. (2009) find that in cash rich firms (i.e., cash holdings scaled by total assets), accounting quality is negatively associated with investment in capex, R&D, and acquisitions. Heitzman and Huang (2019) similarly measure cash rich firms based on the level of accumulated cash holdings and show that improved internal information quality decrease the sensitivity of capex and R&D to level of cash holdings. Thus, the literature views increased sensitivity of investment to cash holdings as a measure of investment inefficiency.

that after the entry of local business journals into markets, local firms' investment becomes more efficient. Kim et al. (2021) find no evidence that daily local newspaper closures impact local firms' investment efficiency.[13] Dyck et al. (2008) propose that the monitoring impact of international press can be stronger than that of local press for global firms. In line with this, Shroff, Verdi, and Yu (2014) find that country-industry-year level business press coverage improves the investment efficiency of multinational firms, specifically for foreign subsidiaries. Rather than examine how the media impacts agency conflicts between managers and shareholders, as is our primary focus, Shroff et al. (2014) study multinational investment efficiency and analyze how the media impacts agency conflicts between managers at parent firms and managers at foreign subsidiaries, arguing that the business press (as well as analysts and peer firms) helps central managers at parent firms better monitor and evaluate the investment decisions of affiliate managers at foreign subsidiaries.[14]

As noted by Miller and Skinner (2015), varying forms of media have a range of differing incentive structures that can shape the way they collect, cover, and portray news about firms. The authors note that it is important that the literature draw from a wide range of sources that represent the full spectrum of the media. Call et al. (2022) call for research that highlights the distinctive characteristics of financial journalists rather than making assumptions about them based on the broader population of journalists. Local business journals have commonalities with both daily local newspapers (e.g., local focus) and the national business press (e.g., business focus) but are also distinct in that their stated business objective is in promoting local economic growth. It is thus ultimately an empirical question whether and how local business journals impact firm investment. Our study examines the evolution of local business journals from 1965 onward (Engelberg 2018)

[13] Baloria et al. (2025) also find no evidence that media exposure impacts nearby firms' capital investment efficiency, noting that investment decisions are not of significant interest to general-interest daily national and local newspapers.
[14] The media's naivety, sensationalism, and monitoring roles are not mutually exclusive (Core, Guay, and Larcker 2008). In the investment context, managers seek to influence media coverage of M&A (Ahern and Sosyura 2014), which can reflect media naivety, sensationalism (Ahern and Sosyura 2015), or monitoring (Liu and McConnell 2013).

3. Sample Selection, Research Design, and Descriptive Statistics

3.1 Sample Selection

We use the entry of a local business journal as a quasi-exogenous shock that affects local firm. Through LinkedIn (i.e., business journals list their founding year within their page) and web searches, we identify 46 openings of local business journals for years 1948 to 1998. We emphasize the two largest collection of local business journals, *American City Business Journals* (*ACBJ*) and *Crain's*. These media outlets are larger than independent business journals, produce Book of Lists, and host popular networking events that could incentive managers to seek social recognition.[15]

Due to the availability of financial and headquarter location data, our sample period begins in 1965. Our sample period ends in 2002, four years after our final event. We determine each firm's state based on hand-collected data on historical headquarters addresses in 10-K filings.[16] As more precise location data (i.e., city, or zip code) is not available for this sample period, we define treatment at the state level. We consider a state to be treated the first time a business journal enters any city within the state. For many states, this is a reasonable approximation (e.g., The *Boston Business Journal* was founded in 1981 and no other business journal from *Crain's* or *ACBJ* subsequently entered the Massachusetts market). However, for some states, this may be a less reasonable approximation. In Section 4.9, we assess the sensitivity of our results if we consider a state to be treated when a business journal enters the largest city within the state (e.g., The *Memphis Business Journal* was founded in 1979 and our baseline definition would consider Tennessee firms treated as of 1979. However, Nashville is the largest city in Tennessee, so the alternate definition

[15] Malmendier and Tate (2009) study CEO awards by national business media (e.g., *Fortune, Business Week*) and find evidence consistent with shareholder value-destructive *ex post* consequences of media-induced CEO superstar status. Joe, Louis, and Robinson (2009) study exposure of board ineffectiveness by national business media (i.e., *Business Week*), finding that the media encourages targeted firms to take corrective actions and enhance shareholder value. This study finds that retail investors overreact to the media, in line with findings in Bushee, Cedergren, and Michels (2020).
[16] We obtain historical headquarter state data from Bai, Fairhurst, and Serfling (2020) for 1969-2003, who find less than 12.5% of firms change HQ over this time. For 1965-1968, we assume state of headquarters is the same as 1969.

would not consider Tennessee firms treated until 1980, when *The Nashville Business Journal* was founded). We also assess the sensitivity of our results if we use backfilled zip code data from COMPUSTAT that does not account for headquarter changes but does allow us to conduct analysis at the core-based-statistical area (e.g., Seattle-Tacoma-Bellevue, WA). With this more granular approach, we define treatment at the city level (i.e., *The Memphis Business Journal* opening in 1979 can be analyzed separately from *The Nashville Business Journal* opening in 1980). As we detail in Section 4.9, we find similar results using either alternative definition of treatment.

Table 1 illustrates our sample selection process for the sample period 1965 to 2002. After eliminating observations with missing headquarter data or missing financial data, our sample has 111,151 firm-year observations. We further remove observations that do not have industry or state economic data. Our final sample consists of 110,362 firm-year observations (11,254 unique firms).

3.2 Research Design

We employ a difference-in-differences (DID) model to examine the effect of local business journal entry on investment efficiency (H1). Our approach is to compare the change in investment sensitivity to cash holdings of firms headquartered in a state with a local business journal entry (i.e., the treatment group) to that of firms headquartered in a state without a local business journal entry (i.e., the control group). We use the empirical investment framework of Heitzman and Huang (2019), who augment the standard investment-*q* sensitivity model by adding cash and cash equivalents balance (*Cash*) as an additional explanatory variable to capture agency issues. This framework builds on the conditional analysis conducted in Biddle et al. (2009, Table 2), where the sensitivity of investment to cash holdings is considered an indicator of investment inefficiency.[17]

[17] Firms without debt are also prone to inefficiency (Jensen 1986; Biddle et al. 2009). In untabulated analysis, we assess the sensitivity of investment to leverage. We find that upon the entry of local business journals to local markets, investment becomes less sensitive to leverage, but that investment continues to be more sensitive to cash holdings.

$$Investment_{it} = a_0 + a_1 Localnews_{kt-1} \times Cash_{it-1} + a_2\, Localnews_{kt-1} \times EBD_{it-1} + a_3\, Localnews_{kt-1} \times MA_{it-1} + a4 Localnews_{kt-1} + a_z Firm\ Characteristics_{it-1} + Region\text{-}Year\ FE + Industry\ FE + \varepsilon \quad (1)$$

Where $Investment_{it}$ is firm's i's investment in year t, measured based on capital and R&D expenditures scaled by beginning total assets (Heitzman and Huang 2019).[18] *Localnews* is an indicator variable equal to 1 if state *k,* where firm *i* is headquartered, experienced a local business journal entry in calendar year *t-1,* and 0 otherwise. *Cash,* is measured as total cash holdings scaled by beginning total assets and proxies for the firm's propensity to overinvest (Biddle et al 2009). Firms with large cash balances are more likely to face agency problems, moral hazard specifically, whereby management overinvests for their own personal benefit at the expense of shareholders (Jensen 1986; Blanchard, Lopez-de-Silanes, and Shleifer 1994; Harford 1999; Opler, Pinkowitz, Stulz, and Williamson 1999; Richardson 2006; Biddle et al. 2009; Hanlon and Heitzman 2019). Our main variable of interest is the interaction term *Localnews ×Cash*. We expect a positive and significant coefficient on this term, suggesting that firms in states with local business journal entry events experience higher investment to cash holdings sensitivity in the post-period, relative to the pre-period as well as to firms headquartered in states without a local business journal entry event.

Firm investment is responsive to available growth opportunities reflected in price. We include *MA,* which is the beginning market-to-book asset ratio, the most commonly used empirical proxy for external investment opportunities. We also include *EBD* to capture firm investment's responsiveness to management's private internal information about the profitability of investment opportunities. *EBD* is measured as the earnings before extraordinary items, depreciation and R&D expense, scaled by beginning total assets (Heitzman and Huang 2019; Ye et al. 2023). We interact

[18] In measuring investment, we consider both capital expenditures and non-capital expenditures (i.e. R&D). This approach is common in the literature (Richardson 2006; Hanlon et al. 2015). Our results are robust to include only capital expenditures or including other forms on non-capital expenditures (i.e., acquisitions) as per Biddle et al. (2009).

EBD and *MA* with local business journal entry events, *Localnews*, because the introduction of local media into the local market may change how managers weigh internal (profit signals) and external (price signals) information when making investment decisions (Heitzman and Huang 2019). Following prior work (Heitzman and Huang 2019, Goldstein et al. 2023; Ye et al. 2023), we also control for firm characteristics that can affect firm investment, specifically size and leverage.

To estimate generalized DID regressions, our models need to include a set of group and time fixed effects. We include industry and census region-by-year fixed effects. Industry fixed effects, measured at the 2-digit SIC level, allow us to control for time-invariant differences in investment across different sectors. Census region-by-year fixed effects allow us to control for local business journal entry events that may be correlated across census regions and across time. These fixed effects lead to a_1 being estimated as the within-state differences before and after the local business journal entry event as opposed to similar before–after differences in states that did not experience a change during the same period in the same census region. To be conservative, we utilize two-tailed t-tests. Standard errors adjust for heteroscedasticity and are double clustered at the firm and year level. All continuous variables are winsorized at the 1st and 99th percentile to mitigate the influence of outlier observations. Appendix B presents all variable definitions.

3.3 Descriptive Statistics

Table 2, Panel A provides a sample breakdown by state. Seven states (i.e., California, Illinois, Massachusetts, New Jersey, New York, Pennsylvania, and Texas) account for 55% of observations. Panel B presents descriptive statistics for the variables used in the empirical analysis. Consistent with Heitzman and Huang (2019), the investment proxy has a mean value of 0.130. The *Localnews* variable has a mean of 0.644, indicating that 64.4% of the sample firm-years have local business journal coverage. This relatively high proportion reflects that most states experienced the

entry of local business journals during the 1970s and 1980s, suggesting the sample is more heavily weighted to the post-treatment period. Our sample firms, on average, hold 13.7% of total assets in cash, have earnings to assets ratio of 9.3%, leverage ratio of 13.5%, and market-to-book of 1.838.

