THE INFLUENCE OF THE NEWS MEDIA ON THE CORPORATE GOVERNANCE PRACTICES OF ANGLO-AMERICAN LISTED PLCS

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THE INFLUENCE OF THE NEWS MEDIA ON THE CORPORATE GOVERNANCE PRACTICES OF IRISH AND UK LISTED PLCs

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ABSTRACT

Corporate governance literature has largely converged upon internal monitoring and shareholder activist strategies as methods of shareholder protection following the decline of the market for corporate control. Commentators and activists alike have generally neglected the opportunity for an independent party, which watches over the management of companies, to guard shareholders’ interests. Ireland and the UK are two countries where the value of media coverage of corporate governance violations to a number of key company stakeholders has not been assessed. This paper considers the various reactions to media coverage of corporate governance violations and proposes that the news media influences the corporate governance practices of public limited companies (plcs) listed on Stock Exchanges in Ireland and the UK. Using a range of sources, media coverage of corporate governance violations may be analysed and measured and the relationships between this activity and the actions of (i) company directors and management, (ii) policymakers and (iii) investors examined through interviews and analysis of company documents, government reports and stock market data.

Emerging evidence suggests that the Irish media influences (i) the boards of directors of Irish listed plcs, in that reformatory measures are taken by the boards in the vast majority of violating companies studied; (ii) the government authorities who are responsible for the

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legislative and regulatory infrastructure in which they operate, with statistical evidence of increases in government attention to corporate governance issues following increased newspaper coverage of these issues and (iii) the investing decisions of investors in Irish listed plc's, with statistical verification of a relationship between movements in share price and volumes of newspaper articles relating to violations by listed companies providing avenues for more exploratory research into how news from print, broadcast and online media influences corporate governance in Anglo-American jurisdictions, particularly Ireland and the UK.

1. INTRODUCTION

As a fundamental consequence of the separation of ownership from control of the firm (Berle and Means, 1932; Fama and Jensen, 1983), conflicts of interest which exist between shareholders and management have given rise to agency costs (Jensen and Meckling, 1976), the reduction of which has long dominated the research agenda in the field of corporate governance (Fama and Jensen, 1983; HermaLin and Weisbach, 1991; Westphal and Zajac, 1998; Marino and Matsusaka, 2005; Anderson, Duru and Reeb, 2009). The information asymmetry which exists between the company and its stakeholders, most notably shareholders, is one such cost (Jensen and Meckling 1976; Gordon and Pound, 1993; Bushman and Smith, 2001; Gompers, Ishii and Metrick, 2003; Bushman, Chen, Engel and Smith, 2004) and a means of information alignment has led a distinct line of inquiry in the academic literature for decades (Fama, 1980; Gordon and Pound, 1993; La Porta, Lopez-de-Silanes, Schleifer and Vishny, 1998, 2000; Jensen, 2005). Despite this scholarly interest and the range of legal and regulatory provisions implemented to protect shareholders and curtail managerial opportunism (La Porta, Lopez-de-Silanes, Schleifer and Vishny, 2000; Anand, 2005) losses incurred by misinformed shareholders continue to be documented in both the corporate governance literature (Dedman, 2002; Healy and Palepu, 2003) and the news media, indicating that an optimal solution to agency problems remains to devised. Studies concerning the agency information problem have considered both flow of company information in the market (Jensen, 1986; Healy and Palepu, 2001; Bailey, Li, Mao and Zhong, 2003; Ferreira and Laux, 2007; Fang and Peress, 2009) and that released directly by the company to it’s shareholders (Gordon and Pound, 1993; La Porta, Lopez-de-Silanes, Shleifer and Vishny, 2000; Bushman and Smith, 2001; Bushman, et al, 2004; Bushman, Piotroski and Smith, 2004),
however recently documented cases of mismanaged shareholder interests indicate the persistence of information asymmetries in the corporate environment (Enron, Hollinger International, Anglo Irish Bank).

A myriad of studies have appraised the various means through which shareholders receive information regarding managerial activities. Such studies have been concerned with the information contained in company share price by proponents of the market for corporate control (Manne, 1965; Jensen and Meckling, 1976; Gompers, et al, 2003), information transmitted through the board of directors (Coffee, 1984; Baysinger and Butler, 1985; Hermelin and Weisbach, 1998), institutional investment funds (Coffee, 1991; Gillan and Starks, 2003; Hartzell and Starks, 2003) and information circulated at company meetings (Lipton and Lorsch, 1992; Gordon and Pound, 1993; Gillian and Starks, 2000; Edkins and Bush, 2002) under the broad theme of monitoring, information released by the company in annual reports in relation to issues of financial disclosure and transparency (Lowenstein, 1996; La Porta, et al, 2000; Bushman and Smith, 2001), and information provided through jurisdictional legislative and regulatory bodies (La Porta, Lopez-de-Silanes, Shleifer and Vishny, 1998, 2000); few, however have specifically focused on information made available by more peripheral parties in the corporate environment. The news media is one such party which reaches throughout the general public, (Dyck, Volchkova and Zingales, 2008) accessing a range of corporate stakeholders not least shareholders (Davis, 2005; Tetlock, 2007; Dyck et al, 2008) and many of the parties involved in the dissemination of company information through the aforementioned means, such as board members (Joe, Louis and Robinson, 2009) and corporate policymakers (Dyck, Moss and Zingales, 2005). In addition to this, the media exhibits a unique efficiency vis-à-vis timeliness and ability to reduce information costs through its reach to dispersed shareholders. Bearing in mind this eclectic audience of activist shareholders, directors, legislators and regulators the media may be regarded as an information intermediary between a range of stakeholders in the corporate environment and one might then argue that news media information may, in fact, have a significant influence on the corporate governance practices of the companies on which it reports.

