When Home Pride Meets Professional Integrity:

Journalists' Strategic Reporting about Hometown Firms under Misconduct Investigations

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ABSTRACT

This study examines how individuals balance conflicting behavioral expectations stemming from multiple social identities. Focusing on journalists reporting on firms under misconduct investigation, we explore the tension between their hometown identity, which encourages protection of local reputation, and their professional identity, which demands objectivity. We find that journalists born in the firm's headquarter city (i.e., home journalists) adopt a subtle framing strategy that emphasizes the firm's positive attributes in areas unrelated to the alleged misconduct, thereby deflecting public attention from the scandal without explicitly violating professional codes of conduct. Specifically, after the investigation announcement, home journalists become more positive in their reporting on aspects of the firm unrelated to the misconduct, while maintaining a similar level of coverage of the misconduct event itself compared to non-home journalists. This positivity is more pronounced among journalists with stronger hometown identification and is mitigated by professional reputation concerns. Furthermore, their coverage hinders market price discovery regarding misconduct severity. These findings provide novel evidence on journalists' strategic reporting behaviors that balance professional obligations with hometown loyalty.

JEL codes: G40; G41, M41

Keywords: social identities, journalists, firm misconduct, reputation, media tone.

1. Introduction

Individuals often navigate a multitude of social identities, each associated with distinct norms and expectations. How do they reconcile these potentially conflicting demands, particularly in situations where adherence to one identity may compromise another? This study addresses the under-researched area of identity conflict by examining how journalists manage the tension between their hometown and professional identities when reporting on firms under investigation for misconduct — an event that can negatively impact the reputation of a region. Specifically, we investigate how journalists balance the desire to uphold their hometown's image with the professional demands of objectivity and impartiality, and explore its capital market consequences.

Our research setting is motivated by the following reasons: First, financial frauds can have far-reaching negative consequences on regional reputation.[1] Prior studies argue that corporate misconducts can signal a regional culture with a high tolerance for unethical behavior (Parsons, Sulaeman and Titman 2018). The rationale is that one firm's misconduct can not only tarnish the reputation of other firms within the same locality (e.g., Jonsson, Greve and Fujiwara-Greve 2009; Kedia, Koh and Rajgopal 2015; Bachmann et al. 2021; Bai, Gazze and Wang 2022), but also indicate unethical conducts across a wide spectrum of society, including politicians, financial advisors, executives, medical professionals, and even marriage partners (Parsons, Sulaeman and Titman 2018). Thus, corporate misconduct offers a reasonable context to examine journalists' responses when the reputation of their hometown is jeopardized by an event external to their personal preferences and decisions.

[1] For example, the Enron scandal in 2001, which involved widespread accounting fraud and corporate corruption, severely damaged Houston's reputation as a center for energy and finance. This led to widespread job losses, investor distrust, and a decline in economic activity in the region (Bryce 2002). Similar incidents have also occurred internationally, such as the 2003 Parmalat scandal in Italy and the 2009 Satyam scandal in India. These scandals eroded investor confidence and raised concerns about corporate governance practices in their respective countries, affecting their reputations as reliable business environments (Bhasin 2013; Cambaza 2024).

Second, extensive evidence indicates that hometown constitutes a salient social identity, which motivates individuals to defend their hometown's reputation when it faces threats.[2] The social identity theory offers a framework for understanding this behavior by positing that an individual's self-concept consists of both personal and social identities (e.g., Tajfel 1974; Van Dick et al. 2004; Ashforth, Harrison, and Corley 2008).The latter is derived from individuals classifying themselves and others into distinct social groups (e.g., Turner et al. 1987), with hometown serving as one prominent category (e.g., Fischer et al. 1977; Proshansky 1978; Altman and Low 1992; Hidalgo and Hernandez 2001; Yonker 2017). As individuals internalize their membership within a social group, it is incorporated into their self-concept and influences their self-esteem (e.g., Tajfel 1978; Pratt 1998; Van Dick et al. 2004; Haslam and Ellemers 2005; Everett et al. 2015). Consequently, when the reputation of the social group is threatened, the individual's self-esteem, which is partially derived from their group identification, may also be negatively affected. This motivates individuals to defend the group's reputation, much like they would defend their own (e.g., Sherman and Cohen 2005; Hoog 2012). Therefore, it is plausible to expect that journalists may be inclined to defend the image of misconduct-implicated firms from their hometowns to preserve its reputation.

However, the journalists' hypothesized desire to safeguard their hometown's reputation inherently conflicts with the core principles of their profession. Journalistic ethics emphasize

[2] For example, in 2017, Hurricane Harvey devasted Houston, Texas and caused widespread flooding and damage. When discussing the destruction and human suffering, some media reports criticized Houston's infrastructure and lax zoning regulations. In response, Houstonians actively utilized media platforms to counter these negative narratives, emphasizing the storm's unprecedented nature and showcasing the city's resilience (e.g., Herriges 2017; Grabar 2017). As another pertinent example, the Volkswagen (VW) emissions scandal in 2015 has not only damaged the reputation of the company itself, but also raised international concerns about the trustworthiness of the German automobile industry, and even the German economy at large. However, among German nationals, there was also a noticeable undercurrent of defense and support for the company, as evidenced by the following quote from Marcel Fratzscher, head of the German Institute for Economic Research: "The great success of the export nation of Germany rests on the quality label 'Make in Germany'. VW stands for this German quality—for perfection, reliability and trust." (Chambers 2015).

impartiality, objectivity, truthfulness, and independence (e.g., Kovach and Rosenstiel 2007; Christians et al. 2009). As critical information intermediaries, journalists wield significant influence in shaping public perceptions of companies (e.g., Tetlock 2007; Gurun and Butler 2012; Hillert et al., 2014). Consequently, investigating whether and how the imperative to defend the hometown reputation can affect their reporting objectivity carries significant implications for both the media profession and the general public, who rely on journalistic reporting as a primary source of information (e.g., Barber and Odean 2008; Tetlock 2011; Solomon, Soltes and Sosyura 2014).

Our empirical analysis leverages the unique context of the Chinese media industry, which allows us to accurately identify the hometowns of the near universe of Chinese journalists based on their press card registration. In addition, we utilize a hand-collected sample that encompasses approximately twenty million news articles from 495 newspapers with varying ownership structures (state-controlled and market-oriented) and geographical reach (national and local). This vast and diverse collection of publications allows for a robust examination of journalistic behavior across the spectrum of the Chinese media landscape. Although our tests are performed on a sample of Chinese journalists, the findings are likely to have broader generalizability, as the significance of hometown as a component of individuals' social identities is well-established across both developed and developing economies (e.g., Yonker 2017; Cornaggia et al. 2020; Li, Xu and Zhu 2021; Cao et al. 2024).

Our sample includes news articles about Chinese A-share listed companies that have undergone at least one misconduct investigation by the China Securities Regulatory Commission (CSRC) between 2000 and 2020. Using the Heckman (1979) two-stage model to address potential selection bias, we find evidence consistent with journalists engaging in strategic reporting to defend the reputation of the hometown companies while avoiding direct violations of the

professional codes of conduct. Specifically, during the benchmark period, home journalists' reporting tone is comparable to that of non-home journalists. This suggests that when hometown identity is not perceived as threatened, the impetus for defensive reporting is diminished. However, during the investigation period, home journalists' tone towards the misconduct firm becomes significantly more positive compared to the benchmark period, while non-home journalists' tone becomes more negative.[3]

Further analysis reveals that the increased positivity of home journalists' reporting in the investigation period is primarily driven by non-misconduct-related articles. In particular, while home journalists are as likely to cover the misconduct event as non-home journalists, they are significantly more positive in articles addressing other aspects of the firm. This implies a focus-shifting strategy that emphasizes the company's achievements in domains unrelated to the alleged misconduct, thereby diluting the salience of the scandal and mitigating potential negative public sentiment. These findings are robust to a dense fixed effects structure that controls for firm-, reporter-, newspaper-, and time-specific factors that may influence journalists' reporting tone.

Next, we perform several cross-sectional analyses to further substantiate the conjecture that the more positive tone of home journalists reflects a calculated balance between safeguarding the hometown's reputation and maintaining their professional standing. Specifically, their coverage of the misconduct firm in the investigation period is more positive when the journalists are likely to have stronger identification with the hometown, such as those who are older (e.g., Lu and Yang 2006; Chen and Lu 2011) or from regions with stronger clan culture (e.g., Fei 1946; Freedman 1965; Fei and Liu 1982). However, the positive tone is less pronounced among journalists whose

[3] The investigation period is defined as the period between the announcement of investigation by the China Securities Regulatory Commission and the sanction announcement date. Section 3 and 4 provides more details about the research design.

professional reputation is more likely to be jeopardized by biased reporting, such as those with greater expertise in the firm and its industry, since their perceived authority amplifies the potential damage to their credibility should bias be detected (Ahern and Sosyura 2015).