4. Empirical Results

4.1 Main Analyses

Table 3 presents our main empirical findings. The coefficient on *Localnews×Cash* measures the change in the sensitivity of investment to cash holdings after the *Localnews* entry event and is significantly positive across both columns (p-value < 0.01). In terms of economic magnitude, we find that the entry of *Localnews* leads to a 6.0% increase in the investment to cash holdings sensitivity.[19] This increased sensitivity indicates that after the entry of local business journals, managers make more inefficient investment decisions, consistent with our hypothesis.

Across both columns, we find that the coefficient on *Localnews×EBD*, which measures the change in investment sensitivity to profit signals after the *Localnews* entry event is significantly negative (p-value < 0.05). This suggests lower managerial reliance on internal (profit signals) information sources (Heitzman and Huang 2019). On the other hand, the coefficient on *Localnews×MA*, which measures the change in investment sensitivity to external growth opportunities, is positive and significant (p-value < 0.05 to 0.10). This is consistent with greater managerial reliance on external (price signals) information sources (Heitzman and Huang 2019).

One important identifying assumption for the DID estimates is that the treatment and control groups follow parallel trends in the absence of the treatment, i.e., local business journal entry. To validate the parallel trend assumption, we perform a dynamic difference-in-differences analysis examining treatment effects in years surrounding local business journal openings. Figure

[19] This is estimated as follows-[(The estimated coefficient on *Localnews×Cash* x the standard deviation of *Cash*)/Mean value of *Investment*]. Therefore, in column (2), we observe a 6.0% [(0.042 * 0.197)/0.138] change. In other words, a one standard deviation change in cash results in 6% higher investment after a local business journal entry event.

5 plots the regression coefficients for *Localnews×Cash* and 90% confidence intervals, in event time. *t-2* serves as the benchmark year in this analysis. We find that the pre-treatment effects (*t-4*$^{++}$ to *t-1*) are statistically indistinguishable from zero. We find that the effect of local media on investment inefficiency appears to increase in the post-entry period, starting an upward trend in the first and second year after a state has a local business journal opening. The effect intensifies and becomes statistically significant (p-value < 0.05) only in years three onwards (*t*+*3*$^{++}$). Taken together, the results in Figure 5 support the parallel trend assumption and further strengthen our inference that local media has a causal effect on local firms' investment inefficiency.[20]

4.2 Cross Sectional Analyses

As larger firms are less reliant on external financing sources, they often have weaker monitoring by external parties. These features make their managers particularly susceptible to empire building, as expanding the firm can result in greater social prominence (Jensen 1986). The local media is also more likely to cover the investment decisions of more visible firms (Miller 2006; Heese et al. 2022; Allee et al. 2025), suggesting the benefits of overinvesting are also higher for larger firms. Therefore, we expect the effect of local media entry on investment to cash holdings sensitivity to be stronger among larger firms. To test this expectation, we partition the sample into firms above and below the median *Size* (i.e., total assets) and re-estimate equation (1) for each subsample. Results presented in Table 4, Panel A indicate that the coefficient on *Localnews×Cash* is significantly larger in the above median subsample (p-value for difference in coefficients < 0.01)**,** supporting the notion that local media's influence on investment is greater among larger firms.[21]

We also examine the effect of local business journal entry on local firms' investment to

[20] We include all the other interaction terms and controls in the model. We do not report them in the figure for brevity.
[21] Franzoni (2009) finds that overinvestment is more prevalent in larger firms, while underinvestment is more prevalent in a broader cross-section of firms, helping to relate our findings to prior work (Dai et al. 2021; Baloria et al. 2025).

cash holdings sensitivity, conditional on industry sales growth (Opler and Titman 1994). Firms in declining industries have limited profitable investment opportunities but in an attempt to maintain sales and earnings they continue to scale up assets and engage in inefficient investment decisions (Jensen 2003). If media emphasis on firm scale and growth of investment is naïve to managerial incentives (Titman et al. 2004), we expect local business journal entry to exacerbate this behavior. To test this expectation, we partition the sample into firms operating in industries with above-median and below-median sales growth and re-estimate equation (1) for each subsample. Results presented in Table 4, Panel B indicate that the coefficient on *Localnews×Cash* is significantly larger in the below median subsample (p-value for difference in coefficients < 0.05)**,** supporting the notion that local media's influence on investment is greater among firms in declining sectors.

We further examine the effect of local business journal entry on local firms' investment to cash holdings sensitivity, conditional on community social connectedness (Dyck and Zingales 2002). Local business journals emphasize networking and managers in more socially connected communities are likely more responsive to media's preference for investment as a way of achieving social prominence within the local business community (Jensen 1986). To test this expectation, we partition the sample into firms operating in states with above-median and below-median community health (Lai, Li, and Yang 2020; Choi and Valente 2023) and re-estimate equation (1) for each subsample. Results presented in Table 4, Panel C indicate that the coefficient on *Localnews×Cash* is significantly larger in the above median subsample (p-value for difference in coefficients < 0.01)**,** supporting the notion that local media's influence on investment is greater among local managers more concerned about social recognition in the local business community.[22]

[22] Community health is based on membership organizations per capita, nonreligious not-for-profits and congregations per capita, percent serving on a committee or as an officer, attending a public meeting, volunteering, working with neighbors on a project, attending a political meeting, and participating in a demonstration (Barrios et al. 2021)

4.3 Time Series Analyses

The market for corporate control can discipline managerial investment decisions (Jensen 1986). Holmstrom and Kaplan (2001) discuss the rise and fall of hostile takeovers and leveraged buyouts (LBOs) in the 1980s and 1990s. The 1970s and early 1980s were characterized with a weaker market for corporate control, allowing for managerial empire building. Starting in 1983, hostile takeovers and LBOs increased dramatically and this persisted until 1991, when state-level anti-takeover laws and other developments once again weakened to market for corporate control. Titman et al. (2004) find evidence that the 1983 to 1991 time period represents one in which managerial empire building incentives were diminished due to the threat of hostile takeovers.[23] Therefore, we expect the effect of local media entry on investment to cash holdings sensitivity to be stronger outside of this time period. To test this expectation, we partition the sample into 1983-1991 and all remaining years (1965-1982, 1992-2002) and re-estimate equation (1) for each subsample. Results presented in Table 4, Panel D indicate that the coefficient on *Localnews*×*Cash* is significantly larger in the relevant time period (p-value for difference in coefficients < 0.01)**,** supporting the notion that a strong market for corporate control discipline managerial investments.

4.4 Acquisitions Analyses

We complement our analysis of internal investments (i.e., capex and R&D) with an analysis of external investments (i.e. acquisitions) (Harford et al. 2008; Hanlon et al. 2015). Due to moral hazard frictions, managers, especially those with large cash holdings, engage in value destroying acquisitions in pursuit of private benefits (Jensen 1986; Harford 1999), such as social standing in local business communities (Dyck and Zingales 2002). Given our focus on cash-based moral hazard, we restrict our sample to acquisitions involving cash consideration (Edwards et al. 2016).

[23] In untabulated analysis, we find similar inferences if we include hostile takeovers and LBOs occurring prior to the Williams Act of 1968 (1965-1967) and during 1970's (1972-1974, 1977-1979) (Cain, McKeon, and Solomon 2017).

We focus on the total deal value of acquisitions announced in a firm-year scaled by total assets (Giroud and Mueller 2010) as the dependent variable, *Deal Value.* All models include industry and region-by-year fixed effects, with standard errors clustered at the firm and year level. Table 5 presents our empirical findings on external acquisitions.[24]In Column (1), we interact *Localnews* with *Negative CAR*, which is an indicator for whether the market perceives the acquisition as a value-destroying one (i.e., 5-day returns surrounding the M&A announcement). The coefficient of primary interest, *Localnews* × *Negative CAR*, is significantly positive (0.1841, $p < 0.05$) suggesting that managers engage in more value-destroying acquisitions following local business journal entry. In Column (2), we focus only on public company targets as these deals are larger and more visible in the media and thus offer managers greater social recognition and status. The positive coefficient on *Localnews* × *Negative CAR* (0.1358, $p < 0.10$) confirms our priors regarding public targets. In Column (3), we focus only on diversifying acquisitions (i.e., outside of the core business), as managers with empire building tendencies typically seek to expand their span of control through diversification (Jensen 1986; 2003). The positive coefficient on *Localnews* × *Negative CAR* (0.2435, $p < 0.10$) also confirms our priors regarding diversifying acquisitions. In line with moral hazard, this evidence suggests that after the entry of local business journals into local markets, value-destroying acquisitions among local firms with large cash holdings increases.

4.5 Digital-Only Local Business Journal Entry Analyses

Engelberg (2018) notes that the media landscape has changed dramatically over the last fifty years and calls for more research on this changing landscape. Our baseline sample period of 1965-2002 examines the evolution of*Crain's* and *ACBJ* print local business journals. To shed light on the evolution of local business journals since the turn of the century, we examine the digital-

[24] The sample period for this analysis is 1982-2002, as M&A data is only reliably available from SDC for this period.

only expansion strategy pursued by *ACBJ* and *Crain's* during the 2005-2023 period. We have reliable headquarter data over this more recent period and can define treatment at the city level, thereby increasing the power of our tests. The digital-only expansion may be more impactful than the print expansion during 1965-2002 as local business journal readership has grown tremendously over the last two decades (see Figure 4). Conversely, the digital-only expansion during the 2005-2023 period may be less impactful than the print expansion during 1965-2002 as the digital coverage is not as expansive as the print coverage and in some markets, the digital-only expansion adds a second, not first, local business journal (e.g., *Crain's* entered the Chicago market in 1978 with a print local business journal and *ACBJ* entered the Chicago market in 2012 with a digital-only local business journal). We define *OnlineLocalnews* as an indicator variable equal to 1 if core based statistical area *c,* where firm *i* is headquartered, experienced a digital-only local business journal entry in calendar year *t-1,* and 0 otherwise. Table 6 presents our empirical findings. The coefficient on *OnlineLocalnews*×*Cash* measures the change in the sensitivity of investment to cash holdings after the *OnlineLocalnews* entry event and is significantly positive across both columns (p-value < 0.05), albeit at weaker economic and statistical significance levels than in Table 3.

