



# Mass media effects on non-governmental organizations <sup>☆</sup>



Mathieu Couttenier <sup>a,\*,1</sup>, Sophie Hatte <sup>b</sup>

<sup>a</sup>University of Geneva, Switzerland

<sup>b</sup>University of Lausanne, Switzerland

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## ABSTRACT

Globalization has raised concerns that multinational firms develop commercial activities at the expense of the environment or human rights, especially in developing countries. As firms' practices are not fully observable by stakeholders, NGOs have applied pressure on firms by organizing information campaigns. This paper studies how media coverage affects how effective NGOs are in monitoring firms. We make use of large media shocks, generated by big sports events, that crowd out media coverage of firms' practices in event host and participant countries, and increase coverage of sponsors. We find NGOs to respond consistently. NGOs are more likely to disseminate critical coverage of firms sponsoring sports events, and are less likely to spotlight firms' practices in the event host and participant countries. We also find that NGOs take advantage of sports events to increase their impact on sponsors, since campaigns about sponsors trigger a significant negative reaction in the stock market.

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\* Corresponding author at: University of Geneva, Boulevard du Pont d'Arve, 40, 1211 Geneva, Switzerland.

E-mail addresses: [mathieu.couttenier@unige.ch](mailto:mathieu.couttenier@unige.ch) (M. Couttenier), [sophie.hatte@unil.ch](mailto:sophie.hatte@unil.ch) (S. Hatte).

<sup>1</sup> Previously: University of Lausanne, Switzerland.

## 1. Introduction

The 2013 Bangladesh factory collapse<sup>2</sup> was one tragic example of the controversial aspects of globalization. One overarching concern is that multinational companies develop commercial activities at the expense of the environment, vulnerable workforces or local communities. This worry is particularly strong in developing countries, where environmental and labor standards often are weak and poorly enforced, and government is susceptible to be captured by powerful multinational firms. Furthermore, monitoring such companies is particularly challenging since their practices are not fully observable to stakeholders, namely consumers, investors and public regulators.

In response, some non-governmental organizations (NGOs) have applied pressure on these firms over the last few decades. These NGOs are non-profit organizations that disseminate information, as *Greenpeace* or *Amnesty International*.<sup>3</sup> One can think of these NGOs as mission-oriented (Besley and Ghatak, 2005) unlike firms who pursue commercial objectives. Through information campaigns, NGOs push for more responsible practices in the business sector

<sup>2</sup> On April 2013, the Rana Plaza, a building located in an industrial suburb of Dhaka (Bangladesh) collapsed, causing the death of 1129 people. The Rana Plaza housed several factories making clothing for European and American brands.

<sup>3</sup> Some other NGOs act as service providers only and their study goes beyond the scope of this paper.

by fostering changes in consumption and investment decisions or by advocating for binding regulations. These information campaigns may take several forms, from emotional videos or petitions posted online to actions, marches and street protests. In all of these cases, NGOs' channel of influence is information, since they cannot directly reward the firms that adopt good practices, or punish the laggards.

Consequently, the effectiveness with which NGOs can monitor firms' practices depends on the dissemination of information and, crucially, on its amplification by mass media (Aldashev et al., 2015). Therefore, the occurrence of newsworthy events that crowd out the media coverage of firms' practices is likely to dampen the success of NGOs' information campaigns. To maximize media coverage, NGOs may choose to release information on firms strategically when these firms are especially newsworthy.

In this paper, we investigate how media coverage affects NGOs' effectiveness in the monitoring of firms. First, we test whether NGOs target particular firms in particular countries strategically and time their campaigns to maximize media coverage. Second, we estimate whether NGOs' campaigns are more effective, i.e. impact the targeted firms more, when the target is newsworthy. This study builds on the literature in development economics that views NGOs as watchdogs of globalization, who exert pressure on multinational firms to adopt responsible practices in the developing countries (Aldashev et al., 2015). In some industries, at least, NGO campaigns are found to affect outcomes positively, notably by improving workers' conditions (Fontagne and Limardi, 2013; Harrison and Scorse, 2010) or fostering environmentally-friendly practices (Bieri, 2010; Yaziji and Doh, 2009).<sup>4</sup> The principal contribution of our study is to show that NGOs' campaigns and effectiveness in the monitoring of firms are significantly driven by the media's agenda. This is a critical point for developing countries, since human rights, working conditions and environmental practices are involved.