Furthermore, if the more positive tone of the home journalists is motivated by a desire to mitigate the reputational damage of the misconduct investigation on the firm, we explore whether their strategic reporting negatively affects the market's ability to assess the severity of the misconduct. Previous studies suggest that stock investors are forward-looking and impound into prices information about the firm's future prospects (e.g., Lundholm and Myers 2002; Betton et al. 2014). To the extent that investors rely on media coverage to assess the severity of misconduct and anticipate regulatory sanctions, biased reporting by home journalists may impede this price discovery process. Regressing the misconduct firms' abnormal returns over the article publication window on the yet-to-be-disclosed penalty amount, we find a significantly negative association between current period returns and future penalties, suggesting that investors extract penalty-related information from news articles. However, this negative relationship weakens when a greater proportion of articles on a given day are authored by home journalists, indicating that their coverage hinders market price discovery.

Finally, we consider two primary alternative explanations for our findings. The first is that the more positive tone of home journalists stems from their informational advantage about hometown companies, rather than strategic reporting (e.g., Dahl and Sorenson 2012; Kang et al. 2021; Dyer 2021). However, we fail to find evidence that the tone of home journalists over the investigation period is more indicative of the firms' economic performance. Second, it is possible that the positive coverage by home journalists is driven by their affiliation with newspapers located in the same city as the misconduct firm, as prior research shows that newspapers are reluctant to

report negatively about local firms due to political pressure (e.g., You et al. 2018; Hope et al. 2021). However, empirical evidence does not corroborate this conjecture. Therefore, the heightened positivity in home journalists' coverage of misconduct firms during the investigation period is unlikely to be attributable to informational advantages or biased reporting by local newspapers.

Our study makes the following contributions. First, it extends the growing body of research on the influence of social identity on market participants' incentives and behaviors. Extensive evidence from psychology and sociology highlights how social identities, such as affiliations with sports teams and entertainers (e.g., Rees et al. 2015; Lacasa et al. 2017), or involvement in criminal organizations (e.g., Schwartz et al. 2009; Hennigan and Spanovic 2012), significantly shape individual behaviors. However, the exploration of these effects in the business context remains limited. Merkley et al. (2024) provide a recent exception, investigating how cryptocurrency influencers exploit retail investor identification with the crypto community for potential pump and dump schemes. Our study contributes to this emerging area by examining how potentially conflicting demands from different social identities influence the reporting behavior of financial journalists, an important group of information intermediaries. In doing so, we respond to Jagolinzer (2024)'s call for more research on the predictive power of social identity in understanding incentives and behaviors.

Second, our findings inform the literature on the sources of media bias. Previous studies have shown that journalists' reporting objectivity can be threatened by a variety of economic, political, and relational considerations (e.g., Reuter and Zitzewitz 2006; Gurun and Butler 2012; Call et al. 2022; Durante et al. 2021; Ru et al. 2020; You et al. 2018; Piotroski et al. 2017; Hossain and Javakhadze 2020; Hope et al. 2021; Xu 2024). However, little research has shed light on how journalists' social identities, such as their identification with the hometown, influence their

reporting behavior. To the best of our knowledge, our paper is among the first to document journalists' strategic coverage of misconduct firms when such events pose a potential threat to their social identity linked to their hometown. These findings can have implications for various stakeholders of the media profession, particularly regarding coverage assignments and other reporting-related decisions.

2. Literature Review

2.1. Research on social identity

The social identity theory posits that individuals define themselves partly through their membership in social groups, such as family, professional organizations, and social networks (Tajfel 1974; Turner et al., 1987; Deephouse and Jaskiewicz 2013). This categorization helps individuals understand their social environment and their place within it (Ashforth and Mael 1989). The strength of this connection is captured by social identification, which reflects the perceived sense of belongingness to a group (Ashforth and Mael 1989). This sense of belonging not only shapes individual identity but also influences how members perceive their roles and responsibilities within the group. As group membership becomes an integral part of one's self-concept, it motivates individuals to positively differentiate one's group from others to enhance their self-esteem (Tajfel 1978; Pratt 1998; Hutchison and Abrams 2003; Van Dick et al., 2004; Haslam and Ellemers 2005).

Prior research suggests that individuals with strong group identity are particularly sensitive to threats against the group's reputation and would respond with defensive actions (e.g., Hoog 2012). For instance, group members may actively seek to improve their group's image, such as expressing more positive ingroup stereotypes after encountering negative information about the

group (Hutchison and Abrams 2003), sacrificing their personal resources to protect the group's image (Eriksson, Mao and Villeval 2017), or through behaviors that make their group look better and outgroups or the source of the threat look worse (e.g., Branscombe and Wann 1994; Ellemers et al., 1997; Hewstone, Rubin, and Willis 2002). Focusing on the hometown as a salient social identity, Bonaiuto, Breakwell and Cano (1996) find that stronger attachment to one's hometown or nation is correlated with a tendency to perceive local and national beaches as less polluted and a denial of objective pollution assessments by a powerful external entity (the European Union). Xu et al. (2020) show that when faced with threats to ontological security, individuals experience a heightened attachment to their hometowns and favor hometown brands as a coping mechanism. Similarly, residents demonstrate a greater willingness to support tourism recovery in their hometowns in response to threats such as the COVID-19 pandemic (Liu et al. 2022). These findings highlight the powerful influence of group identity on individual behaviors when the group's reputation is at stake.

However, individuals often navigate multiple social identities simultaneously, which can give rise to conflicting behavioral expectations. Psychology research on managing multiple social identities has identified various strategies individuals employ to address such conflicts, including reconciliation (integrating identities), realignment (choosing one identity over another), retreat (avoiding both identities), and reflection (selecting identities based on situational fit) (e.g., Jones & Hynie, 2017). While the social sciences have made significant strides in understanding multiple identity management, the specific dynamics of how individuals reconcile competing identity demands within business contexts, particularly at the intersection of professional obligations and social identities, remain under-researched.

2.2. Research on media tone

The tone of media coverage significantly influences public perception and market outcomes. To understand the determinants of media tone, the extant research has mainly focused on journalists' economic, relational, and political incentives. For example, controlling for firms' economic performance, previous studies show that media outlets exhibit a positive bias in their reporting when they have financial ties with the featured firm, such as advertising relationships (Reuter and Zitzewitz 2006; Gurun and Butler 2012), lending relationships (Durante et al. 2021), and common business group affiliation (Ru et al. 2020). Using a sample of cross-listed companies, Golez and Karapandza (2022) find that these firms receive more positive coverage in their home country as journalists cater to the beliefs of domestic investors to increase readership.

Social connections between journalists and the subjects of their coverage can also affect the reporting tone. In particular, Xu (2024) finds that companies receive positively biased media coverage when the managers are socially tied to the journalists through working relationship or common schooling institutions. Hossain and Javakhadze (2020) document in the mergers and acquisitions context that the acquirer's social ties with the media are associated with higher bid announcement returns.

In developing economies, political pressures are an additional driving force of media tone. For instance, Piotroski et al. (2017) show that state-owned newspapers tend to be positively biased in their firm coverage than non-official newspapers. Similarly, You et al. (2018) find that official newspapers have a weaker governance effect on firms than their commercial counterparts due to their positive bias. Hope et al. (2021) document that political pressure imposed by local governments suppresses media coverage of local firms' tunneling scandals, leading to a

deterioration in price discovery. Despite this rich body of literature, the influence of journalists' social identities on media tone remains relatively unexplored.

2.3. Research on firm misconduct and regional reputation

Corporate misconducts are material events with broad negative consequences for not only the transgressing firm (e.g., Dechow et al. 1996; Graham et al. 2008; Murphy et al. 2009; Johnson et al. 2014) but also its surrounding environment. Previous studies suggest that firm misconducts can trigger a domino effect and impact the reputation and performance of other firms within the same geographical region or industry. The Volkswagen (VW) emissions scandal in 2015, for example, had a significant spillover effect on non-VW German auto manufactures (Bachmann et al. 2021). Similarly, the Chinese dairy industry scandal of 2008 negatively affected the reputation of uncontaminated firms, leading to a sharp decline of diary export from China in general (Bai, Gazze, and Wang 2022). Jonsson, Greve, and Fujiwara-Greve (2009) further illustrate this phenomenon in the Swiss mutual funds industry, where misconduct by one firm led to increased scrutiny and reputational damage for others.

Beyond the immediate business environment, firm misconduct can also have broader societal implications for the firm's region. Research suggests that corporate ethical norms are significantly associated with the local culture. For example, Parsons, Sulaeman, and Titman (2018) find that firm misconducts reflect a city-level culture that is more tolerant of unethical behaviors, as evidenced by more financial misconducts, political corruption and fraud in the region. Cho et al. (2019) document that firms engaging in earnings management and aggressive tax avoidance are more likely to be headquartered in areas with higher crime rates. These findings imply that the misconducts of local firms can signal a potential normalization of unethical conducts in the region, thus tarnishing community's overall image.