Companies which follow the Anglo-American model of corporate governance are either legally required to comply with certain standards of corporate governance or follow a principles-based approach. While the latter mandates disclosure of non-compliance with standards,
stakeholders may seek assurance about the quality of firms’ governance from information circulated by third parties, such as the business media (Healy and Palepu, 2001). While the influence of the news media on corporate governance has been considered in the US context, which follows a mandatory system (the Sarbanes-Oxley Act, 2002), a similar study remains to be performed in a setting where a principle based approach, such as the Combined Code on Corporate Governance, is taken.

The remainder of the paper is organised as follows; Section 2 presents an integrative model which illustrates the hypothesised process through which the news media influences the corporate governance practices of violating companies, progressing from the occurrence of a violation to the corporate governance outcome or effect of news media coverage of the violation on the company’s governance practices. The process is depicted in terms of three specific groups of stakeholders in the company; the shareholders, corporate policymakers and the board of directors. The conceptualised process will initially be described in terms of each stakeholder group, allowing for the introduction of three theoretical propositions. The corporate governance literature framing the propositions is reviewed in Section 3. Section 4 provides a commentary on the functioning of the news media as an information intermediary in the company environment and discusses the rationale for news reporting of corporate governance violations. Section 5 develops this analysis to consider the various responses of stakeholders following news media coverage of corporate governance violations. Section 7 addresses the effects of such actions on the violating company and considers the remedial actions the company may chose to take in response to news media coverage so as to conceptualise an ultimate influence of the news media on corporate governance practices of the violating firms it targets. Section 8 concludes and evaluates avenues for future research.

2. FRAMEWORK AND THEORETICAL PROPOSITIONS

The framework outlined in Figure 1 summarises the hypothesised process through which the news media influences the corporate governance practices of violating companies. The model incorporates the immediate company environment and considers the interaction between the key stakeholder groups but also accounts for the broader setting to include general stakeholder groups. While it is probable that any news media influence on corporate governance would be an
ambiguous occurrence, for the purposes of a structured discussion and exploration, five individual stages are considered, these are outlined in Table 1 and the participants envisaged to be involved are included in Table 2

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A number of relationships or interactions between the participants are also indicated in the framework. Figure 2 summarises these interactions. The proposed framework has theoretical underpinnings in the four main Anglo-American models of corporate governance (Hawley and Williams, 1996) and the utilization of news media information by each stakeholder group in their corporate governance roles may be regarded in the context of a number of these models. The next section surveys the academic literature surrounding each Anglo-American model. The models which pertain to each group are indicated within the framework and are summarised in Table 3. As the framework and Table 3 indicate, no one model exclusively applies to any group, conceptualization of the news media’s influence on stakeholders relies primarily on one or a combination of models however all models affect all groups to some extent.

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<td>Company Directors</td>
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Should one or more of the stakeholder groups take action following the revelation of a corporate governance violation, it is expected that the news media will also provide coverage of these actions and their consequences for the violating company, that is to say that the news media provides ex-post analysis and coverage (Dyck, et al, 2008). Moreover, the effects of stakeholders’ actions will have implications for themselves and the other stakeholder groups, as will the outcomes of these effects. Figure 3 illustrates the cyclical or reciprocating nature of news media coverage of corporate governance violations.

In their consideration of the capacity of the business media to reduce information asymmetries, Bushee, Core, Guay and Hamm (2010) advocate that:

“The business press is perhaps the broadest and most widely disseminated of all potential information intermediaries, reaching both sophisticated and unsophisticated investors, as well as managers, regulators and other market participants.”

This line of reasoning could be extended to argue that the news media may well influence corporate governance practices, through its diffusion throughout communities of (i) shareholders and investors, (ii) corporate policymakers and regulators and (iii) company management and directors. Three theoretical propositions follow from this rationale:

P1. By notifying shareholders of managerial misconduct, the news media significantly influences (i) shareholder activist activity and (ii) shareholders’ decisions to sell shares;

P2. By publicising corporate behaviour which requires intervention in the form of legislative amendment or regulatory action, the news media significantly influences (i) the occurrence of corporate legislative debate in Parliament and (ii) the incidence of corporate regulatory action;
P3. The news media significantly influences the actions of the board of directors by notifying stakeholders of corporate behaviour which may damage corporate reputation.

Both corporate governance theory and empirical evidence are incorporated in the impending sections to discuss these propositions.
Figure 1. Conceptualised Model Framework

**Occurrence of a CG violation**

- **Stakeholders**
  - Shareholders
  - Policymakers
  - Directors
  - Other factors

- **Other factors**
  - Financial Model, Political Model, Stewardship Model, Stakeholder Model

**Action**
1. Buy/sell shares, Vote at and attend meetings
2. Parliamentary debate
3. Create/amend corporate legislation
4. Appoint corporate regulators
5. Aim to upkeep country’s corporate reputation
6. Work to repair corporate reputation
7. Buy/stop buying products and services
8. Supply/stop supplying materials and services
9. Continue/cease to be potential future employers
10. Vote for and influence corporate policymakers

**Effect**
1. Share price change - market value change
2. Corporate legislative/regulatory change
3. Policy and regulatory change
4. Regulator intervention in company
5. Satisfy shareholders’ requests
6. Manage the firm more efficiently so as to restore stock market value
7. Repair professional reputations
8. Legal and regulatory compliance
9. Become a takeover target
10. Manage the firm more efficiently so as to restore stock market value
11. Ignore regulatory and legislative guidance

**Outcome**
- CG Reform/Reversal of Violation/Compensation/Nothing (Takeover/prosecution/delisting/other penalties)

**Between-party relationship**

- Direct Influence
- Indirect Influence
- Wider Environment
Figure 2: Interactions between participants effected by news media coverage of a corporate governance violation.

Figure 3. The Cyclical/Reciprocal Nature of News Media Coverage of Corporate Governance Violations and its Influence
3. ANGLO-AMERICAN CORPORATE GOVERNANCE

Evolving from the separation of ownership from control of the firm (Berle and Means, 1932; Fama and Jensen, 1983), the problem of managerial opportunism and mechanisms of its curtailment have been deliberated upon from a range of viewpoints. This section provides an overview of four principle lines of argument, taking each as a basis of a consideration of the news media as an aid in achieving control of management.

