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Business failure and mass media: An analysis of media exposure in the context of delisting event[☆]

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ABSTRACT

It is understood that the mass media are a pervasive force in shaping the public's perceptions. This paper incorporates agenda-setting theory to explore whether and to what extent that the mass media can signal business failure. In an analysis of news coverage relating to Chinese underperforming listed firms over the period 2006–2017, it is demonstrated that firms whose stocks are put under "special treatment" status due to consecutive annual losses experience (*ST) greater news volume and lower news sentiment relative to other firms in the quarter in which the "delisting risk warning" announcements are made. Furthermore, *ST firms which are eventually delisted have a greater volume of news than other *ST firms, but we find no evidence that the sentiment of news relates to termination of listing. Our findings offer insights into the informativeness of the mass media and their agenda-setting effects in the business failure context.

1. Introduction

Scholars in the field of communication have long recognised the mass media's socio-economic imperative, which exerts widespread influence on individuals and society. For example, media attentiveness to policy issues offers the public accessible information about the political environment and activities. While the media framing may not be able to change individual opinions about a certain issue, it has an impact on their perception of the collective salience of the issue and the dominant view which prevails within their communities (Mutz & Soss, 1997). In addition to acting as an agent which reports reality, the mass media are one of the information systems that are involved in shaping opinions and affecting people's behaviour and social actions (Ball-Rokeach & DeFleur, 1976; Fombrun & Shanley, 1990). Through editorials and feature articles, the mass media set the agenda for the public by telling people what issues to think about, and more importantly, how to think about these issues (Carroll & McCombs, 2003).

In the business field, the mass media also play a critical role. Prior studies have discovered that media disclosures and narratives may affect stock returns (e.g. Fang & Peress, 2009), corporate reputation (e.g. Carroll & McCombs, 2003; Wartick, 1992), corporate social responsibility (e.g. Grafström & Windell, 2011; Zyglidopoulos, Georgiadis, Carroll, & Siegel, 2012) and the survival of an organisation in field-wide crisis (e.g. Desai, 2011). Extensive media coverage of particular firms, issues, or events implies a prominence in the public agenda which is likely to influence stakeholders' and the public's impressions of firms (Pollock & Rindova, 2003). Moreover, given the presence of information asymmetry, stakeholders and onlookers largely rely on information intermediaries to make inferences and assessments about a firm and its status (Deephouse, 2000). The market will not react to business events such as bankruptcy until relevant information is widely disseminated by major news media (Dawkins & Bamber, 1998).

For decades, scholars have been studying the antecedents and consequences of business failure. Yet the existing literature in organisational research has documented limited evidence regarding the role of the mass media in business failure. Prior studies tend to explore media views on failure causes (e.g. Johnson, 2000) and how firms react to failure by influencing media exposure (e.g. Desai, 2011; Zavyalova, Pfarrer, Reger, & Shapiro, 2012), but there is little discussion on how the behaviour of information intermediaries such as the mass media potentially reflect and connect with business failure events. Given the increasing attention on the mass media in the business arena, this study aims to address this lacuna in our understanding by exploring the role of the mass media in business failure events. We are particularly interested in media visibility and news sentiment of underperforming firms in the Chinese stock market.[1]

The reason for our focus on the Chinese stock market is mainly

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[1] In the management field, media visibility is often referred to as media attention (Zyglidopoulos et al., 2012). In this study, we follow this definition and use the term "media visibility" to denote the quantity and intensity of media coverage of a firm.

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because of its unique regulatory environment which provides a natural setting for testing media effects. Since the establishment of the Chinese stock market, various laws and regulations have been implemented in order to protect the interests of investors. Among them, the Rules Governing the Listing of Stocks on Shanghai Stock Exchange (2014) and the Rules Governing the Listing of Stocks on Shenzhen Stock Exchange (2014) both contain a provision called 'special treatment'. For example, the relevant provision in Rules Governing the Listing of Stocks on Shanghai Stock Exchange (2014) states that the stock exchange will issue a 'special treatment' in the form of a delisting risk warning (DRW) regarding the stocks of a listed firm which has suffered two consecutive annual losses.[2] The DRW entails "putting a *ST before the short name of a stock to make a distinction from other stocks and imposing a five percent daily up and down limit" (Rules Governing the Listing of Stocks on Shanghai Stock Exchange, 2014, Chapter XIII, Section 1). In addition, a firm needs to announce the DRW on the trading day immediately preceding the date on which the DRW will be issued in relation to its stocks. The 'special treatment' policy is used to highlight the risk represented by underperforming listed firms and to restrict trading in their stocks. Firms under the status of 'special treatment' (*ST firms) with a further loss in the third fiscal-year will be suspended from listing and those firms that are still in the red in the fourth year will be terminated from listing. This policy is almost exclusive to the Chinese stock market (Jiang & Wang, 2008). In relation to this, we are able to test the informativeness of the mass media at the time of ST events and identify the differential impact of media exposure on delisted *ST firms as compared to that on non-delisted *ST firms.

