THE INFLUENCE OF THE NEWSPAPER MEDIA ON THE CORPORATE GOVERNANCE PRACTICES OF IRISH LISTED PLCS

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ABSTRACT

While a great deal of research has focused on the factors driving adoption of codes of best practice in corporate governance, only recently has the influence of the news media been considered. Corporate governance literature has largely converged upon internal monitoring and shareholder activist strategies as methods of shareholder protection following the decline of the market for corporate control. Commentators and activists alike have generally neglected the opportunity for an independent party, which watches over the management of companies, to guard shareholders' interests. Ireland is just one country where the value of media coverage of corporate governance violations to: (i) shareholders, (ii) policymakers and (iii) company directors has not been assessed. This paper investigates the reaction of these groups to newspaper coverage of corporate governance violations so as to determine the influence of the newspaper media on the corporate governance practices of public limited companies (plcs) listed on the Irish Stock Exchange. Using newspaper articles, media activity was analysed and measured in 15

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instances of corporate governance violations and the relationships between this activity and the actions and behaviours of investors, policymakers and company directors as indicated by stock market data[4], government reports[5] and newspaper articles respectively were examined. Evidence from this study suggests that the Irish newspaper media influences (i) the boards of directors of Irish listed plcs, in that subsequent newspaper articles report reformatory measures taken by the boards in the vast majority of companies in the sample; (ii) the government authorities who are responsible for the legislative and regulatory infrastructure in which they operate, with statistical evidence of increases in government attention to corporate governance issues following increased newspaper coverage of theses issues and (iii) the investing decisions of investors in Irish listed plcs, with statistical verification of a relationship between movements in share price and volumes of newspaper articles relating to corporate governance violations by listed companies.

1. INTRODUCTION

In the past decade, corporate governance scandals have been at the focus of newspaper attention both in Ireland and on an international scale. There was considerable press coverage in the wake of the Maxwell Communications financial scandal in the late 80s/early 90s, which has often been regarded as key event which led to the development of the Cadbury Report (1992) and subsequent reports such as the Combined Code (1998). The global media, particularly the newspaper press, gave in-depth coverage of the criminal investigations and prosecutions which followed the collapse of Enron in 2001, following the discovery of fraud at the firm (Brickley, 2008).

[4] Irish Stock Exchange Monthly Statistical Publications: http://www.ise.ie/index.asp?locID=128&docID=-1
[5] Historical Debates of Oireachtas na hEireann: http://historical-debates.oireachtas.ie/en.toc.dail.html

There are also Irish examples of newspaper coverage of violations of corporate governance; in 2000, two prominent and well respected journalists became involved in shareholder activism, spurred by neglect of shareholder interests by the board of directors of telecommunications group, Eircom. More recently, one of the same journalists voiced concerns of shareholders in Irish financial institutions, particularly Anglo Irish Bank following the revelation in 2008 that its directors had taken undisclosed loans of almost €150 million from the bank amid devastation in the Irish banking system caused by the credit crunch and the collapse of the property market (Carswell, 2009). It may be plausible that widespread newspaper coverage of the violation was a contributory factor to a rapid decline in market confidence, as by January 2009, all shareholders in Anglo Irish Bank witnessed their investments drop to just over 2% of their value from the previous year (Irish Stock Exchange, 2008)[6]. The events at Anglo were covered extensively in the press and media and this has, in part, led to the effectiveness of the Irish regulatory system being brought into question in both public and political arenas, resulting in the resignation of the Chief Executive Officer of the Irish Financial Services Regulatory Authority in January 2009 and a thorough review of the role of the Authority (Government of Ireland, 2009).

Prior research has identified that corporate governance violations tend to be addressed in part following coverage in newspapers read by the business community (Carroll and McCombs, 2003; Romano, 2005; Dyck, Volchkova and Zingales, 2008). Remedial action arises from the influence of the newspaper media on three distinct parties; first, it can alert *regulators* to the need for intervention (Dyck *et al*, 2008). Secondly, due to its power to shape corporate reputation, the media can coerce the company's *directors* to institute reform (Fombrun and Shanley, 1990; Dyck *et al*, 2008). Thirdly, media pessimism regarding a company may instigate

[6] Based on the share price of Anglo Irish Bank on the Irish Stock Exchange at the end of January 2008.

the sale of shares in that company, as has been proposed by Tetlock (2007). The effect of media exposure on market value may then potentially be a means through which *investors* may discipline underperforming management.

This paper examines the influence of newspaper coverage of corporate governance violations on a number of key stakeholders within the private limited company. First, the study investigates the reactions to newspaper coverage of corporate governance violations of shareholders, who are the primary stakeholder in the business and the main means by which the firm is financed. Secondly, the paper investigates how newspaper coverage of violations influences the actions and views of policymakers, who are interested in the corporate, legal and regulatory infrastructure surrounding Irish listed companies. Finally, the investigation examines the reactions of the board of directors and key management personnel, who are employed by the shareholders to act on their behalf. Research in the Irish corporate environment has thus far focused on traditional disciplining mechanisms such as monitoring by the board of directors (O'Higgins, 2002; Brennan and McDermott, 2004). There has been no research to date in the Irish context, on the ability of the newspaper press to perform an oversight function, a role typically left to that of the board members, such as non-executive directors.

In this paper, archived newspaper coverage is employed to gauge the reactions, of shareholders, policy makers and management in the wake corporate governance violations. More specifically, for shareholders, tests were conducted for correlations between the magnitude of share price change and the number of newspaper articles on corporate governance violations for specific companies. This follows from the rationale that governance violations will ultimately impair share price as shareholders exit the company (Manne, 1965). Previous studies have focused on how share price changes following news of a macroeconomic nature (Cutler, Poterba and Summers, 1989; McQueen and Vance Roley, 1993) and following company announcement of earnings and dividends (Lurie and Pastena, 1975; Pastena and Ronen, 1979; Patell and Wolfson, 1982). The effect of negative newspaper coverage of company's corporate governance practices on the company's share price has yet to be confirmed.

