

# **The Disclosure Dilemma: A Supply Chain Perspective on the Consequences of SEC Investigation Secrecy**

Fangfei Jiang  
[fangfei.jiang@bristol.ac.uk](mailto:fangfei.jiang@bristol.ac.uk)  
University of Bristol

Neslihan Ozkan  
[n.ozkan@bristol.ac.uk](mailto:n.ozkan@bristol.ac.uk)  
University of Bristol

Fangming Xu  
[fangming.xu@bristol.ac.uk](mailto:fangming.xu@bristol.ac.uk)  
University of Bristol

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## **Abstract**

This study investigates the spillover effects of SEC investigations on supply chain relationships, focusing on how investigations of suppliers, especially undisclosed ones, influence their major customers. Analyzing U.S. supply chain relationships from 2000 to 2017, we find that SEC investigations significantly increase the likelihood of relationship termination, even for non-disclosed cases, evidencing the existence of major customers' privileged information access. This is further supported by major customers selectively react more drastically to severe and more influential investigations. Weaker supplier bargaining power and private connections amplify termination likelihood, whereas greater supplier market attention mitigates it. Customers terminating relationships achieve cost reductions and profit growth, while persisting customers lower trade volume to manage risks. These findings highlight that SEC investigations impose unintended economic costs on suppliers, implying the intended confidentiality of such investigations fails to shield suppliers from these adverse effects.

**Keywords:** SEC Investigations, Disclosure, Unintended Consequences, Supply Chain, Spillover Effects