4.6 Expected Level of Investment Analyses

Biddle et al. (2009) emphasize investment to cash holdings sensitivity as a measure of investment inefficiency but also employ an alternate approach that models the expected level of firm-specific investment based on investment opportunities (i.e., proxied by sales growth) and captures deviations from this expected level.[25] Table 7 presents our empirical findings using this alternative approach. In column (1), the coefficient on *Localnews*×*Cash* measures the change in the likelihood of over- or under-investment after the *Localnews* entry event and is significantly

[25] The emphasis of Book of Lists rankings (e.g., "fastest growing public companies") is typically on sales growth, reinforcing the link between business journals' emphasis on firm scale and growth, and this measurement approach.

positive (p-value < 0.01). In column (2), the coefficient on *Localnews×Cash* measures the change in the likelihood of overinvestment after the *Localnews* entry event and is also significantly positive (p-value < 0.01). In column (3), the coefficient on *Localnews×Cash* measures the change in the likelihood of underinvestment after the *Localnews* entry event and is statistically insignificant (p-value >0.10).[26] This evidence suggests that after the entry of local business journals into markets, investment inefficiency, and overinvestment but not underinvestment, among local firms with large cash holdings increases, suggestive of media moral hazard frictions.[27]

4.7 Alternative Explanations Analyses

The increased sensitivity of investment to cash holdings after entry of local business journals could capture another agency problem - adverse selection (i.e., increased financing frictions associated with obtaining external financing). We view this adverse selection interpretation as less plausible than the moral hazard interpretation as local business journals, as information intermediaries, are likely to decrease, rather than increase, external financing frictions for firms (Gao et al. 2020). Nonetheless, cash holdings could, in theory, capture adverse selection problems. Younger firms (Denis and Sibilkov 2010) and firms with certain characteristics measured in the Kaplan and Zingales (1997) financial constraints index face the greatest financing frictions. To control for the potential confounding effects of external financing frictions, we augment equation (1) by including interactive controls for these two factors, separately in columns (1) to (2) and jointly in column (3). Table 8, Panel A presents our empirical findings. The coefficient on *Localnews×Cash* measures the change in the sensitivity of investment to cash holdings after the *Localnews* entry event and remains significantly positive across all four columns (p-value < 0.01).

[26] Verdi (2006) also employs an interactive model, with the variable of interest interacted with level of cash holdings.
[27] Overinvestment (underinvestment) is driven by a managers' desire to attract positive (avoid negative) media coverage. Local business journals take a more positive view on firms, relative to daily national and local newspapers who prioritize watchdog journalism, and hence managers are more likely to overinvest in response to these outlets.

The increased sensitivity of investment to cash holdings after entry of local business journals could also capture managerial overoptimism and/or overconfidence, whereby local media support for investment causes managers to overestimate their ability to pick investment projects and underestimate potential investment risks (Malmendier and Tate 2005; 2008).[28] While our tests on firm size, declining industries, and diversifying acquisitions help to tie our evidence specifically to cash-based moral hazard frictions (Jensen 1986; 2003), managerial overconfidence and/or optimism could, in theory, be confounding our inferences. Positive sales changes capture managerial optimism (Banker et al. 2012) while use of risky debt and avoidance of dividend payouts captures managers overconfidence (Schrand and Zechman 2012). To control for the potential confounding effects of managerial optimism and/or overconfidence, we augment equation (1) by including interactive controls for these three factors, separately in columns (1) to (3) and jointly in column (4). Table 8, Panel B presents our empirical findings. The coefficient on *Localnews×Cash* measures the change in the sensitivity of investment to cash holdings after the *Localnews* entry event and remains significantly positive across all four columns (p-value < 0.01).

4.8 Instrumental Variables (IV) Analyses

A potential concern with our findings is that local business journal opening and firm investment are driven by changes in underlying local economic conditions. We find no evidence of economic (i.e., unemployment rate, household income) and population (i.e., population density, voting patterns) characteristics predicting local business journal opening in a state in Appendix A. Nonetheless, potential endogeneity concerns remain, and we thus conduct a two-stage IV analysis.

[28] Measures of managerial overconfidence based on managers' personal investment portfolios are less appropriate in our context given that options were not common until the 1990s and compensation data on ExecuComp is only available after 1993. We use historical compensation data for large firms from Frydman and Saks (2010) to construct an overconfidence measure that captures whether the CEO is a net buyer of company stock despite their high exposure to company risk (Malmendier and Tate 2005). We find similar inferences after controlling for this personal investment measure of overconfidence – the sensitivity of investment to cash holdings increases after local business journal entry.

We use the US Postal Service (USPS) expansion as an instrument for local business journal openings (Blevins 2021). Expansion occurs through new post office openings and we capture, through the variable *Post Office*, whether a new post office was opened in a state. We use an expansive database covering 166,140 post office openings between the years 1639 and 2000 and observe 150 post office openings over our baseline sample period of 1965-2002 (Blevins 2021). Local business journals rely on USPS for delivery and are sensitive to changes in postal rates and service expansion (Dubroff 2013). We expect the exclusion restriction to be met as prior research finds that USPS expansion impacts firm investment only through increased circulation of newsletters and trade publications (Marinoni and Roche 2025). No evidence links this instrument to firm investment through other channels, thereby supporting the exclusion restriction condition.

We present the results in Table 9. In the first stage regression in Panel A, the USPS instrument, *Post Office*, is positively associated with the entry event (p-value < 0.05). We reject the null hypothesis of weak instrument with Kleinbergen-Paap Wald *F* statistic exceeding the conventional cutoff of 10, meeting the instrument relevance condition. In the second-stage regression in Panel B, we use the instrumented entry, *Predicted Localnews*. The coefficient on *Predicted Localnews*×*Cash* measures the change in the sensitivity of investment to cash holdings after the instrumented *Localnews* entry event and remains significantly positive (p-value < 0.05).[29]

4.9 Alternative Definition of Treatment Analyses

We perform a sensitivity analysis by varying the definition of our treatment variable. In our main analysis, we use the first newspaper entry in a state to define our treatment variable, *Localnews*. However, several states, such as New York and Ohio, experienced multiple newspaper

[29] Our approach is similar in spirit to examining the expansion of *Craig's List* induced daily local newspaper closures during the 2000's. Following Gao et al. (2020), we compute economic magnitudes by interacting the first-stage and second-stage coefficient estimates (0.0925 * 0.2209 = 0.0204). The impact of local business journal entry on firm investment through the USPS post office channel is 0.0204, or half of the coefficient estimate of 0.0424 in Table 3.

entries over time. To account for this, Table 10, Panel A presents an alternative definition of *Localnews*, where it is set to 1 only if a newspaper opens in the largest city (by population) within a state, and 0 otherwise. Our results are robust to this revised state definition (p-value < 0.01).

We define treatment at the state level yet the business journals are assigned to a particular city. We make this design choice as historical zip code data is unavailable, we have a relatively long sample period, and a non-trivial portion of firms change headquarters over time (Bai et al. 2020.We assess the sensitivity of our results if we use backfilled zip code data from COMPUSTAT that does not account for headquarters changes but allows us to conduct our analysis at the core-based-statistical area (e.g., Atlanta-Sandy Springs-Roswell, GA). Table 10, Panel B presents an alternative definition of *Localnews*, where it is set to 1 only if a newspaper opens in the CBSA corresponding to a firm's historical zip code as per COMPUSTAT, and 0 otherwise. Our results are robust to this revised definition using granular zip codes and CBSAs (p-value < 0.05 to 0.10).

4.10 Stacked Difference-in-Differences (DID) Analyses

With staggered treatment timing and heterogeneous treatment effects, two-way fixed effects (TWFE) estimation can introduce a "forbidden comparisons" problem by comparing later treated firms to earlier treated firms as a control, yielding biased estimates of treatment effects.

As our identification strategy exploits staggered adoption of journal entry, it is advisable to interpret estimates obtained from standard TWFE DID regressions with caution. If later adopting journals learn from earlier adopting journals and produce more effective reports, staggered treatment timing will bias the estimator towards zero as our design pools earlier and later adopting states. If impact of entry grows over time, heterogenous treatment effects will bias the estimator towards zero as our design will use some earlier treated firms as controls for later treated firms. We conduct a stacked DID analysis to test whether our results are sensitive to these biases (Baker

et al. 2022). For each cohort (i.e., treatment firms and control firms for each of 44 journal entry events), we conduct an event study and stack each event together. We include cohort × industry and cohort × region-by-year fixed effects. Table 11 presents our findings. The coefficient on *Localnews*×*Cash* measures the change in the sensitivity of investment to cash holdings after the *Localnews* entry event and is significantly positive across both columns (p-value < 0.05).

5. Conclusion

This study examines the effect of local business journal entry on local firm investment. These local media outlets emphasize firm scale and growth and host regular networking events for the local business community. The media's focus on scale, growth and networking can incentivize local managers to over invest to achieve social status within the local business community, consistent with the proposition that the media encourages inefficient firm investment decisions.

We find that the entry of local business journals into local markets cause local managers' investment to be more sensitive to the stock of internal funds (Jensen 1986). The effect is stronger among more visible firms and firms in low-growth sectors, which are more likely to be responsive to media pressure to invest (Jensen 2003). The effect is also stronger among firms headquartered in states with greater community social connectedness, where managers are more likely to be motivated by their social standing within the local business community (Dyck and Zingales 2002). The effect is weaker during hostile takeover and leveraged buyout waves, when the market for corporate control is active and can discipline managerial investment decisions (Titman et al. 2004).

We also examine acquisitions involving cash considerations. We find that the entry of local business journals into local markets causes local managers to engage in more value-destroying acquisitions, consistent with local managers seeking to increase the scope of assets under their control (Harford 1999). We find similar evidence for acquisitions of public firms, which are larger

in size and receive more media attention than acquisitions of private firms (Harford et al. 2012). We find similar evidence for diversifying acquisitions outside of the core business (Jensen 1986).

