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CORPORATE INTERMEDIA AGENDA-SETTING POWER: IMPRESSION MANAGEMENT USE OF PRO FORMA EARNINGS AND TONE

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Corporate intermedia agenda-setting power: Impression management use of pro forma earnings and tone

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Corporate earnings press releases provide companies a means to present their quarterly financial information and perhaps influence perceptions of stakeholders. This study explored the use of pro forma emphasis and affective attributes on corporate disclosure in earnings releases compared to the local and national newspaper coverage of those earnings. Intermedia agenda-setting effects were identified using an analysis of 207 companies. These effects were used to explore the relationship between the corporate and media agendas and reputation. The findings indicate that the tone in corporate earnings releases combined with the length of local and national coverage had the best relationship with reputation.

Dedication

This dissertation is dedicated to my grandmother
Ruth Byford.

Acknowledgement

Years of work have led to the writing of this dissertation and there are many people that helped me get to this point. My deepest gratitude and sincerest appreciation go to Dr. Don W. Stacks, for his guidance and support.

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CHAPTER I

Introduction

In 1922, Walter Lippmann argued that the function of mass media was to bridge the world outside with the pictures in our heads. Over the years, many researchers have attempted to explain this concept and out of this agenda-setting theory grew. Although typically applied in political communication, this theory has application in corporate communication. It is especially important to ask how the media are influencing the pictures in our heads in this era of corporate scandals.

High profile corporate scandals caused by unethical conduct, including those at Enron and WorldCom, have resulted in stakeholder demands for improved corporate transparency and disclosure (Bernardi & LaCross, 2005). This malfeasance has not only threatened the reputation of the involved companies but also provoked critical doubt in the legitimacy of corporations in general.

These recent accounting scandals have heightened public scrutiny of accounting disclosures and led to the implementation of the 2002 Sarbanes-Oxley Act. This Act was designed to "demonstrate to investors a commitment to fairness and integrity in corporate America" by deterring corporate misconduct and restoring investor confidence (Shelby, 2003, para 3).

Given the recency of these events and governmental actions, corporate responses to these scandals are varied. Of course corporations are implementing the necessary actions to comply with financial laws, but how they are working to restore confidence is unclear.

Given such low levels of approval and trust, the need for a more strategic approach to communication becomes imperative as companies strive to differentiate themselves. With reputation and legitimacy on the line, companies must go beyond regulatory requirements for disclosure.

Corporations have multiple stakeholders, and their communication must be responsive to all of them. A strategic communication approach attempts to tie its activities to both financial and behavioral outcomes. On the financial side, senior managers are increasingly interested in measuring communication activity in terms of market value. Ultimately, corporate disclosure is an asset that can impact much more than performance: It can influence the behavioral outcomes of legitimacy and reputation (Deephouse & Carter, 2005).

Companies have many options in how and what they communicate. The annual earnings release is one tool corporate managers use to communicate to stakeholders. This disclosure tool has been characterized as "the major news event of the season for many companies as well as investors, analysts, financial media, and the market" (Mahoney & Lewis, 2004, p. 137). Most often the earnings release is sent to wire services in hope of gaining media coverage (Marcus & Wallace, 1997). Typically, analysts and large institutional investors have direct access to these wire services, so average investors and other stakeholders will most likely get their information as it is interpreted by media sources such as *The Wall Street Journal* (Bowen, Davis, & Matsumoto, 2005). Therefore, the content of earnings releases have the potential to influence analysts and large institutional investors directly or through the media coverage of the earnings.

In addition to using earnings releases to communicate standard performance figures, companies often provide greater depth by using pro forma earnings. Pro forma earnings are earnings that have been adjusted in a way not recognized by generally accepted accounting principles (GAAP). For example, a company may want to adjust its net income to reflect what it would have been if it did not have a loss on the sale of an asset (Bradshaw & Sloan, 2002). This takes the GAAP figure of net income and provides pro forma earnings as defined by that individual company. Some critics have suggested that pro forma reporting is done primarily to make the company look better or more profitable, as opposed to providing value relevant information (e.g., Byrnes & Henry, 2001; Teach & Reason, 2002).

This potential to mislead stakeholders has led to the criticisms that label the reporting of pro forma earnings figures as a means to create reality through the use of impression management. Research has found that corporate managers have incentives to present their company's performance in the best light possible, potentially resulting in selective financial communication (Tweedie & Whittington, 1990). This selective communication can have monumental results because according to past mass media theory focusing on agenda-setting findings, the selection and emphasis of particular information focuses the public's attention and influences its perceptions (McCombs & Shaw, 1993).

The purpose of this study is two-fold. First, this study sets out to determine if corporations set the media's agenda for the reporting of annual earnings. This is accomplished by examining the corporate annual earnings releases of 207 companies for pro forma emphasis (building on the research by Bowen, Davis, & Matsumoto, 2005), and the tone of the disclosure (using the model designed by Henry, 2006). After the corporate agenda is identified, the same analysis is conducted regarding the local and national coverage of those earnings to determine if the media is influenced by the way earnings releases are written.

Considering the 2006 findings of the Edelman Trust Barometer that 49% of the American public trusted corporate institutions while 30% trusted the media (Edleman, 2006), this study will determine the effect of the corporate and media agendas on reputation. In other words, is it what the companies or the media say (use of pro forma) or how they say it (tone) that influences reputation?

This study contributes to the thin line of research that explores the relationship between companies and the media by developing a baseline of data regarding disclosure in annual earnings releases and earnings news coverage. It also extends the stream of disclosure literature focusing on earnings releases. Prior research has examined the influence of pro forma earnings and the relation of tone in accounting narratives, but to date, no known research combines these variables or ties them to reputation.

CHAPTER II

Literature Review

Since the collapse of Enron, it is nearly impossible to open the newspaper or turn on the news without learning about another corporate scandal or the latest bankruptcy (Gische & Abramson, 2002). Due to this lack of trust in corporate management, companies are facing a legitimacy crisis and many companies are also concerned with their reputation. It has been six years since the exposure of accounting fraud, executive greed, and other misdeeds shook the public's trust, and according to Alsop (2004), "corporate reputation has never been more valuable – or more vulnerable" (p. 21). Despite the potential value of legitimacy and a favorable reputation, the processes through which either is created or destroyed is not fully understood (Zyglidopoulos, 2003).

Legitimacy and Reputation

Organizational legitimacy and reputation are two concepts that represent assessments of an organization. There are many similarities between the two. First, they both result from stakeholder evaluations of an organization (Fombrun & Shanley, 1990). Next, the concepts have been linked to similar antecedent conditions, such as organizational size, charitable giving, strategic alliances, and regulatory compliance (Fombrun & Shanley, 1990). Finally, an important consequence of both is the improved ability to acquire resources (Suchman, 1995).

Corporate Legitimacy

Although legitimacy and reputation have many similarities, a comparison of the definitions provides important distinctions between the two. Legitimacy is a "generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p. 574). With legitimacy, stakeholders evaluate an organization based on their perceptions and/or assumptions regarding congruence between their values, norms, and beliefs and those of the organization. Essentially, legitimacy is a perception of appropriate organizational activity (Suchman, 1995). This implies that an organization may materially diverge from expectations and still maintain legitimacy if the relevant stakeholders are not aware of the divergence (Mobus, 2005).

When organizations are perceived to be legitimate it will be easier to attract economic resources and gain the social and political support necessary for their continued successful operation (Ogden & Clarke, 2005). This is because a legitimate organization is perceived not only as more worthy, but also as "more meaningful, more predictable, and more trustworthy" (Suchman, 1995, p. 571).

Elsbach and Sutton (1992) argued that organizations can secure legitimacy when stakeholders support an organization's goals and activities. Because legitimacy is a "perception" or an "assumption" by the organization's stakeholders, it largely depends on organizations adopting appropriate practices and by conforming with widespread understandings of what is considered "proper, adequate, rational, and necessary" (Meyer & Rowan, 1977, p. 340). To accomplish this, organizations follow formal, systematic, and consistent procedures, to achieve both greater results and to legitimize their actions (Meyer & Rowan, 1977). Much organizational effort may therefore be put into managing the appearance of rationality through the use of impression management (Staw, McKechnie, & Puffer, 1983).

Corporate Reputation

Corporate reputation is "the overall estimation in which a particular company is held by its various constituents" (Fombrun, 1996, p. 37). Central to reputation is a comparison of organizations (Deephouse & Carter, 2005; Ruef & Scott, 1998). Organizational reputation is essentially a type of feedback received by an organization from its stakeholders. For any two organizations, the likelihood is that one will have a better reputation than the other (Deephouse & Carter, 2005).

Reputations can be considered to some extent to be beyond an organization's direct control because they are based on affiliations (Vendelo, 1998), implying that a company's reputation depends on the industry in which it operates or simply a comparison to other companies. Although this may be true, companies must work hard to have a favorable reputation. Hutton, Goodman, Alexander, and Genest (2001) found reputation management to be a driving force behind public relations efforts at some *Fortune 500* companies. This is because corporate reputation is a critical feature of organizations (Carter & Dukerich, 1998; Fombrun & Shanley, 1990).

Reputation is an important strategic asset that contributes to continued profitability (Roberts & Dowling, 2002). Having a favorable reputation has been argued to be one of the best ways to attract investors (Fombrun & Shanley, 1990), recruit and retain employees (Gatewood, Gowan, & Lautenschlager, 1993), charge premium prices (Milgrom & Roberts, 1992), retain a reservoir of goodwill (Jones, Jones, & Little, 2000), and maintain a competitive advantage (Roberts & Dowling, 2002).

According to Fombrun and Shanley (1990), the public constructs opinions about companies from a mix of signals retrieved from accounting and market information, media reports, and other noneconomic cues. Fombrun (1998) reviewed a variety of reputation rankings such as *Fortune's Most Admired Corporations List, Working Mother Magazine's The 100 Best Companies for Working Women, and Financial Times' Europe's Most Respected Companies List.* He observed that, while the criteria varied according to the audience addressed, six elements were commonly measured: financial performance, product quality, employee treatment, community involvement, environmental performance and organizational issues. Following this, Fombrun, Gardberg and Sever (2000) used a series of focus groups to assess exactly what people meant when they referred to corporate reputation and developed a scale measuring six key attributes of reputation: overall corporate appeal, products and services, vision and leadership, financial strength, and social responsibility.

Research has shown that legitimacy serves as a prerequisite to reputation – that organizational reputation is a socially constructed outcome of an organization's legitimation process (Rao, 1994; Zyglidopoulos, 2003). By achieving legitimacy, an organization can then move towards attaining a high reputation as a level of excellence. Although both legitimacy and reputation refer to stakeholders' thoughts and feelings about organizations, these constructs are distinct. Legitimacy focuses on the "acceptability" of an organization's values and actions and reputation focuses on the "favorability" of organizations as compared to their competitors and peers (Zyglidopoulos, 2003, p. 75). Before an organization's actions can be considered favorable, the organization must first adhere to the norms of social acceptability, indicating that legitimacy must come first. Furthermore, according to Hamilton (2006), a loss of legitimacy will taint an organization's reputation.

Past research indicates that if a company's actions deviate from expectations, its legitimacy may be questioned and challenged, and, in an extreme case, it can be judged illegitimate (Pfeffer & Salancik, 1978). Reputation, on the other hand, has been viewed as less dire. According to Deephouse and Carter (2005), having a lower reputation than another organization does not threaten continued existence as long as the organization's legitimacy remains unchallenged.

Because there are numerous advantages to having a favorable reputation and being viewed as legitimate, many organizations have become concerned about the impact of their actions and communication (Hall, 1992). Companies have many ways by which to attempt to manage stakeholder perceptions, including for example press releases, advertising, press conferences, letters to shareholders, annual reports, and interviews with business publications (Fombrun, 1996). How each of these corporate communications is interpreted by the media can be very influential.

The media can be seen as "propagators" of legitimacy and reputation. Although some level of legitimacy may be necessary for company news to be considered newsworthy, media coverage further legitimates companies (Pollock & Rindova, 2003). The media legitimates companies by directing public attention to those it selects for coverage, thereby increasing the public's exposure to them (Dearing & Rogers, 1996; McCombs, Llamas, Lopez-Escobar, & Rey, 1997). The press plays an important role in enhancing the visibility of a company.

