Research: Bad news can spur strategic change in businesses

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While businesses have typically viewed the news media as a megaphone for publicity, they have not viewed it as an influential stakeholder capable of shaping the strategic decisions of key executives, says Michael K. Bednar, University of Illinois, a professor of business administration. Credit: L. Brian Stauffer

Negative media coverage may prompt firms to engage in greater levels of strategic change than previously thought, according to research by a University of Illinois business professor.

While businesses have typically viewed the news media as a megaphone for publicity, businesses have not viewed the media as an influential stakeholder capable of shaping the strategic decisions of key executives, says Michael K. Bednar, a professor of business administration at Illinois.

"As the news media reports negatively about firms, that registers with executives," he said. "And that, in turn, prompts executives to engage in larger scale strategic change."

To perform the study, Bednar and co-authors Steven Boivie, a professor of management at the University of Arizona, and Nicholas R. Prince, a doctoral student in business administration at Illinois, used computer-aided content analysis to determine how favorable the media coverage was for 250 firms over the course of five years.

"We analyzed approximately 40,000 articles, and were able to quantify how positive or negative the coverage of the firm was," he said. "After we controlled for performance and several other variables that could affect media coverage, we found evidence for the main effect, that negative media coverage may act as a trigger for strategic change."

But Bednar and his co-researchers went even further by studying the conditions for when that effect is stronger or weaker. They discovered that corporate boards with a larger proportion of outside directors – that is, independent directors with no previous ties to the firm – were more strongly influenced by negative media coverage. This result could be because outsiders may be more likely to rely on external perceptions and evaluations of the firm, which are at least partially conveyed through the media.

"When you have a board that consists of independent directors, negative media coverage influences their decision-making more than when you have board members who have lots of insiders or directors with family or business ties to the company," Bednar said. "When there are board members with familial or business ties on the board, they are less likely to be influenced by these outside perspectives, including the media. So that relationship between negative media coverage and strategic change gets stronger when you have outsiders on the board."

In addition to the empirical results in the paper, the researchers outline three ways that the media can have an influence on businesses. The first way is simply reporting about the actions of the firm.

"By shining a light on certain issues, and by the choices that journalists and editors make about what to cover, that has an influence," he said. "So if you have two firms who do essentially the same thing, the one that captures the media's eye is going to be amplified."

The second way that the media can have an influence is that sometimes it acts as the voice for different stakeholder groups who seek to use the media as a megaphone for their message.

"That means that even smaller groups can enact change or have outsize influence because now the media has given them a platform to voice their views," Bednar said.

And the third way is through investigative reporting.

"A good example is the work of Bethany McLean, who helped to expose Enron, which at the time was performing pretty well," Bednar said. "Through investigative reporting, she discovered that their financial statements didn't make much sense."

The research also has real-world analogs, Bednar says.

"A few years ago, Jet Blue fired its founder after the big fiasco when their passengers were stuck on the runway for hours and hours," he said. "The same thing happened to other airlines, but Jet Blue was the one that got the bulk of the negative media attention. You could make the argument that it was that negative media coverage that made the board feel like it had to do something in response to counter all the bad publicity."

The counter-example – when negative publicity doesn't hurt the CEO because the firm's overall performance is good – is Apple, which took a public relations beating for the working conditions of its factories in China but still manages to be one of the most valued company in terms of market capitalization.

"Having a successful company papers over negative publicity," Bednar said. "If the firm is doing well financially, that certainly makes it easier to tune out the negative chatter from the outside. The flip side, of course, is that when things are going poorly, the negative media coverage becomes that much louder, and makes that negative performance stand out that much more, which then acts as a strong trigger for strategic change."

If you're a CEO or a member of a board of directors, Bednar says the key takeaway from the research is that the media is a powerful force that can influence the perception of your firm.

"For executives, that's certainly something to be aware of," he said. "But there's also the potential to make biased decisions if you're overly influenced by negative coverage. So just being aware of that potential influence can help you make better decisions, because there will probably come a time when it will be a good thing to respond to the media scrutiny. But there also may be other times when it makes sense to ignore the chatter and continue with a strategy that could pay dividends down the road."

Another key is being aware that when a firm is performing well, executives have a tendency to discount negative media coverage, which is a risk unto itself, Bednar says.

"That can make us so focused on, 'Hey, we're doing fine, we don't need to listen to outside voices,' " he said. "Well, that's a situation that could pose a risk to firms as well. So just being aware of the influence that the media can have and the circumstances when it's most likely to have that effect can be a helpful thing for an executive."

The paper will appear in the journal *Organization Science*.

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