Collectively, our evidence is consistent with local media outlets engendering moral hazard among local firms. Our study sheds light on an unexplored form of local media, local business journals, which in contrast to daily local newspapers, have grown, not diminished, in influence over time. We present evidence that, in addition to serving an information and monitoring role, local media can encourage overinvestment by local firms, which destroys shareholder value.

Media outlets have a range of incentives that can affect the way they collect, cover, and portray news about firms (Miller and Skinner 2015). It is important to draw from a wide range of sources that represent the full spectrum of media. Our emphasis on local business journals provides a note of caution to the literature -it need not be true that "no news is bad news" (Allee et al. 2025).

As with other information intermediaries (e.g., sell-side equity analysts), the media is likely to have biases and make mistakes, suggesting its impact will not always be positive. We are not able to speak to the net benefits (i.e., benefits inclusive of costs) of local business journals, only to local business journals' (negative) effects on firm investment efficiency. We echo the call by Engelberg (2018) for greater scrutiny of the relationship between the media and journalists and encourage future researchers to explore the menu of benefits and costs arising from local business journal entry into markets. As with the daily local newspaper closure setting introduced by Gao et al. (2020), we look forward to future research exploring other impacts of local business journals.

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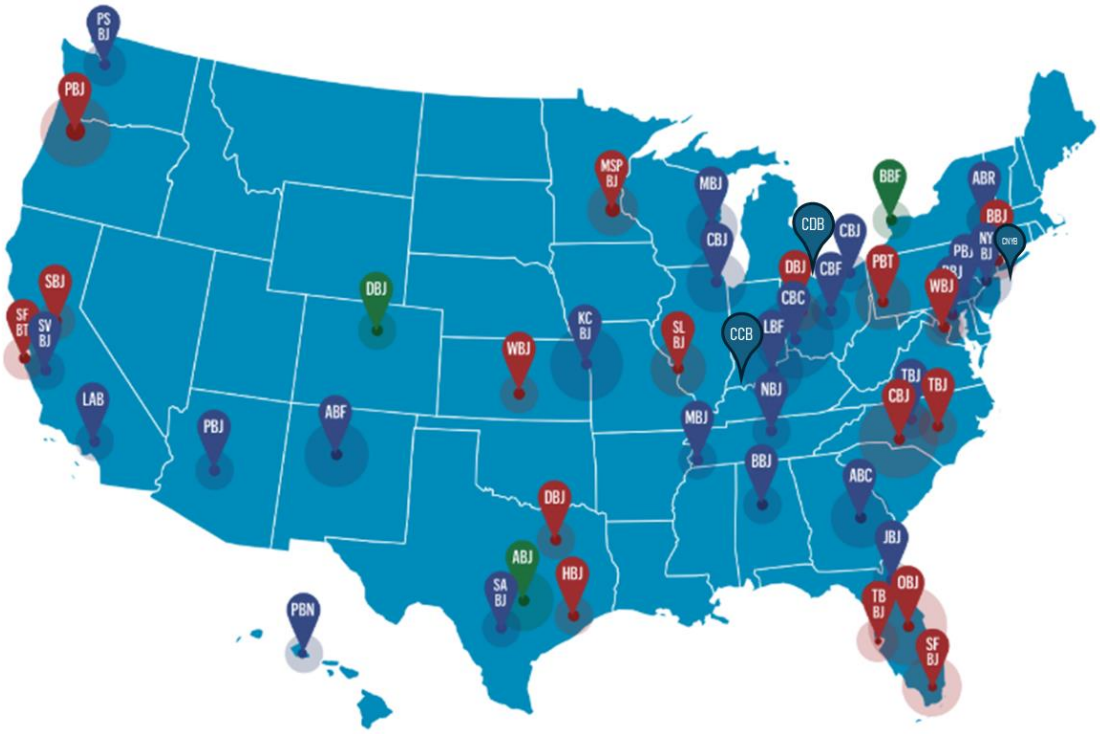
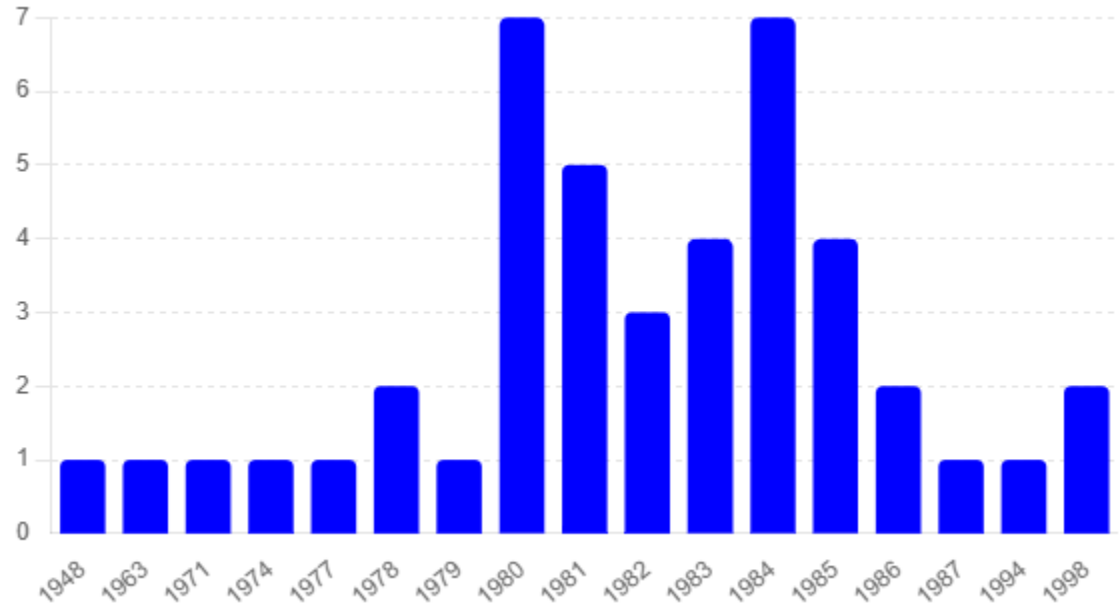
Figure 1: Location of Local Business Journals (Print Edition)



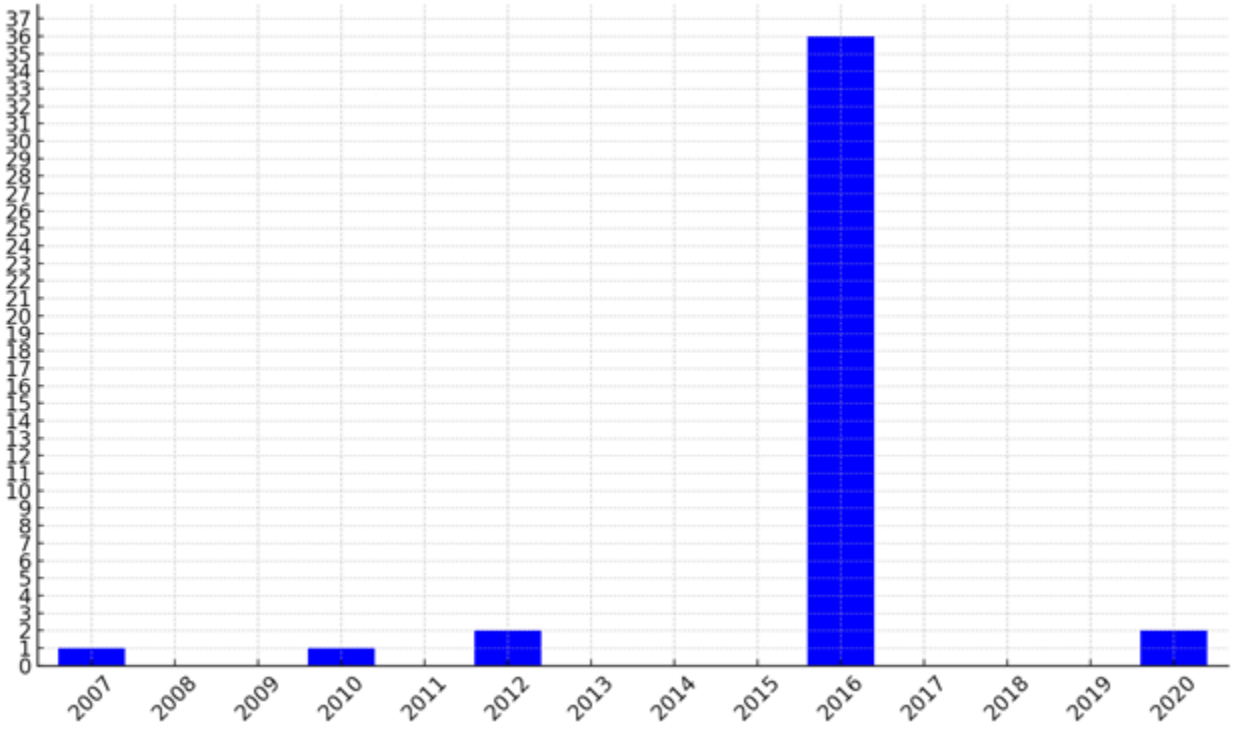
This figure presents the location of the local business journals of American City Business Journals (ACBJ) and Crain's

Figure 2: Number of Local Business Journal Openings Per Year (Print Edition)



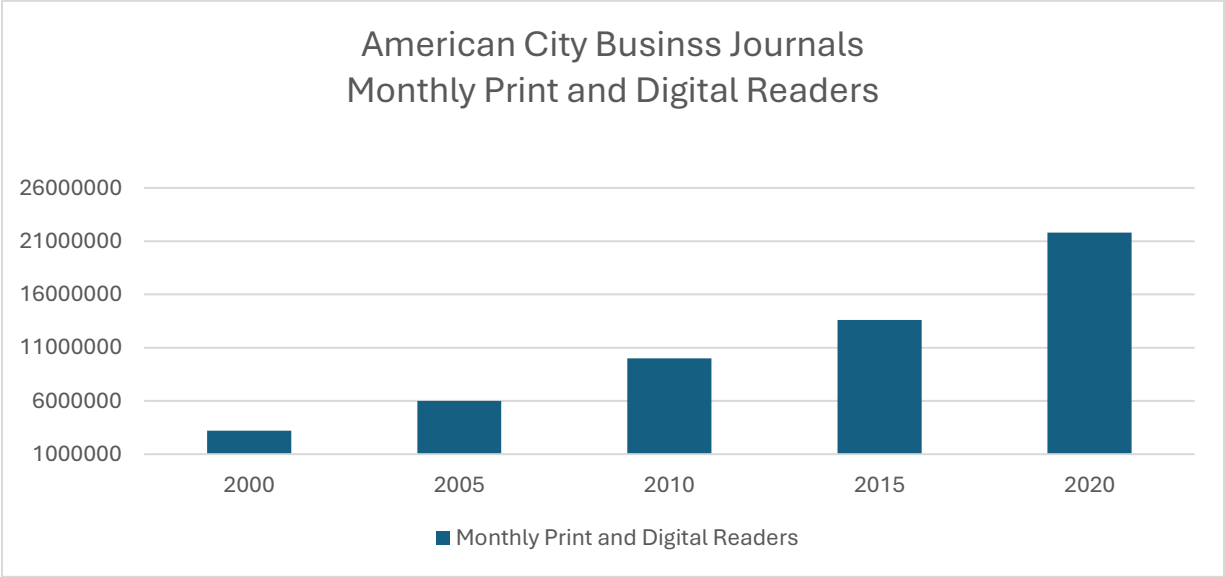
This figure presents the number of local business journal openings per year from 1948 to 1998 (the first to the last).