3.1. The Simple Finance Model

From a market perspective, the finance model is deeply rooted in Manne’s theory that shareholders, who are dissatisfied with management, exit the firm resulting in an excess share supply and a corresponding decline in share price. Consequently, bidders who believe they may operate the company more efficiently purchase company shares at a discount and replace underperforming management. The threat of takeover thus acts to incentivise management to operate the company efficiently. The finance model assumes shareholders have the primary goal of wealth maximisation, however, Jensen and Meckling (1976) vindicate that management decisions may not be aligned to this goal, leading shareholders to incur agency costs associated with monitoring managerial behaviour and bonding or aligning interests with those of management. Agency costs also have an associated residual loss, arising from managerial opportunism which occurs regardless of shareholders efforts to curtail it. Fama and Jensen (1983) contend that in the absence of effective control procedures within the firm, managers are more likely to take actions that deviate from the interests of shareholders, thereby increasing agency costs. In addition to control exerted by the market, the principal may personally attempt to minimise the agency costs by incentivizing management through remuneration or the granting of share options. However, to effectively limit agency costs, Fama and Jensen (1983) claim that firms need a system which limits agency costs by controlling the power of management to expropriate the interests of shareholders. Corporate governance may be seen as one such system of aligning the interests of management with those of shareholders (Fama, 1980; Fama and Jensen, 1983; Williamson, 1985). Should management remain in pursuit of their own goals, shareholders would be expected to exit the firm. However, commentators have pointed out that
shareholders may only exit when they are aware of management inefficiencies (Easterbrook and Fischel, 1980) and this may not always occur due to information asymmetries (Bushman and Smith, 2001; Bushman, Chen Engel and Smith, 2004; Gompers, et al, 2003). Despite much academic research into the information flow in the stock markets (Jensen, 1986; Healy and Palepu, 2001; Bailey, et al, 2003; Ferreira and Laux, 2007) and the effect of news information on share price (Fang and Peress, 2009), only recently has the effect of news media coverage of violations of corporate governance on share price and ultimately on the behaviour of management been considered (Joe, et al, 2009).

3.2. The Political Model

The political model evolved from a questioning of the predominantly financial view adopted by seminal corporate governance theorists, in line with a drift from individual share ownership toward ownership mediated by investment institutions, mainly pension funds, mutual funds and insurance companies (Hawley and Williams, 1996, 2003). The growingly pervasive influence of investment funds is a common characteristic of the modern capital market and the political model of corporate governance represents a movement of thought from the austere principle-agent perspective of the firm toward a more fluid two-tier structure where fund managers are an important intermediary between owners and company management (Black, 1997) and owe a duty of loyalty and care to the shareholder (Hawley and Williams, 1996, 2003). The rise of fiduciary capitalism marked a movement toward active ownership or shareholder activism (Nesbitt, 1994; Smith, 1996; Gillan and Starks, 2000; Becht, Franks, Mayer, and Rossi, 2009), whereby control is achieved through non-market approaches such shareholders’ use of lobbying and voting rights to monitor management (Pound, 1993; Grundfest, 1993), engagement with management on occasions such as company meetings (Edkins and Bush, 2002; Becht, et al, 2009) and co-ordinated shareholder intervention in cases of poor company performance (Gillan and Starks, 2000; Edkins and Bush, 2002; 2005; Zetzsche, 2005). However, much of empirical evidence on such strategies indicates there are barriers to their successful implementation, with information costs and collective action problems being commonly cited (Black, 1991; Black and Coffee, 1994; Black, 1997; Lynn, 2007; Lynn and Mulgrew, 2008). This has led to a consideration of means through which dispersed shareholders may communicate and readily access company information (Yaron, 2005). Moreover, recent evidence shows that by attracting
news media attention to their campaigns, the value of strategies of activist investment funds is increased (Dyck, et al, 2008).

Jensen and Meckling (1976) submit that corporate policies make contracts between shareholders and management a statutory obligation. La Porta, Lopez-de-Silanes, Shleifer and Vishny (2000) echo this, proposing that shareholders require court or government protection from expropriation by management. Hawley and Williams (2003) express a similar view from the prospective of institutional ownership asserting that “since active ownership carries with it the need for certain shareholder rights, it follows that they will seek global standards that will enable them to fulfil their fiduciary duty at any company in which they own shares”, they maintain “standards also involve national or regional government agencies and/or legislatures”. Members of government have a duty to formulate, enforce and oversee policy and must identify the conditions under which to deploy appropriate configurations of regulatory institutions, standards and enforcement practices (Coglianese, Healey, Keating and Michael, 2004); specifically, departments responsible for corporate policy must promote trust in the markets by implementing frameworks which provide confidence to participate and invest in business in that country, in a manner that delivers prosperity to all stakeholders (Spivey, 2004). Market trust and confident investment appreciably requires legal and regulatory frameworks and contractual agreements which ensure complete shareholder protection, the effectiveness of which relies upon corporate policy objectives being fully aligned with shareholders’ interests and the willingness of policymakers to intervene when management fail to comply. Corporate policy which protects shareholders is encouraged by the OECD which recommends that policymakers “examine and develop the legal and regulatory frameworks for corporate governance that reflect their own economic, social, legal and cultural circumstances” (OECD Principles of Corporate Governance, 2004). The success of national policymakers at achieving effective corporate governance frameworks is certainly questionable. Governments have afforded management with employee rights protecting them from dismissal, regardless of performance (Jensen and Murphy, 1990; La Porta, et al, 1998, Roe, 2003). Moreover, policymakers who do implement stringent corporate governance legislation or regulatory provisions have been accused of stifling entrepreneurship (La Porta, et al, 2000). Internationally, there is a marked variation in the legal protection of shareholders along with a divergence in ability and readiness of governments to invest in the resources needed to achieve corporate oversight (La Porta, et al, 1998, 2000). The
shortcomings and inconsistencies of corporate legislative action suggest potential for an 
information intermediary to alert corporate policymakers of a need for legislative and regulatory 
protection for shareholders, thereby aiding the creation and amendment of effective corporate 
policy and enhancing standards of corporate governance on national.

