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Media visibility as a driver of corporate social performance

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MEDIA VISIBILITY AS A DRIVER OF CORPORATE SOCIAL PERFORMANCE

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Abstract

In this paper we investigate the effect that media visibility has on Corporate Social Performance (CSP). Drawing on agenda-setting theory from the field of communication studies, and the business and society literature, we develop and test two hypotheses regarding the impact media visibility has on the firm's CSP. Our findings indicate that while media visibility does have a positive impact on the firm's CSP, some aspects of CSP are affected more than others.

MEDIA VISIBILITY AS A DRIVER OF CORPORATE SOCIAL PERFORMANCE

Within the business and society field, the antecedents and consequences of Corporate Social Performance (CSP) have been under investigation for a long time. According to a recent account, at least 95 empirical studies, conducted since 1972, have investigated CSP, focusing only on its relationship with Corporate Financial Performance (CFP) (Margolis and Walsh, 2001). The overall verdict of the field is not unanimous, even though according to one recent meta-analysis, "there is a positive association between CSP and CFP across industries and across study contexts" (Orlitzky, Schmidt, and Rynes, 2003: 423). Moreover, according to Griffin and Mahon (1997), inconsistent results characterize most aspects of CSP research. Therefore there is plenty of room to investigate the impact of relatively novel, concepts on CSP and borrow from other relevant fields to gain a fresh perspective.

In this paper, we draw on agenda-setting theory (McCombs and Shaw, 1972; McCombs and Ghanem, 2001; McLeod, Becker, and Byrnes, 1974) from the field of communication studies to investigate the effect of media visibility on CSP. We argue that media visibility (Kiousis, 2004; Baker, Powell, and Weaver, 1999; Manheim, 1986) will have a positive effect on the firm's CSP, but that not all dimensions of CSP will be affected equally, with those which are easier to change being more susceptible to media visibility.

In the remainder of this paper we proceed as follows. First, we briefly discuss agenda setting theory and clarify the notion of media visibility as it applies to business firms, followed by a brief discussion of the notion of CSP. Second, we develop our main hypotheses that media visibility has a positive impact on CSP, but that this impact varies

according to different dimensions. Drawing on a number of data sources, we then test our main hypotheses using multivariate regression techniques. Finally, we present our findings and conclude by discussing their implications for further research and management application.

THEORETICAL DEVELOPMENT

Agenda Setting Theory and Media Visibility

The main tenet of agenda setting theory (McCombs and Shaw, 1972; McCombs and Ghanem, 2001; McLeod, Becker, and Byrnes, 1974; Shaw and McCombs, 1977) is that the media set the agenda for public opinion by highlighting certain issues more than others. In other words, while mass media do not tell people what to think, they determine what people think about (Shaw and McCombs, 1977). Within this approach, after three decades of research and more than 350 empirical studies (Chyi and McCombs, 2004), different ways of determining the salience of the media have emerged. Two of the most prominent ones are media attention and media prominence.

Kiousis (2004) claims that the most common approach to measuring media salience has been attention: "[the] media awareness of an object, usually gauged by the sheer volume of stories or space dedicated to topics in newspapers, television news and so on" (2004: 74). This approach has not only been used by many authors within the agenda setting theory (Benton and Frazier, 1976; Golan and Wanta, 2001), but some have argued that "the number of news stories measures the relative salience of an issue on the media agenda" (Dearing and Rogers, 1996: 18). Media prominence, another way in which media salience has been investigated, "refers to the positioning of a story within a

media text to communicate its importance" (Kiousis, 2004: 74). In other words, prominence refers to the placement of the story, its size, the pictures or other visual devices used and so on (Williams, 1985).

Attention and prominence have been combined into one construct – media visibility – by Manheim (1986), even though some have argued that "prominence measures are superior to story counts because they acknowledge structural and presentational elements of the news story" (Watts, Mazz, and Snyder, 1993: 414). However, empirical support for collapsing the concepts of media attention and prominence into media visibility has been found by Kiousis (2004), who performed an exploratory factor analysis on a conceptual model of media salience and found that media visibility emerged as one of the dimensions of salience, comprised of attention and prominence.