Figure 3: Number of Local Business Journal Openings Per Year (Digital-Only Edition)



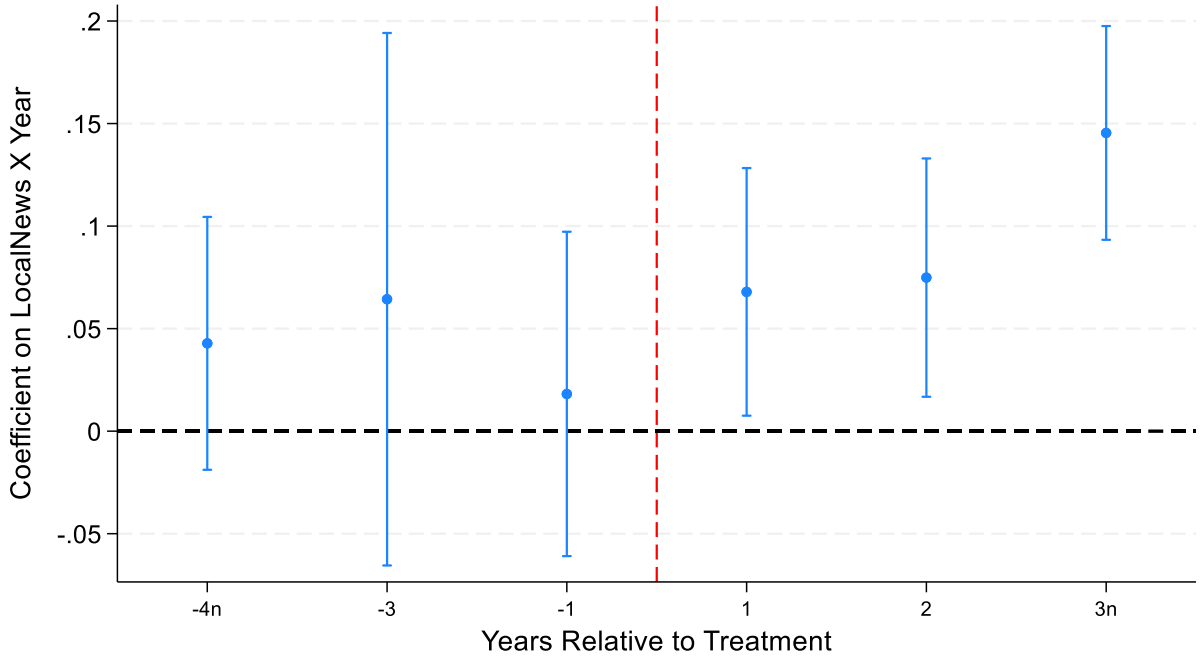
This figure presents the number of local business journal openings per year from 2007 to 2021 (the first to the last).

Figure 4: Growth in American City Business Journals (ACBJ) Print and Digital Readership



This figure presents the number of monthly print and digital readers for *ACBJ* outlets from 2000 to 2020.

Figure 5: Parallel Trends for Investment Sensitivity to Cash Holdings



This figure presents the regression coefficients and 90% confidence intervals, in event time, from the regression of *Investment* on *Localnews x Cash x EventYear* with controls, region-year fixed effects, and industry fixed effects. *EventYear* is defined as the event year relative to the opening of a local business journal. Detailed definitions of all variables are provided in Appendix B.

Appendix A
Effect of State-level Economic & Population Variables on Local Business Journal Openings

The model estimated:

$$Localnews_{kt} = a_0 + a_1 Candidate\ Vote_{kt-1} + a_2\ Unemployment\ Rate_{kt-1} + a_3\ Population\ Density_{kt-1} + a_4 Par\ Capita\ Income_{kt-1} + Region\text{-}Year\ FE + \varepsilon$$

where *t and k* index calendar year, and state respectively.

Dependent Variable:		*Localnews*
	Pr. Sign	(1)
Candidate Vote	0	-0.0058
		(-0.06)
Unemployment Rate	0	0.0048
		(0.85)
Population Density	0	-0.0002
		(-0.22)
Per Capita Income	0	-0.0584
		(-0.72)
Region X Year FE		Yes
S.E. clustered by year		Yes
No. of observations		1,264
Adj. R-squared		0.016

This table presents evidence on the effect of state-level characteristics on the opening of a local business journal. The sample period is from 1965-2002. All variables are defined in Appendix B. The t-statistics are reported below coefficient estimates in parentheses and are calculated based on standard errors clustered by year. *, **, *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed t-test.

Appendix B
Variable Descriptions

Variable Name	Construction
Investment	The sum of capital expenditures (CAPX) and research and development expenditures (XRD) scaled by beginning total assets (AT).
Investment Inefficiency	Deviation from the expected level of investment. First, we estimate a firm-specific model of investment as a function of growth opportunities (as measured by sales growth) and use the residuals as a firm-specific proxy for deviations from expected investment. The model is described below: $Investment_{it} = a_0 + a_1\ Sales\ Growth_{it-1} + \varepsilon$ The model is estimated for each industry-year based on the Fama and French 48-industry classification for all industries with at least 20 observations in a given year. We then classify firms based on the magnitude of the residuals (i.e., deviations from predicted investment) and use these groups as the dependent variable. Specifically, we sort firms yearly based on the residuals from the model into quartiles. Investment Inefficiency is an indicator variable that equals one if the firm-year observation is in the bottom quartile (i.e., the most negative residuals) or in the top quartile (i.e., the most positive residuals).
Overinvestment	An indicator variable that equals one if the firm-year observation is in the top quartile (i.e., the most positive residuals), and zero otherwise.
Underinvestment	An indicator variable that equals one if the firm-year observation is in the bottom quartile (i.e., the most negative residuals), and zero otherwise.
Deal Value	The total transaction value of M&A deals scaled by beginning total assets (AT).
Localnews	An indicator variable that equals one for a state for the years after the opening of a local newspaper located in that state, and zero otherwise.
OnlineLocalnews	An indicator variable that equals one for a city for the years after the opening of an online local business journal located in that city, and zero otherwise. We obtain the list of online local business journals from ABCJ and Crain's websites who had added "digital-only" editions to a few key markets between 2007 and 2021.
Localnews (Largest City)	An indicator variable that equals one for a state for the years after the opening of a local newspaper located in the largest city of that state, and zero otherwise.
Localnews (CBSA Level)	An indicator variable that equals one for a city for the years after the first opening of a local newspaper located in the city's Core-Based Statistical Area (CBSA), and zero otherwise.
Cash	Cash holdings, including cash and cash equivalents, divided by total assets. Calculated as COMPUSTAT data items CHE/AT
EBD	Earnings before extraordinary items, depreciation, and R&D expenditures, divided by beginning total assets: (IB + DP + XRD)/AT
MA	Market-to-book ratio, calculated as (AT + CSHO × PRCC_F − CEQ − TXDB) /AT
Population Growth	Percentage population growth year-over-year in a state.
Leverage	The ratio of long-term debt to the sum of long-term debt and the market value of equity: DLTT / (DLTT + AT)
Size	Log of total assets (AT).

Industry Sales Growth	Percentage sales growth in 3-digit SIC code.
Community Health Index	The Community Health Index as defined by the U.S. Congress, Joint Economic Committee, Social Capital Project in "The Geography of Social Capital in America". Community health is based on membership organizations per capita, nonreligious not-for-profits and congregations per capita, percent serving on a committee or as an officer, attending a public meeting, volunteering, working with neighbors on a project, attending a political meeting, and participating in a demonstration.
Negative CAR	An indicator variable that equals one if the cumulative abnormal returns (CAR) within a 5-day window surrounding the M&A announcement are negative, and zero otherwise.
Firm Age	The first calendar year of appearance of a Firm in Compustat less the current calendar year.
KZ Index	We use the Kaplan-Zingles (KZ) estimates to construct KZ index of financial constraints: KZ_it = –1.001909 × (CF_it / K_it–1) + 0.2826389 × Q_it + 3.139193 × Leverage_it – 39.3678 × (Dividends_it / K_it–1) – 1.314759 × (C_it / K_it–1), where CF is cash flow, K is capital, Q is Tobin's Q, and C is cash and short-term investments. Higher KZ values indicate greater financial constraint.
Sales Change	An indicator variable that equals one if the change in sales from the previous calendar year is positive, and zero otherwise.
Risky Debt	An indicator variable that equals one if either convertible debt (DCVT) or preferred stock (PSTKC) is greater than zero, and zero otherwise
Dividend Yield	Dividends per share (DVC) divided by share price (PRCC_F) for the firms that pay dividends, and zero otherwise.
Post Office	An indicator variable that equals one for a USPS office opening in a state within the previous three years, and zero otherwise. This measure is obtained from Harvard Dataverse Record provided by Cameron Blevins (2021).
Population Density	The density of population in a calendar year in a state.
Candidate Vote	The percentage of votes to the Republican candidate in a state in the last election.
Unemployment Rate	The percentage of the labor force that is actively seeking employment but is currently without a job in a calendar year in a state.
Per Capita Income	The log of average income earned per person in a state within a calendar year.