As regards policymakers, the number of newspaper articles on corporate governance violations, focusing in on key issues (e.g. financial disclosure) is compared against the frequency of discussions held by members of the Irish Government. It is argued that a major concern related to corporate policy formation is the maintenance of politicians' reputations with voters and the representation of the country's corporate legal and regulatory infrastructure on an international level (Dyck, Moss and Zingales, 2005); it follows that politicians wish to be seen to address issues of concern in their daily discussions. Bearing this in mind policy formation and related dialogue was analysed using the archived debates of Oireachtas na hEireann, the Irish Houses of Parliament. It should be made clear that while there may be some subjectivity involved in using data from such a source, at present no other reliable and usable source of information on policymakers view's exists.

Finally, with regard to management and directors, it may be argued that sufficient press coverage on a corporate governance violation by a firm may pressurise and lead management to institute reform within the business, that is, press coverage may in fact be regarded as a means of disciplining management (Dyck *et al*, 2008). This is related to the power of the press to control corporate reputation (Frombrun and Shanley, 1990; Deephouse, 2000). Reputation is a valuable firm asset and reputation management is critical to the success of a company in terms of profitability and positioning within an industry (Itami and Roehl, 1987). Hall (1992) notes that "Reputation, which is usually the product of years of demonstrated superior competence, is a fragile resource; it takes time to create, it cannot be bought, and it can be damaged easily." The management and directors of companies which receive negative media coverage due to the occurrence of a corporate governance violation would therefore be expected to repair any damage done to company reputation by compensating shareholders and implementing reforms. On a personal level, professional reputation is also in the interests of managers (Gomes, 2000; Dyck, *et al*, 2008) and directors (Zajac and Westphal, 1996). Ergo, a further aspect of the research methodology employed within the paper looks for evidence of reform within specific companies that have featured prominently in the Irish national broadsheet newspaper archives. The reforms in these companies would be initiated by management/board of directors.

The newspaper archives of a number of leading newspapers dating between July 1998 and June 2008 were surveyed to identify a sample of Irish listed plcs which were reported to have significantly breached corporate governance guidelines and codes of best practice. The research methodology, as outlined above, was applied to the sample and the findings analysed. Results showed that the Irish newspaper coverage of governance violations have led to considerable discussion by policymakers within the Irish Government. In relation to investors, tests for evidence of a statistically significant correlation between the incidence of newspaper coverage and the magnitude of share price change suggest that a higher frequency of newspaper coverage may lead to a reduction in share price. Finally as regards, reform measures, results reported evidence of reform measures being implemented by directors and management executives following the reporting of violations by the company in the newspaper media.

Overall, these findings while not entirely conclusive provide interesting evidence to suggest that the newspaper media has some influence over the various stakeholders in the modern listed company. The authors would contend that this provides an interesting gateway for further research into an avenue of corporate governance oversight that has as yet, been largely ignored.

The remainder of this paper is organised as follows. Section 2 considers existing research on corporate governance, particularly the governance of companies listed on the Irish Stock Exchange and potential areas where the newspaper media may perform a role. Section 3 describes the research sample. The methodology used for analysis is outlined in Section 4. In Section 5, the empirical results are presented and discussed in Section 6. Implications of the media's role for the governance of Irish listed companies and potential avenues for further research are discussed in Section 7.

2. CORPORATE GOVERNANCE AND THE MEDIA

Theoretical Perspective

In this study, the role of corporate governance and its ability to influence a number of key stakeholders within Irish listed companies are investigated. Before investigation of each area, one must first present a discussion of the theoretical context within which investigation is couched. The separation of ownership from control within the firm (Berle and Means, 1932; Fama and Jensen, 1983) manifests a conflict of interest between management and shareholders (Shliefer and Vishny, 1997) and leads to the creation of agency costs. According to Jensen and Meckling (1976, p. 308), agency costs are defined as the sum of monitoring costs (expenses borne initially by shareholders to oversee managerial behaviour), bonding costs (expenses borne by management to ensure their interests are aligned with those of shareholders) and the 'residual loss' (costs borne by shareholders caused when management behave opportunistically).

Fama and Jensen (1983, p. 303) assert the decision making process within the firm has four main steps:

(i) *Initiation* – The creation of proposals for resource utilisation and the structuring of contracts.

(ii) *Ratification* - The choice of decision initiatives to be implemented

(iii) *Implementation* – The execution of ratified decisions

(iv) *Monitoring* – The measurement of the performance of decision agents and the implementation of rewards

Fama and Jensen (1983, p. 304) contend that because initiation and implementation of decisions are typically allocated to the same agent, it is convenient to combine these two functions under the term 'decision management'. Likewise, the term 'decision control' includes the ratification and monitoring of decisions. The control of agency costs in the decision making process is essential when decision managers are not the major residual claimant (shareholder) and therefore do not bear a major share of the wealth effects of their decisions. Consequently, in the absence of effective control procedures within the firm, decision managers are more likely to take actions that deviate from the interests of shareholders, thereby increasing agency costs. The principal may attempt to minimise the agency costs by incentivizing management using cash bonuses, equity shares, share options, promotions or by using the threat of dismissal. However, to effectively limit agency costs between shareholders and management arising from the separation of ownership and control, Fama and Jensen (1983, p. 309) claim that firms need a system that can separate decision management from decision control. Such a system limits agency costs by limiting the power of management to expropriate the interests of shareholders. Corporate governance may be seen as one such system. Fama (1980), Fama and Jensen (1983) and

Williamson (1985) contend that managerial opportunism is constrained by the governance mechanisms in place within the firm. Corporate governance mechanisms mitigate agency costs (particularly bonding costs and the 'residual loss') by protecting the claims of shareholders/creditors, monitoring management activities and thus, to an extent, aligning the interests of management with those of shareholders.

Corporate Governance in Ireland

All Irish listed companies are required to adopt the revised Combined Code on Corporate Governance (2008), which is endorsed by the listing rules of the Irish Stock Exchange[7] and the Corporate Governance, Share Option and Other Incentive Scheme Guidelines of Irish Association of Investment Managers[8]. The Combined Code (2008) requires companies to report on how they comply with prescribed guidelines on matters such as board composition, remuneration, accountability, audit and shareholder relations and also to explain reasons for non-compliance.