3.3. The Stakeholder Model

Hirschman (1970) positions the stakeholder theory of the firm somewhere between economic 
and political theories and the stakeholder model of Anglo-American corporate governance 
(Freeman, 1984; Blair, 1995; Heath and Norman, 2004) extends the literature to consider broader 
economic and societal concerns (Slinger and Deakin, 1999). In a broad sense, this view of 
corporate governance argues that the company is responsible to a wide range of stakeholders in 
addition to its shareholders and that socially responsible goals may take preference to that of 
profit-maximization. Hawley and Williams (1996) offer a narrower definition of the stakeholder 
model as one based on “the fragmentation or 'stripping' of 'ownership' into capital's equity, 
idiosyncratic equity, debt and other non-equity claims, such that these claimants all have 
concrete and financial stakes as a function of their participation in the firm's activities”. Such 
claimants may be customers, suppliers, partners, peer companies and the voting public, and 
while this list is not exhaustive these are the main stakeholders which are considered in this 
discussion.

While corporate governance research has been predominantly framed within finance and 
political theories and the stakeholder model criticized for lacking theoretical rigor (Blair, 1995), 
it has been argued that organizational development and hence shareholder returns may only be 
achieved if companies ensure a level of accountability to all of its stakeholders (Stoney and 
Winstanley, 2001). Evidence of the influence of the stakeholder model is evident in a practical 
sense. The activist investment fund the California Public Employees Retirement System 
acknowledges that effective governance relies upon and is expected by a diverse range of parties, 
advising that companies “engage stakeholders in a manner that is ongoing, in-depth, timely and 
involves all appropriate parts of the business” (Ceres Roadmap for Sustainability, 2010). It 
would appear then that scope exists for further application of the stakeholder model in corporate 
governance research.
The stakeholder model is pertinent to the current discussion in two respects, firstly in the context of a democratic society, Grundfest (1990) posits that national governments may use agency problems to further political agendas; a rational extension of this argument would be that corporate governance issues which are in the public eye are likely to be subject to regulatory and legislative debate by policymakers. There is much theoretical support to substantiate this. Hawley and Williams (2003) advise that sustainable corporate governance requires both legal rules and local customs to be supportive of shareholders. McCombs and Reynolds (2002) contend that negative publicity alerts the local voting public to problems which call for political action, that is to say that negative publicity sets public agendas. Carroll and McCombs (2003) find a similar agenda-setting effect in cases of corporate issues. Consequently, policymakers would be expected to intervene in cases of corporate governance violations through regulatory action or legislative amendment. Dyck, et al (2005) submit that such action represents political desire to maintain reputations with the voting population. Ergo, publicly available information regarding violations of corporate governance may affect democratic processes, spurring political action (Dyck, et al, 2008; Gorman, Lynn and Mulgrew, 2010).

Voting for corporate policymakers is one means through which stakeholders might influence corporate governance practices. While the stakeholder model applies to society in general, the narrower view argues that a number of groups have direct interests in the company. Such claimants include customers, partners, suppliers, competitors and other peer companies. It follows that a violation of corporate governance may not necessarily be an action which affects the pre-eminent stakeholder group, the shareholders, but some other party with an interest in the firm (Heath and Norman, 2004). While shareholders may use certain rights in response to violations of corporate governance, there are few options open to stakeholders other than to withdraw their interests in the firm. Considering that many such stakes in the firm are financially related, it is likely that such responses to governance violations will ultimately have consequences for the violating company’s capital, cash flow, revenues, profits or some other element of the balance sheet (Stoney and Winstanley, 2001) thereby motivating directors to ensure that management are aligned with profit-maximisation work to repair reputations with stakeholders and improve the performance of the company. (Fombrun and Shanley, 1990; Hall, 1992).
3.4. The Stewardship Model

The board of directors, has traditionally been seen as internal monitors of management internally (Coffee, 1984; Baysinger and Butler, 1985), having a fiduciary duty to ensure that a company is run in shareholders’ best interests. Critics of the board, however highlight inefficient monitoring due to directors not being considered as truly independent from management (Hermalin and Weissbach, 1998) and neglect of fiduciary duties arising from multiple directorships (Ferris, Jagannathan and Pritchard, 2003). From an alternative perspective, the stewardship model (Donaldson and Davis, 1991; Lorsch, 1995; Davis, Schoorman and Donaldson, 1997) takes a sociological, pro-organisational approach to corporate governance and essentially contests agency theory (Roberts, McNulty and Stiles, 2005). Within this framework, it is assumed that management, being “good stewards” are motivated by their responsibility to maximise profits and will thus work to earn returns for shareholders (Donaldson and Davis, 1991). The stewardship model argues that shareholders’ interests are best served through a shared incumbency of managerial and director roles (Donaldson and Davis, 1991). Sundaramurthy and Lewis (2003) explain that when moving from the agency theoretical lens to that of stewardship theory, managerial behaviour is viewed as cooperative as opposed to opportunistic; intrinsic motivation replaces extrinsic motivation, the board take on an advisory role rather than one were they are excepted to monitor and discipline management and the market for corporate control curbs psychological commitment instead of constraining opportunism. While there has been dominant encouragement of independent board monitoring both in academic literature (Coffee, 1984; Baysinger and Butler, 1985) and corporate policy construction (OECD Principles of Corporate Governance, 2004; The Combined Code, 2008), accounting for the low incidence executive-dominated boards thereby inhibiting the model’s full practical application, its emphasis on trust and co-operation has received a good deal of support. Many commentators recommend that elements of stewardship theory may be practiced in harmony with governance approaches devised from the finance, political and stakeholder models (Sundaramurthy and Lewis, 2003; Roberts, *et al*, 2005; Anderson, Melanson and Maly, 2007; Ward, Brown and Rodiguez, 2009; Elsayed, 2007; 2010). Anderson, *et al* (2007) propose that the board of directors may act as a “strategic partner” to management. The authors advocate adoption of elements of stewardship theory explaining that:
“For the modern public firm, owners can be a diffuse group possessing widely varying goals. The manager as a steward responds to these diffuse interests of multiple owners by focusing on the firm and maximising organisational success, reflecting the majority interest.”