Table 1: Sample Selection

Description	No. of observations dropped	No. of observations remaining
US Public Firms with non missing headquarter information (years 1965–2002)		113,852
Exclude firm-years with missing financial variables	2,701	111,151
Exclude firm-years with missing industry and local economic variable	789	110,362
Final sample of firm-years for Table 3		110,362

This table presents steps of the sample selection process. The sample consists of firm-years in 1965 - 2002 (Table 3).

Table 2: Descriptive Statistics

Panel A: Sample Breakdown by Headquarter State

State	Frequency	Percent	Localnews	State	Frequency	Percent	Localnews
AK	49	0.04	No	MT	80	0.07	No
AL	610	0.55	Yes	NC	1,678	1.52	Yes
AR	456	0.41	No	ND	53	0.05	No
AZ	989	0.90	Yes	NE	327	0.30	No
CA	16,699	15.13	Yes	NH	419	0.38	No
CO	2,930	2.65	Yes	NJ	5,928	5.37	Yes
CT	3,555	3.22	No	NM	216	0.20	Yes
DC	141	0.13	Yes	NV	625	0.57	No
DE	381	0.35	No	NY	13,556	12.28	Yes
FL	4,457	4.04	Yes	OH	4,943	4.48	Yes
GA	2,292	2.08	Yes	OK	1,190	1.08	No
HI	191	0.17	Yes	OR	987	0.89	Yes
IA	575	0.52	No	PA	5,207	4.72	Yes
ID	324	0.29	No	RI	340	0.31	No
IL	5,570	5.05	Yes	SC	490	0.44	No
IN	1,336	1.21	No	SD	86	0.08	No
KS	700	0.63	Yes	TN	1,292	1.17	Yes
KY	523	0.47	No	TX	8,711	7.89	Yes
MA	5,428	4.92	Yes	UT	953	0.86	No
MD	1,479	1.34	Yes	VA	2,178	1.97	No
ME	155	0.14	No	VT	88	0.08	No
MI	2,948	2.67	Yes	WA	1,454	1.32	Yes
MN	3,683	3.34	Yes	WI	1,736	1.57	Yes
MO	1,822	1.65	Yes	WV	163	0.15	No
MS	226	0.20	No	WY	143	0.13	No

Panel B: Summary Statistics

Variables	N	Mean	SD	P25	P50	P75
Dependent variables:						
Investment	110,362	0.130	0.138	0.043	0.088	0.164
Investment Inefficiency	50,996	0.021	0.173	-0.105	-0.017	0.102
Overinvestment	25,498	0.158	0.145	0.060	0.102	0.196
Underinvestment	25,498	-0.115	0.042	-0.136	-0.105	-0.083
Deal Value	78,405	0.063	0.913	0.000	0.000	0.000
Independent variables:						
Localnews	110,362	0.644	0.479	0.000	1.000	1.000
Onlinelocalnews	60,936	0.097	0.296	0.000	0.000	0.000
Localnews (Largest City)	110,362	0.594	0.491	0.000	1.000	1.000
Localnews (CBSA Level)	111,863	0.592	0.491	0.000	1.000	1.000
Cash	110,362	0.137	0.197	0.023	0.061	0.163
EBD	110,362	0.093	0.173	0.045	0.107	0.172
MA	110,362	1.838	1.687	0.954	1.268	1.970
Population Growth	110,362	1.152	0.996	0.360	0.890	1.860
Leverage	110,362	0.135	0.114	0.021	0.124	0.217
Size	110,362	4.386	1.934	2.996	4.218	5.628
Cross Sectional variables:						
Size below median	55,194	2.944	1.047	2.268	3.086	3.718
Size above median	55,168	6.026	1.404	4.944	5.740	6.857
Industry Sales Growth below median	56,274	0.047	0.068	0.011	0.061	0.096
Industry Sales Growth above median	54,088	0.173	0.076	0.125	0.163	0.204
Community Health Index below median	54,747	-0.970	0.166	-1.091	-0.938	-0.805
Community Health Index above median	55,615	0.023	0.535	-0.299	-0.159	0.364
Variables for Additional Analyses:						
Negative CAR	78,405	0.045	0.207	0.000	0.000	0.000
KZ Index	110,192	-5.910	164.27	-4.008	-1.526	-0.276
Firm Age	110,362	11.932	8.602	5.000	10.000	17.000
Sales Change	110,362	0.727	0.446	0.000	1.000	1.000
Risky Debt	110,362	0.240	0.427	0.000	0.000	0.000
Dividend Yield	110,362	0.430	3.814	0.000	0.000	0.104
Post Office	110,362	0.219	0.580	0.000	0.000	0.000
Population Density	1,264	4.232	1.447	3.388	4.343	5.102
Candidate Vote	1264	0.531	0.085	0.474	0.526	0.597
Unemployment Rate	1,264	6.000	2.080	4.500	5.700	7.200
Per Capita Income	1,264	9.791	0.418	9.474	9.838	10.127

This table presents descriptive statistics for the sample. Panel A presents the breakdown of the sample by states. Panel B presents summary statistics for the sample. The sample consists of firm-years in 1965 - 2002 (Table 3). All continuous variables are winsorized at the 1% and 99% levels. All variables are defined in Appendix B.

Table 3: The Effect of Local Media on Investment Sensitivity to Cash Holdings

The model estimated:

$$Investment_{it} = a_0 + a_1 Localnews_{kt-1} \times Cash_{it-1} + a_2\, Localnews_{kt-1} \times EBD_{it-1} + a_3\, Localnews_{kt-1} \times MA_{it-1} + a_4\, Localnews_{kt-1} + a_z Firm\ Characteristics_{it-1} + Region\text{-}Year\ FE + Industry\ FE + \varepsilon$$

where *i*, *t*, *and k* index firm, calendar year, and state respectively.

Dependent Variable:		*Investment*	
	Pr. Sign	(1)	(2)
Localnews x Cash	+	0.0406***	0.0424***
		(3.69)	(3.84)
Localnews x EBD		-0.0397**	-0.0398**
		(-2.08)	(-2.08)
Localnews x MA		0.0044*	0.0043**
		(2.03)	(2.07)
Localnews		-0.0040	-0.0031
		(-1.03)	(-0.81)
Cash		0.0178	0.0122
		(1.47)	(1.04)
EBD		0.1605***	0.1743***
		(6.69)	(7.34)
MA		0.0261***	0.0254***
		(12.74)	(12.75)
Leverage			0.0231**
			(2.43)
Size			-0.0061***
			(-6.71)
Industry FE		Yes	Yes
Region X Year FE		Yes	Yes
S.E. clustered by firm and year		Yes	Yes
No. of observations		110,362	110,362
Adj. R-squared		0.275	0.280

This table presents evidence on the effect of local business journal openings on a firm's investment decisions. The dependent variable, *Investment*, is the sum of capital expenditures and research and development expenditures scaled by beginning total assets. The treatment variable, *Localnews*, an indicator variable that equals one for a state for the years after the opening of a local business journal located in that state, and zero otherwise. The main variable of interest is the interaction term, *Localnews x Cash*, which captures investment sensitivity to cash holdings after local business journal opening. Columns (1) & (2) presents results without and with control variables respectively. The sample period is from 1965-2002. All variables are defined in Appendix B. The t-statistics are reported below coefficient estimates in parentheses and are calculated based on standard errors clustered by firm and year. *, **, *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed t-test.

Table 4: Cross-Sectional and Time Series Tests

The model estimated:

$Investment_{it} = a_0 + a_1 Localnews_{kt-1} \times Cash_{it-1} + a_2\, Localnews_{kt-1} + a_z Firm\ Characteristics_{it-1}$
$+ Region\text{-}Year\ FE + Industry\ FE + \varepsilon$

where *i*, *t*, *and k* index firm, calendar year, and state respectively.

Panel A: Firm Size

Dependent Variable:		*Investment*	
Sample:		> Median	< Median
	Pr. Sign	(1)	(2)
Localnews x Cash	+,0	0.0723***	0.0324***
		(4.43)	(2.94)
Localnews		-0.0060	-0.0006
		(-1.27)	(-0.15)
p -value for difference in coefficients		0.002	
Industry FE		Yes	Yes
Region X Year FE		Yes	Yes
S.E. clustered by firm and year		Yes	Yes
Firm-level Controls		Yes	Yes
No. of observations		55,168	55,194
Adj. R-squared		0.329	0.279

Panel B: Industry Sales Growth

Dependent Variable:		*Investment*	
Sample:		> Median	< Median
	Pr. Sign	(1)	(2)
Localnews x Cash	0,+	0.0278**	0.0561***
		(2.42)	(4.11)
Localnews		-0.0051	0.0004
		(-1.04)	(0.08)
p -value for difference in coefficients		0.022	
Industry FE		Yes	Yes
Region X Year FE		Yes	Yes
S.E. clustered by firm and year		Yes	Yes
Firm-level Controls		Yes	Yes
No. of observations		54,088	56,274
Adj. R-squared		0.291	0.248

Panel C: Community Social Connectedness

Dependent Variable:		*Investment*	
Sample:		> Median	< Median
	Pr. Sign	(1)	(2)
Localnews x Cash	+,0	0.0609***	0.0192
		(4.27)	(1.19)
Localnews		0.0007	-0.0070
		(0.15)	(-1.11)
p -value for difference in coefficients		0.001	
Industry FE		Yes	Yes
Region X Year FE		Yes	Yes
S.E. clustered by firm and year		Yes	Yes
Firm-level Controls		Yes	Yes
No. of observations		55,615	54,747
Adj. R-squared		0.285	0.284

Panel D: Hostile Takeover and Leverage Buyout (LBO) Wave

Dependent Variable:		*Investment*	
Sample:		1983-1991	Rest
	Pr. Sign	(1)	(2)
Localnews x Cash	0,+	-0.0018	0.0562***
		(-0.11)	(3.81)
Localnews		-0.0029	-0.0027
		(-0.72)	(-0.61)
p -value for difference in coefficients		0.000	
Industry FE		Yes	Yes
Region X Year FE		Yes	Yes
S.E. clustered by firm and year		Yes	Yes
Firm-level Controls		Yes	Yes
No. of observations		31,056	79,305
Adj. R-squared		0.259	0.299

This table presents the results of cross-sectional and time series tests evaluating the effect of local business journal openings on a firm's investment decisions. The analysis includes subsamples for above-median (>*Median*) and below-median (<*Median*) groups of firm size, industry sales growth, and community social connectedness in Panel A, B, and C respectively. Panel D reports result of the time series analyses during sample period 1983-1991 – a period associated with high market discipline versus the rest of the sample period. Additionally, *p*-values from two-tailed Wald tests are provided to assess the statistical significance of differences between the coefficients for the two groups. The sample period spans 1965–2002, and all variables are defined in Appendix B. Coefficient estimates are reported with t-statistics in parentheses, calculated using standard errors clustered at the firm and year level. Statistical significance is denoted by *, **, and *** at the 0.10, 0.05, and 0.01 levels, respectively, using two-tailed t-tests.