The current legislation governing companies in Ireland is contained mainly in the Companies Acts (1963-2006), the Stock Exchange Act (1995) and the Irish Takeover Panel Act (1997). Evaluation, construction and amendment of corporate legislation are performed during the plenary discussions of the Irish Parliament, which consists of two Houses: the House of Representatives (The Dail) and the Senate (The Seanad). The House of Representative consists of members of parliament elected by the public to serve the public. In contrast the Senate is not directly elected. Its powers are much weaker than those of the House of Representatives and its

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[7] Irish Stock Exchange Listing Rules, 2007, 6.8.3 (6).

[8] Irish Association of Investment Managers, Corporate Governance, Share Option and Other Incentive Scheme Guidelines Irish Association of Investment Managers, March 1999, p. 1.

main function is to revise legislation sent to it by the House of Representatives, while it can delay laws with which it disagrees, it cannot veto them outright.

While corporate governance in Ireland has been researched previously (e.g. Brennan and McCafferty, 1997) the focus have thus far typically been on issues such as director independence and facets of the board and its sub-committees (Brennan and McDermott, 2004). Additionally, professional organisations and the media have issued previous reports and articles on levels of compliance and indeed non-compliance with corporate governance rules and recommendations for Irish companies (Grant Thornton, 2009; The Irish Times, 2007). However, this investigation offers an alternative analysis of violations of corporate governance and comes at a time when the issue and need for sound corporate governance practices is once again high on the agenda for the business world (ACCA, 2008). The study comes during a period of declining market conditions in which investments in the Irish business community are made with a growing air of caution (Madden, 2009) and as investors begin to increasingly question the Irish corporate regulatory environment they may look for additional indicators when evaluating companies as investments

The Corporate Governance Role of the Media

The media has often been accused of sensationalizing in order to sell papers, (Jensen, 1979; DeAngelo, DeAngelo and Gilson, 1994) and as such, it may distort the economic behaviour of the public as customers and regulators. This view assumes that the media serves to entertain consumers. However, business journalists and reporters who collect, organise and deliver news to public audiences have a vested interest in corporate events and provide this news to audiences of shareholders, regulators, policy-makers, management and directors. Journalists observe and investigate the company environments and make stakeholders aware of deviations from norms

(Schoemacker, 1996). As best practice in corporate governance is expected by stakeholders in Irish listed companies and as the Irish Stock Exchange is a small market, information regarding failures of governance is regarded as news. The media can thus be seen to have a monitoring or surveillance function (Miller, 2006).

Shareholders and the Media

A notable proportion of prior research on corporate governance has thus far focused on traditional internal mechanisms set up within the firm to combat agency costs and the threat of opportunistic managerial behaviour (Beasley, 1996; Dechow, Sloan and Hutton, 1996; Peasnell, Pope and Young, 2001; Xie, Davidson and DaDalt, 2003). This of course is for good reason since the shareholders are the primary stakeholders within the firm and their protection should be the main concern of corporate management. However various shareholder reactions to mismanagement of companies and efforts to minimise agency costs have evolved in addition to the above.

As demonstrated in many of the corporate scandals over the past twenty years, managerial opportunism, fraud and inappropriate behaviour have commonly led to a fall in the share price of companies and in many cases, their ultimate demise. This is to be expected. Managerial inefficiency leads to shareholders losing faith in management to maximise their wealth. While there are various options open to shareholders in such cases, one potential avenue for shareholders to pursue is to sell their shares. The resulting excess supply of shares causes a reduction in share price. The threat of takeover then becomes a means of disciplining management (Manne, 1965). That is to say that when shareholders receive negative information and choose to ‘exit’ the firm (Hirschman, 1971), they effectively lower the market value of the company.

The board of directors, the internal monitors of management (Coffee, 1984; Baysinger and Butler, 1985), have a fiduciary duty to ensure that a company is run in shareholders’ best interests. Critics of the board of directors, however highlight inefficient monitoring of management due to directors not being considered as truly independent (Hermalin and Weissbach, 1998) and neglect of fiduciary duties arising from multiple directorships (Ferris, Jagannathan and Pritchard, 2003). It is quite plausible then, that information on opportunistic managerial behaviour may be reported by a source completely independent from the company. Tetlock (2007) recognises that a primary reporting mechanism through which investors receive and evaluate company information is the media, where the newspaper is a key actor.

Furthermore, as national newspapers circulate not only within the business community, but throughout the entire population and attract a variety of audiences, it is possible that newspapers provide warning signals to dispersed shareholders who may lack experience with the management of company activities (Pollock and Rindova, 2003). The newspaper media may then act as an information intermediary, facilitating exchanges between buyers and sellers of shares in a company and its influence on market confidence in a company is one focus of this investigation.

Policymakers and the Media

The political model of corporate governance developed from the realization that governance problems cannot always be solved in an economically rational manner (Grundfest, 1990). Pound (1993) argues that collectively, investors may seek to change corporate policy through the use of voting rights and in a broader sense, Grundfest posits that national governments may use agency problems to further political agendas. The media has long had an influence on governance and politics in both private and public arenas. In the 1950s and 1960s it was commonly referred to as the fourth branch or 'fourth estate' of the government in the UK (Carlyle, 1841, Baron, 2003). That is to say that by informing the voting public, the media facilitates the functioning of a democracy. Press coverage alerts a greater amount of voters of an issue which must be regulated (McCombs, 2004). The policymaker must intervene in some way to maintain his reputation with the voting population (Dyck, *et al*, 2005). This agenda-setting effect depends on the amount of media exposure politically sophisticated audiences receive (Fiske, Lau and Smith, 1990, Guo and Moy, 1998). Reputation with international political counterparts is also of importance to policymakers providing a further incentive for the policymaker to react to media coverage of a corporate governance violation (Dyck, *et al*, 2008). In this sense, the media also indirectly influences the corporate governance practices of companies by pressurising policymakers to adjust the legal or regulatory infrastructure of the country in which the violating company operates. This media influence should then be apparent through references to newspaper reports in governmental debate on corporate issues.