3. Sample Construction and Descriptive Statistics

3.1. Sample construction

Table 1, Panel A provides the sample construction procedures. First, we manually collect articles published by 495 major Chinese newspapers from CNKI, a prominent national research and information publishing institution in China. To identify the firm(s) that are mentioned in an article, we search for keywords related to the firm's trading symbol and name (both full and abbreviated) in the title and body. We then sum up the total number of times a firm is mentioned, and assign an article to the firm with the highest number of mentions, provided that it is mentioned at least three times.[4] We then keep articles covering Chinese A-share listed firms that were published between 2000 and 2020.

For each article, we identify the journalist(s) that authored it, and merge the news article database with the journalists' resident IDs scraped from the National Press and Publication Administration (NPPA) website.[5] In China, all reporters and editors are required to possess a government-approved press card to practice journalism, which is renewed every five years. From the press card, we collect information on a journalist's name, gender, resident ID, the affiliated newspaper, and the card issuance date. The resident ID is an eighteen-digit number with the first six digits indicating the person's birthplace at the county level, followed by an eight-digit number representing her birthday (year-month-date), plus a three-digit sequence number and a one-digit check number.[6] We use the names of the journalist and the newspaper employer to merge the news

[4] On average, each article mentions 2.12 firms, and each firm is mentioned 2.94 times per article. In robustness test (untabulated), we find that inferences are qualitatively similar if we conduct the analysis using articles that mention only one firm to show that our results are not driven by cases where the article tone does not correspond to the most-frequently-mentioned firm.

[5] https://press.nppa.gov.cn/

[6] More specifically, the first two digits of the resident ID represent the province where a person was born. The third and fourth digit indicate the city, and the fifth and the sixth digit indicate the county.

articles with journalist information to minimize the noise introduced by same-name journalists. The resulting 341,338 articles form our initial sample.

Second, following prior research (e.g., Jiang et al. 2022), we obtain information on corporate violations from *SINA Finance* website (https://finance.sina.com.cn), which compiles a comprehensive database of company financial violation records, and keep cases that were investigated by the China Securities Regulatory Commission (CSRC), which is a government agency responsible for the detection and investigation of potential corporate misconducts as well as the determination and enforcement of administrative sanctions if the firm is found guilty. Using company name and the investigation announcement date, we match each case with CSRC's sanction decision (e.g., the amount of penalty) based on the sanction announcements posted on the CSRC website, which also provide other related information such as the commencement date of the misconduct. This initial sample includes 425 cases involving 354 firms from 149 cities. We define the investigation period of a case as the period between the investigation announcement date and the sanction announcement date.[7] This dataset is further augmented with information about the violation types obtained from the CSMAR database. Merging the violation data with the news article data leads to a decrease of 299,376 articles as we exclude articles that did not cover firms under CSRC investigations during the sample period.

Next, we drop 5,574 articles that cover financial firms as their financial statements are not directly comparable to those of non-financial firms. Another 5,495 articles are excluded due to missing values on key variables for the covered firm. The final sample consists of 30,893 articles from 329 newspapers, covering 375 cases involving 322 firms from 148 cities.

[7] Figure 1 provides a graphical illustration of the timeline of the research design. The average length of the investigation (non-investigation) period is 4.55 (31.05) months.

Panel B provides descriptive statistics on the newspapers. Among the 329 newspapers that are included in the final sample, 211 (or 64%) are administered by central or regional party organizations, 275 (or 84%) are administered by central or regional government agencies or social and professional organizations, and 49 (15%) specialize in business and finance.[8] 84 (26%) newspapers have nationwide distribution, while the rest are local newspapers. As our sample focuses on articles reporting firm-related news, the party and government newspapers contribute only 28% and 50% of the sample articles, respectively, despite the greater presence of such newspapers. Business/finance newspapers account for 56% of the articles. National newspapers supply 53% of the articles.

Panel C reports statistics on journalist characteristics. Among the 3,139 journalists included in the final sample, 49% are male and 51% are female. Partitioning by age groups, 31% are between 20 and 30, 43% are between 30 and 40, 21% are between 40 and 50, and the remaining 5% are between 50 and 60. Partitioning by the nature of the newspaper, 45% are employed by party newspapers, 71% by government newspapers, 36% by business/finance newspapers, and 43% by national newspapers.

Panel D tabulates the distribution of misconduct types by year of investigation and sanction announcement. Violation1 to Violation8 refers to Delayed Disclosure, False Disclosure or Misleading Statement, Major Omission, False Statement, Inflated Profits, Illegal Guarantee, Fraudulent IPO, and Inflated Assets, respectively. A total of 650 misconducts were implicated in the 375 cases in our sample, since it is possible that a case may involve multiple misconduct types.

[8] Although China has a single-party political system, the Communist Party of China (CPC) organizations and the government agencies are separate entities in the sense that the former are political in nature while the latter are bureaucratic. For example, *People's Daily* is a party newspaper as it is administered by the Central Committee of the CPC, which is a key political body that comprises the top party leaders. *China Oceanic News* is a government newspaper as it is administered by the State Oceanic Administration, which is a government agency in charge of oceanic affairs.

Major Omission is the most common type of violation (28%), followed by Delayed Disclosure (26%), False Disclosure or Misleading Statement (25%), Inflated Profits (14%), Illegal Guarantee (3%), False Statement (2%), Inflated Assets (1%), and Fraudulent IPO (0.4%). The average number of days between the investigation and sanction announcement date is 519 days, though there is some variation across the violation types. In general, there is an increasing trend in the number of investigation and sanction announcements in recent years.

3.2. Calculation of reporting tone

We measure article tone using the following procedure. First, we calculate each article's tone using a dictionary-based approach (*ToneWord*) and a machine-learning-based approach (*ToneML*). To calculate *ToneWord*, we first merge a self-compiled dictionary, which includes 2,000 positive words, 1,802 negative words, 542 tone-strengthening adverbs (e.g., very, absolutely), and 299 tone-softening adverbs (e.g., a little, relatively), with the dictionary developed by Jiang et al. (2019), which includes 3,338 positive words and 5,890 negative words, to obtain the final dictionary used in the analysis, which includes 5,338 positive words, 7,691 negative words, along with the tone-strengthening and tone-softening adverbs.[9] Next, each article is broken down into sentences based on the punctuation marks, and each sentence broken down into words. For each word, we measure its tone using the following steps: (1) determine if the word is a tone word as identified by the dictionary, and assign a base score of 1 (-1) if it is a positive (negative) word; (2) among all words that fall between the word in question and the last tone word identified in the same sentence, search for any tone-strengthening adverbs, tone-softening adverbs, and negation words (e.g., not, no). If tone-strengthening adverbs are identified, the base score of the word in question is multiplied by 1.5. If tone-softening adverbs are identified, the base score is

[9] All news articles in our sample are written in Mandarin Chinese and our dictionaries are developed specifically for Mandarin texts.

multiplied by 0.5. If negation words are identified, the base score is multiplied by -1. We then measure the tone of a sentence using the total score of the tone words contained in it, and the tone of the article (*ToneWord*) as the average tone of the sentences.

To calculate *ToneML*, we asked two groups of students to score the tone of a subsample of sentences randomly drawn from the news articles (-1 for negative, 0 for neutral, and 1 for positive).[10] We kept the sentences that received identical scores from the two groups and use them as the training sample (approximately 113,000 sentences). We then train a classification model using Sklearn's multinomialNB algorithm and use it to calculate the machine-learning-based tone measure for all sentences for the sample articles. An article's *ToneML* is the average tone of all the sentences contained in it. The correlation between *ToneWord* and *ToneML* is 0.82, indicating a high level of consistency in the tone assessments produced by these two approaches.

To reduce noise, we standardize *ToneWord* and *ToneML* and extract their principal component, which is used as our final measure of reporting tone (*Tone*).[11] This factor explains 91% of the total variations in the data.

3.3. Descriptive statistics

Table 2 reports the descriptive statistics of the main variables. *Tone* has a mean (median) of -0.026 (-0.077) with a standard deviation of 1.352. For the 30,893 articles in the final sample, 12.4% are written by at least one home-journalist (*Home*); 7.8% are published during the investigation period (*InvPeriod*); 40.1% cover misconduct firms that are SOEs (*SOE*); and 20.2% are published by local newspapers (*LocalNewspaper*). Partitioning by misconduct types, 15.1% of

[10] A total of 40 undergraduate students participated in the scoring. 35% of the students were from one author's university, while others were from other first-tier mainland Chinese universities. All students majored in business or economics.

[11] Specifically, *Tone* is calculated as $0.7071 \times standardized(ToneWord)/\sqrt{1.81989} + 0.7071 \times standardized(ToneML)/\sqrt{1.81989}$, where 0.7071 is the eigenvector and 1.81989 is the eigenvalue.

the articles are about firms suspected of False Disclosure or Misleading Statements (*Violation2*), 13.2% about Major Omissions (*Violation3*), 9.3% about Delayed Disclosures (*Violation1*), 7.4% about Inflated Profits (*Violation5*), 2.6% about Fraudulent IPOs (*Violation7*), 1% about Illegal Guarantees (*Violation6*), 0.5% about Inflated Assets (*Violation8*), and 0.3% about False Statements (*Violation4*). The mean (median) of *Penalty* is 3.077 (0) with a standard deviation of 5.884. Regarding the sample journalists, their mean (median) age (*Age*) is 35.34 (33.82), and approximately 51.1% of them are male (*Sex*). The distributions of the other variables are comparable to those reported in prior research (e.g., Jiang et al. 2022).