This paper draws on the agenda setting literature and maintains its main premise that the media highlight which firms the public will think about through the visibility (attention and prominence) accorded them (Manheim, 1986; Kiousis, 2004). In brief, for our purposes here, media visibility can be defined as the attention a firm receives from the media, and the prominence that this coverage has with relation to other stories.

Corporate Social Performance

According to Wood (1991), CSP refers to "a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships" (1991: 693), and as we mentioned earlier in this paper, numerous studies in recent years have investigated different aspects of CSP and asked different questions relating to it, with varying results (Griffin and Mahon, 1997). Some of the problems that have plagued these studies have been attributed to the operational definitions of CSP (Johnson and Greening, 1999), and the possibility that "collapsing the KLD's multiple dimensions into a unidimensional index may mask the individual dimensions that are equally important and relevant" (Griffin and Mahon, 1997: 15).

In this study, in order to minimize these problems, we proceed as follows. First, we use the Kinder, Lydenberg, Domini, and Company (KLD) data, referred to above and used in a number of earlier studies (Johnson and Greening, 1999; Mattingly and Berman, 2006; Waddock and Graves, 1997; Turban and Geening, 1997) and considered by some to be "the de facto research standard at the moment" for measuring CSP (Waddock, 2003: 369). Second, in order not to "mask the individual dimensions" of CSP, we investigate the impact of visibility on each individual dimension from the five usually used from the KLD data, in addition to the overall index composed from these dimensions.

Media Visibility and CSP

As mentioned earlier, applying the major tenet of agenda setting theory to business firms would imply that the media highlight which firms the public will think about through the visibility accorded them (Manheim, 1986; Kiousis, 2004). Therefore, it is reasonable to expect that firms receiving higher levels of media visibility will be under higher levels of public scrutiny than those, which receive lower levels of media visibility. According to Baker, Powell, and Weaver (1999), "researchers often refer to low visibility firms as 'neglected' and define a neglected firm as one that is under less scrutiny by news agencies, financial analysts, and institutional investors than other firms" (1999: 47).

Therefore, it is also reasonable to expect that high visibility firms, being under higher levels of scrutiny, will face a greater risk of running into trouble with their various publics for at least two reasons. First, high visibility firms will be more likely to become campaign targets by various social movement organizations: one only needs to look at the disproportionate number of attacks that McDonalds receives compared to other less visible fast food chains. Second, being under greater scrutiny means that even minor mishaps will be picked up by the media and become an issue, whereas similar mishaps of lower visibility firms might escape detection. It follows that high visibility firms facing greater risks of running into trouble with their various stakeholders will have greater incentives to invest in ways to protect themselves.

CSP has been seen by many as a kind of moral capital in which firms can invest and place their trust for protecting themselves if they run into a crisis or face any problems with their stakeholders. Godfrey (2005) argued that when stakeholders perceive a firm to have performed a 'bad act,' they invoke a "cognitive template suggested by the

mens rea doctrine to help determine appropriate sanctions" (2005: 788). The notion of 'mens rea' comes from common law tradition under which "two elements must be present for an offence to occur: a bad act and a bad mind (LaFave, 2000)" (Godfrey, 2005: 787), which explains the rationale of character witnesses in trials. Using this rationale, Godfrey (2005) argued that corporate philanthropy – a particular aspect of CSP – is a "positive moral capital that acts as character evidence on behalf of the firm" (2005:788), when it is caught performing a 'bad act'. Of course, one would expect the same rationale to apply to most other aspects of CSP as well, as most of them can also act as 'character evidence'. In a similar manner Peloza (2006) argued that CSP "can offer a crucial advantage to managers by providing a means of insuring financial performance against negative events" (2006: 52). Furthermore, CSP contributes to the firm's reputation for social responsibility, which protects firms from stock declines associated with crises, according to Schnietz and Epstein (2005).

Therefore, we may conclude that high visibility firms have a greater incentive to invest in CSP activities, as it is more likely that they will run into trouble with their stakeholders and will need high levels of CSP to soften the consequences of such events. Moreover, at an individual level of analysis, we could add a 'shame' factor, which could be seen as contributing towards the same end, as managers of highly visible firms might feel embarrassed if their firms become targeted for not being socially responsible.

From the above discussion, hypothesis one follows.