Management and the Media

Central to the firm and its management is corporate reputation (Frombrun and Shanley, 1990; Deephouse, 2000). Adverse media reports on a business entity will incur 'reputation costs' (Dyck, *et al,* 2008) which the firm would hope to avoid as they can be highly damaging both financially and strategically. For example, shareholders would be displeased with an investment in a business exposed by the press as having engaged in financial fraud and may in all likelihood sell their investment or seek other forms of remedial action. These reputation costs are dependent on the probability of the news being received and believed by the relevant audiences and will vary with the newspaper. The effect of media coverage is also dependent on the probability of a punishment being enforced and the extent of the punishment, thus the media's role in appealing to politicians and legal authorities, vested interests and society in general, constitutes it as a monitor of companies. A manager's acknowledgement of the media's influence and the potential consequences prior to committing a corporate governance violation influences the actual occurrence, acknowledgement after committing the violation influences the possibility of a reversal or intervention. It is the later form of acknowledgement by companies that will be in investigated herein.

Commentary on the Media

The media provides information either by rebroadcasting or by investigative journalism (Miller, 2006). Investigative journalism is vital for early detection of corporate malpractice and the media may thus be considered to have a watchdog function. Reporting financial crime may put a 'downer' on the market (Toohey, 1996; Lloyd and Watson, 1999), this has resulted in a conflict between investigative and the market-driven journalism. Publishing information subsequent to its discovery by another party is also vital for arousing public awareness of corporate governance violations and in this capacity the press performs a monitoring role. Because so much is often demanded from the media, its resources and expertise is best used developing news once it has been uncovered (Lloyd and Watson, 1999). In order to be an effective monitor, the media must provide accurate and unbiased reports (Gentzkow and Shapiro, 2005). Lloyd and Watson argue that competition in the news market reduces bias, as being perceived as credible is desirable.

Furthermore, media independence has been positively correlated with objectivity (Besley and Pratt, 2006).

The Irish Newspaper Media

The Irish newspaper industry boasts five highly respected broadsheet newspapers, each with a notable readership (See Table 1). While each newspaper has its fundamental areas of interest in current affairs, a notable element of each paper is its focus on business and finance.

3. RESEARCH METHODOLOGY

Corporate Governance Violations

To assess the influence of the media on the management, investors and regulators of Irish listed companies it was necessary to determine a number of cases where such companies contravened best practice guidelines of corporate governance. The sample of articles employed thus differed to those used in previous studies, which were sourced mainly from the Anglo-American (Miller, 2006; Dyck, *et al*, 2008) and Russian newspaper media (Dyck, *et al*, 2008). Information on such cases was collected from newspaper articles obtained from the official online newspaper archives of five leading Irish broadsheet newspapers; The Irish Independent, The Irish Times, The Irish Examiner, The Sunday Independent and The Sunday Business Post. The latter specialises solely in business reporting while the other newspapers have divisions which provide specialist business coverage. These newspapers have the highest broadsheet readership and circulation in Ireland (Institute of Advertising Practitioners in Ireland, 2008; National Newspapers of Ireland, 2008) (see Table 1). Articles over a ten year timeframe of 1st July 1998 to 30th June 2008 were generated using a number of specified search terms listed in Table 2. A ten year time frame provides a sufficient period to fully assess the corporate practices of plcs listed on the Irish Stock Exchange and indeed the impacts of such practices on stakeholders such as those considered in this paper.

The criteria used to refine the sample size were as follows:

Criteria 1: The subject company of the article must have been listed on the Irish Stock Exchange at any time between 1st July 1998 and 30th June 2008.

Criteria 2: The article must discuss at least one of a number of important issues. These are (i) a contravention of the Companies Acts (1963-2006); (ii) a company's failure to comply with best practice guidelines; (iii) shareholder concerns with the management of a company; (iv) an investigation into a company by or the findings of a regulatory body; (v) penalties imposed upon a company or its members by a regulatory body or the legal judicial system; (vi) steps taken by the directors of a company to rectify a situation of poor governance.

Criteria 3: There must be a notable number of articles of a similar nature between the five publications regarding the violation. It is important to note that prior research provides no guidance as to the exact minimum number of articles that would warrant the inclusion of a violation case in the sample. While the minimum and maximum number of articles sought could be specified in the archive employed, it was observed that a minimum number of articles set to 7 provided an appropriate and workable sample size for the investigation.

Criteria 4: Articles must contain evidence to substantiate the opinion of the reporter or journalist so as to minimize the error of media bias.

The application of these criteria to the sample acted as a filter to identifying those Irish Listed companies that could be regarded as key violators of governance and those which would potentially have the greatest impact on the stakeholders examined in the paper. Consequently, 15 Irish Listed plcs were identified as having been the most prominent violators of corporate governance over the 10 year period studied. Details of the corporate governance violations in each of the fifteen cases are provided in Table 3. As Table 3 shows, in the 15 cases, common issues that were highlighted and reported in the newspaper articles were a lack of financial disclosure, insider trading, lack of board and director independence, questionable family connections within the company and board and significant corporate governance practices such as failure to split the roles of the chairman and CEO. One notes that these are all too often identified as being major problems in the corporate governance literature and a cause for concern for shareholders and stakeholders alike. Thus, it can be seen that the sample cases chosen are highly suitable for inclusion in this investigation. Additionally, while one may be inclined to assume that only high profile instances of fraudulent corporate activity are reported and highlighted by the media, it is encouraging to observe equally important, but arguably less 'sensational' issues (Jensen, 1979) such as director and board independence being considerably covered by the newspaper media.

Media Impact on Shareholders

The reaction of investors to violations was evaluated through analysis of the monthly reports of the Irish Stock Exchange. The exchange publishes statistical reports at the start of each month, based on market activity of the previous month, including the market share price for each listed company.

If the newspaper media acts as an information intermediary, *positive news* would be expected to lead to company shares being in greater demand, thus *increasing share price*; in the same way, *negative news* would be expected to instigate a disposal of shares, thus *reducing share price*. In this investigation, the newspaper articles identified for each violator plc were analysed in terms their focus – i.e. be it positive or negative news about the company in question. As table 3 has shown, each case was identified for inclusion in the sample based on the high incidence of articles reported at the time when the corporate governance violation was exposed. All such articles reported at these times were *negative* in that negative or critical reviews, comments and findings were reported for the sample companies as details of the corporate governance violation emerged. Therefore, one would expect in such instances, where management must take the ultimate responsibility for the corporate governance violation that the share price would decrease as the number of newspaper articles increases during the Newspaper Coverage Period, (NCP).

