Some firms actively use CSR to improve their image in the public media

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The business press is an important information intermediary in capital markets. For example, prior research shows that more favorable media coverage can reduce a firm's cost of capital. This raises the question whether firms can influence their media image. In a recent study, we examine whether firms that act more socially responsible receive more favorable media coverage.

Our study consists of three parts. In the first part, we examine whether better corporate social responsibility (CSR) performance leads to a more positive media image. In the second part, we consider whether firms actively manage their CSR to improve their media image. In the third part, we consider whether better CSR performance and a more favorable media image is associated with positive economic benefits in terms of a lower cost of capital and higher firm value.

To conduct our tests, we develop a measure of media favourability using data from Thomson Reuters News Analytics database. Thomson Reuters analyzes the linguistic content of every news item released by US firms in real time using a knowledge-driven neural network. The output of this process is three probability scores that reflect the positive, negative, and neutral tone or sentiment of the news item. To compute a measure of overall media favourability for each year, we aggregate the positive sentiment scores from all news items about the firm and we subtract the aggregated negative sentiment scores. This difference is divided by the total number of news items about the firm in the year so we can compare our measure across firms.

To measure CSR performance, we use data from the KLD (now MSCI ESG STATS) database which evaluates firms on multiple dimensions in several CSR areas including community, diversity, employee relations, environment, human rights, and product. Our US-based data cover 2003-2011 and include 12,749 firm-year observations.

In our first analysis, we find a positive relation between CSR performance and media favorability, after controlling for other factors such as the firm's size, returns over assets (ROA), leverage, idiosyncratic risk, and stock performance. In terms of the economic impact, a one standard deviation change in CSR performance is associated with an eight percent increase in the favourability of media coverage.

A challenge we face as researchers is being able to show that firms actively manage their CSR performance in order to improve their media image. In other words, firms might engage in CSR for other reasons (such as altruism) and a favorable media image might be an attractive side-benefit. To examine this issue, we show that firms with poor public images, such as tobacco firms, are more likely to engage in CSR to improve their media image. We also show that when market-wide investor sentiment is low, firms are more likely to use CSR to improve their media image to counteract investors' pessimistic outlook.

Finally, firms that actively manage their CSR to improve their media image must obtain economic benefits; otherwise, there would be no incentive to engage in such activity. To examine this, we identify firms that had strong CSR performance and favorable media coverage. We use Tobin's Q (which reflects the market-to-book ratio) to measure firm value and we estimate four measures of firms' implied cost of capital. Our results indicate significantly higher firm value and significantly lower cost of capital for the high CSR performing firms that receive favorable media coverage. For example, for a firm at the 75th percentile in terms of CSR performance, a shift from low to high media coverage is associated with a 6.8 percent increase in firm value and a 9.4 percent decrease in cost of capital.

While there is an extensive literature on CSR performance, we contribute to this literature by documenting a previously unexplored incentive for engaging in CSR, i.e., active media management. Overall, our results suggest that the media slants their reporting in favor of good CSR firms, giving firms an opportunity to enhance their media image by improving CSR performance.

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Notes:

- *This article is based on the authors' paper* Corporate social responsibility and media coverage*,* Journal of Banking & Finance, Volume 59, October 2015, Pages 409–422.
- *This post gives the views of its authors, not the position of LSE Business Review or the London School of Economics.*
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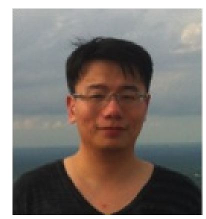

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