Industrial Value Chain Characteristics and Firm Financial Performance: Evidence from the US Stock Market

Topic:
Author: Bo MENG
Co-Authors: Larry Li, Lei LEI, Jiabai Ye, Jiemin GUO

Industry-specific factors are known to have a significant effect on firm market performance. However, the comprehensive impact of value chain characteristics at the industry level on a companyâ€™s financial performance is not well understood. In this study, we use the US input-output datasets that cover 405 sectors and the financial database of listed companies in the US stock market from Refinitiv for the period of 2007-2021, to examine how industrial value chain position, length and complexity affect firmsâ€™ financial performance. Our results show that value chain features of the US domestic economy have a substantial impact on firm financial performance, and the marginal effect of value chain features at the industry level is more pronounced. Moreover, we find a U-shaped relationship between value chain features and firm financial performance, which is consistent across different models. Our significant results suggest that the value chain characteristics vary greatly across industries depending on the regulatory and industry context within a firm operates, suggesting that institutional environments can have profound effects on a firmâ€™s performance. The robust relation between various value chain characteristics and firm performance offers practical guidance for investors making more rational investment decisions. Therefore, our findings might potentially offer new insights and guidance for stock market investors who want to make better decisions on industry-specific investment.