Corporations in the Media

There has been tremendous growth in the volume of business news appearing in the mass media during recent decades (Carroll & McCombs, 2003). This expanding business news coverage is of particular importance to organizations attempting to manage their reputation because much of what consumers and other external stakeholders learn about companies and the issues that surround them comes from the news media (Deephouse & Carter, 2005; Dutton & Dukerich, 1991; Fombrun & Shanley, 1990).

By calling attention to some issues while ignoring others, the media influence the criteria by which corporations are judged. Most recently, major media attention to issues of financial reporting and corporate governance suggest significant criteria for the evaluation of all companies and their executives, not just the companies explicitly mentioned in these news reports.

Although the relationship between media coverage of some companies and a specific company has not been directly studied, one can expect that corporations would work much the same as was found with political actors. Essentially, when people are asked to express their opinions, they commonly draw upon information that is salient at the time. For example, studies have found that evaluations of the president's performance in office is related to the salient issues of the moment, even when these issues are not explicitly linked to the president (Krosnick & Kinder, 1990; Krosnick & Brannon, 1993; Miller & Krosnick, 2000).

Scholars often claim that the visibility of a company in the minds of its stakeholders is one of the strongest factors in determining a favorable reputation. In corporate and accounting literature this top of the mind recall has been linked to a company's media visibility (also called media exposure and media presence effect) (e.g., Bowen et al., 2005; Fombrun & Van Riel, 2003; Wartick, 1992). Fombrun and Van Riel

(2003) argued that "reputations are built on a high top-of-mind awareness. *Simply put, the more familiar you are to the public, the better the public rates you*" (p. 104).

Past research has used the media to measure reputation (e.g. Deephouse, 2000) because the media circulate information that can impact reputations (Fombrun, 1996). Furthermore, the media have been credited with creating the reputations of organizations of all types, including the well-known rankings of businesses (e.g. the *Fortune* ratings) and business schools published by different media outlets (Elsbach & Kramer, 1996).

A common way the media are used to determine reputations is through the examination of exposure. Wartick (1992) defined media exposure as "the aggregated news reports relating to a specific company within a defined period" (p. 34). Through correlations between *Fortune's Most Admired List* and data from 13 media outlets he found that intense media exposure was significantly associated with changes in corporate reputation. He also found that the amount of coverage, tone, and recency of the coverage appeared to be related to different dimensions in reputation depending on the starting level of the corporate reputation. This study expanded on the earlier findings by Fombrun and Shanley (1990). Although they too indicated that companies with non-negative news coverage received higher reputation rankings, they also found a significant negative association between intense media visibility and corporate reputation regardless of whether that news coverage was favorable or unfavorable.

Other research focused on specific aspects of corporate reputation. For example, Staw and Epstein (2000) found what they called "bandwagon effects" whereby companies associated with popular management techniques were "more admired, perceived to be more innovative, and rated higher in management quality" in *Fortune's*

Most Admired List even though they did not necessarily have superior economic performance (p. 523). Ultimately, as with other studies, they found a link between media exposure and reputation.

Pollock and Rindova (2003) examined how media legitimized companies by providing information about initial public offerings (IPOs). They found that the media volume and tenor influenced investor understanding and evaluation about IPO companies, ultimately influencing the market outcome. Variations in the amount and context of information reported about a company in the media resulted in different levels of under pricing and turnover for its stock.

Another concern is how companies use the media. Carter and Dukerich (1998) explored this by looking at company tactics when faced with a change in reputation. Specifically, companies were found to use more press releases and spend more on advertising. According to them, this indicates that reputation downturns may provide corporate managers with incentives to modify the organization's reputation management activities by trying to justify, excuse, or apologize.

Overall, the media have been considered influential in conferring legitimacy and influencing reputations of companies because they can appear to endorse an organization and its activities (Deephouse, 1996). Essentially, the media can be seen as providing a reflection and measurement of public support for an organization and this can lead to legitimacy and reputation results (Ruef & Scott, 1998). This is because it is the media that select and present to the public companies and information about those companies.

The day-to-day media selection and presentation of news focuses the public's attention and influences its perceptions. The specific ability to influence the salience of both topics and their images among the public has come to be called the agenda-setting role of the news media (McCombs & Reynolds, 2002).

Agenda-Setting

The origin of agenda-setting theory rests in the leadership role the media play in identifying topics of importance for the public (Cohen, 1963). This is especially important for topics in which people cannot directly experience. For almost 35 years since the seminal work of McCombs and Shaw (1972), scholars have studied the agenda-setting effects of news on public opinion. In their study, McCombs and Shaw found a correlation between the political issues Chapel Hill voters indicated was important and the amount of media coverage about those issues.

First-Level Agenda-Setting

The early work in agenda-setting focused on the core proposition that the salience – "the degree to which an issue on the agenda is perceived as relatively important" (Dearing & Rogers, 1996, p. 8) – of issues in the news influences the salience of those issues among the public (McCombs & Bell, 1996). This became known as "first-level agenda-setting." Initially, only public issues were studied but recently the focus of agenda-setting studies has been on "objects" as a rubric encompassing other subjects (McCombs et al., 1997). This study will use the more encompassing term "object" hereafter.

There is convincing research that the media strongly influence the public agenda (Iyengar & Kinder, 1987; McCombs, Lopez-Escobar, & Llamas, 2000). This influence process begins with the object receiving media attention. The public uses these salience cues from the media to arrange their own agendas. Ultimately, the set of priorities on the media agenda surface on the public agenda. The public learns the importance of objects based on the coverage the objects receive. Establishing this transfer of salience to the public – placing an object on the public agenda so that it becomes the focus of attention and thought – is the initial stage in the formation of public opinion (McCombs & Bell, 1996).

An example of this is Ader's (1995) 20-year study of media coverage of issues relating to pollution and the public's concern about the issues. She found a positive relationship between the media attention devoted to pollution and the degree of public salience for the issue, though the real world conditions and the public agenda were not correlated.

Second-Level Agenda-Setting

Research examining the agenda-setting function of the media has undergone a reconceptualization in recent years. No longer is research based on the concept noted by Cohen (1963): "The press may not be successful much of the time in telling people what to think, but it is stunningly successful in telling its readers what to think about" (p. 13). Researchers now argue that under certain circumstances the news media do tell people what to think (Ghanem, 1997). This "second-level agenda setting" is done by providing the public with an agenda of attributes – a list of characteristics important to newsmakers (Wanta, Golan, & Lee, 2004). This includes the properties, qualities, and characteristics that describe the objects (e.g., McCombs & Ghanem, 2001) and the tone of the attributes (e.g., Kim, Scheufele, & Shanahan, 2002). The focus at this level is not on what media emphasize, but on how they describe it.

Second-level agenda-setting provides a deeper, more thorough processing of information in media content. While the first level examines an object's transfer of salience from the media to the public, the second level investigates the transfer of object attributes from the media to the public (Wanta et al., 2004). The first-level of the agenda-setting effects concern attention while the second-level focuses on comprehension. For each object on the media agenda, there also is an agenda of attributes whereby some attributes are emphasized and others are not.

The second-level of agenda-setting recognizes that news coverage conveys more than just facts: It also conveys feeling and tone (McCombs & Ghanem, 2001). Both are absorbed by the public. Researchers have identified these as separate dimensions – substantive and affective (Kiousis, Bantimaroudis, & Ban, 1999; McCombs et al., 2000). The substantive dimension is defined as the characteristics that help us cognitively structure news and discern among various topics; affective attributes are the factors that draw emotional responses from the public (McCombs et al., 2000).

One of the most straightforward applications of agenda-setting is the influence of the media on the public perceptions of political candidates. The theoretical distinction between an agenda of objects and an agenda of attributes is especially obvious in an election context. In this setting, the objects are political candidates and the attributes are the various traits that define the candidates in the media and among the voters. For example, McCombs et al. (2000) found candidate attributes to include ideology and issue positions, competency, qualifications experience, and personal traits – all substantive dimensions. In turn, each attribute can be further defined by affective dimensions or valance. Valance or tone is typically considered as positive, negative, or neutral (Fombrun & Shanley, 1990; McCombs et al., 2000; Wanta et al., 2004).

Framing is central to second-level agenda-setting. *Framing* is the selection and emphasis of an object (Entman, 1993). Through this process, some facts are emphasized while others are ignored (Knight, 1999; Entman, 1993). According to Wanta et al. (2004), it is through salience that the public learns the importance of objects based on the coverage those objects receive, thereby setting the public's agenda. A basic assumption about the information content of news is that facts in themselves lack intrinsic meaning, but gain organization and coherence by being embedded within a frame (Gamson, 1989).

In journalism, choosing a frame for an article is the most consequential decision a journalist can make (McCombs & Shaw, 1993). Such conviction derives from the belief that news frames give meaning to an object. When used appropriately, they attract attention and interest. The essence of framing is that when there are multiple ways to present an object there is a potential to influence how people think about it. "To frame is to select some aspects of a perceived reality and make them more salient in a communicating text" (Entman, 1993, p. 52). In other words, framing substantiates relevant events thereby shaping the perspectives through which people see the world.

Framing not only helps journalists organize ideas but it also helps readers understand objects, issues or events (Gamson & Modigliani, 1989). Objects gain attention and relevance when they are made prominent (Dearing & Rogers, 1996). The framing of an object determines whether it climbs or falls from agendas by focusing readers' attention and interest. The way an object is framed can have measurable behavioral consequences on the public (McCombs & Shaw, 1993). These effects have been studied over the years and are considered established (Zillmann, Chen, Knobloch, & Callison, 2004).

Framing of news reports has been found to influence public perception of objects as well as thoughts about, recall of, and attitudes toward them. Coleman and Banning (2006) provide a recent example of the behavioral consequences in a study that used second-level agenda-setting to explore the televised visual framing of candidates during the 2000 presidential campaign. They found that the nonverbal behavior for Al Gore was much more positive than George Bush's and those who watched were significantly more likely to hold attitudes that mirrored the media portrayals.

In their experimental design of campaign news coverage, Valentino, Beckmann, and Buhr (2001) found that strategic, manipulative news frames are more likely to create and enhance political cynicism and negative reactions than sincere frames. Furthermore, they found such frames to inhibit information retention.

Although agenda-setting theory is most often used when examining the impact of the media on voters' perceptions of political candidates, the use of celebrities in product marketing, and opinions about public issues (Kiousis & McCombs, 2004), the theory does have corporate implications as well (Carroll & McCombs, 2003). In addition, a key question in agenda-setting is who sets the media's agenda?

Intermedia Agenda-Setting

In addition to the above-described traditional agenda-setting where research focuses on the media setting the public agenda, current research has examined the *intermedia agenda-setting effects*. With this, the parameters of agenda-setting research have expanded from the question of who sets the public agenda to that of who sets the *media agenda.* Essentially, intermedia agenda-setting refers to one media's agenda-setting impact on other media's agenda (McCombs et al., 2000). That is, one member of the media publishes its stories and another media outlet mirrors the content and deals with it as importantly as in the original.

Atwater, Fico, and Pizante (1987) conducted the first intermedia agenda setting study by measuring effects of news stories from radio and television stations, wire services, and newspapers. They found a high correlation among the topics covered by the different media and that the wire services accounted for 41% of all unique stories.

Another example of intermedia agenda-setting is Danielian and Reese's (1989) landmark study on the 1986 cocaine issue. Their content analysis identified *The New York Times*' intermedia agenda-setting role by illustrating that the its coverage on the drug issue was followed by *The Washington Post* and *The Los Angeles Times*.

Danielian and Reese (1989) also stressed the importance of studying sources as factors in media agenda setting. A source is "any person conveying information to a news reporter that can be used in a story" (Cameron, Sallot, & Curtin, 1997, p. 113). The selection of sources by the news media impacts the construction of news. Sources can have a strong effect on the content of the news reports (Shoemaker & Reese, 1996). Studies have shown that sources can shape the news more than journalists can (Berkowitz, 1987; Berkowitz & Beach, 1993; Reese, Grant, & Danielian, 1994; Soloski, 1989). According to Zoch and Turk (1998), "news is not necessarily what happens, but what a news source says has happened" (p. 763), stressing the idea that the choice of sources will influence the construction of reality.