Since we cannot track all the actions implemented by NGOs, we measure NGOs' information campaigns through the reports they post on their websites. In these reports, NGOs describe the targets and aims of their campaigns. The NGO reports are provided by *Covalence EthicalQuote*, a private company that collects information published online about the practices of the world's largest firms in market capitalization terms. They record the reports published by NGOs when these reports target one of the firms in their sample.<sup>5</sup> We exploit data on the publication of NGO reports on NGOs' websites between 2002 and 2010. The NGO reports cover the practices of 555 firms in 130 countries, with nearly half of the reported practices occurring in developing countries. For each NGO report, we extract information on the date of the publication, the firm targeted by the report, and the country where the practice took place. Each report is classified as *good* or *bad*, a good report referring to a good practice, such as the adoption of a green production process, while a bad report covers a bad practice, such as child labor. Using these data, we can investigate which firms are targeted by NGOs, in which countries and when the reports are released.<sup>6</sup>

The main challenge, as we aim to identify whether NGOs' campaigns are targeted and timed to maximize media coverage, is that we must identify media coverage shocks that generate significant change in firms' newsworthiness and are exogenous to the NGO activity. We make use of media shocks generated by the Olympic Games and FIFA World Cups to overcome this issue. Eisensee and Strömberg (2007) document that these big events affect media coverage the most. The occurrence of the events is exogenous to the NGO activity and is announced years in advance, so NGOs have time to adapt their strategy to the media agenda. We link the firms in our sample to the big sports events occurring in the 2002–2010 period in three dimensions: first, whether their activities are located in countries that host the sports events; second, whether these activities are located in countries that participate in the FIFA World Cups;<sup>7</sup> and third, whether firms sponsor the events.<sup>8</sup>

We document how the occurrence of Olympic Games and FIFA World Cups distorts the media coverage of firms' practices. We use a content analysis of newspaper articles to analyze trends in the number of articles dealing with firms' environmental or social responsibility in the host or participant countries. We show that the average number of such articles decreases during the event.<sup>9</sup> We replicate this content analysis at the firm-level, and find that coverage of event sponsors in the print media increases during the months around the sports events, compared to coverage of the other firms in our sample. Then, we investigate whether NGOs react to this change in media coverage and show, through two different identification strategies, that NGOs do respond consistently to it.

Our first strategy estimates whether the number of NGO reports on firm practices in host and participant countries falls during the media shock generated by the sports events. We consider a quarter-year panel of 130 countries over the 2002–2010 period that includes country fixed effects that control for time-invariant unobserved heterogeneity across countries, and for country-specific time trends that absorb the heterogeneity arising from trends in the evolution of country characteristics. Our main outcome of interest is the total number of NGO reports in a country within a quarter-year. The OLS estimates show that, during a sports event, NGOs are less likely to release reports about firms' practices in host countries compared with firms' practices in other countries, by about 36%. Using the same estimation strategy, we find that the number of NGO reports in the countries participating in the FIFA World Cups decreases during a sports event, relative to the number of NGO reports in the non-participant countries.

The second strategy captures the effect of these media coverage shocks on NGOs' reporting activity toward sponsoring firms. We now consider a quarter-year panel of 555 firms over the 2002–2010 period that includes firm fixed effects and firm-specific time trends. Our main dependent variable is the total number of NGO reports on a firm in a quarter-year. During a sports event, NGOs are more likely to write about firms that sponsor big sports events compared with other firms, by about 23%.

<sup>4</sup> NGOs' strategies toward firms are well-documented since Baron (2001). See notably: Baron (2005), Baron and Diermeier (2007), Kitzmueller and Shimshack (forthcoming), Lyon and Maxwell (2011).

<sup>5</sup> *Covalence EthicalQuote* collects information from a number of other online sources than the NGO websites, notably firms, trade organizations, international organizations or government websites. These additional data are beyond the scope of this paper. This information allows *Covalence EthicalQuote* to create a firm-specific reputation index, that is mainly sold to socially responsible investment funds.

<sup>6</sup> For instance, the *Covalence EthicalQuote* database records that Greenpeace published a report on April 2008, arguing that "Unilever buys its palm oil from suppliers who destroy Indonesia's rainforests for their palm plantations, leading to further climate change and killing orangutans and other endangered species in the process [...]". This report is classified as *bad*. Note that this report has been covered by a newspaper article in the *New York Times* published in July 7, 2008: <http://www.nytimes.com/2008/07/07/business/media/07dove.html>.

<sup>7</sup> We do not compute participation in the Olympic Games, since almost all countries participate in these events.

<sup>8</sup> Most of the sponsors are not particularly linked to the host country, and a firm usually sponsors the same sport event several times, regardless the host country. A few sponsors are specific to the event and then to the host country (this is more the case for Olympic Games than for FIFA World Cups), but among these sponsors the *Covalence* database records only a few of them. This allows us to capture each effect separately.

<sup>9</sup> Rose and Spiegel (2011) and Bayar and Schaur (2013) show that Olympic Games and FIFA soccer World Cups generate a boom in the visibility of host and participant countries. The stylized facts we present in this paper emphasize that host and participant countries are more cited in the print media during the sports events, but news associated with firm practices in these countries is crowded out.

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