Information surrounding the NCP was provided and analysed in monthly terms. Consequently, this would suggest that as the number of articles covering a corporate governance violation increases per month, the magnitude of the monthly change in share price should increase in a negative direction. This hypothesis (H1) will be tested in this study. Data on share price and share price change was extracted from the monthly reports of the Irish Stock Exchange during the NCP for each corporate governance violator. Statistical analysis was then undertaken to test for evidence of a statistically significant relationship between the volume of negative newspaper coverage and their share price change.

More specifically, for each violator in the sample, for each month of its NCP, the number of newspaper articles was identified as was the share price change for that month as reported in the Irish Stock Exchange. Statistical analysis was then utilised to test for evidence of correlations between these two variables. Findings from this analysis are presented in the next section.

Media Impact on Policymakers

Dyck, *et al* (2005) posits that the media make government representatives more sensitive to the interests of general voters. If this theory applies to Irish Government; Irish policymakers would be expected to address the corporate governance issues covered in Irish newspapers. Reports from the official online archives of historical debates of the Irish Government were used to analyse the newspaper media's influence on government corporate policymaking. More specifically, evidence of correlations between the incidence of newspaper articles and the frequency of discussions by Irish policymakers, (Members of Parliament and Senators) was tested. As discussion of a violation in the main parliament indicates a greater possibility of legislative reform, such discussions were coded a score of 2, while discussions by Senators were coded a score of 1. For each of the 15 cases of corporate governance violations, the total number of discussions held was calculated, providing an overall indication of the extent to which the violation warranted a consideration by those in the seat of power. The study then tested for evidence of correlations between this total score and the total number of newspaper articles published regarding the corporate governance violation in each case. This allows possible relationships between the collective score for each case and the national newspaper coverage of each case to be examined.

It is also important to consider the international dimension in this regard. Dyck, *et al* (2008) put forward that when a violation is criticized by the international press, politicians feel obligated to condemn it in order to preserve their international political reputation. Two further leading international newspaper publications which are recognised as credible sources of corporate information were therefore employed. The Wall Street Journal and the Financial Times were chosen based on their use in prior research (Miller, 2006; Dyck, *et al*, 2008) and on their readership within the business community (Ipsos Mori, European Business Readership Survey 2006). Consequently, as a means of yielding further insight into the role of the media at an international level and its influence on policymaking, the study seeks to ascertain whether any association exists between the total collective score for policy discussion surrounding each corporate governance violation by the Irish listed plcs and the incidence of newspaper coverage in these two publications. This allowed for an analysis of the influence of the international media on policymaking activity using the same time parameters and search terms as were used for domestic newspapers. The same methodology as described above was also applied using archived international newspaper articles.

Media impact on Boards of Directors

This paper adds to the literature by examining how the media acts as a controlling device in the modern company. The focus of this study is on a series of key actors in the corporate environment; namely shareholders, policymakers and the board of directors. As argued above, it is asserted that coverage of corporate governance violations may influence share price and policymaking. Furthermore, coverage of such cases may lead to directors, as stewards for the company's assets, taking remedial actions in light of the exposure the firm receives when the corporate governance violations are made known to the public. Accordingly, it is argued that the incidence of newspaper coverage on corporate governance violations may be associated with the levels of director activity in the wake of publication of such violations. Examination of the effect of newspaper coverage on board member activity, behaviour and actions is essentially based on the premise that violation coverage causes the company to incur reputation costs. Assuming that directors recognise that corporate reputation is a valuable intangible asset (Itami and Roehl, 1987), which if damaged may impair relationships with a number of stakeholders and ultimately devalue the company, they would be expected to reverse the violation or minimise any damage caused by implementing reform (Dyck *et al,* 2008). While a director would be expected to take such actions as part of his duty to protect shareholders, it is worth noting that adverse media coverage should further motivate directors to take remedial action as it has both personal and professional effects in that (i) devaluation of the company due to a damaged corporate reputation may impact on remuneration levels and (ii) being seen as an ineffective director, who has failed his shareholders, may impair future employment opportunities (Gomes, 2000; Dyck *et al*, 2008).

Unlike the previous aspects of this study, the daily actions of directors cannot be directly observed. To overcome this problem, this study examines for evidence of remedial action taken by the board following the publication of articles about the corporate governance violations. Therefore, to provide a measure of director action following the corporate governance violation, newspaper articles were analysed to assess the extent to which the directors of the plc adequately addressed the corporate governance violation reported. As one would expect, such remedial action does not occur immediately. However, from an appraisal of the data, the maximum time period taken by the directors of the companies to deal with any issues was two months. In companies where no changes were implemented by directors, a score of 0 was assigned. In companies where partial changes were implemented by directors, a score of 1 was applied. In companies where all possible actions were taken by directors to address the corporate governance violation, a score of 2 was assigned.

For each corporate governance violation case, evidence of correlations between the assigned score and the number of newspaper articles covering the violation was tested. It is important to note that the number of newspaper articles on the corporate governance violation was extended for a further two months (to NCP + 2) to match the time period for observing board of director actions. Articles published between (NCP) → (NCP+2), many of which were of a positive nature, were used only for qualitative purposes and were not included in the aggregate tested for correlations, as it is the effect of *negative* newspaper coverage on the directors' actions which is of interest in this part of the study.

4. DATA ANALYSIS

Measurement of newspaper coverage of each case identified.

So as to fully determine the newspaper coverage of each violation, individual time windows were assigned to all fifteen cases. The logic of the time windows is explained in Table 4. Using two specific search terms; (i) the name under which the company is listed on the Irish Stock Exchange and (ii) a concise description of the violation (as listed in Table 3), the five newspapers were searched over the specified time window for the case. The results obtained were refined on the basis of the criteria listed in Table 5. The publication date and newspaper source for each article was recorded so that the number of articles per violating company per month could be calculated.

Assessment of the impact of the newspaper media on investors.

Having defined time parameters for each case in the previous phase, share price data from the Irish Stock Exchange's monthly reports was used to calculate the monthly share price change for each month, correlations between the total number of articles published and the most notable negative share price movements in the sample firms were tested. Correlations between the most notable percentage increase press coverage in the sample period and the highest negative deviations from share price average in the period were also tested.

Measurement of the influence of newspaper coverage of corporate governance violations on the formulation of policy.