This creation of reality is critical to the public and although journalists may not consciously seek sources for this reason they have been found to select sources that they identify as credible, knowledgeable, and powerful in regard to the pertinent topic (Powers & Fico, 1994). The credibility of a source refers to its trustworthiness (Hovland &Weiss, 1951). Furthermore, sources gain legitimacy when used for news reports (Gans, 2003).

Gatekeeping is often considered when evaluating who sets the media agenda. Kurt Lewin first coined the term gatekeeping – "the process by which countless messages are reduced to the few we are offered in our daily newspapers and television news programs" (Shoemaker, 1996, p. 79). The first gatekeeping study was conducted by examining the wire services and daily newspaper coverage by White in 1949. In this study, "Mr. Gates," a wire news editor, was found to select or reject wire stories subjectively, although the study did not consider which wire story category was more important than others. Snider (1967) reexamined White's case study and found that the top seven news categories transmitted by wire services accounted for 87 percent of the total wire stories used.

Since these early studies, news wires have been found to influence newspaper coverage. In her study of almost 5,000 print and online news stories, Singer (2001) found that 34 percent were provided by the Associated Press or in combination with other wire services.

The idea of exchanging influence among the media came from a simple question: If the media sets the public's agenda, then who sets the media's agenda? While most intermedia agenda-setting researchers look at mainly one media outlet setting the agenda of another media outlet, the theory can be used to study other agenda makers like politicians, corporations, and other influential forces (McCombs et al., 2000).

For example, other intermedia studies examined the relationships among major newspapers and the television networks (Reese et al., 1994). As political advertising on television has assumed a major role in national political campaigns, scholars have explored the influence of these political agendas on news agendas (Lopez-Escobar, Llamas, McCombs, & Lennon, 1998; Roberts & McCombs, 1994). Recently, as the role of online media is increasing, researchers have been exploring the influence of online news (Lim, 2006) and new technologies (Lee, Lancendorfer, & Lee, 2005; Messner & Watson, 2006).

Press releases. Press releases are another media that can be used to attempt to set the media's agenda. Press releases (also called news releases) are a staple of public relations practice, offering organizations and businesses a way to communicate with their stakeholders via the news media. The press release is "one of the most important and ubiquitous public relations tools" (Walters & Walters, 1992, p. 31), and the media's use of a press release brings credibility and legitimacy to an organization's message. Press releases disseminate information to the media, suggest ideas for news stories, and invite reporters to use names in the releases as news sources (Newsom & Carrell, 2001).

Common topics for press releases include general company information such as new products, new management, new facilities, participation in community projects, awards given or received, joint ventures, donations, or seminars (Guffey, 2006) or financial information such as quarterly and annual earnings, dividends, earnings forecasts, new stock issues, and debt refinancing (Carter, 2006).

Press releases are submitted to newswire services that then disseminate them to the media. The media in turn use the press release to write news stories. Although there are many studies of the use of wire services to set the media's agenda, intermedia agenda-setting has not been directly used to study the influence of press releases on the media. However, there have been studies that examined the framing of press releases. For example, Barnett (2005) examined the framing of press releases issued by the National Organization for Women. She found that they used their news releases in an attempt to redefine the language and symbols used to characterize the women's movement. According to Barnett, their hope was that the journalists would mirror their context and message. Unfortunately, this research has not been extended to see how the media handled the press releases.

Press releases are often considered a form of information subsidies, defined by Gandy (1982) as an "attempt to produce influence" (p. 61). Turk (1986) suggested that press releases are a means by which public relations practitioners supply news to the media with the hope of receiving favorable coverage and influencing public opinion. Quite often press releases are seen as corporate persuasion tools and used to get messages into the media (Guffey, 2006). In this respect, one might consider the press release a medium by which corporations set the media's agenda.

Press releases contain information that has the potential to influence how the media reports corporate behavior and activities. Paul (2001) indicated that press releases may ultimately result in a change in the company's reputation among various stakeholder groups. For example, a press release discussing a new use for a product will likely be perceived by the firm's stakeholders who read the release as enhancing the innovativeness dimension of reputation.

Earnings press releases. Earnings releases are a type of press release written by companies and distributed over wire services (such as PR Newswire or Business Wire) where they can be picked up by various media for publication. Typically, analysts and large institutional investors have direct access to these wire services, so average investors and other stakeholders will most likely get their information as it is interpreted by media sources such as *The Wall Street Journal* (Bowen et al., 2005).

The reliability and accuracy of earnings release disclosures are of the utmost importance. Companies can face legal action if they lie or provide purposely-misleading information. Like other press releases, however, earnings releases are voluntary disclosures, released by companies even though laws and regulations do not require them. If companies choose to issue an earnings release they must abide by certain rules and regulations. The following is a brief review of these rules and regulations.

The Securities Exchange Act of 1934 created the Securities and Exchange Commission (SEC) and provided them with authority over all aspects of the securities industry (Benston, 1973). This act requires companies whose shares are listed on a stock exchange to file quarterly and annual financial statements with the SEC. The decision to issue a press release announcing those earnings is optional.

The Private Securities Litigation Reform Act of 1995 provides a safe harbor that prevents certain forward-looking statements from being the basis of a lawsuit under the Securities Act of 1933 or the Securities Exchange Act of 1934 (Marcus & Wallace, 1997). This "Safe Harbor" is intended to promote public disclosures of a company's future by reducing the threat of litigation when those predictions fail to materialize. It protects certain issuers from liability arising from forward-looking statements, when such statements are accompanied by "meaningful cautionary statements" (p.352).

The SEC *Plain English Handbook* was written in 1998 to provide guidance on how to write clear SEC disclosure documents. Although created four years earlier, the guidelines established became even more important when the 2002 Sarbanes-Oxley Act (SOX) called for disclosures in plain English (Smith & Walter, 2006).

SEC Regulation FD – for "fair disclosure" – became effective in 2000 to combat selective disclosure. Selective disclosure occurs when companies release material nonpublic information about a company before disclosing the information to the general public (Heflin, Subramanyam, & Zhang, 2003). In the past, many companies released information to financial analysts or institutional investors in meetings where the public was not involved. This regulation was issued to level the playing ground.

In 2001, Financial Executives International (FEI) and the National Investor Relations Institute (NIRI) issued guidelines for earnings press releases in an effort to promote clear and consistent public statements on corporate earnings (Financial Executives International [FEI], 2001). In this, they specified that earnings releases should be timely and that they should provide a reasonably balanced perspective of operating performance by reporting figures based on generally accepted accounting principles (GAAP) and using those figures to provide a framework for pro forma results.

The 2002 Sarbanes-Oxley Act (SOX) was enacted to restore confidence in public statements made about the value of companies. This act seeks to do this by providing and regulating the issuance of greater financial information about companies. Its provisions include restrictions and penalties for misinterpretations or misuse of company financial information (Smith & Walter, 2006). As a result of SOX, the SEC has added Item 12 to Form 8-K, formally requiring all news releases announcing earnings to be filed with the SEC (Securities and Exchange Commission [SEC], 2003).

The SEC Regulation G established rules limiting the use of non-GAAP financial information (such as pro forma earnings). This SEC regulation requiring, among other things, public companies that disclose pro forma figures to reconcile them with GAAP became formally effective March 28, 2003 (Bowen et al., 2005).

In addition to the financial rules and regulations, the writers of earnings releases typically follow the National Investor Relations Institute (NIRI) and the Public Relations Society of America (PRSA) Codes of Ethics. The NIRI code of ethics begins with two guidelines that are especially critical to follow when writing earnings releases: (1) "Maintain my integrity and credibility by practicing investor relations in accordance with the highest legal and ethical standards" and (2) "Avoid even the appearance of professional impropriety in the conduct of my investor relations responsibilities" (National Investor Relations Institute [NIRI], 2002).

Impression Management

As long as companies follow the rules and regulations, corporate managers have many choices about the way their earnings press releases are written. The way an earnings release is framed can impact the way it reads and the way the media cover it. Therefore, impression management as a strategic framing tool provides a way to link agenda-setting research and corporate actions.

Impression management dates back to the beginning of the 20th century when sociologist Charles H. Cooley (1902) suggested that people's feelings toward themselves are socially determined. He used the term "looking-glass self" to describe the phenomena that people imagine how they appear in the eyes of another person. George Herbert Mead (1934) extended Cooley's ideas and argued that the capacity to imagine how one-self appears in the eyes of others forms the basis for development of self-identification.

Originating in interpersonal communication, much of the work in impression management is based on the 1959 seminal work of Goffman (Bozeman & Kacmar, 1997; Carter & Dukerich, 1998; Riess, Rosenfeld, Melburg, & Tedeschi, 1981; Schneider, 1981). Goffman, also a sociologist, used "self-presentation" or "impression management" to examine strategies people use to convey their images to others. Using the stage and actor as an analogy, he described how people use interpersonal communication to create a particular impression for others. According to Goffman, even the seemingly innocuous actions might be designed to show a person in a favorable manner.

Although Goffman's (1959) path-breaking work was criticized for lacking empirical evidence, today impression management has become a widely studied topic and is applied to many phenomena and disciplines (Giacalone & Rosenfeld, 1989). As indicated, impression management is predominantly defined as "the conscious or unconscious attempt to control images that are projected in real or imagined social interactions" (Schlenker, 1980, p. 6). Other definitions include a focus on intentional actions. For example, Tedeschi and Riess (1981) defined impression management as "any behavior by a person that has the purpose of controlling or manipulating attributions and impressions formed of that person by others" (p. 3). Either way, impression management is influenced by people's agendas; that is, their overt or covert goals and their plans to achieve those goals (Schlenker & Weigold, 1992).

Although impression management is often discussed as a means of personal influence, this theory has also been found to be useful for analyzing actions taken by members of an organization to influence how others think about the organization. For example, impression management has been applied to such diverse areas as legitimacy threats (Elsbach, 1994; Elsbach & Kramer, 1996; Elsbach & Sutton, 1992), organizational failure (Wood & Mitchell, 1981), business ethics (Giacalone & Payne, 1987), corporate social responsibility (Hooghiemstra, 2000), leadership (Leary, Robertson, Barnes, & Miller, 1986), and corporate performance (Aerts, 1994; Neu, 1991; Neu, Warsame, & Pedwell, 1998).

Impression management depends on communication. How a company frames itself directly through that communication shapes the impressions others have of it. Accounting narrative reports, such as earnings releases, are one of the means by which corporate management can legitimize the company's activities and outcomes. The way in which a company's facts, events, and actions are framed is important because it defines the essential elements of the company's performance and portrays the normative and empirical bases on which to judge the appropriateness of the company's actions (Aerts, 1994).

Although companies are not always aware of the impression they convey, a certain strategic behavior can be assumed. If, as according to Schelnker and Weingold

(1992), impression management is influenced by people's agenda's, then when a company "puts its best foot forward" by managing the impression it presents, the financial decision making of stakeholders can be obscured. This cloudy decision making may lead stakeholders to base financial decisions on numbers that do not, perhaps, reflect the true economic conditions of the company (Davidson, Jiraporn, Kim, & Nemec, 2004; Neu, 1991).

For example, Elsbach and Sutton (1992) employing a case study approach explored the use of impression management by two radical social movement organizations. In the end, both organizations were able to acquire legitimacy through essentially illegitimate actions. This happens because organizational spokespeople used impression management tactics to shift attention from controversial actions such as arrests, disorderly conduct, monkeywrenching, and tree spiking towards more socially desirable goals.

The motive to employ impression management tactics springs from the desire to maximize expected rewards and minimize expected punishments (Schlenker, 1980). The cues for impression management are most salient when individuals are faced with a predicament. Schlenker (1980) indicated that predicaments provide salient cues for impression management because these situations have potentially threatening aspects. Thus, impression management behavior is much more likely to occur in unfavorable situations (Carter & Dukerich, 1998; Gardner & Martinko, 1988).

