

Firms that gain more media visibility can expect to perform better

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Assistant Professor Michael Ungeheuer. Credit: Lasse Lecklin

Firms that are more visible in the media increase their value and their stock returns, according to new research from Aalto University and Goethe University.

Assistant Professor Michael Ungeheuer at Aalto University School of Business and Professor Alexander Hillert at Goethe University analyzed the relation between firm visibility and stock returns using comprehensive data on news coverage of U.S. firms ranging from 1924 to 2019.

The researchers found that firms with higher [media](#) visibility exhibit predictable improvements in [corporate governance](#), a higher likelihood of forced CEO turnover after poor performance, as well as higher sales growth and higher profitability growth.

"Our research suggests that future returns of more visible firms are significantly higher. This provides new insights on the common view that [media coverage](#) affects a firm's cost of capital through a reduced risk premium for well-known firms," says Ungeheuer.

But why is this? The researchers claim that their research supports previous studies that have suggested that media coverage could increase sales, similar to product market advertising.

As well as this, their research shows how the media could play a monitoring role and prevent value-destroying behavior by managers.

"If these positive effects of visibility on profitability are not adequately priced, a positive relation between visibility and future [stock returns](#) follows," says Ungeheuer.

So, this research implies a positive role for the media, and more generally, a positive role for firm visibility.

As such, managers should learn about the value of visibility from [stock markets](#) and, thus, increase their efforts to improve firm visibility in the media.

More information: Alexander Hillert et al, Ninety Years of Media Coverage and the Cross-Section of Stock Returns, *SSRN Electronic Journal* (2015). [DOI: 10.2139/ssrn.2689652](https://doi.org/10.2139/ssrn.2689652)

Provided by Aalto University

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