A Literature Review of the Impact of Media Response on Business Operations

Xiaoyuan Liang

School of Information Engineering, Hangzhou Dianzi University, 310018 Hangzhou, China

100533@yzpc.edu.cn

Abstract. With the development of the network era, the impact of media attention on enterprises cannot be ignored. Media attention affects investor sentiment as well as a company's attention and resources. Media attention will made enterprises have to fulfill their social responsibilities and enhance their visibility and image. Stock yield is an important reflection of enterprise profitability, innovation and research is the main driving force on an enterprise development, and financing constraints have a direct impact on the financial decision-making and operational efficiency of enterprises. Based on this, this paper the positive and negative impacts of media attention on stock return, innovation and financing constraints, with a view to adding to the development of enterprises, suggesting that enterprises should not only make good use of media attention, plan strategies rationally and promote business growth, but also properly deal with possible negative impacts, avoid bad publicity to damage the development of enterprises.

Keywords: Media response, business operations, literature review.

1. Introduction

In the present time when all people are used media, the public demand for information transparency is becoming higher and higher. The media has become a link between enterprises and the public involved in corporate governance. There is information asymmetry in the market economic activities, and people often in a stronger position when have sufficient information, while those who are poor in information are in a more unfavorable position. And the media has become an important channel for person to obtain information. Based on this, this paper discusses the operation and development of enterprises from the media attention is a worthwhile research issue, which provides beneficial insights for give continuous play to media governance function.

2. Introduction to the Concept of Media Response

Media attention usually means the media's special attention and report on an issue, event, person or organization, Media effect refers to the phenomenon that the media has some kind of influence on the public, individuals, groups, organizations, etc. Media sentiment obtain emotional information from media reports, comments and social media etc.

Sources of media reaction include behavioral finance, media effects, and media attention. Traditional economic models assume that people are rational and the market is a frictionless and complete market. While the development of traditional financial theory, many researches on financial market has found that there are many "anomalies" that cannot be explained by traditional financial theory. Behavioral finance revises the model of traditional finance, adding people's psychology and behavior factors. Media effects based on behavioral finance reaches on the role of media in finance. The public extracts emotional information from media reports, comments and social media, forming media effect. As an important information medium in today's society, the media is playing more and more important role. The media's special attention and coverage of an issue, event, person or organization is called media attention.

Media attention may have a positive or negative impact to the subject being reported. The specific effects can be summarized into the following categories:

(1) Opinion-oriented role, media attention can enhance corporate visibility, reputation and influence, too much media attention may bring negative impacts, such as criticism, exposure or public opinion pressure;

(2) It is an information intermediary that can improve market information asymmetry and enhance capital market pricing efficiency;

(3) Monitor role, promoting environmental governance;

(4) Guiding investors emotion, rising positive investor sentiment will increase corporate stock returns.

3. Impact of Media Reactions on Corporate Operations

3.1. Impact on Stock Yield

Stock yield is an important reflection of corporate profitability and future development potential, now scholars still hold different points on the relationship between media attention and stock yield.

Some scholars think the impact of media sentiment on stock returns is positively correlated. To be specific, a study by Siyu Yuan and Long Ren states that media sentiment through investor sentiment and analyst optimism bias affects the returns of listed company stocks [1]. Further research found that the impact of media sentiment to stock returns is particularly pronounced in firms with poorer disclosure quality, imperfect external monitoring mechanisms, and higher institutional investor shareholdings [1]. Xiangqiang Liu, Qinyang Li, and Jian Sun also argued that the impact of Internet media on stock returns is more significant for listed companies with fewer analysts to follow, lower investor attention, and higher information asymmetry [2].

On the contrary, some scholars' studies have confirmed that there is an inverted U-shaped relationship between media attention and stock return of enterprises, and the study of Qiao Haishu, Zhao Hao, and Su Yaya found that there is a timeliness for media attention, and with the time goes by, the media effect is not significant, and even has a negative correlation with the impact on stock return. In the short term, the increase in the number of listed companies' media reports makes investors' attention grow, and in the short term investors' buying behavior makes the stock yield and turnover increase; while in the long term, investors' unsustainable emotions make the stock yield appear the "reversal effect" [3]. Chan found that investors are not fully rational investors and investors' overreaction to stock prices leads to excessive trading volume, volatility, and yield reversal [4].

Chan (2003) found that investor's reaction is not enough to public information, leading to stock price drift after the information release some time [4].

In summary, scholars still hold different views on the relationship between media attention and corporate stock returns, which mainly includes three kinds of relationships: positive correlation, inverted U-shape and lagged impact. Media attention increases stock returns by influencing investor and analyst sentiment, but sentiment is not sustainability and investor's overreaction reverses stock returns. Investor's reaction inadequate to public information causes stock prices to start drifting after the information is released some time.