Corporate managers have incentives to provide information that best reflects the performance of the company; otherwise, there might be negative reputational implications (Carter & Dukerich, 1998). Consequently, they may resort to impression management to achieve positive performance reports. Managers still have incentives to report a fair picture of company performance because a failure to do so may yield legal actions for inadequate or untimely disclosure (Baginski, Hassell, & Kimbrough, 2002; Johnson, Kasznick, & Nelson, 2001; Skinner, 1994).

Impression management can satisfy the need for external legitimacy by allowing corporate management to maintain control over the company by serving as a gatekeeper. As part of this legitimization process, management selects and presents information in an attempt to convince shareholders that the company is being run competently, efficiently, and transparently (Beattie & Jones, 1999).

Clapham and Schwenk (1991) found that the act of selection and presentation is not necessarily an attempt to influence, but can simply be a result of corporate management communicating what they *think* is important for stakeholders to know. However, it has been found that corporate management has incentives to present the company's performance in the best possible light, potentially resulting in selective reporting of financial performance (Tweedie & Whittington, 1990).

Past research demonstrates that impression management is motivated by management's desire to dictate the corporate reporting agenda and present a self-serving view of corporate performance. Thus, impression management conflicts with a commonly expressed purpose of accounting (and journalism), which is to present information (including annual financial performance) in a neutral, unbiased manner (Beattie & Jones, 2000).

Research Questions and Development

Although past research has hypothesized the importance of media visibility for corporations (e.g., Bowen, et al., 2005; Fombrun & Van Riel, 2003; Wartick, 1992), no research to date has addressed the intermedia agenda-setting effects of annual earnings releases on the media. This study attempts to bridge that gap by analyzing the intermedia agenda-setting effects of corporate disclosure in annual earnings releases on the media. Therefore, the first research question for this study is:

RQ1: Is there a difference in frequency of media coverage for corporate annual earnings releases in local and national newspapers?

Specifically, this study will analyze the earnings releases and media content from a second-level agenda-setting perspective by looking at what is disclosed (substantive dimension) and at the tone of that disclosure (affective dimension). This is an important area of study, simply because of the importance of corporate disclosure.

Corporate disclosure has been called "the key to restoring investor confidence" (Gruner, 2002, p. 1). Financial reporting and disclosure are important means for corporate management to communicate about performance and governance to both specific stakeholders and the general public. In 2001, Standard & Poor's launched its Transparency and Disclosure Rankings. This ranking is comprised of a 98-item content analysis of topics such as ownership structure, investor rights, financial transparency, information disclosure, and board and management structure and processes (Patel & Dallas, 2002). In addition to these disclosure topics, the use of pro forma figures is of particular interest to investors (Gruner, 2002). To date, there has been disagreement about the inclusion or omission of pro forma figures in corporate disclosures. When they are included, they contribute to the impression management of earnings releases.

Pro Forma Earnings

Earnings performance has traditionally been measured using net income and earnings per share figures produced according to GAAP. Recently, there has been an increase in the use alternate (or non-GAAP) measures of corporate performance – called pro forma earnings or street earnings (Bowen et al., 2005). Pro forma means "as if" and it differs from GAAP earnings because unlike net income and earnings per share figures, pro forma figures are defined by individual companies (Bradshaw & Sloan, 2002). Some critics have suggested that pro forma reporting is done primarily to make the company look better or more profitable, as opposed to providing value relevant information (e.g., Byrnes & Henry, 2001; Teach & Reason, 2002).

Although companies issuing pro forma earnings argue that they are providing useful information to investors by giving them a clearer picture of performance, some investor relations groups and even the SEC have viewed the use of pro forma as potentially misleading (Lougee & Marquardt, 2004). In 2001, the SEC warned that "Pro forma financials might create a confusing or misleading impression and should be viewed with appropriate and healthy skepticism" (Securities and Exchange Commission [SEC], 2001, p.1). Another concern is that the use of pro forma figures renders it difficult to make company-to-company comparisons (Entwistle, Feltham, & Mbagwu, 2006).

The SEC has closely monitored the use of pro forma earnings and Regulation G became effective in 2003 to establish rules for the use of non-GAAP metrics (Securities and Exchange [SEC], 2002). The previous lack of regulation may be partially responsible for the increased use of pro forma earnings (Bradshaw & Sloan 2002).

Regulation G stipulates that if a "non-GAAP metric is included in a *filing to the* SEC [such as a 10 K for annual earnings], then the GAAP information must be presented with the same prominence as the non-GAAP information" (Elliott, 2006, p. 114). Despite this requirement, Bowen et al. (2005) found that companies continue to exercise discretion over emphasis in non-SEC filings such as earnings announcements.

In 2002, the SEC tried its first pro forma financial reporting case when it charged Trump Hotels with issuing a misleading earnings release. According to the SEC, "in this case, the method of presenting the pro forma numbers and the positive spin the Company put on them were materially misleading. The case starkly illustrates how pro forma numbers can be used deceptively and the mischief that they can cause."

Pro forma earnings are used to report special circumstances that are not related to a company's long-term prospects, such as one-time charges, like "non-recurring items restructuring costs, extraordinary items, discontinued operations, or changes in accounting policy" (Hirshleifer & Teoh, 2002, p. 15). To the average investor these may seem like straight forward reporting; however, since each company can determine what to exclude from the calculation, and oftentimes not report what was excluded, each company may be calculating it differently. Thus, the practice has resulted in the lack of comparability between companies and criticisms.

In his letter to the editors at CFO Magazine, Muir (2004) used a golf analogy to explain the use of pro forma metrics in everyday life. Although there are generally accepted rules in golf, you decide to give yourself a pro forma par because you want to exclude the shots you normally would made like the one you lost in the water, the shot where you nearly hit a house on the course, and the other three shots it took you to get out of the sand bunker. In the end, you just justified excluding five shots from your score because normally those things do not happen.

Most studies about pro forma earnings have focused on the type of metric disclosed (e.g., Bhattacharya, Black, Christensen, & Larson, 2003; Lougee & Marquardt, 2004; Francis, Schipper, & Vincent, 2003). Extending this, Bowen et al. (2005) was the first to explore the emphasis of pro forma and GAAP in earnings releases. Elliott (2006) further explored the use of pro forma figures in an experiment to determine their influence. She found that it was not simply the presence of the pro forma earnings, but the inclusion of reconciliation that influenced nonprofessional investors' judgments and decisions.

In their empirical examination of earnings releases Entwistle, Feltham, and Mbagwu (2006) analyzed the changes in misuse of pro forma figures and concluded the need and effectiveness of the SEC Regulation G. They found that in 2001 over 10% of United States Standard and Poor's (S&P) 500 companies were using pro forma in a potentially misleading way. By 2003 this number had decreased to less than 1%. The most common misleading use they identified was the use of pro forma figures in earnings release headlines with traditional GAAP terminology such as "net income" without explaining until later in the body of the release that the figure was "net income excluding special items."

Bowen et al.'s (2005) findings are specifically related to this study because they looked at the extent to which a company's media coverage affected emphasis decisions in earnings releases. In analyzing earnings releases from 2002, they found that companies with greater media coverage had an increased emphasis of GAAP earnings but not necessarily a decrease in pro forma earnings compared to 2001. They credited the greater scrutiny resulting from media coverage as the reason for this change. This study will add to previous findings by exploring the transfer of salience for pro forma earnings from the company to the media.

RQ2: Does the emphasis of pro forma earnings in corporate annual earnings releases influence local or national coverage of the earnings?

RQ2a: If there is a transfer of salience for pro forma emphasis, is the correlation strongest for local or national coverage?

Affective Attributes

As mentioned previously, the affective attribute of tone is a common framing measurement in second-level agenda-setting (Fombrun & Shanley, 1990; McCombs et al., 2000; Wanta et al., 2004). Affective attributes such as tone are especially important considering their use as investment management tactics. Although not everything within a year can be positive, researchers have found variations in communication construction from good years to bad (Stanton, Stanton, & Pires, 2004).

Rosenfeld, Giacalone, and Riordan, (1995) suggest that a primary human motive is to be viewed by others in a favorable light and to avoid being viewed negatively. Corporate managers want no less for their companies. Therefore, they often use language to blur distinctions about the causes of poor performance and to present the company in a positive light (Jameson, 2000).

Corporate management has been found to systematically enhance positive news while downplaying negative news. Negative financial performance can put a company on the defensive. One way corporate managers may attempt to overcome this is to use impression management by making more favorable performance outcomes salient. By addressing alternate outcomes that reflect positively on the company, corporate management can remind stakeholders that other performance outcomes should be considered when forming impressions of the company (Aerts, 2005).

The focus on the positive in accounting narratives has been called the "Pollyanna effect" (Rutherford, 2005, p. 349). Matlin and Stang (1978) reviewed the history of the Pollyanna effects selectivity in language, memory and thought. They credited the novel by Eleanor Porter and the subsequent Walt Disney movie about Pollyanna, the child heroine for the term that has come to be synonymous, with optimism and people that always looked on the bright side. Hildebrandt and Snyder (1981) were the first to apply it to an organization when they found that regardless of the company's performance, the annual report letters to stockholders were predominantly positive.

Since then, although the Pollyanna effect has not been referred to specifically, the concept has been examined in various studies. For example, Lang and Lundholm (2000) examined corporate disclosures and found that corporate managers were more likely to provide more detailed interpretations, and were generally more optimistic regarding their performance in their disclosures six months before an equity offering. Francis, Philbrick and Schipper (1994), however, came to different conclusions. When they examined corporate disclosures (forecasts, preemptive disclosures, and formal earnings announcements) surrounding shareholder litigations they found that an optimistic tone was not more prevalent. They also found that the number and tone of prior disclosures did not have an impact on market returns.

Although previous research that focused on corporate disclosures differed, studies looking at tonality in annual reports have found more consistent results. Specifically, Deegan & Gordon (1996) found that good news was reported and emphasized, while bad news was omitted or, if included, de-emphasized. Other studies based on attribution theory[1] found that unfavorable outcomes were found to be attributed more to external, unstable or uncontrollable causes than were favorable outcomes (e.g., Bettman & Weitz, 1983; Ingram & Frazier, 1983).

Abrahamson and Amir (1996) used a content analysis of negative terms to measure the amount of negativity expressed in the president's letter in annual reports. They found a negative correlation between the number of negative words and performance. Rutherford (2005) used a corporate linguistic approach to identify the use of word frequency and charged words, finding a greater use of positively charged words.

Clatworthy and Jones (2003) looked at differences between United Kingdom companies with strongly improving and strongly declining performances. Their findings of keywords (based on occurrence of positive/negative words) suggest that both groups of companies prefer to emphasize the positive aspects of their performance. In addition, both groups took credit for good news and blamed the external environment for bad news.

With exception to Francis et al. (1994), these studies document a tendency in corporate management disclosures to focus on the positive. Henry (2006) evaluated the

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[1] Attribution theory describes the process by which people explain the causes of experiences or events (Aerts, 2005). Earlier research has focused on the self-serving bias where people are more likely to attribute positive outcomes to their own behavior and negative outcomes to external events.

outcome of this focus. Using a frequency count of positive or negative words, she examined earnings releases and found tone to function as a mediator between unexpected earnings on market reaction. She attributed this finding to Tversky and Kahneman's (1981, 1986) interpretation of prospect theory that investors will think in terms of increases when financial performance is framed in positive terms and decreases when framed negatively. In other words, tone was found to influence investor's reactions to earnings.

Similarly, the agenda-setting study about international news by Wanta et al. (2004) found that the more negative coverage a nation received, the more likely respondents were to think negatively about the nation, thus supporting the second level of agenda-setting. McCombs et al. (1997) also found strong correlations for affective attributes when they examined the second-level agenda-setting effects of candidate images in Spanish elections. Since little is known about the relationship between the corporate agenda and media agenda, the following research question(s) will be explored:

RQ3: Do affective attributes of corporate earnings (e.g. tone, positive tone, negative tone, and neutrality) presented in annual earnings releases influence the agenda of affective attributes for earnings in local or national coverage?

RQ3a: If there is a transfer of salience for the affective attributes, is the correlation strongest for local or national coverage?

RQ4: Is there a relationship between the length of corporate earnings releases and the length of local or national coverage of earnings?