Table 5: The Effect of Local Media on Acquisitions

The model estimated:

$$Deal\ Value_{qt} = a_0 + a_1 Localnews_{kt-1} \times Negative\ CAR_{qt} + a_2\ Localnews_{kt-1} + a_3\ Negative\ CAR_{qt} + a_4\ Localnews_{kt-1} + a_z Firm\ Characteristics_{it-1} + Region\text{-}Year\ FE + Industry\ FE + \varepsilon$$

where *q*, *i*, *t*, *and k* index deal, firm, calendar year, and state respectively.

Dependent Variable:		*Deal Value*		
Sample		*Full Sample*	*Public Deals Vs. Non-deals*	*Diversifying Deals Vs. Non-deals*
	Pr. Sign	(1)	(2)	(3)
Localnews x Negative CAR	+	0.1841**	0.1358*	0.2435*
		(2.38)	(1.73)	(1.73)
Localnews		0.0041	-0.0047	0.0027
		(0.75)	(-1.37)	(0.59)
Negative CAR		0.3159***	0.4915***	0.3132***
		(10.60)	(8.19)	(7.67)
Cash		-0.0922***	-0.0186**	-0.0389
		(-3.03)	(-1.96)	(-1.27)
EBD		0.0157	0.0029	0.0048
		(0.44)	(0.30)	(0.13)
MA		0.0224***	0.0050***	0.0121**
		(4.04)	(3.49)	(2.16)
Leverage		-0.0338*	0.0066	-0.0209
		(-1.68)	(0.60)	(-1.36)
Size		-0.0117***	0.0005	-0.0102***
		(-3.42)	(0.72)	(-2.78)
Industry FE		Yes	Yes	Yes
Region X Year FE		Yes	Yes	Yes
S.E. clustered by firm and year		Yes	Yes	Yes
No. of observations		78,405	70,568	73,619
Adj. R-squared		0.017	0.049	0.012

This table presents the results of analyzing the effect of local business journal openings on a firm's acquisitions decisions. The dependent variable, *Deal Value,* is the total transaction value of M&A deals scaled by beginning total assets. The treatment variable, *Localnews*, an indicator variable that equals one for a state for the years after the opening of a local business journal located in that state, and zero otherwise. The main variable of interest is the interaction term, *Localnews x Negative CAR*, which captures value-destroying acquisitions after local business journal openings. The sample period is from 1982-2002. Coefficients on the other variables, constant term, and fixed effects are omitted for brevity. All variables are defined in Appendix B. The t-statistics are reported below coefficient estimates in parentheses and are calculated based on standard errors clustered by firm and year. *, **, *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed t-test.

Table 6: The Effect of Digital-Only Local Media on Investment Sensitivity to Cash Holdings

The model estimated:

$Investment_{it} = a_0 + a_1 Onlinelocalnews_{kt-1} \times Cash_{it-1} + a_2 Onlinelocalnews_{kt-1} + a_z Firm\ Characteristics_{it-1} + State\text{-}Year\ FE + Industry\ FE + \varepsilon$

where *i*, *t*, *and k* index firm, calendar year, and city respectively.

Dependent Variable:		*Investment*	
	Pr. Sign	(1)	(2)
Onlinelocalnews x Cash	+	0.0340**	0.0305**
		(2.53)	(2.22)
Onlinelocalnews		-0.0046	-0.0007
		(-0.73)	(-0.11)
Industry FE		Yes	Yes
State X Year FE		Yes	Yes
S.E. clustered by firm and year		Yes	Yes
Firm-level Controls		No	Yes
No. of observations		60,936	60,936
Adj. R-squared		0.399	0.410

This table presents evidence on the effect of digital-only local business journal openings on a firm's investment decisions during the sample period 2005-2023. The dependent variable, *Investment*, is the sum of capital expenditures and research and development expenditures scaled by beginning total assets. The treatment variable, *Onlineocalnews*, an indicator variable that equals one for a city for the years after the opening of an online local business journal located in that city, and zero otherwise. The main variable of interest is the interaction term, *Onlinelocalnews x Cash*, which captures investment sensitivity to cash holdings after online local business journal opening. Columns (1) & (2) represent results without and with control variables respectively. The sample period is from 2005-2023. All variables are defined in Appendix B. The t-statistics are reported below coefficient estimates in parentheses and are calculated based on standard errors clustered by firm and year. *, **, *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed t-test.

Table 7: The Effect of Local Media on Deviations from Expected Investment Levels

The model estimated in column 1:

$$Investment\ Inefficiency_{it} = a_0 + a_1 Localnews_{kt-1} \times Cash_{it-1} + a_2\ Localnews_{kt-1} + a_z Firm\ Characteristics_{it-1} + Region\text{-}Year\ FE + Industry\ FE + \varepsilon$$

The model estimated in column 2(3):

$$Overinvestment_{it}\ (Underinvestment_{it}) = a_0 + a_1 Localnews_{kt-1} \times Cash_{it-1} + a_2 Localnews_{kt-1} + a_z Firm\ Characteristics_{it-1} + Region\text{-}Year\ FE + Industry\ FE + \varepsilon$$

where *i*, *t*, *and k* index firm, calendar year, and state respectively.

Dependent Variable:		*Investment Inefficiency*	*Overinvestment*	*Underinvestment*
	Pr. Sign	(1)	(2)	(3)
Localnews x Cash	+, +, 0	0.400***	0.891***	0.0225
		(0.120)	(0.181)	(0.161)
Localnews		-0.0239	0.0733	-0.125**
		(0.0417)	(0.0582)	(0.0636)
Industry FE		Yes	Yes	Yes
Region X Year FE		Yes	Yes	Yes
S.E. clustered by firm and year		Yes	Yes	Yes
Firm-level Controls		Yes	Yes	Yes
No. of observations		110,362	84,864	84,864
Pseudo R-squared		0.172	0.187	0.187

This table presents the results from multinomial logit pooled regressions. The dependent variable is based on the level of unexplained investment. First, we estimate a firm-specific model of investment as a function of growth opportunities (as measured by sales growth) and use the residuals as a firm-specific proxy for deviations from expected investment. The model is described below: $Investment_{it} = a_0 + a_1\ Sales\ Growth_{it-1} + \varepsilon$

The model is estimated for each industry-year based on the Fama and French 48-industry classification for all industries with at least 20 observations in a given year. We then classify firms based on the magnitude of the residuals (i.e., deviations from predicted investment) and use these groups as the dependent variable. Specifically, we sort firms yearly based on the residuals from the model into quartiles. The dependent variable, *Investment Inefficiency*, is an indicator variable that equals one if the firm-year observation is in the bottom quartile (i.e., the most negative residuals) or in the top quartile (i.e., the most positive residuals), and zero otherwise. The dependent variable, *Overinvestment*, is an indicator variable that equals one if the firm-year observation is in the top quartile (i.e., the most positive residuals), and zero otherwise. The dependent variable, *Underinvestment*, is an indicator variable that equals one if the firm-year observation is in the bottom quartile (i.e., the most negative residuals), and zero otherwise. Observations in the middle two quartiles are classified as the benchmark group. The sample period spans 1965–2002, and all variables are defined in Appendix B. Coefficient estimates are reported with t-statistics in parentheses, calculated using standard errors clustered at the firm and year level. Statistical significance is denoted by *, **, and *** at the 0.10, 0.05, and 0.01 levels, respectively, using two-tailed t-tests.

Table 8: The Effect of Local Media on Investment Sensitivity to Cash Holdings, Controlling for Alternative Explanations Relating to Financing Frictions and Overconfidence/Optimism

The model estimated in Panel A:

$Investment_{it} = a_0 + a_1 Localnews_{kt-1} \times Cash_{it-1} + a_2\ Localnews_{kt-1} \times Financing\ Frictions_{it-1} + a_3\ Localnews_{kt-1} + a_4\ Financing\ Frictions_{it-1} + a_z Firm\ Characteristics_{it-1} + Region\text{-}Year\ FE + Industry\ FE + \varepsilon$

where *i*, *t*, *and k* index firm, calendar year, and state respectively.

The model estimated in Panel B:

$Investment_{it} = a_0 + a_1 Localnews_{kt-1} \times Cash_{it-1} + a_2\ Localnews_{kt-1} \times Optimism_{it-1} + a_3\ Localnews_{kt-1} + a_4\ Optimism_{it-1} + a_z Firm\ Characteristics_{it-1} + Region\text{-}Year\ FE + Industry\ FE + \varepsilon$

where *i*, *t*, *and k* index firm, calendar year, and state respectively.