Elsayed (2010) concludes that the degree of trust in management varies with contextual variables including firm size and ownership structure. In an environment where the board of directors and management operate collectively as stewards of shareholders’ interests, criticism of their performance would be expected to encourage both parties to work with greater diligence and take actions which would repair any reputational damage caused (Fombrun and Shanley, 1990). Corrective actions may involve shareholders or other stakeholders being compensated, managerial practices being reformed or replacement of some members of management or the board (Dyck et al., 2008). That is to say that information which undermines managers’ and directors’ reputations may result in increased shareholder protection.

This section has presented a brief overview of the four theoretical models which predominantly frame Anglo-American corporate governance, each with distinct and, at times, conflicting principles, concepts and arguments. As one would expect, their practical application varies, with determinants including financial market structure, legal environment, economic circumstances and societal norms and values of key significance (Hawley and Williams, 2003). The remainder of the paper concerns a multifaceted consideration of the influence of news media on Anglo-American corporate governance. Accordingly, conceptualisations are grounded within these theories to various extents; the next section however departs slightly from corporate governance theory and discretely considers the relevant literature on the news media, and in particular, evaluates existing theories regarding the news media as an information intermediary.
4. THE NEWS MEDIA

McQuail (1983) refers to the mass media as an “organised means of communicating openly, at a distance, and to many at a short space of time”, noting its significance in:

- **politics**: as an arena for debate and a channels for making policies, relevant facts and ideas more widely known,
- **culture**: as a channel of cultural representation and a primary source of images of social reality,
- **daily social life**: by offering models of behaviour,
- **economics**: by providing much of the information on which economic sectors are based.

Chen and Meindl (1991) describe business news as reported information regarding organisations and their functioning. The media then exerts a certain degree of power in the company environment.

Much research has been devoted to the factors attention media attention to corporate issues and to the effects of business media coverage. It has been noted that the presence of gatekeepers of company information, such as public relations agents, who have a great deal of control over whether or not an issue is newsworthy, thereby restricting the media in reporting negative news such as improper conduct by management or negligence of the board of directors (Shaw and McCombs, 1977; Carroll and McCombs, 2003). Other gatekeepers such as auditors may not always make available information which gives a true and fair view of the firm’s financial position (Agrawal and Chadha, 2005). Attention has been placed on the responsibility of the media to report on corporate wrongdoings (Miller, 2006; Brickley, 2008), which are considered newsworthy by parties outside the company and this imposes an obligation on media members to investigate and enquire about practices of companies.

Members of the business news media collect, select, organise and deliver corporate news to public audiences. Investigation is one media function which makes it a valuable resource to company stakeholders and the media also perform a role rebroadcasting information which is already public knowledge; that is, providing coverage of ongoing issues and events (Miller, 2006). While the former is valuable in the sense that negative coverage surrounding companies increases general awareness of and shapes opinions on issues and possibly drives reform by
management who have reputation concerns, investigative journalism is vital for early detection of corporate malpractice and it is in this capacity that the media is considered to have a watchdog function. Because so much is often demanded from the media, its resources and expertise is best used developing news once it has been uncovered (Lloyd and Watson, 1999).

News which is collected either by investigation or by monitoring issues and events which are already public knowledge is selected and organised on the basis of newsworthiness and delivered to both general and specific targeted audiences. General audiences may have an interest in news media coverage of a company as members of its broader stakeholder base (Deephouse, 2000). By providing news coverage of companies, the media may also target specific audiences such as company shareholders, corporate policymakers or directors of the company. Since these audiences all have fundamental interests in the corporate governance practices of the companies in which they have interests, news media coverage of corporate governance issues may cause them to take actions which would bring about the ultimate effect of improved corporate governance practices (Dyck, et al, 2008; Joe, et al 2009).

Firstly, as was noted in the previous section, when informed of managerial negligence, shareholders may chose to exit the company by selling their shares. Empirically, Barber and Odean (2002) observe that investors on stock markets spend much time gathering data so as to make informed decisions when trading. In a qualitative study of trading behaviour on the London Stock Exchange, Davis (2005) detects strong media effects. Tetlock (2007) notes that high media pessimism exerts downward pressure on stock prices and Fang and Peress (2009) find that stocks with no media coverage earn higher returns. Focusing specifically on media coverage of corporate governance violations, Joe, et al (2009) find results to suggest that individual and institutional investors respond differently in that individuals tend to sell their shares, having lost faith in management, whereas institutional investors buy shares in the violating company anticipating reform. The conclusions drawn by Joe, et al, while based solely upon the effects of a single media publication on US exchange data, indicate much scope to further investigate the media effects in the stock markets in regions outside the US. Consequently, Gorman, Lynn and Mulgrew (2010) have verified a relationship between movements in share price and volumes of articles from five newspaper publications relating to corporate governance violations by public companies listed on the Irish Stock Exchange, noting an intention for future research which would control for alternative drivers of share price, such as company events such as
announcement of dividends or economic events and to explore the effects of the growing wealth of online media, much of which is available in real-time.

Evidently, share trading information is just one indicator of shareholder responses to media coverage and scrutiny of corporate governance; Dyck et al (2008) investigate the relationship from an alternative perspective. Through a study of a prominent investment fund in Russia, the authors find that shareholders use news media campaigns as part of activist strategies, expanding the horizons for a study of how shareholders use the media as an aid to protect their interests in targeting and gaining influence underperforming management in attempts to increase the value of the firm.