3.2. Implications for Innovation

Innovation is at the heart of sustainable business development and the key to winning the competition. Scholars analyze and study the impact of media attention on innovation from different angles. At this stage, scholars have three main views:

The first one is that there is a positive synergistic effect of media attention on innovation, and the effectiveness of innovation is better under positive media coverage. The results reported by Dongliang Yuan and Jian Zhou show that positive media coverage of enterprises leads to managers' overconfidence and can increase managers' risk appetite and make up for risk aversion; when the news media report positively and optimistically on listed companies, they can give full play to the advertising effect, release positive signals to the labor market, and attract senior management person and research person who have specialized knowledge and skills to enter the company [5]. News media alleviate the degree of information asymmetry by providing information to market participants and attract investors to buy the stock, reducing the cost of corporate financing, making it easier to obtain the financial support needed to play innovative activities, enhancing stock liquidity effectively.

In the second, Zhang Yuming, Xing Chao, and Zhang Yu found that media attention, measured by negative environmental reports as an indicator can significantly improves the green technology innovation performance of heavily polluting firms; it may be because media attention exposes negative information, which promotes innovation under the pressure of public opinion, and media revelation also makes firms more aware of their own shortcomings, which helps disadvantaged firms improve their ability to acquire and analyze The media's exposure also makes enterprises more aware of their shortcomings and helps weak enterprises improve their ability to acquire and analyze information. However, overly stringent macro-environmental regulations, overly intense meso-market competition, and overly loose micro-internal controls may be lead to diminishing the positive impact of media attention [6]. Using a sample of listed companies in China's high energy-consuming industries, Huiming Zhang, Lirong Li, and Zijing Cao show that media coverage, especially negative media coverage, plays a positive moderating role between environmental information disclosure and green innovation [7].

In the third, media attention has a negative moderating effect. Yang Dan and Xia Xiaolan found that media reports on companies brought strong market pressure to managers, induced managers to focus more on the short-term performance of the company's short-sighted behavior, and reduced the investment in innovation activities [8]. The results of the study by Qin Ying and Sun Hui showed that both government regulation and media attention both have negative regulatory effects, inhibiting the voluntary participatory environmental regulation on the R&D and innovation of the enterprises. The promotion effect of voluntary environmental regulation on R&D innovation [9].

In summary, scholars have different views on the impact of media attention on innovation. Scholars such as Dongliang Yuan believe that the two are positively correlated and that news media sentiment promotes corporate investment in innovation through the three channels of managerial overconfidence, senior talent mobility and stock liquidity. Other scholars believe that negative media attention has a better role in promoting innovation, urging firms to green innovation. Based on the market pressure effect, it induces manager’s short-sighted behavior, reduces investment in innovation activities, and inhibits the voluntary participation of enterprises, so it has a negative moderating effect.

3.3. Impact on Financing Constraints

There are three important channels for enterprises to raise investment funds: internal retained profits, debt financing and equity financing. For enterprises, internal retained profits are endogenous financing, debt and equity are exogenous financing. When the condition of limited endogenous financing, the impact of exogenous financing on enterprise investment, innovative R&D and daily operation of the enterprise is particularly important. However, there is no doubt that both financing methods require the enterprise to have a good reputation, image and foundation of credibility. As an external mechanism of enterprises, Media attention can guide the nature, direction and development trend of public opinion, which affects the level of financing of enterprises.

Media attention can alleviate financing constraints, the empirical results of Qian Guogan show that media attention may alleviate the financing constraints of listed companies mainly by reducing the degree of information asymmetry, it means when the information environment of listed companies is poorer, the media attention is able to reduce the information asymmetry of listed companies by providing more incremental information [10].

Currently scholars also have different views on the impact of media attention on financing constraints. Some scholars believe that positive media coverage is more helpful in alleviating financing constraints. Lu Jiayou and Zhang Shen’s study result show that CSR fulfillment brings more media attention and reduces financing constraints [11]. Zhong Qiuyan and Shi Xiaofeng show that media attention is negatively correlated with financing constraints of listed companies, i.e., the more media attention a listed company receives, the lower the degree of financing constraints it suffers; positive media reports can reduce the degree of financing constraints of enterprises, while negative media reports can exacerbate the degree of financing constraints of enterprises; media attention of non-state-owned enterprises eases financing constraints to a greater extent for state-owned enterprises. to a greater extent [12].