4. Journalists' Strategic Coverage of Hometown Firms under Misconduct Investigations

4.1. Journalists' coverage decisions

Our research question is whether home journalists are more positive in their coverage of the misconduct firms during the investigation period. However, coverage decisions are endogenous, as they can be influenced by factors such as journalists' prior knowledge, relationships with firms, audience expectations, and firms' communication efforts. Therefore, it is possible that the journalists who choose to cover the misconduct firms in the investigation period are different from those that cover these firms in the benchmark period. To control for potential selection bias in our sample, we use a Heckman (1979) two-stage model to control for the endogeneity in coverage decisions. In the first stage, we estimate a probit regression of journalists' coverage of the misconduct firms using a sample of journalist-firm-year-quarter observations. Specifically, we first identify all journalists that have authored at least one article in our 30,893-article sample (either during the benchmark or the investigation period). We then merge each journalist with the full list of our sample firms, and all year-quarters of our sample period (2000-

2020). This results in a 38,515,950-observation sample of journalists' coverage decisions over the entire sample period. Next, we estimate the following probit regression:

$$ReportDum_{i,j,q} = \beta_0 + \beta_1 Home_{i,j,q} + \beta_2 Home_{i,j,q} \times InvPeriod_{j,q} + \beta_3 InvPeriod_{j,q} + \beta_4 IndFirmNum_{i,q-1} + \beta_5 Size_{j,q-1} + \beta_6 Lev_{j,q-1} + \beta_7 ROA_{j,q-1} + \beta_8 Growth_{j,q-1} + \beta_9 BM_{j,q-1} + \beta_{10} BoardSize_{j,q-1} + \beta_{11} BoardIndSize_{j,q-1} + \beta_{12} SOE_{j,q-1} + \beta_{13} Age_{i,q-1} + \beta_{14} Sex_{i,q-1} + \beta_{15} LocalNewspaper_{i,q-1} + \text{Firm FE} + \text{Year FE} + \varepsilon_{i,j,q}, \quad (1)$$

where $ReportDum_{i,j,q}$ is an indicator variable that is equal to 1 if journalist *i* publishes at least one article about a particular misconduct firm *j* in a certain year-quarter *q*, and 0 otherwise. If journalist *i* does not publish an article about firm *j* in quarter *q*, this variable is set to 0. $Home_{i,j,q}$ is an indicator that is equal to 1 if journalist *i*'s hometown is in the same city as firm *j*'s headquarter city, and 0 otherwise (e.g., Lai, Li and Yang 2020).[12] $InvPeriod_{j,q}$ is an indicator variable that is equal to 1 if quarter *q* falls into the investigation period of the misconduct firm *j*, and 0 otherwise. The interaction term between *Home* and *InvPeriod* aims to capture any changes in the journalist's propensity to cover a firm in the investigation period conditional on his/her *Home* status.

A successful application of the Heckman (1979) selection model requires us to identify at least one independent variable that is associated with the dependent variable in regression (1), but does not correlate with the tone of the article, which is the dependent variable of our second-stage regression (Bushee et al. 2003; Feng et al. 2009; Larcker and Rusticus 2010; Lennox, Francis and Wang 2012). Accordingly, we employ *IndFirmNum* as the exclusion restriction, defined as the logarithm of the number of publicly listed firms in the misconduct firm's industry in a particular

[12] It is worth noting that the *Home* indicator can be a noisy measure of a journalist's hometown identification. For example, it is possible that the company's headquarter may not be its only or main place of operation. In addition, the company may headquarter in the journalist's hometown after he/she relocated to another place. Furthermore, the journalist may grow up in a place different from her birthplace. However, these time- or place-mismatches are likely to bias *against* us finding results. Thus, evidence of any strategic reporting in this study is likely to be a lower bound estimate of the true effect of journalists' hometown identification.

year-quarter. This variable is hypothesized to negatively influence the likelihood of journalist coverage as an industry with a large number of public companies may lead to diminished attention to individual firms due to constraints on journalists' time and resources (e.g., Kahneman 1973). However, it is not expected to directly impact a journalist's reporting tone, which should be determined by the factual circumstances of the case and the journalist's professional perspective, rather than the structural characteristics of the industry in question.

We also control for a plethora of additional firm-, journalist- and newspaper-level characteristics that have been shown to affect media coverage, including firm size (*Size*), leverage (*Lev*), profitability (*ROA*), sales growth (*Growth*), book-to-market (*BM*), the size of the board (*BoardSize*), number of independent directors (*BoardIndSize*), whether the firm is a state-owned-enterprise (*SOE*), the age (*Age*) and gender (*Sex*) of the journalist, and if the newspaper's main editorial office is in the same as the firm's headquarter (*LocalNewspaper*). Firm- and year-fixed effects are included to control for other unobservable firm- and time-specific factors that may influence journalists' coverage decisions. Standard errors are double-clustered by firm and year. Appendix A provides detailed variable definitions.

The estimation results are reported in Table 3, Panel A. The coefficient on *Home* is significantly positive, while the coefficient on the interaction between *Home* and *InvPeriod* is significantly negative. This suggests that in the benchmark period, a journalist is more likely to cover the firm if it is from his/her hometown, but this propensity becomes weaker in the investigation period. The coefficient on *InvPeriod* is statistically insignificant, indicating that a journalist's propensity to cover non-hometown companies does not change in the investigation period.

Consistent with expectation, the coefficient on *IndFirmNum* is significantly negative, suggesting that journalists are less likely to cover a misconduct firm when it has a higher number of industry peers competing for media attention. The estimated coefficients on other control variables suggest that a journalist is more likely to cover firms with relatively weaker performance, as measured by ROA (*ROA*) and sales growth (*Growth*), and a larger board (*BoardSize*), or those that are state-owned-enterprises (*SOE*). Younger (*Age*) and male (*Sex*) journalists initiate more firm coverage. Lastly, journalists are more likely to cover a firm if it is headquartered in the same city as the newspaper that the journalist is affiliated with (*LocalNewspaper*).

4.2. Changes in reporting tone over the investigation period

To examine if home journalists adopt a more positive reporting tone towards the misconduct firm during the investigation period, we estimate the following OLS regression as the second-stage model:

$$Tone_{k,j,t} = \beta_0 + \beta_1 Home_{k,t} + \beta_2 Home_{k,t} \times InvPeriod_{k,j,t} + \beta_3 InvPeriod_{k,j,t} + \beta_4 IMR_{k,j,q} + \beta_5 Size_{j,q-1} + \beta_6 Lev_{j,q-1} + \beta_7 ROA_{j,q-1} + \beta_8 Growth_{j,q-1} + \beta_9 BM_{j,q-1} + \beta_{10} BoardSize_{j,q-1} + \beta_{11} BoardIndSize_{j,q-1} + \beta_{12} SOE_{i,q-1} + \beta_{12} Age_{i,q-1} + \beta_{13} Sex_{i,q-1} + \beta_{14} LocalNewspaper_{i,q-1} + \text{Firm FE} + \text{Year FE} + \text{Journalist FE} + \text{Newspaper FE} + \varepsilon_{k,j,t}. \quad (2)$$

where $Tone_{k,j,t}$ is the tone of article *k* about misconduct firm *j* published on day *t*, and a higher *Tone* value indicates a more positive tone. *IMR* is the inverse Mill's ratio calculated based on the estimation results of regression (1). The other control variables are the same as those included in regression (1). In addition to firm and year fixed effects, we also include journalist and newspaper fixed effects in this regression to control for any time-invariant journalist- or newspaper-level factors that may influence the reporting tone.

Before presenting our main findings, we first assess the validity of the exclusion restriction *IndFirmNum* by examining its influence on journalists' reporting tone (*Tone*). Specifically, we modify regression (2) by replacing *IMR* with *IndFirmNum*, and report the estimation results in Column (1) of Table 3, Panel B. The coefficient on *IndFirmNum* is statistically insignificant, supporting its validity as an exclusion restriction. This inference remains robust when we introduce additional control variables on the type of violation (*Violation1 – Violation8*) and the final penalty amount (*Penalty*), as reported in Column (2).[13]

The estimation results of regression (2) are tabulated in Column (3).[14] The coefficient on *Home* (β_1) is statistically insignificant, suggesting that home journalists do not engage in defensive reporting for the misconduct firm during the benchmark period as their reporting tone does not differ from that of the non-home journalists. The difference between the reporting tone of home and non-home journalists in the investigation period is captured by $\beta_1 + \beta_2$, which is significantly different from zero at the 1% level ($t = 4.26$).[15] This suggests that the home journalists' reporting tone is significantly more positive than that of the non-home journalists after the announcement of the misconduct investigation.