As has been noted, corporate policymakers also play a significant corporate governance role. Studies on the media’s role in corporate legislative and regulatory intervention, by and large, tend to consider policymaker activity with respect to the voting public (Altschull, 1995; Dyck and Zingales, 2002; Dyck, et al, 2005). Ergo, the role of the media in informing voters throughout society in general, takes precedence and much of this commentary is grounded in the agenda setting theory of the media (McCombs and Shaw, 1972), which holds that the issues construed to be important by the media take priority on policy agendas vis-à-vis the concerns of voters, the broader audience of the general media. The presence of the media has an additional effect in compelling policymakers to take action in cases of corporate governance violations. Dyck and Zingales (2002) contend that when a violation is criticized by the international press, politicians feel obligated to condemn it in order to preserve their international political reputation. Dyck and Zingales conclude that “the media are important in shaping corporate policy and should not be ignored in any analysis of a country’s corporate governance system”.

Central to the firm and its management is corporate reputation (Frombrun and Shanley, 1990; Deephouse, 2000). Adverse media reports on a business entity will incur ‘reputation costs’ (Dyck, et al, 2008) which the firm would hope to avoid as they can be highly damaging both financially and strategically. For example, shareholders would be displeased with an investment in a business exposed by the news media as having engaged in financial fraud and may in all likelihood sell their investment or seek other forms of remedial action. These reputation costs are dependent on the probability of the news being received and believed by the relevant audiences and will vary with the media vehicle. It follows that by reporting news of management
underperformance to company stakeholders, the media may propel the board of directors to monitor management or assist them in bringing about reform (Joe, *et al.*, 2009).

5. STAKEHOLDER ACTIONS IN RESPONSE TO NEWS MEDIA COVERAGE OF CORPORATE GOVERNANCE VIOLATIONS

5.1. Shareholders

The theory of the market for corporate control vindicates that shareholders in inefficiently managed companies may dispose of their shares whereby, the threat of takeover is a means of disciplining management (Manne, 1965). If shareholders learn that management have failed to safeguard their interests in pursuit of their own objectives, they may choose to exit the firm and sell their shares (Black, 1997). Empirical evidence indicates that the news media is one means through which shareholders may receive such information; Tetlock (2007) notes downward movements in share price following media pessimism regarding firm performance. Investor behaviour may not be so predictable however; recent findings by Joe *et al.* (2009) indicate that individual investors tend to ‘overreact’ to media scrutiny of the corporate governance practices of companies, quickly disposing of shares, while more sophisticated institutional investors, who account for a greater proportion of firm ownership, tend to buy shares in violating firms anticipating dismissal of underperforming management or a reform in governance practices. Share price movements in either direction may potentially impact upon the company management leading to corporate governance reform.

There are alternative options available to shareholders who receive news of management negligence. Coffee (1991) and Black (1997) point out that those who are more active owners as opposed to active traders, namely indexed institutional investors may become more effective monitors were they able to reduce their information costs. As has been proposed herein, the news media is one means of achieving such efficiency and there are a range of strategies which informed, activist shareholders might take to target underperforming or opportunistic management. Pound (1993) argues that collectively, investors may seek to change corporate policy and campaign for improved governance through the use of ‘more sophisticated communication strategies’. Specifically, coordinated groups of shareholders may improve the
standard of monitoring, using proxy contests to make changes to the board (Pound, 1993). By making use of their right to vote in an organised manner, institutional investors may initiate debate over policies, replacing existing policies with ones endorsed by shareholders and address concerns relating to more specific facets of the company’s governance such as the independence of the board or the structure of committees (Pound, 1993; Grundfest, 1993). The right to vote is just one afforded to shareholders various activist strategies through which shareholders make use of further rights have been mapped out in the corporate governance literature. Pound (1993) applies the notion of political lobbying to the corporate setting. Such a movement may involve a ‘shadow board’ being coordinated by shareholders, direct communication and negotiations between shareholders and management and shareholder attendance at annual general meetings. Edkins and Bush (2002) describe this approach under the heading of engagement and advise that shareholders use company meetings to discuss issues related to strategy, board structure and performance. It is quite probable that shareholders become of such issues through news media coverage (Joe et al, 2009). Edkins and Bush further recommend that shareholders intervene when they become aware of violations of corporate governance. Intervention is a more proactive measure than engagement and may involve research into reasons for poor performance, submitting proposals for change, and coordinating and communicating with other shareholders. Evidently news media information may potentially be a valuable resource to shareholders in such situations.

5.2. Policymakers

As mentioned in Section 3, the political model of corporate governance indicates that shareholders may require court or governmental protection (La Porta et al, 2000). As a debating forum for political affairs, policymakers evaluate the efficacy of corporate policy in parliament as part of their professional duties. Having identified a problem in a given environment, which for the purposes of this discussion is assumed to be the corporate environment, members of government formulate policy through parliamentary debate, following this, laws and regulations are passed, implemented and evaluated (Brooks, 1998). The media may not necessarily initially alert the policymaker to a violation of corporate governance, however the level of media coverage of the issue allows legislators to gauge the extent of its effects, that is the number of
shareholders or general stakeholders whose interests have been neglected. The degree of effort and attention with which the policymaker intervenes depends on a number of factors including political objectives, political reputation with the voting public and international political reputation. As noted by Grundfest, national governments may use agency problems to further political agendas. In the wake of corporate governance scandals, political parties opposing the governing party may use the issue as an opportunity to criticise the performance of the principle legislators, thereby coercing them to increase the stringency of corporate legislation or approve regulatory intervention.