Hypothesis 1: The firm's media visibility will have a positive effect on its CSP, ceteris paribus.

But, will media visibility have the *same* effect on all aspects (dimensions) of CSP? Even if media visibility has an effect on all aspects of CSP, as the above hypothesis states, one should expect that firms will respond to increasing media visibility by adjusting those aspects of their CSP which are less costly and/or easier to change. Sethi (1975, 1979), after identifying four different types of possible strategies that firms faced with a legitimacy gap could follow to restore their legitimacy, argued that firms would tend to proceed from the least to the most costly strategy, adjusting of course for the probability of success that each strategy might have.

Similarly, it makes sense in this case that business firms will also try to avoid unnecessary costs and respond to increases in visibility by adjusting first those aspects of the CSP that would be less costly and/or easier to change. For example, it could be easier for a firm to engage in philanthropic activities, or adopt measures against discrimination within its boundaries, than to invest in new technologies and equipment that might be required to overcome product quality or environmental related issues. However, because each company has its own structure of what would be hard or easy to change it is not possible, at this stage to hypothesize with more precision beyond the expectation that visibility could influence differently the various aspects of the firm's CSP.

Hypothesis 2 follows.

Hypothesis 2: The firm's media visibility will have a different impact on the various aspects of CSP.

METHODS

Sample and Analysis

The sample was drawn from the Standard and Poor (S&P) 500 companies for which the Kinder, Lyndenberg, Domini, and Company (KLD) report their CSP measurements, annually. We randomly selected 200 firms from the S&P 500 KLD database for 2005, and used MERGENT to find financial data for these companies. This resulted in some loss of data-points, as data for some firms could not be found through MERGENT. Therefore, the final sample of firms was reduced to 170[1]. In addition, we used Lexis-Nexis to find the visibility data for these firms.

Measures

Corporate Social Performance: The KLD database measures CSP of the S&P 500 firms yearly along nine dimensions, from which five have been used repeatedly for research purposes (Turban and Greening, 1997; Johnson and Greening, 1999). These five dimensions are community relations, treatment of women and minorities, employee relations, response to the environment, and product quality. KLD ratings have advantages, such as rating firms with an objective set of screening criteria, applying the ratings consistently across companies, and using a staff of independent (from the companies), knowledgeable individuals (Johnson and Greening, 1999; Graves and Waddock, 1994; Turban and Greening, 1997).

Media Visibility: Drawing on the work of Kiousis (2004), who performed an exploratory factor analysis on media salience and developed an index of media salience

[1] We also took out of our sample General Electric, which due to its extreme level of diversification was repeatedly an outlier in our analysis.

made up of four measurements, (1) total stories, (2) relevant stories, (3) front-page stories, and (4) front-section stories. All of these measurements referred to stories from the New York Times (NYT), as many authors (Dearing and Rogers, 1996; Rogers and Chang, 1991) within the communications field have identified the NYT as a "key gatekeeper in national news coverage" (Kiousis, 2004: 77). Following the procedure used by Kiousis (2004), slightly adjusted, we calculated the above four indicators as follows. For the first indicator, total stories, we counted through Lexis-Nexis the number of stories in which the name of the firm was mentioned within the headline or lead paragraph of articles in the NYT for all of 2004. For the second indicator, relevant stories, we identified through examining the title of the story whether it referred specifically to the firm or the firm's name was mentioned in passing, relevant stories being those, written specifically for the firm under investigation. For the third and fourth indicators, we counted the stories that appeared in the front page and the front section of the NYT for 2004, respectively. The Cronbach alpha for these four measurements was 0.716. Therefore we collapsed the four measures into one index, by averaging them. Also, in order to test for validity, we correlated our media visibility index with the total number of stories that appeared in Lexis-Nexis for the same period of time for a given firm. The result was 0.639, significant at a $p < 0.01$ level.

