



Media slant against foreign owners: Downsizing



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ABSTRACT

Using a unique data set from nationally distributed quality newspapers in Germany, we find evidence for both quantitative and qualitative media slant against foreign firms. A downsizing foreign firm receives almost twice as much attention as a domestic firm, and the tone of media reports is more negative. Media slant is a measure for economic xenophobia directed against foreign owners, which constitutes an obstacle to foreign direct investment.

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1. Introduction

Using a unique data set of nationally distributed quality newspapers in Germany, we establish the existence of a strong media slant against foreign owners. On average, firms that are controlled by foreign blockholders attract almost twice the media attention for each job shed compared to domestic firms. More articles are written about downsizing when the owners are foreigners, and, in an average article, more of the words written concern downsizing rather than other topics, such as firm performance, and products. Quantitative slant is accompanied by qualitative slant; that is, newspapers report more negatively about downsizing in foreign-owned firms.

Our estimates are likely to be a conservative measure of media slant against foreign owners, because our sources are quality newspapers. Moreover, Germany is a leading export country, and Germans tend to be very positive about globalization.¹ Nonetheless, we find evidence in line with Scheve and Slaughter's (2006) observation that “people

perceive an asymmetric distribution of the benefits of globalization: more for consumers and corporations, but less for workers”.

Media slant may affect foreign direct investment (FDI), because bad press creates a risk of being penalized by consumers. In Section 2, we provide illustrative examples of consumer reactions to downsizing news that were harmful for foreign firms. Foreign investors will price in this risk, leading to FDI discounts, and lower investment in consumption good industries to avoid visibility to consumers. Foreign investors may also refrain from buying firms that are candidates for downsizing. Media slant may hence constitute a behavioral obstacle to FDI, which according to some observers may potentially be equally important as the formal obstacles dictated by governments (OECD, 2003).

We use three data sets to establish and investigate the slant against foreign owners. Our first data set is based on 5394 articles from Germany's newspaper *Die Welt* on a total of 651 downsizing events in Germany between December 2000 and September 2008.² Following Gentzkow and Shapiro's (2006) definition of slant, we focus on the

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¹ On a level above that of the U.S., cf. Mayda and Rodrik (2005).

² We end with September 2008 because the collapse of *Lehman Brothers* triggered a wave of downsizing and state interventions, and we are interested in normal, rather than special, times.

varying intensity of reporting a fact, measured by the number of words written per job shed in instances of downsizing by foreign-owned employers relative to domestic ones. A second data set from the media consultancy *Media Tenor* measures the *different qualitative evaluations* involved. We also collected a third data set that includes all articles on downsizing during five randomly chosen months from all nationally distributed quality newspapers in Germany.

To build the first data set, we developed an algorithm aiming to reduce the probability of making two types of errors: including “false” downsizing cases, and failing to include “real” ones (see Section 3). The regressions (Section 4) show a strong media slant against foreign-owned firms controlling for the magnitude of the downsizing event, the industry, and the size of the firm measured in employment. The results are unchanged when more of the downsizing event’s specificities are taken into account, like the downsizing magnitude relative to firm size, establishment closures, regional unemployment, and the speed of downsizing. Propensity score methods deal with foreign firms’ potential self-selection into specific regions and industries.

Investigating potential spurious correlations, our regressions show that the results are robust to the inclusion of controls for the reason for downsizing and the type of ownership (see Section 5). We also find no evidence that specific groups of countries³ drive the slant: rather, the magnitude of the slant is quite similar across country groups. There is no tendency to report more about foreign firms in general, or their job creation.⁴ Other omitted variables can be controlled for to some extent. For a subset of large firms, we are able to match our data set with financial and accounting information from the *Amadeus* data set (Bureau van Dijk, 2011). Despite a smaller sample, the slant is statistically significant, while covariates such as assets, employment costs per capita or return on equity before downsizing are not.

We also carried out a number of additional analyses to investigate what hypotheses could explain the slant, some of which are briefly presented in Section 6. On the supply side, we find no evidence that the bias⁵ of certain journalists can explain newspapers’ reports,⁶ or that ownership changes affect the slant. Looking at other stakeholders, we do not find significant advertiser influence. Political economy explanations like Besley and Prat’s (2006) theory do not apply either, because in our period of observation, Germany was run by the globalization-friendly Schröder and Merkel governments who had little to gain by influencing the media against foreign owners. Inspired by Puglisi’s (2011) analysis of changes in the agenda-setting behavior of the *New York Times* during presidential campaigns, we also compared the coverage of downsizing events before German elections with no-campaign periods and find no systematic differences (as shown in Table E in Web Appendix II).⁷

Our analysis is mainly based on a data set of reports from *Die Welt*, raising the question of whether these results are specific to one

newspaper. Although *Die Welt* is owned by the *Axel Springer Publishing House*⁸ (a close ally of the business-friendly CDU party in government since 2005), the readership of *Die Welt* is conservative, and conservatism may trigger some bias against foreign owners. We therefore set up a third data set including five randomly drawn months of reports from the six other leading national newspapers. We find that all newspapers slant their reports in the same direction, with some indications of an increasing slant when moving from right to left along the political spectrum.⁹ These results are consistent with the presence of a general bias among the readership of all newspapers. Because the newspapers we look at have a relatively well-educated readership compared to the main tabloids or the regional newspapers (Jandura and Brosius, 2011), we would expect the slant in other media to be even stronger.