The stakeholder model further points toward how the media potentially influences corporate governance practices through by way of corporate policymaking activity. The media has traditionally been referred to as the fourth branch or ‘fourth estate’ of the government in the UK (Carlyle, 1841, Baron, 2003). That is to say that by informing the voting public, the media facilitates the functioning of a democracy. As was outlined in Section 4, the public agenda is thought by communications theorists to transfer from the media’s agenda (Shaw and McCombs, 1977). News media coverage alerts a greater amount of voters of an issue which must be regulated (McCombs, 2004). The intensity of public responses may be influenced by the tone with which the issue is addressed or the ‘spin’ put on the story (Fombrun, 1996; Deephouse, 2000). Ergo, when news media reports condemning corporate governance violations are circulated, policymakers are obliged to intervene in some way to maintain their reputation with the voting population (Dyck and Zingales, 2002, Dyck, et al, 2005). Corporate policymaking activity would be expected to be prevalent at times when corporate misconduct is an issue of public concern. This agenda-setting effect therefore depends on the amount of media exposure politically sophisticated audiences receive (Fiske, Lau and Smith, 1990, Guo and Moy, 1998).

It is also important to consider the international dimension. Policymakers’ concerns with reputation overseas further propel corporate policy and regulatory activity (Dyck, et al 2005; Dyck et al, 2008). When a corporate governance violation is criticized by the international press, politicians must be seen to take action it in order to preserve their international political reputation. Policymaker responses to violations of the gravity to attract international attention should be effective, involving measures to bring management to account and prevent future occurrence in other companies. In doing so the policymaker upholds their own reputation with international counterparts along with signalling that the country is one in which companies are
managed with integrity. In this sense, it is thought the media further influences the corporate governance practices of companies by pressurising policymakers to ensure an operational legal and regulatory infrastructure is in place the jurisdiction in which they do business.

5.3. The Board of Directors

From the perspective of the stakeholder model of corporate governance, it may be argued that while shareholders may express their concerns with management through voting or by exercising some of the other rights afforded to them; other company stakeholders, namely claimants such as customers, suppliers or partners must find alternative means of action in the wake of media scrutiny of the company’s governance. These responses would be expected to involve the withdrawal of finance, custom or a service necessary for the company to operate profitably, thereby causing some degree of financial concern and hindering wealth maximisation (Hawley and Williams, 1996). The board of directors, it its capacity as a monitor of shareholders’ interests, has a responsibility to take appropriate action so as to discipline underperforming or opportunistic management (Coffee, 1993). This may require dismissal or amending compensation. Directors would also be expected to ensure that future performance of the company will not be jeopardised by inappropriate managerial behaviour.

Alternatively, in accordance with the stewardship approach to corporate governance, media criticism of management may alert directors, be they executive or non-executive, to a need to encourage management to work towards organisational goals (Davis, et al 1997). Working collaboratively and realising the long-term utility of the company’s reputation, directors and management may work to remedy a situation caused by management misconduct. It may then be argued that sufficient press coverage on a corporate governance violation by a firm may pressurise and lead directors and management to institute reform within the business (Dyck et al, 2008). This effect is related to the power of the press to control corporate reputation, a valuable firm resource (Frombrun and Shanley, 1990; Deephouse, 2000). Hall (1992) notes that “Reputation, which is usually the product of years of demonstrated superior competence, is a fragile resource; it takes time to create, it cannot be bought, and it can be damaged easily.” The management and directors of companies which receive negative media coverage due to the
occurrence of a corporate governance violation would therefore be expected to repair any
damage done to company reputation by compensating shareholders and implementing reforms.

6. THE INFLUENCE OF THE NEWS MEDIA ON CORPORATE
GOVERNANCE PRACTICES: Towards an Investigative Framework

Section 5 has shed some insight into a number of avenues open to key stakeholders in the
company environment following coverage of corporate governance violations in the news media.
This section considers the final stage of the conceptualised framework that is how the actions of
(i) shareholders, (ii) corporate policymakers and (iii) the board of directors may affect violating
companies and their corporate governance practices.

6.1. The Influence of the News Media on Corporate Governance via Shareholders

The theories of both the finance model and the political model of corporate governance
suggest that shareholders who actively consume news media information may effectually
minimise agency costs and ensure managerial accountability. As predicted by the theory of the
market for corporate control, by disposing of company shares upon learning of violations of
corporate governance through the news media, dissatisfied shareholders impose the threat of
takeover, which may compel management to act within the interests of shareholders in future or
face a situation where more diligent management would be instituted by new owners. It would be
expected that under new management, better standards of corporate governance would be
practiced in the firm. Using this rationale, one might argue that through the market, the news
media influences corporate governance practices of violating firms.

The discussion of the political model of corporate governance in this paper has
considered the actions shareholders who chose voice over exit take following news media
criticism of the governance of the companies in which they have interests. The activist strategies
outlined provide viable means through which coordinated shareholders may discipline
management and lobby for improved corporate governance practices. Outcomes of shareholder
voting may include institution of a more competent board of directors (Grundfest, 1990) or a
change in corporate policy (Pound, 1993). Moreover, engagement or intervention may lead to
greater alignment of corporate strategy, improvements in board structure or enhanced managerial performance (Edkins and Bush, 2002).

6.2 The Influence of the News Media on Corporate Governance via Corporate Policymakers.
Consideration of corporate governance through both the political and stakeholder theoretical lenses indicates that as an information intermediary between the company, corporate policymakers, their political counterparts and the voting public, the news media influences corporate policymaking and regulatory activity. News media criticism of companies’ governance practices leads various groups to question the ability of policymakers to preserve an effective corporate legal and regulatory environment. It follows that policymakers intervene by increasing the stringency of corporate legal instruments and regulatory provisions (Dyck and Zingales, 2002; Dyck, et al, 2005). Consequently violating companies must follow guidelines which curtail their behaviour more extensively or potentially face imposition of penalties by regulators or the judicial system. The threat of increased corporate legislative and regulatory control and the potential financial and reputational consequences associated with non-compliance would be expected to encourage improved corporate governance practices in companies vulnerable to opportunistic managerial behaviour or director complacency.