Control Variables: We controlled for four kinds of variables, variables related to the firm's size, its financial performance, business risk, and industry. First, we controlled for firm size because it is reasonable to expect that larger firms would tend to receive a greater level of media attention, and measured firm size by the natural logarithm of the firm's sales and employees for the prior year. Second, we controlled for the firm's

financial performance through the inclusion of the firm's ROA and ROE of the prior year, as many studies have indicated that prior financial performance could have a significant impact on subsequent CSP (Margolis and Walsh, 2001; Waddock and Graves, 1997). Third, following prior researchers (Waddock and Graves, 1997; Ullman, 1985), we also controlled for business risk, through the debt/asset ratio of each firm, as the management's risk tolerance could influence its attitude towards CSP activities (Waddock and Graves, 1997: 308). Finally, we controlled for industry effect, since CSP could vary significantly between industries. As seen in table 1, our firms belonged to 13 industries, following a four digit SIC classification. Accordingly, we included 12 dummy variables for these industries.

Insert Table 1 About here

Statistical Analysis: We tested our hypotheses through six forced-entry multiple regression models, where the KLD 2005 composite or individual dimension was the dependent variable. All the control and independent variables lagged one year, and referred to 2004. We used this lag, which has been used repeatedly in CSP research, to test for causality.

FINDINGS

In table 2, we can see the mean, standard deviation, and Pearson correlations of the major variables of our study. We performed tests for multicollinearity for all six regressions, and found the Variance Inflation Factors (VIFs) to be all within the acceptable limits.

Insert Table 2 About here

Hypothesis 1 predicts that media visibility will influence the CSP of the firm in a positive way. In other words firms, which had a greater level of media visibility will tend to improve their CSP. As can be seen from table 3, this hypothesis has found support in our first model ($\beta = 0.152$, $p < 0.001$), which deals with the overall CSP of the firm, represented by a composite KLD score. Hypothesis 2 predicts that the impact of media visibility will differ between the different CSP dimensions, and as can be seen from table 3 (models 2-6). Support for this hypothesis was also found as the media visibility coefficient ranged from 5% significance to complete insignificance. More specifically, we found that visibility was significantly related with community relations ($\beta = 0.084$, $p < 0.10$), diversity ($\beta = 0.143$, $p < 0.05$), and employee relations ($\beta = 0.181$, $p < 0.05$); whereas it did not reach levels of significance for product quality and environmental impact. This finding is in line with our expectations that CSP dimensions which might require new investments and/or are harder to change might be less sensitive to media visibility than others which who might be easier to adjust simply through regulatory changes.

Insert Table 3 About here

DISCUSSION, IMPLICATIONS AND CONCLUSIONS

In this study, our purpose has been to investigate the impact that media visibility has on the CSP of firms. Our findings contribute not only to the business and society literature, which investigates the drivers of CSP (Graves and Waddock, 1994; Orlitzky, Schmidt, Rynes, 2003; Waddock and Graves, 1997), but also, to some extent, to the communication literature (and in particularly agenda setting theory), which deals with the impact that media coverage has on society (Benton and Frazier, 1976; Chyi and McCombs, 2004; Shaw and McCombs, 1977).

Our findings are twofold. First, we found that media visibility did play a significant role in determining the overall CSP of business firms, in addition to prior financial performance (McGuire, Sundgren and Schneeweis, 1990; Waddock and Graves, 1997). Waddock and Graves (1997), in explaining the positive impact that financial performance has on CSP, have argued for what they have labeled as the 'slack resources' theory, which basically states that "better financial performance leads to an increased availability of funds to spend on CSP" (Dean, 1998: 99). Our finding here indicates the possibility for an additional explanation, what we might label a 'media audit' theory, where one could argue that when the media pays increased attention to a particular business firm, the firm's managers become aware of the possibility of being seen doing something wrong and losing their firm's reputation[2]; as an insurance policy, they invest more in CSP activities.

Second, we found that the importance of media visibility differed for different aspects of CSP, something that could be explained to some extent by the fact that not all

[2] One of the most important intangible resources of the firm, according to Fombrun (1996) and Roberts and Dowling (2002)

aspects of CSP can be altered in the same period of time, one year, as our models in this project assumed, or that the ease with which a particular CSP aspect can change does not differ between industries. Therefore, further research should include larger time lags in its modeling of the data to see if different aspects of CSP have longer or shorter circles; and in addition to measuring the ease of change for different CSP aspects, also investigate the CSP-aspect – industry interaction effects.