Corporate Reputation

Having a favorable reputation is an important asset for a company (Roberts & Dowling, 2002). Once established, reputations themselves are signals that can influence corporate actions (Fombrun & Shanley, 1990). In other words, when companies value their reputations, their desire to protect it can cause management to act strategically by engaging in or deterring certain activities.

For example, Carter and Dukerich (1998) examined how changes in an organization's reputation affected subsequent managerial actions. Based on impression management, they found that companies experiencing a downturn in reputation used tactics such as press releases and advertising, but not tactics such as increasing donations to charity; further, advertising expenditures were decreased during upturns in reputation. Although it is important to know that companies increased their use of press releases, it is additionally important to know if reputation influences the content of press releases and media coverage.

Conversely, the visibility of a company in the minds of its stakeholders has been considered to be one of the strongest factors in determining a favorable reputation (Fombrun & Van Riel, 2003). Stakeholders include customers, suppliers, communities, employees, investors, the media, and any group that affects or can be affected by the company (Fombrun, 1996). Stakeholders construct corporate reputations from available information such as direct communication from the company, the media, and interpersonal communications (Fombrun & Shanley, 1990). Therefore, this study contributes to the previous findings by further evaluating the influence of reputation with the following research questions:

RQ5: Is there a relationship between reputation and pro forma relative emphasis in corporate annual earnings releases, local coverage of earnings, or national coverage of earnings?

RQ6: Is there a relationship between reputation and affective attributes (e.g. tone, positive tone, negative tone, and neutrality) in corporate annual earnings, local coverage of earnings, or national coverage of earnings?

CHAPTER III

Method

The purpose of this study was to look at the intermedia agenda-setting effects of corporate annual earnings releases on the media. It is important to understand the effects of selection and presentation of corporate content in the media because this selection and presentation can lead to intermedia agenda-setting, which subsequently can influence public opinion. A content analysis of earnings releases was conducted to determine the corporate agenda and local and national newspapers were used to determine the media agenda.

Content analysis is a "systematic assignment of communication content categories" (Riffe, Lacy, & Fico, 2005, p. 23). The advantage of content analysis is that it is a non-obtrusive measurement technique where systematic categories are defined by consistently applying a set of coding rules so that results can be replicated. As designed, each of the categories in this study is exhaustive and mutually exclusive. However, it is important to note that this study will not address causation because this is a limitation of content analysis.

Newspaper coverage is selected for this study because newspapers are an important source of news, despite claims of declining readership. Newspaper circulation may not be decreasing as was previously believed. According to the 2006 results of the World Press Trends study, global newspaper circulation had increased 9.95% over the past five years (World Association of Newspapers [WAN], 2007). Specifically, this study looked at local and national news to see if earnings press releases have different agenda-setting influence based on proximity. Proximity is a common variable in determining newsworthiness (Mencher, 2006). Shoemaker and Reese (1996) found newspapers to more fully cover local companies than those whose effects on the local economy are minimal.

Sample

For the purpose of this study, the sample was drawn from *Fortune's America's Most Admired Companies* list. Since 1982, *Fortune* has annually asked corporate executives, outside directors, and business analysts to rate the ten largest companies in their own industries and the findings result in a list of *America's Most Admired Companies*. Ratings are gathered for eight attributes that relate to reputation: innovation, people management, use of corporate assets, social responsibility, quality of management, financial soundness, long-term investment, and quality of products or services. Each attribute was scored on a scale of 0 (poor) to 10 (excellent). An overall company score was calculated by averaging a company's rating on the eight attributes. To be eligible for the list companies must have had $1.3 billion in revenue the previous year, so this list is comprised of the largest and most widely followed companies in the investment world.

Partnering with the Hay Group, *Fortune* mailed approximately 10,000 surveys last October and responses were due back by mid-December 2005 for the 2006 study. The results were published in March 2006. The 2006 survey (based on 2005 reputations) included a total of 661 companies in 70 industries. Although the Hay Group and *Fortune* did not provide a response rate, *Fortune* did indicate that due to an "insufficient response rate, the results for 29 companies and 5 industries are not reported" (*Fortune*, 2006, p. 1). After adjusting the companies and industries, the final population consisted of 582 companies. Since this study is interested in the most admired companies companies, only the top companies were used resulting in the sample being drawn from the top 303 companies.

According to *Fortune*, the *Most Admired* list is "a definitive report card on corporate reputations" (*Fortune*, 2006, p.1); however, the rankings have come under some considerable criticisms. Beginning with Brown and Perry's (1995) concern that the rankings are predominantly based on financial indicators indicating a "halo effect," researchers have questioned the methodology (Wood, 1995) and the potential for misuse of the data (Wartick, 2002). The main reason for concerns about misuse of the data is that *Fortune* and the media oftentimes discuss the findings, as the survey respondents were the general public, when in fact; they are not (Wartick, 2002). This is largely a ranking of companies by its peers (corporate executives and directors in the same industry) and financial analysts.

Although these concerns have been expressed, *Fortune's Most Admired* list is the most commonly used and most frequently discussed reputation data set (Wartick, 2002). As research has identified, there are several advantages to using the *Fortune* data: the ease in data collection since it is available online and free-of-charge; availability of longitudinal data; and, the high number of respondents in a selective and difficult to access group (Jones, Jones, & Little, 2000; McGuire, Sundgren, & Schneeweis, 1988). Additionally, when subjected to a factor analysis, the *Fortune* data revealed a single underlying dimension (Fombrun & Shanley, 1990; Jones, Jones, & Little, 2000), indicating that the rankings provide one encompassing factor of corporate reputation.

For the purpose of this study, the *Fortune* data were chosen for two main reasons. First, this group is essentially the "best of the best" companies in the United States. By identifying how these companies handle their earnings releases and how that sets the agenda of the media, a baseline for other companies can be established. One may expect that simply because of their size and popularity, these companies may be considered more newsworthy than other companies and, therefore, the intermedia agenda-setting effects may be more predominant.

Second, the *Fortune* data are especially useful as a measure of corporate reputation because the data reflect the perceptions of two key stakeholder groups – peers and analysts. Investor relations practitioners can benefit from the findings of this study by gaining an understanding of the potential influence the reputation of these stakeholders has on corporate disclosure and media content. The findings of this study will lead to a better understanding of where these groups get their information (e.g., from the media or from the company).

Sample Selection

The original population included the top 303 companies in the 2006 *Fortune* list. Companies with their headquarters outside of the United States were removed (n = 18) because this study is only interested in companies and media coverage in the US. This left a total of 285 companies (See Table 1). To remain in the sample, each company had to meet the following two requirements:

1. It must have issued an annual earnings release for 2005, and
2. It must have either local or national news coverage of those annual earnings (this included both full articles and briefs).

Table 3.1.
Sample selection

	Totals
Total *Fortune* top ranked companies	303
Non-US headquarters	(18)
No 2005 annual earnings release	(24)
No local or national coverage	(54)
Final sample	207

Companies that did not meet both requirements were not included in the sample. For each of the requirements the LexisNexis Academic Universe and Factiva databases were used and the following four steps were followed.

First, each company name was used to search the *Business Wire* and *PR Newswire* archives to locate the 2005 annual earnings release. Companies without a 2005 annual earnings release were removed from the sample (n = 24). This reduced the sample to 261 companies.

Both of these newswire services deliver full text, unedited news releases as written directly by companies and they are the most common wire services used by companies when announcing earnings (Marcus & Wallace, 1997). Both wire services distribute press releases around the world and satisfy regulatory disclosure requirements. The contact information on the earnings release was used to verify that it was issued by the company.

Second, each company website was reviewed to determine the location of the main headquarters. The city and state was recorded. Next, a search was conducted for the company and the state in which they are headquartered on the date the release was issued. If multiple papers reported on the annual earnings in the same day, the paper with the highest circulation in that state was used based on the 2006 Audit Bureau of Circulation list.

Third, a *Factiva* search was conducted for each company in the date range for national newspapers. Three national newspapers were used for this study: *USA Today*, *The Wall Street Journal*, and *The New York Times* – ranked respectively as the first, second, and third largest circulation dailies in the United States with a combined circulation of 6.2 million (Audit Bureau of Circulations [ABC], 2006). If a company had an article in more than one of these three newspapers on the same day, the paper with the highest circulation was selected.

Once all three requirements were completed the final sample was determined by ensuring that each of the 261 companies a local article, a national article, or both. A total of 54 companies was removed because they lacked either a local or a national article; indicating that 80% of the companies had media coverage of their earnings. The final sample contained 207 companies.

Measurement

The unit of analysis was the words in both the earnings releases and the individual news stories. A coding manual consisting of 16 items was developed. The first four items were used to capture relevant data about each company (company name and the city and state of the headquarters) and news story or press release (the date and type – earnings release, local news, national news). The remainder of items was used to identify and calculate pro forma emphasis and affective attributes.

Pro Forma Earnings

Pro forma emphasis was operationalized by following a similar methodology established by Bowen et al. (2005) based on the following attributes: (1) the type of earnings metric (pro forma or GAAP) and (2) where the metric is located.

Both types of metric were analyzed capturing the emphasis of the first mention for each. The emphasis was based on a five-point location scale. This scale is slightly different from the one used by Bowen et al. (2005) because their sample had only press releases that contained a pro forma earnings figure. This sample, however, was drawn based on company names and not by the inclusion of specific content, so an item was added to include a category for not reported. In addition, because this study also included newspaper coverage, the scale was changed to maintain a level comparison since many newspapers only print a brief about earnings releases. The scale employed ranged from 1 (not included) to 3 (headline and sub-headline):

Location from top to bottom	Emphasis Score	Measure of Emphasis
Headline & Sub-Headline	3	Most Emphasis
Body	2	↕
Not Included	1	Least Emphasis

Through this process the coders identified a level of emphasis for both pro forma and GAAP earnings for the company earnings release and the local and/or national coverage.

Examples of pro forma adjustments found in previous studies include "goodwill amortization, stock-based compensation related charges, restructuring charges, and gains/losses on the sale of assets," while GAAP earnings are often either bottom-line earnings or "numbers such as earnings before extraordinary items or earnings before discontinued operations" (Bowen et al., 2005, p. 1021).

The next step computed the relative emphasis. This was similar to Bowen et al.'s (2005) methodology, but with an adjusted scale. The relative emphasis was calculated as the pro forma emphasis score minus the GAAP emphasis score and ranged from 2 to -2, where the extremes showed one metric in the headline and the other not included. Zero was the scale midpoint and it indicated that there was equal emphasis of both pro forma and GAAP. In this respect relative emphasis is a proxy for the difference in importance between the two metrics as portrayed by corporate management:

(+2) Pro forma in the headline & GAAP in not included[2]
(+1)
(0) Same level of emphasis
(-1)
(-2) GAAP in the headline & pro forma not included

The second variable of interest in this study was tone. In agenda-setting, tone is considered to the affective dimension of the second-level. Previous studies have focused on only positive words (e.g. Bowman, 1984), only negative words (e.g. Abrahamson & Amir, 1996) or both positive and negative words (e.g. Clatworthy & Jones, 2003; Henry, 2006).

Affective Attributes

The affective attributes were operationalized by following the seven-step method described in Henry (2006): (1) length was measured for the earnings releases and news coverage, (2) number of positive words was counted, (3) number of negative words was counted, (4) tone was calculated (5) positive tone was calculated, (6) negative tone was calculated, and (7) neutrality was calculated. Each step is described separately.

First, the length was calculated as the amount of total words in the earnings release or news coverage. The number of positive and negative words were simple

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[2] Although this is highly unlikely given the reconciliation requirements of Regulation G, this category is included to ensure an exhaustive coding scheme.

counts of occurrence in the text (see Appendix). By using these counts, tone was calculated as:

$$\text{Tone} = \frac{\text{Count of positive words} - \text{count of negative words}}{\text{Count of positive words} + \text{count of negative words}}$$

Therefore, the maximum value for tone was 1 and the minimum value tone was minus one. Positive tone was calculated by dividing the frequency count of positive words by the total words in that earnings release or news coverage. Negative tone was calculated by dividing the frequency count of negative words by the total words in that earnings release or news coverage. Finally, overall neutrality of the earnings release or news coverage was calculated by subtracting the negative tone from the positive tone.