6.3 The Influence of the News Media on Corporate Governance via The Board of Directors
As many commentators on stewardship theory indicate, the balance directors strike between monitoring and stewardship is a matter of contingency. Nevertheless, should a company receive negative coverage in the news media regarding the way its standards of corporate governance, directors and management would be expected to take actions to repair the reputation of the company. Measures may include parties affected by misconduct within the company through a realignment of goals or financial reimbursement. Management accountability, financial transparency and active board oversight and/or stewardship would also be expected from the board of directors in future, that is to say that if reputation is considered an important company
resource, one would envisage that the board of directors would take steps to implement corporate governance reform.

7. CONCLUSIONS AND AVENUES FOR FUTURE RESEARCH

Since the introduction of the Cadbury Report (1992) corporate governance has experienced a renaissance as a topic of both academic inquiry and practitioner concern. However, with the emergence of a range of corporate governance guidelines to improve shareholder protection (The Combined Code on Corporate Governance, 1998, 2003, 2006, 2008; Irish Association of Investment Managers, Corporate Governance, Share Option and Other Incentive Scheme Guidelines, 1999; The Sarbanes-Oxely Act, 2002), so too have reports of self-serving behaviour by management, many of which resulted from high-profile scandals (Maxwell Communications, Enron), it appears that ample accountability in the Anglo-American corporate environment remains to be achieved (Hollinger International, Royal Dutch Shell, News Corp, DCC, Anglo Irish Bank). Recent corporate governance research has been consumed with the development of controls inside the firm and regulatory prescriptions. It appears to be commonly assumed that when internal oversight fails, standards in corporate governance may only be achieved through state regulation, much of which has been critiqued for over-restricting management and stifling entrepreneurship and innovation.

An emerging body of research considers the potential for an actor in the broader company environment to act as a watchdog of corporate behaviour. Recent evidence indicates that corporate governance violations tend to be addressed following coverage in publications circulated within the business community (Dyck, et al, 2008; Joe, et al; 2009; Gorman et al, 2010). As an independent, accessible, low-cost and far-reaching information intermediary (Bushee, et al, 2010), the news media may well facilitate corporate oversight and control misconduct.

As an area of research which remains very much in its infancy, a number of avenues for future research exist. The conceptualised model framework proposed herein provides a preliminary map to guide further validation of the role of the media as a monitor of corporate governance practices in Anglo-American jurisdictions. Corporate governance violations studied will also depend upon country-specific corporate legal and regulatory environments and while
the media’s influence has been studied in the US context, in which standards of corporate governance are legally enforced. A similar investigation remains to be conducted in Ireland or the UK, two countries in which corporate governance standards are adopted through a principles-based approach. Moreover, while evidence exits to suggest that the media informs and influences the actions of policymakers (Dyck, et al, 2005), no research exists to date on the media’s specific influence on policymakers’ decisions regarding the maintenance of a country’s corporate legal and regulatory environment. This is an interesting avenue to explore at a time of growing pressure on policymakers to ensure corporate governance guidelines heeded by the management and directors of companies. The influence of broadcast and online media vehicles is a further facet of this topic which has yet to be examined.

The remainder of this section considers potential investigative and analytical methods which may be employed in future research. All approaches suggested require that news reports and coverage of violations of corporate governance from various media vehicles first be studied. This preliminary analysis is empirically viable as archived news media data is readily available in electronic form and may be accessed online.

*Investigation of P1:* An examination of the news media’s influence couched within this theory could employ data on share price changes in violating companies. Statistical correlation analysis may be used to test for evidence of significant relationships between frequency of negative media coverage and share price and thus test on aspect of the hypothesis H1, that media coverage of corporate governance violations instigates trading of shares in violating companies. Variance testing may also be conducted to draw inferences on the basis of media vehicle, country, industry and violation type. There are obvious caveats to such an approach not least the existence of additional market factors at play, which would necessitate robust control measures to be applied to exclude the influence of additional noise in the market. Moreover, share price analysis alone could not confirm an improvement in standards of governance, such an effect could only be assumed from an increase in share price. It is envisaged that findings be triangulated with qualitative data identifying corporate governance reform.

A full test of the hypothesis H1 would require levels of shareholder activism to be evaluated through institutional voting statistics, the minutes of company meetings or through records of investment institutions which actively target underperforming companies through
engagement and intervention. Alternatively, Davis (2005) points towards interviews as the most appropriate investigative method when studying investors as a news media audience. Institutional investors’ perceptions of the media’s role and reactions to media scrutiny of governance may be investigated and assessed through interview or survey. Findings will be coded quantitatively in order to test for significant relationships between volumes of media coverage of governance violations and shareholders’ actions using correlation analysis. In this way qualitative findings could be evaluated in conjunction with stock market data to confirm the first proposition of the framework proposed in this paper, that by informing shareholders of violations of corporate governance, the news media influences the corporate governance practices of Anglo-American companies.

Investigation of P2: A comprehensive investigation of the power of the news media to influence corporate governance practices through propelling corporate policymaking activity would initially involve a qualitative appraisal of parliamentary debate following the occurrence of specific violations. Archived parliamentary reports may be studied for evidence of political intentions to enforce more stringent legislation or regulation in the area in which the violation occurred. Parliamentary references to media coverage of corporate governance violations may be recorded and quantified accommodating for the greater legislative authority of upper houses of government than lower ones. Developments in company law and regulatory reports and documents may be also be studied to capture the extent to which measured debated upon are implemented. Observations may be categorised numerically and correlated with media coverage statistics so as to establish a link between news media coverage of corporate governance violations and legislative and regulatory oversight of corporate governance practices.

Investigation of P3: Ex-post actions within the company may be studied through documents used in previous phases of the study, including media or regulatory reports. The extent to which it provides an unbiased and accurate view of the companies’ response to media scrutiny is questionable and more robust findings may be achieved through a series of interviews with past or present board members of violating companies. Such an approach would however depend on the potentially difficult task of gaining access to interviewees. Findings from the most viable
method of qualitative enquiry would also be coded quantitatively to facilitate analysis of potential relationships with levels of news media coverage of violations by sample firms.
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