



Media reputation in initial public offerings: A study of financial news coverage in Hong Kong



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ABSTRACT

This study investigated media reputation in initial public offerings (IPOs) by proposing eight attributes of substantive media reputation from environmental and product-resource perspectives. A content analysis on financial news coverage (2281 newspaper articles from 2004 to 2010) in Hong Kong was conducted to examine how print media reported financial and nonfinancial information on 38 IPO firms in the sectors of financial, properties and construction, and consumer goods. Results from partial least squares analysis showed that, although substantive media reputation and recency of news coverage together only explained a small proportion of changes in IPO share price, substantive media reputation has a significant positive effect on changes in IPO share price. Apart from the significant positive effect from the presentation tone of environmental attributes, the tone of social attributes had a significant negative effect on substantive media reputation. With the increasing concern on measuring media reputation attributes in financial news coverage across different contexts, this study contributes to the applicability of environmental and product-resource attributes in the specific context of IPOs.

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1. Introduction

The effect of information circulated in the financial market has long been discussed in relation to organizational performance, especially changes in share price (e.g., Fama, 1970, 1991; Kothari, Li, & Short, 2009; Pollock & Rindova, 2003; Pollock, Rindova, & Maggitti, 2008). Individuals can make use of information to interpret the related risk and return of investing in an organization, and predict the future business performance of the organization (Fama & MacBeth, 1973; Lintner, 1965; Olsen, 1997; Ross, 1976; Sharpe, 1964). The circulation of information creates a signaling effect (Spence, 1974) that implies favorability of organizational reputation (Boyd, Carroll, & Dess, 1996; Fombrun & Shanley, 1990; Roberts & Dowling, 1997; Srivastava, McInish, Wood, & Capraro, 1997). In addition to the effect from releasing first-hand corporate information by organizations on market transaction (e.g., David, 2001; Jameson, 2000; Kohut & Segars, 1992; Prasad & Mir, 2002; Rutherford, 2005; Williams, 2008), organizational reputation is a consequence of disseminating second-hand information by third parties, particularly the media. It has been argued that media coverage on organizational performance had a significant impact on the financial market (e.g., Davis, 2005, 2006; Kothari et al., 2009; Securities and Futures Commission, 2008). For instance, information provided by columnists, editors, and letter writers in the media about the firms' securities and performance would reflect the firms' reputation (Deephouse, 1997).

The influence of news media on organizational reputation refers to media reputation, which is "the overall evaluation of a firm presented in the media" (Deephouse, 2000, p. 1099). Past studies also suggest that media reputation subsequently

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influences stakeholders' evaluation on the organizations (Deephouse, 1997, 2000). This study attempts to discuss the significance of media reputation in the financial market. Indeed, over the past decade, scholars have discussed the growing importance of media reputation in relation to business news coverage (e.g., Carroll, 2009, 2011a, 2011b; Carroll & McCombs, 2003; Deephouse, 2000; Einwiller, Carroll, & Korn, 2010; Wry, Deephouse, & McNamera, 2006). The effect of media reputation has been studied in different countries (Carroll, 2011b). The financial market in Hong Kong was the sample in this study. As one of the ten biggest stock markets in the world by market capitalization in 2010 (World Federation of Exchanges, 2011), Hong Kong was ranked top two of the largest exchanges in 2010 in terms of investment flows of capital raised by shares of initial public offerings (IPOs) and secondary market issues (World Federation of Exchanges, 2011). According to the World Federation of Exchanges (2009), IPOs refer to cases in which "shares were admitted to listing during the period through an offer of subscription and/or sales of shares" (p. 159). It was found that "Hong Kong was the largest IPO centre in the world in 2010, with a total of 94 IPOs, raising a total of \$445 billion" (Securities and Futures Commission, 2011, p. 2).

