The Economics of Media reputation: Effect of Philanthropy-Reporting on Business Outcomes

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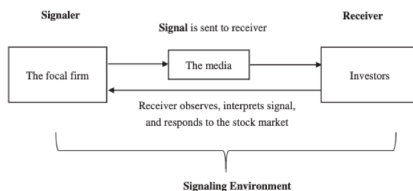
1 Introduction

- Media may serve as a valid signal of firm quality to investors since information asymmetry exists between corporate management and investors
- Corporate philanthropy is speculated to be an opportunity to publicly show firms' positive image
- Corporate reputation may serve as a valid signal used by investors to gauge the firm quality and evaluate financial performance
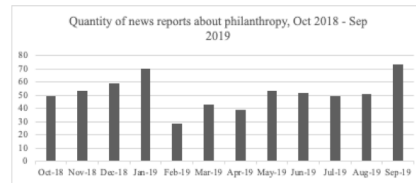
2 Hypothesis development

Our Hypothesis:

Media reputation like philanthropy report can lead to a positive effect on the stock performance of this firm

- Signaling Theory: Information transmits from the sender to the receiver through infomediaries
- When stakeholders are confronted with incomplete information, they depend on the evaluative signals refracted by key intermediaries

3 Data and Methodology

Data:

[Figure 1 Quantity of news reports about philanthropy, Oct 2018 - Sep 2019]

- ☐ Chinese listed firms
- ☐ News reports related to philanthropy are searched from various national-level and local-level newspapers
- ☐ 620 news reports and 34 firms.

➢ **Independent variables: Media reputation**

- If the article was released on the top 50 newspapers with high influence and propagation, the dummy variable will be equal to 1. Otherwise, the dummy variable will be equal to 0.

➢ **Dependent variables: Stock performance**

- The cumulative abnormal adjusted return (CAR) of a firm over the 5-day (−2, 2) window period

Methodology - Event-study methodology

- Returns on a specific share represent the relative change in share prices:

$$R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}}$$

- Then, abnormal returns are equivalent to the difference between actual and normal returns:

$$AR_{it} = R_{it} - NR_{it}$$

- In this equation, NR stands for normal returns, normal returns represent the average of returns within the estimation period. daily normal returns of asset i can be expressed as follows:

$$NR_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}$$

- where R_{mt} is the return on a market index of assets on day t, To account for possible violations of the efficient-market assumption, I consider multi-day event windows. Cumulative abnormal returns for an event window that ranges from t_1 to t_2 were calculated as follows:
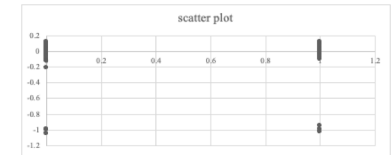
$$CAR_i(t_1, t_2) = \sum_{t=t_1}^{t_2} AR_{it}$$

CAR_i(-2,2)
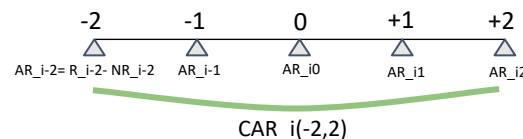
4 Empirical Results

Variable	Obs	Mean	Std. Dev.	Min	Max
CAR	611	-.0130416	.1131119	-1.040467	.119885

[Table 1 CAR summary]

Table 1 shows the description of CAR data. With the mean being -0.0130416, it can be inferred that the abnormal returns were not in a positive condition.

[Figure 2 scatter plot of CAR and dummy variable]

Figure 2 indicates that there is no obvious difference between the CAR data when dummy variable is 0 and 1 respectively.

Source	SS	df	MS		
				Number of obs =	611
				F(1, 609) =	0.04
Model	.000451389	1	.000451389	Prob > F =	0.8512
Residual	7.80407567	609	.012814574	R-squared =	0.0001
				Adj R-squared =	-0.0016
Total	7.80452706	610	.012794307	Root MSE =	.1132

CAR	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
dummy	-.0018885	.0100625	-0.19	0.851	-.0216499	.0178728
_cons	-.0124884	.0054464	-2.29	0.022	-.0231844	-.0017923

[Table 2 regression results of CAR and dummy variable]

Table 2 reveals that when the corporate philanthropy was reported by newspaper, the stock performance would not be positively affected. Media reputation can even lead to negative growth of abnormal returns. However, as the P-value is larger than 0.05, this regression result is not significant and cannot be taken into consideration.

5 Discussions

➢ Conclusion:

This research suggests that under the condition of corporate philanthropy, the media may not necessarily play an important role In evaluating firm value.

➢ Limitations:

- The quantity of sample is not sufficient
- The deviation of Chinese newspaper
- Ignorance of the effect caused by other variables