However, some scholars argue that negative media coverage is more helpful in alleviating financing constraints. Zhang Xindong, Li Jianying, Shang Yena, and Zhang Yan found that media attention promotes firms' active participation in poverty governance, thus alleviating the financing constraints faced by firms. Further research shows that negative media coverage is more conducive to firms' active participation in poverty governance [13]. Huiming Zhang, Lirong Li, and Zijing Cao found that environmental information disclosure can alleviate financing constraints and thus promote green innovation of enterprises by studying energy-intensive industries. Media reports, especially negative media reports, play a positive moderating role between environmental information disclosure and green innovation [7]. This may be due to the fact that negative media reports attract more attention from investors, which in turn motivates firms to participate in poverty governance and green innovation.

In summary, media coverage is negatively related to financing constraints, but scholars still have different views on the impact of media coverage to financing constraints. Positive media coverage promotes the alleviation of financing constraints based on investor attention and social recognition. While negative media coverage attracts negative public attention and dissatisfaction, which leads to higher political costs and lower financial subsidies for firms, thus increasing the firm’s agency costs, and aggravating financing constraints. Based on public opinion pressure, negative media reports are more helpful in alleviating financing constraints.

4. Conclusion

This paper searches the related literature from Beida Core, SSCI and CSSCI through the websites of Knowledge.com and Google Scholar, reading and combing them, the author finds that the media focuses on the concepts of stock yield, corporate innovation, and corporate financing constraints have not been unified. The main reasons is that, first, the duration cycle of the media hotspot reports tends to be more and more "flash" mode, and the duration of the impact of different reports varies greatly depending on the attributes of the event, public psychology and other factors; second, under the incentive effect and pressure effect, corporate innovation and financing constraints have both positive and negative effects. However, most scholars believe that the impact of media attention on enterprises is the advantages outweigh the disadvantages, indicating that media attention plays a certain governance role and can help the development of enterprise operations. In the existing studies, most scholars' measures of media attention have some subjective, and most of the studies introduce them into the literature as moderating indicators. Therefore, this paper puts the following suggestions for future research: First, in order to reduce the errors caused by manual data collection, scholars should actively explore more objective measurement standards; Second, with the rapid development of the Internet, scholars should realize that the influence of microblogging, jitterbugging, and other social media on the enterprise is gradually increasing; Third, as the more deepening of the impact of media attention on enterprise activities, scholars should expand the scope of their research to study all aspects of enterprise activities and comprehensively consider the possible influence of different factors on them.

References

[1] Yuan Siyu, Long Ren. Media Sentiment Contagion and Stock Returns [J]. Journal of Lanzhou University of Finance and Economics, 2022, 38 (06): 82-97.

[2] Liu Xiangqiang, Li Qinyang, Sun Jian. Internet media attention and stock returns: cognitive effect or excessive attention [J]. Journal of Central University of Finance and Economics, 2017, (07): 54-62.

[3] Qiao Haisu, Zhao Hao, Su Yaya. Research on the transmission mechanism of "media effect" in stock market--Based on the perspective of investors' "limited attention" [J]. Investment Research, 2019, 38 (03): 121-132.

[4] Chan, Wesley S. Stock price reaction to news and no news: Drift and reversal after headlines [J]. Journal of financial economics, 2003, 70: 223-260.

[5] Yuan Dongliang, Zhou Jian. News media sentiment and corporate innovation investment [J]. Finance and Economics, 2021, (10): 58-69.

[6] Zhang Yuming, Chao Xing, Yu Zhang. Research on the impact of media attention on green technology innovation of heavy polluting enterprises [J]. Journal of Management, 2021, 18 (04): 557-568.

[7] Zhang Huiming, Li Lirong, Cao Zijing. Environmental information disclosure and green innovation in energy-consuming industries - A moderating effect based on media attention [J]. Friends of Accounting, 2022, (17): 44-53.

[8] Yang D, Xia Xiaolan. Does media coverage promote corporate innovation [J]. Economist, 2015, (10): 68-77.

[9] Qin Y, Sun H. Relationship between voluntary participatory environmental regulation and corporate R&D innovation - An empirical study based on the perspectives of government regulation and media attention [J]. Science and Technology Management Research, 2020, 40 (04): 254-262.

[10] Qian Guogen. Information Environment, Media Attention and Financing Constraints of Listed Companies-Evidence Based on Chinese Capital Market [J]. Shanghai Finance, 2016 (08): 61-67.

[11] Lu Jayou, Shen Zhang. Corporate social responsibility fulfillment, media attention and financing constraints [J]. Friends of Accounting, 2021, (10): 110-116.

[12] Zhong Qiuyan, Shi Xiaofeng. Media Attention, Property Rights Nature and Financing Constraints of Listed Companies-An Empirical Test Based on Heckman's Two-Stage Model [J]. Business Economics and Management, 2016, (08): 87-97.

[13] Zhang Xindong, Li Jianying, Shang Yena et al. A study on the impact of media attention on corporate participation in poverty governance [J]. Investment Research, 2022, 41 (10): 92-117.