Turning to the change in the reporting tone of these two types of journalists in the investigation period, the difference between the reporting tone of the home journalists in the investigation period and that in the benchmark period is measured by $\beta_2 + \beta_3$, which is significantly different from zero at the 5% level ($t = 2.62$).[16] Thus, home journalists appear to become more positive about the misconduct firms after the start of the investigation. On the contrary, non-home

[13] The indicator *Violation7* is dropped in the estimation process due to perfect multicollinearity.
[14] Appendix B presents a summary of the interpretations of the coefficients of the independent variables of interest in regression (2).
[15] The t-stat (untabulated) is based on two-tailed test (available from the authors upon request).
[16] The t-stat (untabulated) is based on two-tailed test (available from the authors upon request).

journalists' reporting tone becomes more negative, as indicated by the significantly negative coefficient on *InvPeriod* (β_3). Thus, the change in the reporting tone of the home journalists is significantly more positive than that of the non-home journalists in the investigation period, as captured by the significantly positive coefficient on the interaction between *Home* and *InvPeriod* (β_2). Results are qualitatively similar in Column (4) when controls for the investigation outcomes are added.[17]

The estimated coefficients on the control variables indicate that the reporting tone is more positive for firms with larger size (*Size*), lower leverage (*Lev*), better financial performance (*ROA* and *Growth*), higher growth potential (*BM*), a smaller board (*BoardSize*) and fewer independent directors (*BoardIndSize*). Older (*Age*) and female (*Sex*) journalists, and those reporting local firms (*LocalNewspaper*) also exhibit a more positive tone. Taken together, evidence in Table 3 suggests that, conditional on their decision to cover the firm, home journalists choose to report more positively about the firm after the initiation of regulatory investigation.

4.3. Do home journalists compromise professional integrity to protect local firms?

In light of our finding of increased positivity in the reporting tone of home journalists about the misconduct firms over the investigation period, a natural question arises: do home journalists compromise their professional integrity to protect the reputation of their hometown firms? To shed light on this question, we first examine whether home journalists are less likely to report the misconduct event than non-home journalists during the investigation period. To this end, for all articles published over the investigation period, we identify those featuring the misconduct as the

[17] In untabulated analysis, we follow Bushee et al. (2003) and show that our results are robust to (1) excluding all control variables other than *IMR* and (2) adding back *IndFirmNum* in regression (2). In addition, we compute the variance inflation factors (VIFs) for regression (2) and its variations in the robustness tests. There are no instances of VIF exceeding 2 for our key independent variables *Home*, *InvPeriod* and *Home*×*InvPeriod*, and the average VIF across all independent variables is below 2 for all specifications. Thus, multicollinearity is unlikely to bias our findings.

main story, and designate an indicator variable *NonMisconductArticle* to be equal to 1 if an article does not feature the misconduct event, and 0 otherwise.[18] We then estimate an OLS regression of *NonMisconductArticle* on *Home*, along with other controls and fixed effects.[19] The estimation results are tabulated in Column (1) of Table 4. The coefficient on *Home* is statistically insignificant, suggesting that home journalists are as likely to cover the misconduct event as non-home journalists.

Next, we examine if the more positive tone of home journalists (as compared to that of non-home journalists) stems from their coverage of the misconduct events or non-misconduct-related events, or both. Specifically, we regress article tone (*Tone*) on *Home*, *NonMisconductArticle*, the interaction between the two, and various control variables and fixed effects. The estimation results are reported in Column (2) of Table 4. The coefficient on *Home* is statistically insignificant, suggesting that home journalists' reporting tone in misconduct-related articles is similar to that of non-home journalists. The coefficient on *NonMisconductArticle* is significantly positive, indicating that non-home journalists are more positive in articles unrelated to the misconduct than those related to it. The coefficient on *Home*×*NonMisconductArticle* is significantly positive, suggesting that home journalists are more positive in non-misconduct-related articles than non-home journalists.

Collectively, evidence from Table 4 shows that over the investigation period, (1) home journalists are equally likely to cover the misconduct event as the non-home journalists; (2) home journalists adopt a similar reporting tone in misconduct-related articles as that of the non-home

[18] Specifically, we regard an article as featuring the misconduct event as the main story if the title of the article contains both the misconduct firm's name and misconduct-related keywords. The list of misconduct-related keywords is available from the authors upon request.

[19] Prior research suggests that OLS regressions produce consistent and unbiased estimates of the average partial effects of the explanatory variables and perform at least as well as probit or logit models while being able to accommodate complex fixed effects structures (e.g., Noreen 1988; Angrist and Pischke 2008; Wooldridge 2010).

journalists; and (3) the more positive tone of home journalists is primarily driven by articles covering aspects of the company that are unrelated to the misconduct. These findings imply that home journalists avoid direct violation of professional ethics when attempting to mitigate the reputational damage to the hometown firms caused by the misconduct investigation.

5. Additional Analysis

5.1. Cross-sectional analysis

In this section, we provide additional evidence to support the proposition that home journalists' more positive tone stems from a deliberate strategy to protect their hometown's image without jeopardizing professional reputation. In particular, we conjecture that home journalists are more likely to report positively about the misconduct firms when they have stronger hometown identification, but this tendency is mitigated by higher reputational concerns.

To measure a journalist's hometown identification, we employ two proxies. The first one is the journalist's age (*Age*), as prior research suggests that the older generation in China has stronger hometown identification since they have relied more on the relationships with hometown acquaintances and associates for career development (e.g., Ioannides and Loury 2004, Topa 2011) and risk sharing (Fafchamps 2011) than formal market institutions. The second proxy is the strength of clan culture in a journalist's hometown (*ClanCulture*), measured as the proportion of households that belong to the largest three lineage groups by surname in a region (e.g., Peng 2004; Su et al. 2011; Chen and Chen 2018; Wang, Wang and Li 2020; Ma and Xu 2023). Clan culture emphasizes shared ancestry, traditions and values, and often provides a strong social network and support system for its members (e.g., Watson 1982; Feng 2013; Allen, Qian and Qian 2005; Huang

2007). This sense of community and interdependence contribute to a heightened sense of attachment and belonging to the hometown (e.g., Fei 1946; Freedman 1965; Fei and Liu 1982).

To gauge a journalist's reputational concerns, we use his/her expertise about the firm (*FollowFirm*) or its industry (*FollowInd*), measured as the logarithm of one plus the number of articles covering the misconduct firm (or its industry) that are written by a particular journalist over the three-year period before the article publication day (Ahern and Sosyura 2015). The rationale is that journalists with greater expertise are likely to have built a reputation for their knowledge about the firm and its industry, and any perceived reporting bias could undermine this credibility and damage their professional standing. Furthermore, expert journalists are more likely to be recognized for their coverage of the firm and its industry, inviting greater scrutiny from other journalists, companies and the general public. The heightened visibility can increase the potential consequences of any perceived bias, making such journalists more cautious in their reporting.

To test the effects of journalists' hometown identification and reputational concerns on their reporting tone of the misconduct firms in the investigation period, we modify regression (2) by introducing a three-way interaction term between *Home*, *InvPeriod* and the conditioning variable (*COND*), together with the lower-level interactions. The estimation results are tabulated in Table 5. In Panel A, the conditioning variables are *Age* (Column (1)) and *ClanCulture* (Column (2)). In both columns, the coefficients on the three-way interaction variables are significantly positive, suggesting that the heightened positivity in home journalists' coverage of the misconduct firm over the investigation period is concentrated among older journalists and those from regions with a stronger clan culture. In Panel B where the conditioning variables are *FollowFirm* (Column (1)) and *FollowInd* (Column (2)), the coefficients on *Home*×*InvPeriod* are significantly positive, while the coefficients on the three-way interaction variables are significantly negative. These

results indicate that journalists with greater expertise about the firm and its industry are more reluctant to report positively about the misconduct firm after the investigation announcement. Taken together, evidence from these cross-sectional tests lends support to the conjecture that journalists strategically balance the need to protect hometown identity and their own professional reputation when covering the misconduct firm.

5.2. Home journalists' reporting and market price discovery about investigation outcome

If the more positive tone of the home journalists during the investigation period is intended to lessen the negative impact of the misconduct investigation on the firm's reputation, we then investigate whether this strategic reporting hinders the market's ability to evaluate the severity of the misconduct. Prior literature suggests that stock prices incorporate information about future firm prospects such as earnings (e.g., Lundholm and Myers 2002) and the probability of M&A deal completion (e.g., Betton et al. 2014). Following this line of research, we examine if the misconduct firms' abnormal returns over the article publication window contain information about the future penalty amount assessed by the regulator, and whether this information content is lower on days when a greater percentage of the articles are written by home journalists. Specifically, we estimate the following regression using the subsample of articles that are published during the investigation period:

$$ARETn_{j,t} = \beta_0 + \beta_1 Penalty_{j,c} + \beta_2 Penalty_{j,c} \times PerHome_{j,t} + \beta_3 PerHome_{i,t} + \text{Controls} + \text{Firm FE} + \text{Year FE} + \varepsilon_{j,t}, \quad (3)$$

where $ARETn_{j,t}$ (n = 1, 2, 3, 4, 5) is misconduct firm j's cumulative market-adjusted abnormal return (in percentage) over [t, $t + n$], where t is the article publication day. $Penalty_{j,c}$ is the logarithm of one plus the pecuniary penalties imposed on misconduct firm j in case c as disclosed in future sanction announcement. $PerHome_{j,t}$ is the percentage of articles covering firm

j on day *t* that are written by home journalists. If newspaper articles about the misconduct firms are informative about the seriousness of the misconduct, β_1 is expected to be significantly negative. If home journalists' reporting impedes investors' learning, β_2 is expected to be significantly positive.