Using the same search parameters as in the previous phase, the archives of the Irish Houses of Parliament, Oireachtas na hEireann, were searched over the NCP for each case. The house in which the issue was debated and the date on which each debate occurred were recorded for each case. For each case, it was ensured that at least one discussion included a reference to newspaper coverage of the violation. As discussion of a violation in Dail Eireann indicates a greater possibility of legislative reform, Dail debates were coded a score of 2, while Seanad debates were coded a score of 1. The correlations between the total score for each company and the number of newspaper articles for each were examined for statistical significance. The media's role in the creation of corporate legal policy in Ireland could thus be assessed in quantitative terms.

Examination of international coverage of corporate governance violations by Irish listed plcs.

The same brief search terms employed in the search of the Irish newspaper archives were used to search the archives of the Wall Street Journal and the Financial Times. The numbers of international newspaper articles were added to the numbers of domestic newspaper articles for each case and correlations between the total score for each and the number of newspaper articles for each were examined for statistical significance.

Determination of the influence of the newspaper media on directors.

Newspaper articles regarding the companies concerned in each of the fifteen cases during the period (NCP) to (NCP + 2) were studied to assess the nature of reforms put in place by directors and each case was coded on the basis outlined in Table 8. The reform codes (C1) for each case are listed in Table 9. Correlations between coverage of corporate governance issues by newspaper media during the NCP and the level of remedial action taken by the firm post exposure as identified in the media (between NCP and NCP + 2) were then tested.

5. RESULTS

Identification of Violations

The initial search revealed fifteen different corporate governance violations by Irish listed plcs which occurred within the ten year timeframe. Refinement of these results allowed the entire sample to be studied as all fifteen cases satisfied the criteria described in Table 5. Twelve of the company violations, 80 per cent, were the subject of at least 30 articles, six of which were the subject of over 100 articles, providing a rich sample for analysis.

The Impact of the Newspaper Media on Investors

Statistical analysis of the relationship between monthly volumes of newspaper coverage of corporate governance violations and the change in share price of each company on the Irish Stock Exchange for the corresponding months revealed a negative average share price change by end of reporting period for companies. A significant positive correlation between the total number of articles published and the most notable negative share price movements in the companies in the sample and a significant positive correlation between the most notable percentage increase press coverage in the sample period and the highest negative deviations from share price average in the period provides evidence to support the argument that the amount of negative newspaper coverage a company receives regarding its corporate governance practices effects its share price, as investors lose confidence in management and the board of directors. However, on a company by company basis, tests mainly reported no statistically significant correlation between metrics regarding share price and the volume of newspaper reporting

The Impact of the Newspaper Media on Policymakers

A search of the archives of the debates of the Irish Government showed that six of the 15 violations were debated by Irish policymakers. Correlations between the total score for each company in the sample and the number of newspaper articles for each company showed that levels of newspaper coverage is positively and significantly associated with higher levels of discussion by policy makers at the level of the main parliament and also at total government level. The initiation of discussion coincided with newspaper coverage of the issues exposed.

The Impact of the International Newspaper Media on Policymakers

If international press articles on the companies are included, the above finding holds also. As is evident from Table 7, five of the six violations which initiated political debate in Ireland (over 83 per cent) had received international media coverage, providing strong evidence to indicate that international media coverage does influence Irish political agendas. It is believed this is due to the desire of Irish policymakers to maintain international professional reputations.

The Impact of the Newspaper Media on Directors

Quantitative evaluation of corrective measures instituted by company directors following media coverage of violations illustrated that in 53.33 per cent of cases, directors instituted full reform (C1 = 2). In 40 per cent (six cases), partial reforms were implemented (C1 = 1) and 6.66 per cent (one case) the board failed to institute any reform (C1 = 0). However, correlations between coverage during NCP and the level of remedial action taken by the firm post exposure as identified in the media between NCP and NCP + 2 lacked significance.

6. DISCUSSION

Corporate Governance Violations by Irish Listed Plcs

With the vast majority of violation cases in the sample being the subject of at least thirty newspaper articles, it appears that the Irish newspaper media feel it is worthwhile to provide coverage of violations of corporate governance. However this fact alone does confirm the role of the media as a monitor of corporate governance and a discussion of the results from the main body of the research is necessary to achieve a complete understanding of how the Irish newspaper media influences shareholders, policymakers and the directors of companies. Nevertheless a number of issues which became immediately apparent in this research are worth mentioning. In all fifteen cases, reports were *ex-post,* that is to say that newspaper coverage began only after the violations were disclosed or exposed by another party, casting doubt over the Irish newspaper as a corporate watchdog. Monitoring is still possible by providing ex-post coverage as it alerts activist shareholders of corporate managerial behaviour, thereby alerting them to the need to either exit the company or to perform their own roles as monitors as has been encouraged by Coffee (1984) and Black (1997). Furthermore, ex-post coverage of the consequences faced by companies who failed to comply with best practice guidelines may alert peer companies and promote best practice in corporate governance as a corporate norm; this is seen as fundamental to a partially-mandatory system of corporate governance (Anand, 2005), such as the one in place in Ireland.

The Impact of the Newspaper Media on Investors

This study has provided evidence to suggest that exposure of corporate governance issues adversely affects share price. This is indicative of failing investor confidence in management and the board. As this investigation has only considered those who dispose of their shares, the power of the media over shareholders who choose 'voice' over 'exit' (Hirschman, 1971) remains to be explored.

The Impact of the Newspaper Media on Policymakers

The results reported herein go some way to proving that the newspaper media has a direct influence on the creation of corporate policy in Ireland, it is also worth noting that Irish policymakers referred to corporate governance covered by the newspaper media violations on 39 occasions over a ten year period and also that although policymakers only discussed six of the cases in the sample during plenary sessions, these violations had received the highest volumes of newspaper attention. These observations further indicate that the newspaper media do have some influence over guardians of the corporate legal and regulatory infrastructure in Ireland. To conclusively substantiate the theory of Dyck *et al* (2005) that by creating concern among the public, the media propel issues to the top of political agendas may require inclusion of an indicator of the behaviour of the voting public based on exposure to the newspaper media.