We contribute to a growing empirical literature on media economics, which includes studies about the ideological position of media (e.g. Ansolabehere et al., 2006; Durante and Knight, 2012; Gentzkow and Shapiro, 2010; Groseclose and Milyo, 2005; Larcinese et al., 2011; Puglisi and Snyder, 2011, forthcoming), and the impact of the media on voting turnout (e.g. Gentzkow et al., 2011; Oberholzer-Gee and Waldfogel, 2009) and electoral outcomes (e.g. Chiang and Knight, 2011; DellaVigna and Kaplan, 2007; Enikolopov et al., 2011). Other studies analyze the impact of media on political outcomes (e.g. Besley and Burgess, 2002; Eisensee and Strömberg, 2007; Snyder and Strömberg, 2010; Strömberg, 2004) and household decisions (e.g. Olken, 2009).

Our focus is on the functioning of media markets,¹⁰ and our results lend themselves to the interpretation that the slant is demand-driven rather than the result of agenda-setting. The empirical paper most closely related to ours is Gentzkow and Shapiro (2010) who find that newspapers tailor their slant to the beliefs of their potential readers. We are also close to Mullainathan and Shleifer (2005) who assume that newspapers receive an identical signal about the truth, but can slant their stories by omitting some of the information. When readers have a preference for news that is consistent with their initial beliefs, oligopolistic newspapers can charge higher prices by differentiating themselves through slanted reports. Because we find slant against foreign owners in all newspapers, and no slant in favor of foreign owners, it is likely that the underlying beliefs of the population are biased in a homogeneous way (similar to the beliefs about foreign policy, see Mullainathan and Shleifer (2005)). Gentzkow and Shapiro (2006) generate slant in a theory in which consumers think that newspapers that share their perspectives are more reliable. In their model, slant arises as a natural consequence of newspapers’ desire to build a reputation for accuracy. Anderson and McLaren (2012) show that similar mechanisms prevail when consumers are fully rational.

Our paper also contributes to a better understanding of the intricacies of corporate social responsibility (CSR) and its significance for globally operating businesses. Kitzmüller and Shimshack (2012) provide

³ Distinctive features of such country groups could be cultural or linguistic distance to Germany, or rather general perceptions of “free” market-based economic systems like those of the U.K. or the U.S. compared to the continental European model of a “social” market economy.

⁴ The slant is also unrelated to the impact of newspaper technology on the timing of the news, as in Soltes (2009), and to the size of standard articles in different newspaper sections, as shown in Web Appendix I.

⁵ We have so far used the term “slant” rather than “bias”, as the literature tends to associate bias with behavior that is not in line with profit maximization (Gentzkow and Shapiro, 2010). Here, we prefer using the word “bias”, as it describes individual behavior that is not necessarily in line with profit maximization.

⁶ Baron (2006) argues that a newspaper may allow journalists to report in a biased way because this makes it possible to retain the journalist and/or to cut wage costs. While we cannot exclude that all or most journalists are biased against foreign owners, we have investigated whether the slant may be driven by those journalists who are most actively writing on downsizing and have not found any supporting evidence (see Tables C and D in Web Appendix II).

⁷ There is a noteworthy exception. The leader of the SPD, the German social democrats, conducted a short campaign against what he called the “locusts”, foreign private equity investors. We do find a slight increase in the slant during that period, but the slant is present across the entire period.

⁸ The Springer family owned the majority of the publicly listed *Axel Springer Publishing House* throughout the entire period. In the meanwhile the media entrepreneur Leo Kirch, the *Deutsche Bank*, the private equity firm *Hellman & Friedman* hold larger minority stakes in the company.

⁹ Representative data about the political orientation of *Die Welt*’s or other nationally distributed newspapers’ readership is not readily available. Jandura and Brosius (2011) provide some evidence for the right-of-center orientation of *Die Welt*, and in Web Appendix I, we summarize the German political science community’s perception about the newspapers’ orientation. Further support for these perceptions is lent by a survey we carried out among students of Goethe University. A group of 102 participants in a lab experiment unrelated to the topic of this paper were asked about their political orientation on a scale from 1 (left) to 10 (right). We also asked them how frequently they are reading the national newspapers on a scale from 1 (never) to 10 (every day). Participants who are frequently reading (with values of 8 or more) the *Frankfurter Allgemeine Zeitung* have an average political orientation of 5.23 (s.d. 1.80; n = 39), *Die Welt* 4.93 (s.d. 1.68; n = 12), the *Süddeutsche Zeitung* 4.60 (s.d. 1.85; n = 20), the *Frankfurter Rundschau* 4.37 (s.d. 1.56; n = 30) and *Die Tageszeitung* 3.40 (s.d. 1.67; n = 5).

¹⁰ Related studies include Sweeting (2007, 2010) on product positioning in radio stations, George (2007) on the effect of concentration on news variety, and Myers (2005) on racial diversity and discrimination in competitive media markets.

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