We include the following controls in regression (3): the firm's lagged size (*L1Size*), leverage (*L1Lev*), ROA (*L1ROA*), sales growth (*L1Growth*), book-to-market (*L1BM*), board size (*L1BoardSize*), the number of independent directors (*L1BoardIndSize*), and ownership type (*L1SOE*), all measured as of the end of the most recent fiscal year. We also control for momentum (*LARET*) and the Fama-French risk factor returns *SMBn*, *HMLn*, *RMWn*, and *CMAn* (*n* = 1, 2, 3, 4, 5), which are the excess returns from the risk factor portfolios over the same window used to measure the dependent variable *ARETn*.

Table 6 presents the estimation results. In Column (1) where the dependent variable is *ARET1*, the coefficient on *Penalty* is significantly negative, suggesting that the publication-window returns are negatively correlated with future penalty amount, while the coefficient on *Penalty*×*PerHome* is statistically insignificant. In Column (2) to (4) where the measurement window of the dependent variable expands to two to four days after the article publication day, the coefficient on *Penalty* remains significantly negative, and the coefficient on *Penalty*×*PerHome* is significantly positive, which is consistent with home journalists' reporting resulting in a lower amount of information about future penalties in current-period prices. In Column (5), the coefficients on *Penalty* and *Penalty*×*PerHome* are all statistically insignificant, implying that the market's learning about future penalties from the news articles is completed within five days. Collectively, evidence in Table 6 suggests that home journalists' strategic reporting in the

investigation period obstructs the market's inferences about the severity of the misconducts (as implied by future investigation outcomes) from the news articles.

5.3. Alternative explanations

5.3.1. Home journalists' information advantage

One of the main alternative explanations for our finding is that home journalists are more positive about the misconduct firms due to their information advantage about hometown companies (e.g., Dahl and Sorenson 2012), as opposed to hometown identification. Although it is difficult to explain why the information advantage should pertain only to firms whose misconducts are less severe than what's expected by the non-home journalists (and hence the more positive tone), we nevertheless investigate this possibility by examining the association between the tone of home and non-home journalists during the investigation period and contemporaneous firm performance. Specifically, we estimate the following regressions:

$$Performance_{j,q} = \beta_{0a} + \beta_{1a}HomeJToneQ_{j,q} + \beta_{2a}HomeJToneQ_{j,q} \times InvPeriod\_Qtr_{j,q} + \beta_{3a}InvPeriod\_Qtr_{j,q} + \text{Controls} + \text{Firm FE} + \text{Year FE} + \varepsilon_{j,q}, \quad (4a)$$

$$Performance_{j,q} = \beta_{0b} + \beta_{1b}NonHomeJToneQ_{j,q} + \beta_{2b}NonHomeJToneQ_{j,q} \times InvPeriod\_Qtr_{j,q} + \beta_{3b}InvPeriod\_Qtr_{j,q} + \text{Controls} + \text{Firm FE} + \text{Year FE} + \varepsilon_{j,q}, \quad (4b)$$

where $Performance_{j,q}$ is either $GrossQ_{j,q}$ or $GrossProfitQ_{j,q}$. $GrossQ_{j,q}$ ($GrossProfitQ_{j,q}$) is firm j's sales growth (gross profit margin) in quarter q. $HomeJToneQ_{j,q}$ ($NonHomeJToneQ_{j,q}$) is the average *Tone* score of articles covering firm j that are written by home (non-home) journalists in quarter q. $InvPeriod\_Qtr_{j,q}$ is an indicator variable that is equal to 1 if quarter q at least partially falls into the investigation period, and 0 otherwise. Regression (4a) (regression (4b)) is estimated

using a subsample of firm-quarters where there is at least one article written by home (non-home) journalists.[20]

In both regression (4a) and (4b), we include the following control variables: The dependent variable measured as of the end of the previous quarter (*L1DV*) and the same quarter in the previous year (*L4DV*); the firm's last quarter size (*L1SizeQ*), leverage (*L1LevQ*), profitability (*L1ROAQ*), sales growth (*L1GrowthQ*), book-to-market ratio (*L1BMQ*), board size (*L1BoardSizeQ*), independent directors (*L1BoardIndSizeQ*), and ownership type (*L1SOEQ*), along with firm and year fixed effects to control for other unobservable firm- and time-specific factors that affect firm performance.

The estimation results are tabulated in Table 7, Panel A. In Column (1) and (2) where the dependent variable is *GrowthQ*, while home journalists' tone is not correlated with the firm's contemporaneous sales growth in the benchmark period, this correlation becomes significantly more negative in the investigation period. On the contrary, although non-home journalist tone is also not associated with current-quarter sales growth in the benchmark period, it has higher nowcasting ability in the investigation period, as indicated by the significantly positive coefficient on *NonHomeJToneQ×InvPeriod_Qtr*. In Column (3) and (4) where the dependent variable is *GrossProfitQ*, there is little evidence that home journalists' tone is correlated with contemporaneous gross profit in both the benchmark and the investigation period, while non-home journalists' tone continues to have nowcasting ability during the investigation period. Thus, it is unlikely that the heightened positivity in home journalists' coverage of the misconduct firms reflects their information advantage.

[20] As it is common for the sample firms to receive coverage from only the home journalists or non-home journalists (but not both) in a particular quarter, estimating a pooled regression with both *HomeJToneQ* and *NonHomeJToneQ* as independent variables will result in too many observations with missing values and a substantially smaller sample.

5.3.2. Pressure from local newspapers

Another alternative explanation to our findings is that the more positive tone of the home journalists is attributed to their affiliation with newspapers from the same city as the misconduct firm, as previous studies show that newspapers often refrain from negative reporting on local firms due to political pressure (e.g., You et al. 2018; Hope et al. 2021). To address this concern, we modify regression (2) by including a three-way interaction between *Home*, *InvPeriod* and *LocalNewspaper*, along with the lower-level interactions. The estimation results are reported in Table 7, Panel B. The coefficient on *Home*×*InvPeriod* is significantly positive, while the coefficient on the three-way interaction term is statistically insignificant. These results suggest that home journalists are not more positive about the misconduct firms if they work for newspapers located in the same city as the misconduct firm. In untabulated analysis, we further find that our main results still hold when regression (2) is estimated using a sample of articles that excludes local newspapers. Thus, the positive coverage of home journalists is unlikely to be driven by local newspapers' favoritism towards local companies.

5.4. Robustness tests

In this section, we discuss the results (untabulated) of several robustness tests. First, our main finding of an increase in home journalists' reporting tone about the misconduct firms during the investigation period remains robust if we replace *Tone* in regression (2) with the dictionary-based tone score (*ToneWord*) and the machine-learning-based tone score (*ToneML*) as the dependent variable.

Second, we adopt an alternative method to assign a news article to a firm by requiring that (1) the article mentions only one firm and (2) the firm is mentioned at least three times. We then estimate regression (2) using this more strictly-defined sample and find qualitatively similar results.

Third, to ensure that our main finding is not driven by systematic differences in firm characteristics between firms covered by home journalists and those by non-home journalists, we re-estimate regression (2) using propensity-score matching (PSM) and entropy balancing. To construct our PSM sample, for each article with *Home* equal to one in our main sample, we identify two (or three, or four) matched articles with *Home* equal to zero. The matching is based on the firm characteristic controls included in regression (2). Similarly, our entropy balancing approach relies on the same set of covariates as those used to estimate the propensity scores. In both analyses, we continue to find a significantly positive coefficient on the interaction between *Home* and *InvPeriod*.

Fourth, we use the method described in Oster (2019) to gauge the robustness of our results to the presence of omitted variables bias. In particular, we calculate $\beta^* = \beta^*(R_{\max}, \delta)$ to obtain a consistent estimate of the true parameter, where β^* is the bias-adjusted coefficient; δ represents selection proportionality, which measures the relative degree of selection on observed and unobserved variables; and R_{max} is the maximum value of R^2 that could reasonably be justified if we could include all unobservables in the estimation process. Following prior research (e.g., Oster 2019), we use two methods to estimate the influence of potential omitted unobservable variables. First, we set δ to be one and R_{max} to be 1.3 times the current R^2 from regression (2). If $\beta^* = \beta^*(R_{max}, \delta)$ falls within the 95% confidence interval of the estimated β_2 from regression (2), omitted unobservable variables are not considered to be a serious concern. Second, we set R_{max} to be 1.3 times the current R^2 from regression (2), and calculate the value of δ when β_2 from regression (2) is 0. If the absolute value of δ is greater than 1, the omitted unobservable variables should not have a significant impact on the coefficient estimates. Using the first method, our estimated value for β^* is 0.599, which is within the 95% confidence internal of the estimated β_2 [0.275, 0.713].