To capture the frequency counts, the commonly used basic computerized content analysis software Diction 5.0 was used. This Windows Based program for determining tone of messages contains built-in dictionaries and allows the creation of a custom dictionary (Neuendorf, 2002).

The use of computerized content analysis was determined to be appropriate in this study because it enhances the reliability of the analysis by removing the subjectivity of the human coder after the creation of the process and dictionary. Furthermore, Diction 5.0 was appropriate because it has been used in previous studies looking at both media content (Hamilton, 2006) and accounting (Henry, 2006).

To measure the affective attributes, this study utilized the positive and negative tone dictionary Henry (2006) developed to measure tone in earnings releases. Her measure was based on previous accounting research that also looked at frequency word counts to calculate tone (e.g., Abrahamson & Amir, 1996; Clatworthy & Jones, 2003) and other keyword analysis (Hussainey, Schleicher, & Walker, 2003; Smith & Taffler, 2000).

Henry's (2006) dictionary (see Appendix) was created using a thesaurus-based approach to include words with similar meanings. She also considered the lexical ambiguity (or polysemy) to determine the use of directional words such as increased (where in some contexts it may be considered positive such as when earnings increases while in other contexts it may be considered negative such as when expenses increase). She found that the directional words are, for the most part, consistent with the broad concept of positive or negative (i.e., up words are considered positive and down words are considered negative). Therefore, the use of directional words for tone is appropriate.

Reliability and Validity

To assess reliability two coders were used. The coding manual was pretested with a random sample of 20 companies, and revised as necessary before coding began to increase intercoder and intracoder reliability. One coder analyzed all earnings releases and news coverage. After being trained with coding rules and definitions, the second coder was responsible for coding a randomly drawn 20% of the earnings releases and local and national news coverage. Overall, the data reflected an intercoder reliability of 93.2% using Holsti's (1969) formula. Scott's *pi* (1955) was 75.2%. Although in the acceptable range, this percentage agreement is low due to the low number of variables with a low number of categories.

CHAPTER IV

Results

Identifying how companies communicate and if and how this communication influences the media is extremely important given the current state of distrust in this post-Enron society. Therefore, the purpose of this study was to look at the intermedia agenda-setting effects of corporate disclosures on the media to see if either the company disclosures or the media presentation of those disclosures influence reputation. A content analysis of annual earnings releases was conducted to determine the corporate agenda and local and national newspapers were used to determine the media agenda. Reputation was based on the scores each company received by the *Fortune America's Most Admired Companies* study.

The data were screened for missing data and outliers. Any outliers identified were determined to be legitimate; the variables were then transformed through the use of stem-and-leaf plots. Analyses were conducted on the transformed variables and the original variables with no significant differences resulting; therefore the original variables were used. All data were analyzed using SPSS. The alpha level for test significance was set at $p \leq .05$.

Descriptive Analysis

The final sample of 207 companies from *Fortune's America's Most Admired Companies* came from 64 different industries and had headquarters in 36 cities across the United States. They had an average net income of $1.8 billion with a minimum net income of -$7.09 billion and a maximum of $36.1 billion. Ten companies had a net loss for the year.

The earnings release dates ranged from March 8, 2005, to April 18, 2006. The most common day of the week to issue the earnings annual release was Thursday (n = 58, 28.0%), followed by Tuesday (n = 54, 26.1%), Wednesday (n = 53, 25.6%), Monday (n = 26, 12.6%), and Friday (n = 16, 7.7%). None of the companies that had a loss distributed a release on a Friday. Table 4.1 provides a description of the sample.

Table 4.1.
Sample description

Final sample	207
Number of industries	64
Number of states with headquarters	36
Average net income	$1.8 Billion
Most common day of the week for earnings releases	Thursday

Research Questions

This study to looked at the intermedia agenda-setting effects of the corporate agenda as defined by the annual earnings releases and the media. It also identified the effects of the corporate and media agendas on reputation. To accomplish this, six research questions were used.

Research Question 1

The first research question asked if there are differences in the frequency of local and national coverage for corporate annual earnings releases. A chi-square test of independence was performed to examine the relation between local and national coverage. The relation between these variables was significant (χ^2 [df = 1] = 19.28, p < .001). There was 14% more local coverage (n = 172, 83.1%) of annual earnings than national coverage (n = 142, 68.6%). In addition, 65 companies had local coverage only

(16.9%) while 35 companies had only national coverage (31.4%), and 107 companies had both local and national news coverage (51.7%).

Overall, 142 companies had national coverage of their earnings. Three national newspapers were used to account for the national coverage, the *Wall Street Journal*, *USA Today*, and the *New York Times*. The first newspaper that had coverage of the earnings was the paper used in the study. When more than one of the three newspapers had earnings coverage for a company in the same day, the paper included in the study was determined by circulation. The *Wall Street Journal* accounted for 90.1% of the coverage (n = 128), *USA Today* accounted for 7.0% of the coverage (n = 10) and the *New York Times* had 2.8% of the coverage (n = 4). Just under half of the national newspaper coverage consisted of news briefs on the earnings (n = 68, 47.9%) and less than a quarter of the local coverage was briefs (n = 40, 23.3%). See Table 4.2 for breakdown of coverage.

Table 4.2.
Newspaper coverage

	Total coverage		Single coverage	
Local newspapers	172	(83.1%)	65	(16.9%)
National newspapers	142	(68.6%)	35	(31.4%)
Wall Street Journal	128	(90.1%)	34	(26.6%)
USA Today	10	(7.0%)	0	0
New York Times	4	(2.8%)	1	(2.9%)

Research Questions 2 and 2a

The second research question asked if the emphasis of pro forma earnings in corporate annual earnings releases influenced the emphasis on pro forma in the media coverage of earnings. The results of the Pearson correlations are presented in Table 4.3. Two of the three correlations were significant. The correlation between corporate relative emphasis on pro forma and local coverage relative emphasis was significant (r[170] = .294, $p < .001$). The effect size was low, with corporate relative emphasis accounting for 9% of the variance in relative emphasis in local coverage. The correlation between corporate relative emphasis and national relative emphasis was also significant, ($r[142] = .188, p < .05$). The effect size was low, with corporate relative emphasis accounting for 4% of the variance in relative emphasis in local coverage. Although the correlations were weak, the relative emphasis on pro forma earnings between corporate earnings releases and local coverage was slightly stronger than between corporate earnings releases and national coverage. There was not a significant correlation between relative emphasis in national and local coverage ($r[107] = .020, p = .842$).

Table 4.3.
Correlations among relative emphasis

	Corporate relative emphasis	Local relative emphasis
Local relative emphasis	0.294**	
National relative emphasis	0.188*	0.020

* $p < .05$. ** $p < .01$

The scale for relative emphasis ranged from 2 to –2. The extremes show one metric in the headline and the other not included (see Table 4.4). Zero was the midpoint of the scale and indicates the same level of emphasis, which could be high or low. The more positive the number, the greater the emphasis on was pro forma and the more negative the number, the greater the emphasis was on GAAP.

Table 4.4.
Descriptive statistics on relative emphasis

	Corporate	Local	National
(+2) Pro forma in headline & GAAP not included	0	0	0
(+1)	3.9%	0.6%	0
(0)	29.0%	8.1%	1.4%
(-1)	43.0%	40.7%	18.3%
(-2) GAAP in headline & pro forma not included	24.2%	50.6%	80.3%

Overall, companies mentioned GAAP earnings before pro forma earnings in most of the earnings releases (n = 177, 85.5%) as did journalists in the local coverage (n = 168, 97.7%) and the national coverage (n =142, 100%). The differences between the first mention of earnings in the earnings releases and local coverage was significant (χ^2 [*df* = 1] = 12.05, $p = .001$). GAAP earnings were mentioned in all of the earnings releases (N = 207), all of the national coverage (N = 142), and all but one of the local newspapers (n = 171).

Pro forma earnings, on the other hand, were not used as frequently. Slightly half of the companies mentioned pro forma earnings in their earnings releases (n = 114, 55%). The local newspapers mentioned pro forma earnings in 20.9% of the coverage (n = 36) and the national coverage mentioned it in 14.1% (n = 20). Pearson correlations found a significant relationship between the use of pro forma earnings in corporate earnings releases and its use in local coverage ($r[170] = .245, p < .001$) and national coverage ($r[170] = .172, p < .05$) (see Table 4.5). The effect sizes for both were low; the use of pro forma earnings in corporate earnings releases accounted for 6% and 3% of the variance in the use of pro forma earnings in local and national coverage respectively.

Table 4.5.
Correlations for the use of pro forma earnings

	Local pro forma use	National pro forma use
Corporate pro forma use	0.245**	0.172*

* $p < .05$. ** $p < .01$

There were significant differences between the reporting of pro forma earnings in the corporate earnings releases and the local coverage (χ^2 [$df = 2$] = 11.92, $p < .01$) and national coverage (χ^2 [$df = 2$] = 13.53, $p < .001$). GAAP was predominantly reported in the headline of the corporate earnings releases (n = 101, 50.2%) and the local (n = 108, 62.8%) and national newspapers (n = 93.0%, n = 132). Companies reported pro forma in the headline in 7.7% of the earnings releases (n = 16) while local and national coverage did not mention pro forma in its headlines.

Companies that mentioned pro forma before GAAP earnings typically did so by including both figures in the body of the earnings release (n = 21), however, 30% of the companies first mentioned pro forma figures in the headline (n = 9), and each time, GAAP was first reported in the body of the earnings release (χ^2 [$df = 2$] = 42.08, $p < .001$). See Table 4.6 for descriptive statistics on emphasis of pro forma and GAAP earnings.

Table 4.6.
Descriptive statistics on level of emphasis

	Pro forma earnings			GAAP earnings		
	Corporate	Local	National	Corporate	Local	National
Headline (3)	7.7%	0	0	50.2%	62.8%	93.0%
Body (2)	47.3%	20.9%	14.1%	49.8%	36.6%	7.0%
Not included (1)	44.9%	79.1%	85.9%	0	0.6%	0

Research Questions 3 and 3a

The third research question focused on the difference between the affective attributes in corporate earnings releases and media coverage of earnings. The affective attribute measures were based on frequency counts of positive and negative words obtained using the software program Diction 5.0. Four variables were analyzed (tone, positive tone, negative tone, and neutrality) for the earnings releases and the local and national news coverage. Pearson correlations were calculated between the corporate earnings releases and the local coverage (see Table 4.7) and the national coverage (see Table 4.8) for each of the four affective attribute variables. Table 4.9 provides descriptive statistics.

There was a significant correlation between the tone of corporate earnings releases and the tone of local coverage ($r[170] = .239, p < .01$). The effect size was low, with corporate tone accounting for 6% of the variance in the tone of local coverage. The correlation between the tone of corporate earnings releases and the tone of national coverage was also significant ($r[140] = .356, p < .001$); the effect size was substantial with corporate tone, accounting for 13% of the variance in tone the of national coverage. Tone was measured as the number of positive words minus the number of negative words divided by the number of positive words plus the number of negative words. Therefore, the maximum tone possible was one and the minimum tone possible was negative-one. The higher the number, the more positive the tone and conversely the lower the number, the more negative the tone. In this sample the corporate earnings releases had an average tone of .56 and 18.8% of the companies had a tone of .75 or higher (n = 39). The lowest tone was -0.15 and the highest tone was 1.0. The local coverage had an average tone of

.53 and 15.7% had a tone of 1.0 (n = 27). The lowest tone was -1.0 and the highest tone was 1.0. The national coverage had an average of .42 and 19.7% had a tone of 1.0 (n = 28). The lowest tone was -1.0 and the highest tone was 1.0.

There were significant correlations between the use of positive tone in corporate earnings releases and positive tone in local coverage ($r[170] = .289, p < .001$) and national coverage ($r[140] = .201, p < .05$). Thus, the use of positive tone in corporate earnings releases accounted 8% and 4% of the variance in positive tone in local and national coverage respectively. Positive tone was measured by scaling the frequency counts of positive words by the length or total words, and the higher the number the more positive the tone. In the corporate earnings releases, the average positive tone was 0.018, the minimum was 0.00, and the maximum was 0.05. The local coverage had an average positive tone of 0.03 and the national coverage had an average of 0.029. Both had a minimum of 0.00 and a maximum of 0.07.