The tendency of policymakers to take somewhat of a laissez-faire approach, only giving attention to corporate governance issues when intervention becomes necessary and their lack of prior focus on preventative measures were evident in this study. Policymaker attention was found to have mostly focused on violations of Section C of the Combined Code, which deals with accountability and audit. Adding to recommendations to Irish policymakers made from previous research (Brennan and McDermott, 2004), it is suggested that more foresight is required in relation to corporate governance of companies operating in the country, including areas such as remuneration and board structure.

The Impact of the International Newspaper Media on Policymakers

As levels of newspaper coverage from Ireland and abroad is positively and significantly associated with higher levels of discussion by policymakers, it is possible that the international media further motivates political action on issues of corporate governance within Irish listed plcs. The fact that over 83 per cent of the violations which were subject to discussion by the Irish Government had been reported on in the international media indicates some international influence on Irish corporate policymakers' agendas. A thorough examination of this influence would be likely to take a more qualitative approach and would require interviews with corporate policymakers to be undertaken.

The Impact of the Newspaper Media on Directors

The prevalence of director instituted reversals and remedial measures in companies which received significant newspaper coverage indicates that by reporting on corporate governance violations, the Irish newspaper media influences these actions and company directors therefore perceive the media as a monitor. Consistent with this, analysis of Stock Exchange data revealed that for all of the companies whose boards implemented reforms following newspaper coverage of their violations, the change in market share price returned to the positive direction, suggesting that reforms by Irish listed plcs are at least partially due to the boards' desire to restore the company's reputation its with shareholders and improve stock market performance (Vergin and Qoronfleh, 1998). As the newspaper sample employed herein was credible and specialised to some extent in business coverage, findings support the theory of Dyck *et al* (2008) that reputation cost and hence reform is dependent on the probability of the news being received and believed by the relevant audiences. A more detailed analysis of the reforms implemented within companies may allow this relationship to be proven statistically.

7. CONCLUSIONS AND AVENUES FOR FUTURE RESEARCH

This study has initiated a validation of the role of the media as a monitor of corporate governance practices in Ireland. Firstly, it provides evidence indicating an inverse relationship between newspaper coverage on violating companies and their share prices. Future research will control for alternative drivers of share price, such as company events such as announcement of dividends or economic events, so as to ascertain the media's influence. Other actions shareholders take in response to media reports should also be assessed. Such research may be more exploratory in nature and possibly involve discussions with members of activist investment institutions.

Trends in this study indicate that due to its ability to control political reputation, the media can indirectly monitor corporate governance practices in Irish companies by drawing the attention of international politicians to aspects of the corporate legal and regulatory infrastructure which require the attention of Irish governmental policymakers. A further indirect influence may also become apparent from a study of the media's influence on the voting public; such a study would include an assessment of any changes in the level of political attention nearing election periods.

Finally, it must be noted that despite the lack of statistical verification of a direct media influence on the directors of Irish listed plcs, the high level of remedial action taken by directors following newspaper coverage of corporate violations within their companies, the present authors posit that the influence of the media on the directors in Irish listed companies arises from its ability to control the resource of corporate reputation. As not all of the corporate governance guidelines discussed in this article apply to unlisted Irish companies, a comparative study with a number of large unlisted Irish companies may allow for an enhanced understanding of the media's role in prompting directors to attend to governance problems within their companies.

Links between newspaper companies and violating companies through board membership or major shareholdings is an interesting facet of this topic which must be examined and may allow for an enhanced evaluation of the levels of bias and objectivity in business reporting by Irish newspapers.

An examination of the effects of alternative media forms may also provide further insight into the corporate governance role of the media; possible avenues to explore include the growing wealth of online media. Existing research on the role of the internet in corporate governance thus far has considered how online proxy voting can combat collective action problems (Noack and Zetzsche, 2005); shareholders' use of internet for access to information on company activities including governance violations from sources outside of the company has yet to be examined.

This study has initiated a much broader investigation of how the media acts as an intermediary through which shareholders, policymakers and company directors receive information on governance practices and has gone some way to confirming that the media plays a significant role in corporate governance. Along with providing insight into decision-making by investors, policymakers and regulators, findings may also have implications for the media management and public relations skills of directors of Irish companies.

APPENDICES

Table 1: Readership of Newspaper Sample		
Newspaper	**Readership (readers per day*/week**)** *(Source: JNRS/Landstown)*	**Circulation (copies per day*/week**)** *(Source: National Newspapers of Ireland)*
The Irish Independent*	520,000	156, 987
The Irish Times*	317,000	116,861
The Irish Examiner*	202,000	53,368
The Sunday Independent**	941,000	276,693
The Sunday Business Post**	155,000	55,482

Table 2: Initial Data Search Terms

Provided below are the search terms used to identify the initial data sample used in the study. For each search term listed below, a brief description of the rationale for the term's inclusion is provided.

Search Term	***Description***
Corporate governance	Critical commentary of a company's corporate governance practices by the author or referred to the opinion of the regulatory bodies concerned with the case.
Accounting practices	Concerning cases where the annual financial reports or interim results of Irish companies were not prepared in accordance with the Companies Acts (1963-2006) or the recommendations of the listing rules of the Irish Stock Exchange or appropriate best practice guidelines.
Disclosure	Regarding cases where the directors of companies failed to disclose the activities of and decisions taken by the board of directors, the remuneration committee, the audit committee and the nomination committee to shareholders.
Independence	Concerning companies whose external auditor or whose board of directors, nomination committee, remuneration committee or audit committee could not be considered independent under the Companies Acts or best practice guidelines.
Performance	Criticisms of the performance of companies, due to the neglect by the board of directors, or criticizing the performance of a company's directors as agents of its shareholders.
Shareholder concerns	Additional articles not obtained in the previous search, regarding cases where a company's shareholders were not entirely satisfied that their interests were safeguarded by the board of directors.

Table 3: Details of Corporate Governance Violations in Sample

Presented below are summary details of the corporate governance violations in the sample cases in the investigation. Company names remain anonymous. The below data also indicates the number of newspaper articles found on each company violation over the 10-year period examined (n), the nature of the violation by each company as identified in the newspaper news archive employed in the study, and the main violation Newspaper Coverage Period (NCP). The NCP was identified as being the time period, in months, in which the highest incidence of newspaper coverage was provided on the corporate governance violation in the sample company.