The above suggests that Hong Kong is undoubtedly a prosperous stock exchange market in the world that should be the sample in this study. Comparing to local institutional investors, local retail investors in Hong Kong occupied a higher percentage in contribution to cash market turnover in the Hong Kong cash market, and they were much more sensitive to changes in market sentiment (Tsoi, 2004). Indeed, individual retail investors have been regarded as the most significant group of stakeholders for IPO firms (Tsoi, 2004), as well as a group of significant players in the financial market (Martin, 2005). Individual retail investors in Hong Kong mainly used print media and financial websites to obtain visible information from the media (Securities and Futures Commission, 2008). As such, media information might pose a stronger impact on individual retail investors (Securities and Futures Commission, 2008) than institutional investors who might have direct access to firms' private information (Holland, 1998). Media reputation might be particularly important for individual retail investors to reduce risk and uncertainty in the financial market. Hence, this study analyzed financial news coverage in print media from which individual retail investors commonly obtain information about IPO shares. A content analysis was conducted to examine the effects of media reputation and recency of news coverage on organizational performance in terms of changes in IPO share price.

2. Theoretical framework

2.1. Media reputation: an overview

Over the past decade, the role of news media in organizational reputation has been widely discussed (Carroll, 2011a, 2011b). In 1997, Deephouse suggested that the information about an organization can be presented in positive, negative, or neutral tone in media coverage. Such favorability of organizational information is media reputation, which refers to "the overall favorableness of a company's media coverage" (Deephouse, 1997, p. 69). Deephouse (2000) adds that the definition of media reputation is "the overall evaluation of a firm presented in the media" (p. 1099), and proposes a formula to calculate media reputation in terms of favorability of media coverage. In this sense, an organization's information reported in the media indeed reflects the media reputation of that particular organization through describing the organization's activities, evaluations of it by different groups of stakeholders, and so on in news coverage (Deephouse, 2000; Murphy, 2010). In other words, media reputation is "a collective concept connecting the firm, media workers, stakeholders, sources of news about firms, and the readers of news" (Deephouse, 2000, p. 1099) that forms through a complex social process (Deephouse, 2000; Murphy, 2010). Media reputation, which is what the media say the organization's reputation is (Deephouse, 2000; Murphy, 2010), incorporates different stakeholders' perceptions of the organization. Dynamically, as suggested by attribute agenda-setting (Carroll, 2009, 2011a), the readers of the news will also form their perceptions of the organization's reputation and public esteem toward the organization based on what the media say (Carroll & McCombs, 2003; Deephouse, 2000).

Such presentation of information in the media has been discussed from the framing perspective (e.g., Entman, 2003; Hallahan, 1999; Murphy, 2010). Murphy (2010) notes that media reputation is "the representation of a person or organization in the media—from the standpoint of complex systems" (p. 209). Framing has long been regarded as a strategic public relations practice controlled by organizations to secure favorable media coverage (Murphy, 2010). Organizations attempt to influence media coverage on corporate information (Hallahan, 1999; Murphy, 2010) because the media can "record public knowledge and opinions about firms and influence public knowledge and opinions about firms" (Deephouse, 2000, pp. 1094–1095). It means that media reputation will influence public knowledge and opinion on an organization (Carroll, 2009; Deephouse, 2000; Murphy, 2010). For instance, public esteem, which is "the degree to which the public likes, trusts, admires, and respects an organization" (Carroll, 2009, p. 1), would be affected by media reputation. Such an example of the agenda-setting effect refers to the second level of agenda-setting at which "the salience of attributes on the media agenda influences the salience of those attributes on the public agenda" (Carroll & McCombs, 2003, p. 38). It means that, beyond the salience of objects in the media, the effect of attribute agenda-setting indicates the importance and effect of reputation attributes in business news coverage (Carroll & McCombs, 2003). The effect of attribute agenda-setting has been discussed across various cultural contexts in terms of substantive (cognitive) and evaluative (affective) attributes (e.g., Einwiller et al., 2010; Wry et al., 2006).

Various attributes have been discussed in past studies on dimensions of reputation (e.g., Fombrun, 1998; Fombrun, Gardberg, & Sever, 2000). Specifically, substantive media reputation "focuses on the activities and traits of an individual or business" (Wry et al., 2006, p. 228). The descriptive nature of substantive media reputation suggests that "a firm's news coverage related to specific reputation topics (e.g., social responsibility, products and services, and financial performance)

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