There were significant correlations between the use of negative tone in corporate earnings releases and the use of negative tone in local coverage ($r[170] = .232, p < .01$) and national coverage ($r[140] = .409, p < .001$). Thus, the use of negative tone in corporate earnings releases accounted 5% and 17% of the variance in the use of negative tone in local and national coverage respectively. Negative tone was calculated by scaling the frequency counts of negative words by the length or total words, and a the higher the number the more negative the tone. The average negative tone for the corporate earnings releases was 0.005 with a minimum of 0.00 and a maximum of 0.02. The local coverage had an average of 0.008 and the national coverage had an average of 0.011. Both had a minimum of 0.00 and a maximum of 0.04.

There were significant correlations between neutrality in corporate earnings releases and neutrality in local coverage ($r[170] = .359, p < .001$) and national coverage ($r[140] = .308, p < .001$). The effect sizes for both were substantial, corporate earnings release neutrality accounted 13% and 9% of the variance in neutrality in local and national coverage respectively. Neutrality was calculated by subtracting the negative tone from the positive tone; therefore, it can also be considered a scaled calculation of tone. As with tone, neutrality will be higher when the positive tone metric is higher than the negative tone metric. The corporate earnings releases had an average neutrality of 0.013, a minimum of 0.00, and a maximum of 0.05. The local coverage had an average neutrality of 0.022 and national coverage had an average of 0.018. Both local and national coverage had a minimum of -0.03 and a maximum of 0.07.

Table 4.7.
Correlations for corporate earnings releases and local coverage

	Co. length	Co. tone	Co. pos. tone	Co. neg. tone	Co. neutral
Local length	0.114	-0.071	-0.185*	-0.092	-0.153*
Local tone	-0.074	0.239**	0.271**	-0.105	0.311**
Local pos. tone	-0.079	0.232**	0.289**	-0.034	0.304**
Local neg. tone	0.104	-0.318**	-0.225**	0.232**	-0.310**
Local neutrality	-0.102	0.306**	0.315**	-0.115	0.359**

* $p < .05$. ** $p < .01$

Table 4.8.
Correlations for corporate earnings releases and national coverage

	Co. length	Co. tone	Co. pos. tone	Co. neg. tone	Co. neutral
National length	0.081	0.058	0.106	0.029	0.095
National tone	0.047	0.356**	0.098	-0.365**	0.243**
National pos. tone	-0.104	0.265**	0.201*	-0.192	0.278**
National neg. tone	-0.069	-0.380**	-0.087	0.409**	-0.248**
National neutrality	-0.041	0.360**	0.181*	-0.321**	0.308**

* $p < .05$. ** $p < .01$

Table 4.9.
Affective attribute descriptive statistics

Variable	N	Mean	Median	Std Dev	25th Percentile	75th Percentile
Corporate length	207	4483	4020	2374	3043	5221
Local length	172	474	497	230	282	634
National length	142	340	233	171	195	483
Corporate tone	207	0.558	0.589	0.211	0.434	0.717
Local tone	172	0.526	0.622	0.433	0.333	0.850
National tone	142	0.415	0.530	0.492	0.023	0.800
Corporate positive tone	207	0.018	0.017	0.008	0.013	0.023
Local positive tone	172	0.030	0.029	0.014	0.019	0.040
National positive tone	142	0.029	0.027	0.014	0.017	0.039
Corporate negative tone	207	0.005	0.004	0.003	0.003	0.006
Local negative tone	172	0.008	0.007	0.007	0.003	0.019
National negative tone	142	0.011	0.009	0.009	0.004	0.017
Corporate neutrality	207	0.013	0.012	0.008	0.008	0.018
Local neutrality	172	0.022	0.021	0.017	0.010	0.034
National neutrality	142	0.018	0.020	0.020	0.001	0.033

Based on these findings, the implication is that the affective attributes in corporate earnings releases *do* influence the agenda of affective attributes in the local and national media. In addition, the transfer of salience for the combination of affective attributes appears to be stronger for national media coverage. This is because the sum of the combined variance for tone, positive tone, negative tone, and neutrality for corporate earnings releases explained 43% of the variance in national coverage and 32% of the variance in local coverage.

In addition, the use of positive tone in the corporate earnings releases was significantly correlated with local news. Specifically, the use of positive tone in corporate earnings releases was significantly correlated with the use of tone ($r[170] = .271, p < .001$), positive tone ($r[170] = .289, p < .001$), and neutrality ($r[170] = .315, p < .001$) in local coverage. The use of positive tone in corporate earnings releases accounted over 7%, 8%, and 9% of the variance in the use of tone, positive tone, and neutrality in local coverage respectively. It was also inversely related to the use of negative tone ($r[170] = -.225, p < .01$), with an effect size of 5%. The correlations with national coverage and positive tone in corporate earnings releases tended to be lower and/or not significant (see Table 4.8).

On the other hand, negative tone in the corporate earnings releases was significantly correlated with national news. The use of negative tone in corporate earnings releases was significantly correlated to negative tone ($r([40] = .409, p < .001$) and negatively correlated to tone ($r[140] = -.365$ $p < .001$) and neutrality ($r[140] = -.321$, $p < .001$) in national coverage. The effect sizes were substantial, with the use of negative tone in corporate earnings releases accounting for 17%, 13%, and 10% respectively. The correlations between local coverage and corporate earnings releases for negative tone tended to be lower and/or not significant (see Table 4.7).

Research Question 4

The fourth research question explored the relationship between the length of corporate news releases and the length of local and national coverage of earnings. Pearson correlations were run and showed weak non-significant relationships between corporate earnings releases and local coverage length and between corporate earnings releases and national coverage length (see Tables 4.7 and 4.8).

Overall, the average length of the corporate earnings releases was 4,483 words (N = 207). The longest earnings release was 16,329 words and the shortest was 534 words. The news coverage was substantially less lengthy. The local coverage was an average of 474 words with a maximum of 1129 words and a minimum of 63. The national coverage had even less with an average of 340 words, a maximum of 861 words and a minimum of 92 words.

Research Question 5

The fifth research question explored the relationship between reputation and pro forma relative emphasis in corporate annual earnings releases and media coverage of earnings. Corporate reputation was measured using *Fortune's* corporate reputation survey data composite score, which included the attributes of innovation, people management, use of corporate assets, social responsibility, quality of management, financial soundness, long-term investment, and quality of products/services. The average reputation score was 6.95 and the minimum score was 5.26; the maximum score was 8.60.

Backward multiple regression was conducted to determine which independent variables (pro forma use in corporate earnings releases, local coverage, or national coverage) provided the best relationships with reputation. The model with the best fit contained only the local coverage variable ($R^2 = .021$, $R^2_{adj} = .016$, $F(1, 205) = 4.41$, $p < .05$). The pro forma emphasis in local coverage accounted for 2.1% of the variance in reputation.

Research Question 6

The sixth research question identified the relationship between reputation and affective attributes in corporate annual earnings and media coverage of earnings. A backward multiple regression was conducted to determine which affective attribute independent variables (tone, positive tone, negative tone, and neutrality for corporate annual earnings, local coverage, and national coverage) provided the best relationships with reputation. Regression results indicate an overall model with three variables (length of local coverage, length of national coverage, and neutrality in corporate earnings releases) that are significantly related to reputation ($R^2 = .221$, $R^2_{adj} = .119$, $F(3, 103) = 9.76$, $p < .001$), accounting for 22.1% of reputation variance. A summary of the model regression coefficients is presented in Table 4.10.

Table 4.10.
Affective attribute coefficients for reputation model

	B	*β*	*t*	*p*	Bivariate *r*	Partial *r*
Local length	.001	.386	4.448	.000	.378	.393
National length	.001	.164	1.727	.065	.227	.181
Corporate neutrality	20.149	.225	2.093	.012	.169	.245

Previous research has found that measures of corporate performance such as net income are related to reputation. Although this study did not seek to identify the influence of performance on reputation, when the regression was run again with net income included, it was found to only increase the above model to account for 22.9% of the variance in reputation ($R^2 = .229$, $R^2_{adj} = .119$, $F(4, 102) = 7.58$, $p < .001$). A summary of the model regression coefficients is presented in Table 4.11.

Table 4.11.
Affective attribute coefficients for reputation model with net income

	B	*β*	*t*	*p*	Bivariate *r*	Partial *r*
Local length	.001	.360	3.890	.000	.378	.225
National length	.001	.127	1.333	.186	.227	.131
Corporate neutrality	18.653	.209	2.330	.022	.169	.225
Net income	.000	.101	1.014	.313	.284	.100

CHAPTER V

Discussion

This study builds on previous research to explore the role of the corporate agenda on the media agenda. Identifying this intermedia agenda-setting effect is especially relevant given this post-Enron environment where recent accounting scandals have heightened public scrutiny of corporate disclosures.

Through the use of a content analysis of 207 corporate earnings releases, this study explored the intermedia agenda-setting power of corporate agendas by identifying how companies disclose their earnings and in turn how the media covers those earnings. This was evaluated from first and second level agenda-setting perspectives by analyzing the transfer of salience for pro forma emphasis and affective attributes from the corporate earnings releases to the local and national media. Furthermore, this study examined the relationship between corporate reputation and corporate earnings release disclosures and media coverage.

Overview

The annual earnings release is an important means by which companies communicate to stakeholders. Past studies have found earnings releases to be potentially influential in investor judgment and decisions (e.g. Elliott, 2006; Henry, 2006). Although the issuance of earnings releases is voluntary, many companies distribute them in hope of gaining media coverage (Marcus & Wallace, 1997).

Previous research found that the media play an important role in enhancing the visibility of a company (Bushman, Piotroski, & Smith, 2004). Therefore, it is not surprising that Bowen et al. (2005) found media visibility, or the amount of media coverage a company receives, to influence the way earnings releases are written. Although knowing how often a company is in the media is important, it is also helpful to have a gauge on how often earnings releases make it into the media. This builds on the idea that if earnings release disclosures are influenced by overall past media coverage, companies may face even greater influences when the likelihood of coverage for the earnings release is strong.

This a pioneering study that sought to identify the frequency of media coverage of earnings releases. This study found that 80% of the companies that issued an earnings release for 2005 received media coverage of their earnings. It is important to note that the companies used in this study were the top companies in America as defined by *Fortune Magazine*, so it is likely that this high potential for publication of earnings is not as strong with other less influential companies.

Further delineation of this media coverage found that of the 207 companies with media coverage, almost half had coverage in both the local and the national media, and the local media was found to have a larger and lengthier amount of coverage than the national newspapers.

Overall, these findings indicate that the reporting of corporate earnings *is* newsworthy. According to Mencher (2006), there are five categories that make a topic newsworthy: timing; significance; proximity; prominence; and, human interest. In the case of corporate earnings most of these categories are relevant. They are certainly timely because distribution of corporate earnings releases is often right after calculation, and the earnings figures have significance to all current and possible investors. As was found in this study, corporate earnings are especially newsworthy in the local media because of the proximity of their corporate headquarters. The corporate earnings in this study had prominence simply because of the size and popularity of the companies used for the analysis. The only newsworthiness factor that corporate earnings releases do not typically include is human interest. Therefore, by meeting four out of the five newsworthiness criteria, it is not surprising that most of the earnings releases in this study made it into the local and national newspapers.

Pro Forma Emphasis

How companies choose to present their earnings has come under scrutiny. This is because there are two conflicting interpretations of the motives underlying company releases of pro forma earnings figures. The first position, the one most companies take, is that pro forma earnings provide better insight into the fundamental operations of a business than does the bottom line as defined by generally accepted accounting principles (GAAP). However, the opposing view, voiced by various researchers and SEC officials, is that the presentation of pro forma earnings is misleading to investors and is used to present a company's financials in an artificially favorable light. In fact, Lynn Turner, the former chief accountant of the SEC, suggested that pro forma earnings were reported by some companies to deliberately "spin investors" by reporting "everything but bad stuff" (Turner, 2002, p. 1). The SEC Regulation G became effective in 2003 to provide requirements for these "non-GAAP performance metrics" by mandating that companies not present non-GAAP financial measures in ways that are misleading to investors and that any non-GAAP measures must be reconciled with comparable GAAP measures (Bowen et al., 2005, p. 1011).