Panel A: Controlling for Financing Frictions

Dependent Variable:		*Investment*		
Financing Frictions Measure:		*KZ Index*	*Firm Age*	*KZ Index, Firm Age*
	Pr. Sign	(1)	(2)	(3)
Localnews x Cash	+	0.0377***	0.0397***	0.0350***
		(3.50)	(3.68)	(3.31)
Localnews x KZ Index		-0.0002**		-0.0002***
		(-2.68)		(-2.73)
Localnews x Firm Age		-0.0026	-0.0042	-0.0037
		(-0.67)	(-0.85)	(-0.74)
Localnews		0.0174	0.0050	0.0103
		(1.53)	(0.45)	(0.95)
KZ Index			0.0001	0.0001
			(0.80)	(0.74)
Firm Age			-0.0019***	-0.0019***
			(-7.50)	(-7.47)
Industry FE		Yes	Yes	Yes
Region X Year FE		Yes	Yes	Yes
S.E. clustered by firm and year		Yes	Yes	Yes
Firm-level Controls		Yes	Yes	Yes
No. of observations		110,192	110,362	110,192
Adj. R-squared		0.282	0.289	0.290

Panel B: Controlling for Managerial Overconfidence and Optimism

Dependent Variable:		*Investment*			
Optimism Measure:		*Sales Change*	*Risky Debt*	*Dividend Yield*	*Sales Change, Risky Debt, Dividend Yield*
	Pr. Sign	(1)	(2)	(3)	(4)
Localnews x Cash	+	0.0423***	0.0417***	0.0421***	0.0413***
		(3.88)	(3.78)	(3.83)	(3.77)
Localnews x Sales Change		-0.0044			-0.0000
		(-1.69)			(-1.17)
Localnews x Risky Debt			-0.0027		-0.0026
			(-0.99)		(-0.95)
Localnews x Dividend Yield				-0.0005	-0.0003
				(-1.04)	(-0.60)
Localnews		-0.0004	-0.0022	-0.0028	-0.0020
		(-0.09)	(-0.56)	(-0.72)	(-0.51)
Sales Change		0.0259***			0.0000**
		(11.08)			(2.70)
Risky Debt			0.0069***		0.0068***
			(2.90)		(2.84)
Dividend Yield				0.0003	0.0001
				(0.64)	(0.19)
Industry FE		Yes	Yes	Yes	Yes
Region X Year FE		Yes	Yes	Yes	Yes
S.E. clustered by firm and year		Yes	Yes	Yes	Yes
Firm-level Controls		Yes	Yes	Yes	Yes
No. of observations		110,362	110,362	110,362	110,362
Adj. R-squared		0.280	0.280	0.280	0.281

This table presents evidence on the effect of local business journal openings on a firm's investment decisions, after adding controls for financing frictions and managerial overconfidence and opportunism. The dependent variable, *Investment*, is the sum of capital expenditures and research and development expenditures scaled by beginning total assets. The treatment variable, *Localnews*, an indicator variable that equals one for a state for the years after the opening of a local business journal located in that state, and zero otherwise. The main variable of interest is the interaction term, *Localnews x Cash*, which captures investment sensitivity to cash holdings after local business journal opening. In Panel A Columns (1) to (2) include controls separately and column (3) includes controls jointly. In Panel B Columns (1) to (3) include controls separately and column (4) includes controls jointly. The sample period is from 1965-2002. All variables are defined in Appendix B. The t-statistics are reported below coefficient estimates in parentheses and are calculated based on standard errors clustered by firm and year. *, **, *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed t-test.

Table 9: Instrumental Variable (IV) Analysis of US Postal Service (USPS) Office Openings

The model estimated in Panel A:

$Localnews_{kt} = a_0 + a_1\ Post\ Office_{kt-1} + a_z Firm\ Characteristics_{it-1} + Region\text{-}Year\ FE + Industry\ FE + \varepsilon$

The model estimated in Panel B:

$Investment_{it} = a_0 + a_1\ Predicted\ Localnews_{kt-1} \times Cash_{it-1} + a_2 Predicted\ Localnews_{kt-1} + a_z Firm\ Characteristics_{it-1} + Region\text{-}Year\ FE + Industry\ FE + \varepsilon$

where *i*, *t*, *and k* index firm, calendar year, and state respectively.

Panel A: First stage

Dependent Variable:		*Localnews*
	Pr. Sign	(1)
Post Office	+	0.0925**
		(2.26)
Industry FE		Yes
Region X Year FE		Yes
S.E. clustered by firm and year		Yes
Firm-level Controls		Yes
No. of observations		110,360
Adj. R-squared		0.500

Panel B: Second stage

Dependent Variable:		*Investment*
	Pr. Sign	(1)
Predicted Localnews x Cash	+	0.2209**
		(2.07)
Predicted Localnews		0.1454**
		(2.55)
Industry FE		Yes
Region X Year FE		Yes
S.E. clustered by firm and year		Yes
Firm-level Controls		Yes
No. of observations		110,360
Adj. R-squared		0.273

This table presents evidence on the instrumental variable analysis using *Post Office*. Panel A presents results from a first-stage regression of *Localnews* on *Post Office. Post Office* equals one for 3 years after USPS office opening in a state, and zero otherwise. Panel B presents the results from a second-stage regression of *Investment* on the predicted value of *Localnews*. The main variable of interest is the interaction term, *Predicted Localnews x Cash*, which captures investment sensitivity to cash holdings after local business journal opening. The sample period is from 1965-2002. All variables are defined in Appendix B. The t-statistics are reported below coefficient estimates in parentheses and are calculated based on standard errors clustered by firm and year. *, **, *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed t-test.

Table 10: Alternative Definitions of the Treatment Variable

The model estimated in Panel A:

$Investment_{it} = a_0 + a_1\ Localnews\ (Largest\ City)_{kt-1} \times Cash_{it-1} + a_2\ Localnews\ (Largest\ City)_{kt-1} + a_z Firm\ Characteristics_{it-1} + Region\text{-}Year\ FE + Industry\ FE + \varepsilon$

The model estimated in Panel B:

$Investment_{it} = a_0 + a_1\ Localnews\ (CBSA\ Level)_{kt-1} \times Cash_{it-1} + a_2\ Localnews\ (CBSA\ Level)_{kt-1} + a_z Firm\ Characteristics_{it-1} + Region\text{-}Year\ FE + Industry\ FE + \varepsilon$

where *i*, *t*, *and k* index firm, calendar year, and state respectively.

Panel A: **Largest City in State**

Dependent Variable:		*Investment*	
	Pr. Sign	(1)	(2)
Localnews (Largest City) x Cash	+	0.0527***	0.0551***
		(4.61)	(4.86)
Localnews (Largest City)		-0.0016	-0.0010
		(-0.40)	(-0.24)
Industry FE		Yes	Yes
Region X Year FE		Yes	Yes
Firm-level Controls		No	Yes
S.E. clustered by firm and year		Yes	Yes
No. of observations		110,362	110,362
Adj. R-squared		0.276	0.281

Panel B: **City Level Analysis**

Dependent Variable:		*Investment*	
	Pr. Sign	(1)	(2)
Localnews (CBSA Level) x Cash	+	0.0202**	0.0165*
		(2.15)	(1.70)
Localnews (CBSA Level)		-0.0056	-0.0038
		(-1.64)	(-1.12)
Industry FE		Yes	Yes
Region X Year FE		Yes	Yes
S.E. clustered by firm and year		Yes	Yes
Firm-level Controls		No	Yes
No. of observations		111,863	111,863
Adj. R-squared		0.274	0.278

This table presents evidence on the effect of local business journal openings on a firm's investment decisions. The dependent variable, *Investment*, is the sum of capital expenditures and research and development expenditures scaled by beginning total assets. In Panel A, the treatment variable, *Localnews (Largest City)*, an indicator variable that equals one for a state for the years after the opening of a local newspaper located in the largest city of that state, and zero otherwise. In Panel B, the treatment variable, *Localnews (CBSA Level)*, an indicator variable that that equals one for a city for the years after the first opening of a local newspaper located in the city's core-Based Statistical Area (CBSA), and zero otherwise. The main variable of interest is the interaction term that captures investment sensitivity to cash holdings after local business journal opening. Columns (1) & (2) presents results without and with control variables respectively. The sample period is from 1965-2002. All variables are defined in Appendix B. The t-statistics are reported below coefficient estimates in parentheses and are calculated based on standard errors clustered by firm and year. *, **, *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed t-test.

Table 11: The Effect of Local Media on Investment Sensitivity to Cash Holdings
Stacked Difference in Differences Research Design

The model estimated:

$$Investment_{it} = a_0 + a_1 Localnews_{kt-1} \times Cash_{it-1} + a_2\, Localnews_{kt-1} \times EBD_{it-1} + a_3\, Localnews_{kt-1} \times MA_{it-1} + a_4\, Localnews_{kt-1} + a_z Firm\ Characteristics_{it-1} + Region\text{-}Year\text{-}Cohort\ FE + Industry\text{-}Cohort\ FE + \varepsilon$$

where *i*, *t*, *and k* index firm, calendar year, and state respectively.

Dependent Variable:		*Investment*	
	Pr. Sign	(1)	(2)
Localnews x Cash	+	0.0357**	0.0348**
		(2.29)	(2.27)
Localnews x EBD		-0.0334	-0.0349
		(-1.50)	(-1.54)
Localnews x MA		0.0066**	0.0065**
		(2.68)	(2.67)
Localnews		-0.0070*	-0.0058
		(-1.72)	(-1.47)
Cash		0.0036	0.0092
		(0.26)	(0.77)
EBD		0.1992***	0.2135***
		(8.22)	(8.32)
MA		0.0265***	0.0263***
		(11.19)	(11.42)
Leverage			0.0551***
			(4.04)
Size			-0.0038***
			(-5.31)
Industry FE X Cohort FE		Yes	Yes
Region X Year FE X Cohort FE		Yes	Yes
S.E. clustered by firm and year		Yes	Yes
No. of observations		435,993	435,993
Adj. R-squared		0.252	0.256

This table presents evidence on the effect of local business journal openings on a firm's investment decisions using a stacked difference-in-differences approach. The dependent variable, *Investment*, is the sum of capital expenditures and research and development expenditures scaled by beginning total assets. The treatment variable, *Localnews*, an indicator variable that equals one for a state for the years after the opening of a local business journal located in that state, and zero otherwise. The main variable of interest is the interaction term, *Localnews x Cash*, which captures investment sensitivity to cash holdings after local business journal opening. Columns (1) & (2) presents results without and with control variables respectively. The sample period is from 1965-2002. All variables are defined in Appendix B. The t-statistics are reported below coefficient estimates in parentheses and are calculated based on standard errors clustered by firm and year. *, **, *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed t-test.