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Table 1

Industry	SIC	N	CSP – Mean	Min.	Max.
Mining, construction	100-1999	9	-1.22	-5	2
Food, textiles, apparel	2000-2390	10	-0.4	-7	10
Forest products, paper, publishing	2391-2780	5	0.2	-2	3
Chemicals, pharmaceuticals	2781-2890	17	1.82	-2	8
Refining, rubber, plastic	2891-3199	8	-0.875	-6	6
Containers, steel, heavy mfg.	3200-3569	12	1	-2	6
Computers, autos, aerospace	3570-3990	34	1.72	-3	8
Transportation	3991-4731	4	-2	-6	3
Telephone, utilities	4732-4991	24	-1.95	-7	3
Wholesale, retail	4992-5990	19	-0.26	-6	5
Bank, financial services	6150-6700	17	-0.43	-4	8
Hotel, entertainment	6800-8051	19	0.94	-3	5
Hospital management	8052-8744	1	-1	-1	-1

Table 2

	Mean	Std.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1 KLD overall – 2005	.3641	3.040	1																
2 Community – 2005	.21	.826	.589**	1															
3 Diversity – 2005	1.27	1.540	.603**	.373**	1														
4 Employee Relations – 2005	-.15	1.037	.539**	.145*	.080	1													
5 Product Quality - 2005	-.61	.949	.348**	-.67	-.182*	.217**	1												
6 Environment – 2005	-.36	1.224	.60**	.248**	.062	.124	.18*	1											
7 KLD overall – 2004	.3216	2.711	.848**	.526**	.537**	.406**	.273**	.52**	1										
8 Community – 2004	.31	.806	.523**	.824**	.403**	.166**	-.067	.171*	.573**	1									
9 Diversity – 2004	1.03	1.458	.518**	.348**	.846**	.015	-.163*	.10	.636**	.402**	1								
10 Employee Relations – 2004	-.12	1.011	.426**	.127	.102	.69**	.18*	.121	.537**	.150*	.067	1							
11 Product Quality - 2004	-.52	.920	.227**	-.084	-.234**	.204**	.818**	.109	.253**	-.122	-.246**	.153*	1						
12 Environment – 2004	-.32	1.042	.468**	.198**	.024	.060	.101	.870**	.525**	.118	.096	.083	.067	1					
13 ROA - 2004	5.57	7.11	.103	-.005	.047	.120	.088	.029	.145*	.089	.074	.026	.084	.026	1				
14 Debt/Asset – 2004	.222	.151	-.188*	-.103	-.056	-.140	-.037	-.181	-.119	-.042	-.043	-.060	-.042	-.118	-.233**	1			
15 Size – Ln. Employees - 2004	9.82	1.223	.099	.267**	.311**	-.137	-.255**	-.017	.094	.192**	.302**	-.053	-.26**	-.052	.055	-.131	1		
16 Size – Ln. Sales - 2004	22.73	1.22	-.104	-.052	-.042	-.044	-.045	-.097	-.088	-.076	-.017	-.044	-.054	-.055	-.013	.024	.064	1	
17 Visibility – 2004	10.8	24.52	.276**	.274**	.358**	.147*	-.0182*	.068	.170*	.205**	.281**	.060	-.232**	.037	-.079	.03	.378**	-.013	1

Table 3

Dependent Variables	Model 1 Overall CSP	Model 2 Community	Model 3 Diversity	Model 4 Employee Relations	Model 5 Product Quality	Model 6 Environment
CSP(t-1)	.804***					
Community(t-1)		.823***				
Diversity(t-1)			.773***			
Employee Relations(t-1)				.675***		
Product Quality (t-1)					.784***	
Environment(t-1)						.804***
ROA (t-1)	.005	-.057	-.011	.086	.013	.008
Size Ln Empl(t-1)	-.042	.058	.057	-.159	-.064	.008
Size Ln Sales(t-1)	-.035	-.016	-.037	.013	.015	-.055
Business Risk D/A(t-1)	-.054	-.063	-.016	-.092	.025	-.032
Visibility(t-1)	.152***	.084+	.143*	.181*	.003	.009
R^2	.752	.753	.741	.561	.685	.778
Adj. R^2	.722	.724	.710	.509	.648	.751
F	25.56***	25.743***	24.156***	10.781***	18.386***	29.523***

+ p < 0.10, *p<0.05, **p< 0.01, ***p<0.001