Using the second method, the absolute value of the estimated δ is 4.36, which is greater than 1. Thus, our main finding is unlikely to be attributed to omitted unobservable variables.

Lastly, we conduct a placebo test to further rule out the concern that our results may be driven by correlated omitted variables (e.g., Cai et al. 2016). Specifically, we randomly select 3,819 news articles from the sample and assume that they are written by home journalists.[21] The rest of the articles are assumed to be written by non-home journalists. We then estimate regression (2) using this counterfactual sample and obtain the estimated coefficient β_2 on the interaction between *Home* and *InvPeriod*. This process is repeated 1,000 times and the average value of β_2 is not significantly different from zero, providing additional support that the increased positivity in reporting tone during the investigation period can be attributed to the home journalists.

6. Conclusion

This study examines how individuals reconcile conflicting demands arising from their social and professional identities in the setting of Chinese journalists' coverage of hometown firms under misconduct investigations. We find that while home journalists adopt a similar reporting tone as the non-home journalists during the benchmark period, their tone becomes significantly more positive in non-misconduct-related articles after the announcement of the misconduct investigation. However, this increased positivity is not accompanied by a reduced likelihood of misconduct coverage. The positive tone is concentrated among journalists with stronger hometown identification, but is moderated by concerns for their professional reputation. Home journalists' positive coverage during the investigation period impedes stock market's price discovery about the severity of the misconduct. These findings provide novel evidence on how hometown identity

[21] In our main sample, there are 3,819 articles with *Home* equal to 1.

and professional identity interact to shape journalists' reporting strategies, and highlight the need for increased awareness of how social identities influence the decision-making of information intermediaries.

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Appendix A. Variable Definitions

Variable	Definition
ReportDum	An indicator variable that is equal to 1 if a particular journalist publishes an article about a particular misconduct firm in a certain year-quarter, and 0 otherwise. If the journalist did not publish an article about the firm in a quarter, this variable is set to 0.
Tone	The principal component of a news article's dictionary-based tone score (*ToneWord*) and machine-learning-based tone score (*ToneML*). Details about the calculation of *ToneWord* and *ToneML* and the extraction of principal component are provided in Section 3.2.
MisconductArticle	An indicator variable that is equal to 1 if an article features the misconduct event as the main story (i.e., when the title of the article contains both the misconduct firm's name and misconduct-related keywords), and 0 otherwise. This variable is only calculated for articles published during the investigation period.
Home	An indicator variable that is equal to 1 if the journalist's hometown city is the same as the city of the misconduct firm's headquarter (i.e., a "home journalist"), and 0 otherwise. If there are multiple journalists that authored the article, we regard the article to be written by home journalists if there is at least one journalist whose hometown city is the same as the firm's headquarter.
InvPeriod	An indicator variable that is equal to 1 if an article covering the misconduct firm is published over the investigation period, defined as the period between the CSRC investigation announcement date and the sanction announcement date, and 0 otherwise.
$InvPeriod\_Qtr_{j,q}$	An indicator variable that is equal to 1 if quarter *q* at least partially falls into the investigation period, and 0 otherwise.
IndFirmNum	The logarithm of the number of publicly listed firms in a firm's industry in a given year-quarterr.
Size (*L1Size, L1SizeQ*)	The natural logarithm of the firm's total assets measured as of the end of the current year. The prefix *L1* means the variable is measured as of the end of the previous period. The suffix *Q* means the variable is measured on a quarterly basis.
Lev (*L1Lev, L1LevQ*)	Total liability divided by total assets as of the end of the current year. The prefix *L1* and the suffix *Q* are defined similarly as above.
ROA (*L1ROA, L1ROAQ*)	Net income divided by total assets as of the end of the current year. The prefix *L1* and the suffix *Q* are defined similarly as above.
Growth (*L1Growth, L1GrowthQ*)	Sales growth, calculated as the difference between current year sales and the previous year's sales, divided by the previous year's sales. The prefix *L1* and the suffix *Q* are defined similarly as above.
BM (*L1BM, L1BMQ*)	Book-to-market ratio as of the end of the current year. The prefix *L1* and the suffix *Q* are defined similarly as above.

BoardSize (*L1BoardSize, L1BoardSizeQ*)	The logarithm of the number of board members as of the end of the current year. The prefix *L1* and the suffix *Q* are defined similarly as above.
IndependentDirector (*L1BoardIndSize, L1 BoardIndSizeQ*)	The number of independent directors divided by the total number of board members as of the end of the current year. The prefix *L1* and the suffix *Q* are defined similarly as above.
SOE (*L1SOE, L1SOEQ*)	An indicator variable that is equal to 1 if the firm is a State-Owned Enterprise as of the end of the current year, and 0 otherwise. The prefix *L1* and the suffix *Q* are defined similarly as above.
Age	The age of the journalist as of the date when the news article is published. If an article is written by multiple journalists, we use their average age.
Sex	An indicator variable that is equal to 1 if the journalist is a male, and 0 otherwise. If an article is written by multiple journalists, we take their average *Sex* value.
LocalNewspaper	An indicator variable that is equal to 1 if the newspaper's contact address is in the same city as the misconduct firm's headquarter, and 0 otherwise.
Violation1	An indicator variable that is equal to 1 if the firm is deemed by CSRC to have Delayed Disclosure issues in the sanction announcement, and 0 otherwise.
Violation2	An indicator variable that is equal to 1 if the firm is deemed by CSRC to have False Disclosure or Misleading Statement issues in the sanction announcement, and 0 otherwise.
Violation3	An indicator variable that is equal to 1 if the firm is deemed by CSRC to have Major Omission issues in the sanction announcement, and 0 otherwise.
Violation4	An indicator variable that is equal to 1 if the firm is deemed by CSRC to have False Statement issues in the sanction announcement, and 0 otherwise.
Violation5	An indicator variable that is equal to 1 if the firm is deemed by CSRC to have Inflated Profits issues in the sanction announcement, and 0 otherwise.
Violation6	An indicator variable that is equal to 1 if the firm is deemed by CSRC to have Illegal Guarantee issues in the sanction announcement, and 0 otherwise.
Violation7	An indicator variable that is equal to 1 if the firm is deemed by CSRC to have Fraudulent IPO issues in the sanction announcement, and 0 otherwise.
Violation8	An indicator variable that is equal to 1 if the firm is deemed by CSRC to have Inflated Assets issues in the sanction announcement, and 0 otherwise.
Penalty	The logarithm of one plus the pecuniary penalties in the sanction announcement.
IMR	The Inverse Mills Ratio (IMR) calculated from the first stage Heckman selection model, which is a probit model regressing *ReportDum* on *Home*, *InvPeriod*, *Home×InvPeriod*, *IndFirmNum* (the exclusion restriction), *Size*, *Lev*, *ROA*, *Growth*, *BM*, *BoardSize*, *BoardIndSize*, *SOE*, *Age*, *Sex*, and *LocalNewspaper*, along with firm and year fixed effects.

ClanCulture	The proportion of households that belong to the largest three lineage groups (by surname) in the journalist's hometown, based on the 2005 census data.
FollowFirm	The logarithm of one plus the number of articles covering the misconduct firm that are written by a particular journalist over the three-year period before the article publication day. If an article is written by multiple journalists, we use the average number of articles.
FollowInd	The logarithm of one plus the number of articles covering firms in the same industry as the misconduct firm that are written by a particular journalist over the three-year period before the article publication day. If an article is written by multiple journalists, we use the average number of articles.
ARETn (n = 1, 2, 3, 4, 5)	The misconduct firm's cumulative market-adjusted abnormal return (in percentage) over [t, $t + n$], where t is the article publication day.
PerHome	The percentage of articles covering the misconduct firm on day t that are written by home journalists.
LARET	The misconduct firm's cumulative market-adjusted abnormal return (in percentage) over [t - 3, t - 92], where t is the article publication day.
SMBn (n = 1, 2, 3, 4, 5)	The Fama-French small-minus-big excess return over [t, $t + n$], where t is the article publication day.
HMLn (n = 1, 2, 3, 4, 5)	The Fama-French high-minus-low excess return over [t, $t + n$], where t is the article publication day.
RMWn (n = 1, 2, 3, 4, 5)	The Fama-French robust-minus-weak excess return over [t, $t + n$], where t is the article publication day.
CMAn (n = 1, 2, 3, 4, 5)	The Fama-French conservative-minus-aggressive excess return over [t, $t + n$], where t is the article publication day.
HomeJToneQ	The average *Tone* score of articles covering the misconduct firm that are written by home journalists during the quarter.
NonHomeJToneQ	The average *Tone* score of articles covering the misconduct firm that are written by non-home journalists during the quarter.
GrowthQ (L4DV)	Sales growth of the current quarter, calculated as the difference between quarter q sales and q-4 sales, divided by q-4 sales. *L4DV* is *GrowthQ* measured in q-4 when *GrowthQ* is the dependent variable.
GrossProfitQ (L4DV)	Gross profit margin of the current quarter, calculated as the difference between quarterly sales and COGS, divided by quarterly sales. *L4DV* is *GrossProfitQ* measured in q-4 when *GrossProfitQ* is the dependent variable.

