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ACCOUNTING FOR
TRANSPARENCY

Research on Corporate Transparency

Element 17: The Media as an Information Intermediary

Joachim Gassen

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Tradional media's effect on disclosure processing costs

- In general, the business press reduces acquisition and processing costs but the effect on integration cost is less clear (Bushee et al., JAR 2010)
- Robo-journalism (very likely having no effect on integration costs) increases retail liquidity but seems to have no effect on price discovery (Blankespoor et al., RAST 2018)
- Customized and extended articles in the WSJ cause increased market reactions around earnings responses, relative to simple summarizing articles, consistent with these articles having an integration cost effect (Guest, JAR 2021)

Traditional media: Incentives

Survey responses to the question: How important are the following in determining your superior's evaluation of your performance as a journalist?

	Responses	Average Rating	Significantly Greater Than	% of Respondents Who Answered: Very Important (5 or 6)	% of Respondents Who Answered: Not at All Important (0 or 1)
(1)	The accuracy of your articles	5.75	2-11	94.08	0.00
(2)	The extent to which your articles cover issues or events in a timely manner	5.23	5-11	80.88	0.66
(3)	The extent to which your articles contain exclusive content	5.22	5-11	79.21	0.66
(4)	The depth of reporting in your articles	5.15	5-11	76.87	0.22
(5)	Your working relationships with your editors	4.13	6-11	49.23	2.65
(6)	The number of people who read your articles	4.05	8-11	43.08	6.59
(7)	Your ability to gain access to senior management of companies you write about	4.02	8-11	44.49	9.03
(8)	The extent to which your articles lead to changes in corporate behavior	3.51	10-11	33.63	18.36
(9)	The number of published articles you write	3.42	10-11	26.11	11.50
(10)	The extent to which the stock market reacts to your articles	2.87	11	27.59	34.88
(11)	The number of people who "like" or share your articles through social media	2.54	--	13.00	31.28
	Total possible N = 457				

Column 1 reports the average rating, where higher values correspond to greater importance. Column 2 reports the results of t-tests of the null hypothesis that the average rating for a given item does not exceed that of any other item. We report the rows for which the average rating significantly exceeds the average rating of the corresponding items at the 5% level and use Bonferroni-Holm-adjusted p-values to correct for multiple comparisons. Column 3 (4) presents the percentage of respondents indicating importance of 5 or 6 (0 or 1).

Call et al. (SSRN, 2021, p.41)

Is traditional media improving price discovery?

- Pro:
  - Media reduces disclosure processing cost, yielding direct (Engelberg and Parsons, JoF 2011) and likely also indirect liquidity-induced (Blankespoor et al. RAST 2018) effects on price discovery
  - Media at times also uncovers genuinely new information, resulting in a direct price discovery effect (Miller, JAR 2006 on accounting fraud)
- Con:
  - Investors react to stale news (Tetlock, RFS 2011)
  - Media likely to cater to investors' preferences and behavioral biases (Gentzkow and Shapiro, Econometrica 2010)
  - Media likely to be prone to its own incentives and biases (Call et al., SSRN 2021)

Social media

- Firms use social media strategically: bad news firms in general and bad news firm with high litigation risk in particular use twitter less extensively (Jung et al., TAR 2018)
- Social media has an effect on liquidity but it is unclear from which component of disclosure processing costs it results (Blankespoor et. al. 2019 for Twitter)
- Social media feedback can have undesired effects on stock prices (Lee et al., JAR 2015 on social media usage by firms in product recall situations)
- Fake news can spread via social media and develop sizable (transitory) market effects as well as negative spillover effects on legitimate articles (Kogan et al., SSRN 2020)

Literature

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