Case	n	Violation	NCP
1	110	Lack of financial disclosure	Dec 2002- Dec 2003
2	319	Lack of financial disclosure	Jul 2003-Nov 2004
3	135	Lack of financial disclosure/Auditor competence	Feb 1999-Feb 2000
4	31	Insider trading	May 2002-Sept 2002
5	296	Insider trading	Oct 2001- Jun 2008
6	7	Irregular financial accounts	Apr 2005- Aug 2005
7	34	Alleged insider trading	Apr 2001- May 2002
8	270	Neglect of shareholder interests	Oct 1999- Nov 2001
9	233	Lack of financial disclosure	Nov 2001- Dec 2004
10	35	Lack of financial disclosure/Suspected insider trading	June 2008
11	20	Board Independence/ Lack of financial disclosure	Jul 2003- Nov 2007
12	41	Board independence/ Failure to split the roles of chief executive and board chairman/ Director remuneration	Jan 2003- May 2008
13	65	Family connections on the board of directors/ Dual role of chief executive officer and board chairman	May 2001- Aug 2002
14	98	Family connections on the board of directors/ Insider trading	Apr 1999- Mar 2005
15	8	Family connections on board of directors/ Board structure/ Remuneration and audit committee	Nov 2002- Sept 2004

Table 4: Definition of Time Windows

Term	Explanation
(NCP)	**Main coverage of the case:** The period includes: • Announcement of the violation or alleged violation in the media by the regulatory authorities concerned or by the company itself, • newspaper coverage of any relevant investigations conducted by the regulatory authorities, • coverage of penalties enforced by the regulatory authorities or by the legal judicial system. • coverage of any efforts made by the company's management to rectify the situation and compensate any parties affected. **Media monitoring duties:** to assess the reaction of the company's directors to the legal and regulatory procedures resulting from the corporate governance violation and to assess the effectiveness of any remedial measures put in place by the company. In performing these duties the media should also deter peer-companies from committing similar corporate governance violations by providing coverage of the consequences faced by the company.
(NCP – 2)	**Investigative period**: A period of two months preceding the announcement of the violation or alleged violation is allowed to include any indications of unusual behaviour by the company, such as sudden resignations by directors or auditors, above- or below- average financial results or significantly high or low volumes of share trading which may have led to suspicions of journalists or the investigative media. **Media monitoring duties:** to perceive market signals and investigate potential violations of corporate governance. ***No relevant articles were found during this period for any cases studied***
(NCP + 2)	A period of two months subsequent to the main coverage of the case is allowed for any ex post mentions of the violation so as to assess the media's role in influencing the reputation of a company and to assess how the existence of such coverage deters other companies from similar violations. **Media monitoring duties:** to report on the company's compliance with best practice guidelines and on measures

Table 5: Criteria for refining articles during case-specific search

The four criteria listed below were used to ensure that the issues addressed in the sample of articles were relevant to the study, i.e. that they ***specifically*** *detailed corporate governance violations by Irish listed plcs. They were also used to ascertain that the articles were timely and objective.*

- The name of the company must be directly stated in the body of the newspaper article.
- Articles selected must have appeared in one of the five Irish newspapers between the times (NCP – 2) and (NCP).
- Articles published during (NCP) must directly relate to the corporate governance violation by the company.
- Any opinion included in an article between (NCP - 2) and (NCP) must be substantiated by evidence so as to minimize the error of media bias.

	taken to prevent a reoccurrence of a similar incident and to evaluate the effectiveness of any such measures.

Table 6: The Influence of Newspaper Coverage of a Corporate Governance Violation on its Discussion in the Oireachtas

The number of sessions of the two Houses of Parliament where corporate governance issues were debated following the occurrence of one of the fifteen violations are tabulated below. As Dail debate indicates a greater probability of legislative reform, a Dail session contributes a score of two to the 'Overall Policymaker Attention' score, while discussion in the Seanad contributes a score of one. The total number of newspaper articles covering each case is also listed so as to compare policymaker attention with media attention.

Case	Dail Mention	Seanad Mention	Overall Policymaker Attention	Violation Coverage (No. Articles during NCP)
1	1	0	2	110
2	1	0	2	319
3	0	1	1	135
5	2	1	5	296
8	20	9	49	270
9	2	2	6	233

Table 7: International Newspaper Coverage of Corporate Governance Violations in Irish Listed plcs

The following provides a breakdown of the amount of attention given by the International newspaper media to the sample violations. The two International media bodies analysed were used due to their rankings in the Ipsos Mori European Business Readership Survey, 2006 and also based on their successful employment in previous research (Miller, 2006; Dyck, et al., 2008). So as to detect an International media influence on corporate policymaking, the corresponding aggregate policymaker attention score is also listed for each case.

Case	Wall Street Journal	Financial Times	Total International Coverage	Policymaker Attention	Wall Street Journal
1	9	10	19	2	9
2	10	0	10	2	10
5	0	12	12	5	0
8	1	0	1	49	1
9	7	8	15	6	7
10	2	0	2	0	2
11	2	0	2	0	2
12	0	3	3	0	0
14	0	2	2	0	0

Table 8: Criteria for Coding Company Reforms *The following is a list of possible remedial actions directors of Irish listed plcs might take. The amount of action required to achieve a reform score of 0, 1 or 2 is also explained.*	
Score	**Reform**
0	No remedial action taken by the company's management or directors.
1	Partial reform: at least one of the following remedial actions taken; • dismissal or reprimanding of parties involved in the violation, • new appointments to the board of directors, • appointment of a new external auditor, • provision of compensation to parties affected, • institution of measures preventing a recurrence of a similar violation, such as establishment of a new audit or remuneration committee • following company specific recommendations by the relevant regulatory authorities, • enhanced compliance with best practice guidelines, • adjustment of the company accounts.
2.	Full reform; all appropriate actions taken by the company's directors and management.

Table 9: Board Reforms	
Case	**Reform Code (C1)**
1	2
2	2
3	2
4	0
5	1
6	2
7	2
8	1
9	2
10[9]	1
11	1
12	1
13	2
14	1
15	2

*Company Balance Sheet Not Available.

[9] Case 10 was assigned a code of one on the basis that the accounting violation in the company was only announced shortly before the beginning of this research and while no reform has yet been implemented sufficient time could not be allocated to allow for such measures to be taken by the company's board

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