This paper first contributes to the organisational study regarding business failure with an empirical analysis of how the mass media relate to firms' underperformance. Specifically, we examine underperforming firms' media exposure in terms of visibility and sentiment and how such media exposure relates to termination of listing. Through the theoretical development and empirical analysis, we provide a clearer picture of the role that the mass media play in the business failure context, which responds to the call for the investigation of the interdependency between firms and the mass media (Carroll & McCombs, 2003). Next, moving beyond using media narratives to identify failure causes (e.g. Cardon, Stevens, & Potter, 2011; Johnson, 2000; Mantere, Aula, Schildt, & Vaara, 2013), our study adopts a sentiment analysis approach to investigate business news. Opinion mining enables us to detect the media sentimental orientations and also attitudes towards business events and thus explore their potential relation to business failure. In addition, we extend the strand of communication research by testing for agenda-setting relationships between the media and business failure. Our results indicate that the mass media form investors' perceived severity of firms' underperformance by selecting which firms to cover, but we find no evidence that the way the mass media frame the story relates to the survival of underperforming firms. The insights from this study advance our understanding of media exposure and agenda-setting in the business sphere.

The remainder of the article proceeds as follows. We first provide an overview of related literature on business failure and media exposure, based on which we develop our hypotheses. Data collection and the sentiment analysis approach are then presented, followed by results and discussions. The last section concludes.

[2] A special treatment may be either a DRW (putting a *ST before the short name of stocks) or other kinds of special treatment (putting an ST before the short name of stocks). The occurrence of consecutive annual losses is the dominating cause for special treatment (Jiang & Wang, 2008). In addition, stocks of firms could also be put into ST or *ST status upon the occurrence of other circumstances. See Rules Governing the Listing of Stocks on Shanghai Stock Exchange, 2014, Chapter XIII, Section 2. In this study, the issuance of special treatment is referred to as "ST event" and we use the term "*ST firms" to denote firms whose stocks are under special treatment due to consecutive annual losses.

2. Related literature and hypothesis development

2.1. A retrospective of business failure

In the current literature, business failure has been defined and operationalised in various ways. According to Ucbasaran, Shepherd, Lockett, and Lyon (2013), the scope varies from being narrow, only covering bankruptcy, to broad, encompassing discontinuance of the business and discontinuance of ownership. While the bankruptcy view emphasises a firm's poor economic performance (Shepherd & Haynie, 2011), the discontinuance of business highlights cessation of operations and loss of identity (Amankwah-Amoah, 2016). Besides these, a broader definition views business failure as the discontinuance of ownership (Everett & Watson, 1998; Watson & Everett, 1996). This focuses on the exit of entrepreneurs who close or sell the company due to insolvency (Shepherd, 2003), underperforming against owner's expectations (Gimeno, Folta, Cooper, & Woo, 1997; Ucbasaran, Westhead, Wright, & Flores, 2010) or personal reasons (e.g. retirement, health concerns, wishing to move on to another business or career opportunity).

In addition to business closure, a nuanced perspective on business failure considers the underperforming survival firms (Khelil, 2016). Such firms experience a downturn in business performance yet persist over a long period (Meyer & Zucker, 1989). Persistently underperforming firms may have greater destructive effects on resources allocation and utilisation than insolvent ones that exit the market and this may lead to damaging impacts on the economy (Baumol, 1996; DeTienne, Shepherd, & De Castro, 2008; Khelil, 2016). However, some entrepreneurs decide to continue a business despite the fact that the business falls short of expectations or thresholds for economic viability. Such persistence in underperforming firms and, on the opposite extreme, the dissolving or offloading of a business even when it is performing well, can be partly attributed to "entrepreneur's motivation, commitment and aspiration" (Khelil, 2016, pp. 75). Explanations of business failure at the individual level focus on psychological factors, in particular the disappointment or lack of satisfaction elicited by gaps between actual performance and expectations (Cooper & Artz, 1995).

Going beyond the emotive approach, research on the antecedents of business failure has seen a clear divide between the voluntarist and the determinist perspectives (Khelil, 2016). The voluntarist perspective attributes failure to factors at the firm level. This approach, relying on the resource-based view and the upper-echelon perspective (see Amankwah-Amoah, 2016), suggests that the fundamental causes of failure are manager's perceptions, decisions and actions (Mellahi & Wilkinson, 2004). It argues that failure is a result of top management poor performance, inaction and/or deficiencies in managerial resources, rather than the institutional and industrial constraints that all firms in the marketplace are confronted with. In sharp contrast, the determinist perspective posits a vital role for the external environment. This tranche of research assumes that organisations' leaders have little or no control over exogenous factors (Moulton, Thomas, & Pruett, 1996) in the changing environment. Nevertheless, recent studies have recognised that these two polarised views in isolation offer limited explanation for business failure which calls for an integrative approach (Mellahi & Wilkinson, 2004). In this study, we follow an integrative view and a broader definition of business failure that covers underperforming organisations.

2.2. Mass media agenda-setting

The mass media means, essentially, "any communication channel used to simultaneously reach a large number of people, including radio, TV, newspapers, magazines, billboards, films, recordings, books, the internet and smart media" (Wimmer & Dominick, 2013, pp. 2). Mass communication researchers have concluded that the mass media have a significant influence on people through changing, reinforcing, or shaping their attitudes and behaviours (see e.g. Hindle & Klyver, 2007;