In light of their importance and the concerns surrounding pro forma earnings, this study sought to identify their use and emphasis in corporate earnings releases. This was then compared to the their use and emphasis in the media.

Corporate earnings releases. Entwistle, Feltham, and Mbagwu (2006) identified a decrease in the reporting of pro forma earnings in corporate earnings releases from 77% in 2001 to 54% in 2003. They credited the passing of Regulation G in 2002 as the catalyst for this change, even though it did not become effective until March 2003. They predicted that the use of pro forma would continue to decrease, but indicated that further research was necessary.

The findings of this study, therefore, expand on the research by Entwistle et al. (2006) by identifying that, in fact the use of pro forma did not continue to decrease. Instead, this study found that 55% of the companies continued to use pro forma earnings.

Another important aspect of the use of pro forma earnings is its emphasis in disclosures compared to GAAP earnings. This study confirmed the continuing decrease in the mentioning of pro forma earnings in headlines. Specifically, Entwistle et al. (2006) found pro forma was used in 51% of the headlines in 2001 and 28% in 2003, while this study identified another decrease to 8% in the 2005 earnings releases.

Comparison to media. To identify the intermedia agenda-setting effects for corporate earnings releases and the media, the transfer of salience for the use and emphasis of pro forma earnings was analyzed. Although pro forma earnings were included in 55% of corporate earnings releases, the media included it much less. The local media only included pro forma earnings 21% of their coverage and 14% of the national coverage contained pro forma earnings.

There were also differences in emphasis on pro forma earnings between the corporate earnings releases and the media coverage. This study found that GAAP earnings were presented before pro forma earnings in almost all of the newspaper coverage. This was not the case with corporate earnings releases, where roughly 15% of the companies in this study presented pro forma earnings first. Although this practice is not illegal, it is cause for concern because pro forma earnings may generate misperceptions regarding a company's performance. According to Jacobs (2002), the best practice for companies is to simply state the headline as "XYZ Company Reports Fourth Quarter Results." Keeping with this, Regulation G stipulated, "GAAP earnings should ideally appear in the first paragraph and before discussing pro forma results" (SEC, 2005). The fact that the SEC addressed emphasis placed on pro forma and GAAP, suggests that regulators believe emphasis to be an important disclosure tool. Unfortunately, what the SEC has identified as "ideal" and what is considered a "best practice" is not always followed in corporate earnings releases.

Although it is not possible to determine why the media, on the other hand, did not follow the corporate lead in the reporting of pro forma earnings and used it much less. The media does not have the same incentives to present company earnings in the best light possible as individual companies do. Therefore, one possible reason the media did not include pro forma earnings as frequently or emphasize them as much as corporate earnings releases is the criticism of pro forma earnings. In this respect, financial journalists may view pro forma earnings as potentially misleading and therefore, out of responsibility to readers, not include them. Another possibility is that the journalists are accounting savvy and they simply use the measure of earnings that they believe best represents the actual performance of the company – GAAP earnings.

Affective Attributes

The second level of agenda-setting research moves from examining what is emphasized to how it is described. Most often, this includes affective attributes or the factors that draw emotional response from the public (McCombs et al., 2000). This study extended previous findings about the effectiveness of word choice in annual reports (see Abrahamson & Amir, 1996; Smith & Taffler, 2000) by looking at the affective attributes in earnings releases and the transfer of salience to the media. In this study, the affective attributes that were analyzed were tone, positive tone, negative tone, and neutrality. The length of the corporate disclosures and media coverage was also reviewed.

Corporate earnings releases. Financial information is essential in making sound investment decisions. Ultimately, a company's financial disclosures should reduce the information asymmetry between the company and its investors. On the other hand, more information may not necessarily be better for investors if it is simply the result of increased complexity.

This study found corporate earnings releases in 2005 to have an average tone of 0.558. This extends previous research by Henry (2006) who found that the average tone for earnings releases during the period of 1998 to 2002 was 0.568. In other words, there has been relatively little change in the frequency counts of positive and negative words over the past three years.

Companies often face decisions on how to report their earnings and rarely do they have the extremes of only positive (or negative) things to say about the past earnings period. Previous studies have found companies to employ impression management in their financial disclosures to be generally more optimistic (Lang & Ludholm, 2000) or to focus on the positive (Clatworthy & Jones, 2003; Deegan & Gordon, 1996). However, companies have a responsibility to stakeholders to provide an accurate and complete picture of company performance. Consistent with this, the 2001 FEI and NIRI best-practice guidelines state that earnings press releases should present a "reasonably balanced perspective of operating performance" (FEI, 2001, p. 6). This study found that there is room for improvement since the earnings releases contained 30% more positive tone than negative tone.

Comparison to media. The second-level of agenda-setting recognizes that news coverage conveys more than just facts, it also conveys feeling and tone through how a story is framed (McCombs & Ghanem, 2001).

After accounting for length, the tone of the media coverage was more positive than the corporate earnings releases; local coverage was the most positive. Although further research is required to identify the cause of this, one possible explanation for this is that the media is giving its readers what they think they want to read; another is that the media is reporting a more positive view of a company to maintain or build a relationship with that company.

In addition, the corporate earnings releases in this study were found to have the greatest influence on the positive content in the local earnings coverage and the negative content in the national earnings coverage. The following example highlights why this is important for companies to know. XYZ Company issues an earnings release with the balance of positive and negative aspects. Their sales increased but because of litigation during the year their net income decreased. The result of this single earnings release would be a difference in news coverage between local and national newspapers. The local media will be more likely to pay greater attention to the positive aspects of the releases (the increase in sales) while the national media will be more likely to discuss the negative (the litigation and the decrease in net income).

Corporate Reputation

In recent years it is nearly impossible to open the newspaper without learning about another corporate scandal. Enron, WorldCom, Tyco, and HealthSouth are just some of the major United States and Multinational corporations whose corporate and accounting practices have made the news. As a frontrunner in this new corporate landscape, Enron has forever altered public trust in corporate morality (Sethi, 2002). The public's attention is now, more so than ever, focused on the integrity of corporate disclosures.

News coverage is of particular importance to organizations attempting to manage their reputation because much of what consumers and other external stakeholders learn about companies and the issues that surround them comes from the news media (Deephouse & Carter, 2005; Dutton & Dukerich, 1991; Fombrun & Shanley, 1990).

Past research has found reputation to be related to prior performance (Fombrun & Shanley, 1990; Hammond & Slocum, 1996) and intense media exposure (Wartick, 1992). This study combines both the variable of prior performance (by analyzing annual earnings content) and the variable of media exposure (by looking at the coverage of earnings in local and national newspapers).

This study compared corporate earnings releases, local coverage and national coverage for pro forma emphasis and affective attributes to identify what provided the best relationships with reputation. *Fortune's America's Most Admired Companies* reputation scores were used to determine corporate reputation. These scores were obtained through the 2006 survey of corporate executives, directors, and analysts in the same industry (Bowen, et al. (2005) considered these to be examples of "sophisticated investors") for the eight attributes of: innovation, people management, use of corporate assets, social responsibility, quality of management, financial soundness, long-term investment, and quality of products/services. Eligible companies came from the *Fortune 500* list, so each company had at least $1.3 billion in revenue. This list was essentially comprised of the largest and most widely followed companies in the investment world.

Pro forma emphasis. In the analysis combining the three variables of pro forma emphasis in corporate earnings releases, pro forma emphasis in local coverage, and pro forma emphasis in national coverage, the variable that was found to have the best relationship with reputation was pro forma emphasis in local coverage. This study found that as the emphasis on pro forma in local coverage decreased, reputation increased.

It is interesting that only the pro forma in local media coverage had a relationship with reputation. This appears contrary to where sophisticated investors such as those completing the *Fortune* survey would obtain their information. Bowen et al. (2005) found that companies with greater analyst followings emphasized pro forma earnings more. They claimed that perhaps this was in response to analysts' "demands" for pro forma earnings figures (p. 1028). Given that the corporate earnings releases were meeting these demands by providing pro forma earnings in a greater amount than the media, this study's finding that pro forma emphasis in local coverage had a better relationship with reputation than the corporate earnings release is surprising.

Affective attributes. This study extended previous findings by Wartick (1992) who found that the tone of media exposure was related to corporate reputation. He suggested that researchers should look at the media coverage as a predictor for changes in corporate reputation. Although this study did not analyze changes in reputation, it did drill down into the relationships associated with corporate reputation.

This study found that the best relationship for reputation was established with neutrality (calculated by subtracting the negative tone from the positive tone after adjusting for word count) of the corporate earnings release in combination with the length of local and national coverage. Since the reputation scores were based on opinions of sophisticated investors, it is likely that they had direct access to the corporate earnings releases through the wire services and probably closely monitored performance. In other words, analysts and large intuitional executives and investors *can* get their information directly from companies (through the wire services) and/or from the media through local or national coverage.

The findings of this study indicate that *Fortune's* respondents were essentially affected by the tone of companies directly and by the amount of media coverage the company receives. Essentially, corporate use of impression management (the framing of content as either positive or negative) combined with their mere level of exposure in the media (the length and not the content of the coverage) was what best predicted the reputation scores of the companies in this analysis. Therefore, how a company talks about its earnings is very important, as is the amount of coverage in the media.

By identifying the relationships with reputation, this study identified that it is not what the company says that influences reputation but also how they say it and what and how much content makes it into the media.

Limitations and Recommendations for Further Research

One issue in the development of the agenda-setting effects is the difficult question about where agenda-setting begins. Specific to this study is the order of corporate disclosure tactics, media coverage, and reputation. Although this is the order in which this study looked at the relationships, each company had a reputation before it created the disclosure and quite possibly had media coverage as well. To gain a better understanding of this complete process, future studies should look at the longitudinal relationships. Path diagrams can also be used to determine the direct and indirect effects.

A limitation of this study was that it only looked at companies with the best reputations as defined by *Fortune's America's Most Admired Companies*. Hence, the generalizability of the results is restricted. These companies do, however, represent the largest and highest profile companies in the United States. Although a good starting place, future research could look at companies that are not the best-of-the-best. By researching both companies with a good reputation and companies with a bad reputation, a greater understanding of media coverage will be gained. In addition, future research should expand the sample size along with including variables of profitability, industry, and market response.

Finally, by examining corporate earnings releases as a disclosure tool, this study contributed to the understanding of how corporate managers use impression management, how earnings releases influence the media, and how both companies and the media influence reputation. The findings indicate that through the use of impression management companies are successful in telling the media not only to think about annual earnings, but how to think about the earnings. The reputation rankings indicate that companies are also successful in telling corporate executives and analysts how to think while the media is telling them to think about company earnings.

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Appendix

Positive and Negative Tone Dictionaries

Word List for Positive Tone

positive positives success successes successful succeed succeeds succeeding succeeded accomplish accomplishes accomplishing accomplished accomplishment accomplishments strong strength strengths certain certainty definite solid excellent good leading achieve achieves achieved achieving achievement achievements progress progressing deliver delivers delivered delivering leader leading pleased reward rewards rewarding rewarded opportunity opportunities enjoy enjoys enjoying enjoyed encouraged encouraging up increase increases increasing increased rise rises rising rose risen improve improves improving improved improvement improvements strengthen strengthens strengthening strengthened stronger strongest better best more most above record high higher highest greater greatest larger largest grow grows growing grew grown growth expand expands expanding expanded expansion exceed exceeds exceeded exceeding beat beats beating

Word List for Negative Tone

negative negatives fail fails failing failure weak weakness weaknesses difficult difficulty hurdle hurdles obstacle obstacles slump slumps slumping slumped uncertain uncertainty unsettled unfavorable downturn depressed disappoint disappoints disappointing disappointed disappointment risk risks risky threat threats penalty penalties down decrease decreases decreasing decreased decline declines declining declined fall falls falling fell fallen drop drops dropping dropped deteriorate deteriorates deteriorating deteriorated worsen worsens worsening weaken weakens weakening weakened worse worst low lower lowest less least smaller smallest shrink shrinks shrinking shrunk below under challenge challenges challenging challenged