Appendix B. Interpretations of Estimated Coefficients in Main Analysis

		(1)	(2)	(2) – (1)
		***InvPeriod* = 0**	***InvPeriod* = 1**	
(a)	***Home* = 1**	$\beta^{\#} + \beta_1$	$\beta^{\#} + \beta_1 + \beta_2 + \beta_3$	$\beta_2 + \beta_3 > 0$ (t = 2.62)**
(b)	***Home* = 0**	$\beta^{\#}$	$\beta^{\#} + \beta_3$	$\beta_3 < 0$ (t = -6.74)***
(a) - (b)		β_1 (t = 0.11)	$\beta_1 + \beta_2 > 0$ (t = 4.26)***	$\beta_2 > 0$ (t = 4.29)***

Appendix B summarizes the interpretations of the coefficients of the independent variables of interest in regression (2) based on the estimation results reported in Column (3) of Table 3, Panel B and the untabulated results discussed in Section 4.2. $\beta^{\#}$ denotes the estimated intercept and the coefficients on the fixed effects in regression (2). t-stats based on two-tailed tests are presented in brackets. *, **, and *** represent significance levels at 10%, 5%, and 1%, respectively.

Figure 1. Timeline of the Research Design

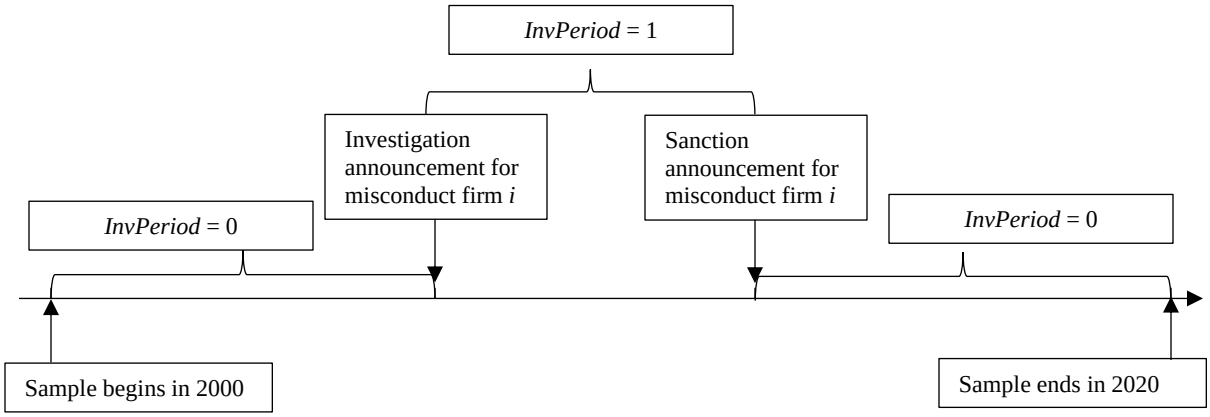

TABLE 1
Sample Construction and Descriptive Statistics

Panel A. Sample selection

Steps	No. of articles
(1) Newspaper articles about Chinese A-share listed firms between 2000 and 2020	341,338
(2) Delete articles that cover firms without misconduct investigations by the CSRC.	(299,376)
(3) Delete articles that cover financial firms.	(5,574)
(4) Delete articles that cover firms with missing values for main variables.	(5,495)
Final sample	30,893

Panel B. Distribution of newspapers by type

		No. of newspapers	No. of articles
Party	Yes	211	8,643
	No	118	22,250
Government	Yes	275	15,340
	No	54	15,553
Business/finance	Yes	49	17,262
	No	280	13,631
National	Yes	84	16,255
	No	245	14,638

Panel C. Distribution of journalists by characteristics and employment

		No. of journalists	No. of articles
Sex	Male	1,548	15,779
	Female	1,591	15,114
Age	20-30	969	9,096
	30-40	1,356	14,012
	40-50	652	5,951
	50-60	162	1,834
Party newspaper	Yes	1,424	8,643
	No	1,715	22,250
Government newspaper	Yes	2,233	15,340
	No	906	15,553
Business/finance newspaper	Yes	1,132	17,262
	No	2,007	13,631
National newspaper	Yes	1,344	16,255
	No	1,795	14,638

Panel D. Distribution of misconduct types by year of investigation and sanction

	Violation1		Violation2		Violation3		Violation4		Violation5		Violation6		Violation7		Violation8	
Yr. of	Invtg.	Sanc.	Invtg.	Sanc.	Invtg.	Sanc.	Invtg.	Sanc.	Invtg.	Sanc.	Invtg.	Sanc.	Invtg.	Sanc.	Invtg.	Sanc.
2002	3		1		0		0		0		0		0		0	
2003	3	2	0	1	2	0	0	0	1	0	0	0	0	0	0	0
2004	7	4	5	1	9	3	0	0	3	2	0	0	0	0	0	0
2005	9	3	10	2	11	3	0	0	6	1	1	0	0	0	0	0
2006	9	3	4	4	9	6	0	0	2	2	2	0	0	0	0	0
2007	6	11	7	4	6	6	2	0	4	3	0	0	0	0	0	0
2008	2	4	2	4	3	8	0	0	2	3	0	0	0	0	0	0
2009	5	4	3	4	5	5	0	1	0	0	0	0	0	0	0	0
2010	8	5	8	6	7	5	0	1	2	4	1	1	1	0	2	0
2011	5	10	3	6	4	8	2	0	1	3	0	3	0	0	0	1
2012	5	10	4	9	7	10	0	1	3	0	1	0	1	0	0	0
2013	5	4	13	4	13	5	0	0	8	1	0	1	1	2	1	1
2014	10	7	12	10	14	15	1	1	7	9	0	0	0	1	0	1
2015	13	9	17	16	23	16	5	2	7	10	0	0	0	0	1	0
2016	9	13	9	11	9	19	0	4	8	9	2	0	0	0	0	0
2017	13	9	13	13	15	13	0	0	14	8	0	2	0	0	2	2
2018	26	14	24	17	19	15	0	0	11	11	2	0	0	0	1	1
2019	25	23	25	20	25	23	2	0	10	8	10	5	0	0	2	0
2020	5	33	3	31	4	25	0	2	1	16	1	8	0	0	0	3
Total	168		163		185		12		90		20		3		9	
Avg. days	487		543		505		444		563		534		726		561	

Table 1 describes the sample selection procedures and related descriptive statistics. Panel A lists the steps used to construct the final sample. Panel B reports the distribution of the sample newspapers by type (e.g., whether it is a party newspaper, government newspaper, business/finance newspaper, or national newspaper). Panel C presents the distribution of the journalists by personal characteristics and the types of their newspaper employers. Panel D tabulates the distribution of the misconduct types by year of investigation announcement and sanction announcement. The total number of cases and the average number of days between the investigation and sanction announcement date by type are reported in the last two rows. Violation1 to Violation8 refers to Delayed Disclosure, False Disclosure or Misleading Statement, Major Omission, False Statement, Inflated Profits, Illegal Guarantee, Fraudulent IPO, and Inflated Assets, respectively.

TABLE 2
Summary Statistics

	N	Mean	SD	Min	P25	Median	P75	Max
Tone	30,893	-0.026	1.352	-2.526	-1.177	-0.077	1.044	3.034
Home	30,893	0.124	0.329	0.000	0.000	0.000	0.000	1.000
InvPeriod	30,893	0.078	0.268	0.000	0.000	0.000	0.000	1.000
IndFirmNum	30893	4.213	0.903	1.099	3.584	4.143	4.934	6.138
Size	30,893	22.166	1.368	19.077	21.438	22.018	22.861	25.542
Lev	30,893	0.538	0.261	0.070	0.328	0.522	0.723	1.412
ROA	30,893	0.004	0.144	-0.766	0.004	0.018	0.057	0.213
Growth	30,893	0.127	0.594	-0.827	-0.123	0.066	0.259	3.996
BM	30,893	0.531	0.239	0.053	0.365	0.518	0.692	1.058
BoardSize	30,893	2.423	0.237	1.792	2.303	2.398	2.565	2.996
BoardIndSize	30,893	0.374	0.079	0.158	0.333	0.364	0.429	0.611
SOE	30,893	0.401	0.490	0.000	0.000	0.000	1.000	1.000
Age	30,893	35.343	7.522	23.617	29.444	33.817	40.081	56.331
Sex	30,893	0.511	0.492	0.000	0.000	0.500	1.000	1.000
LocalNewspaper	30,893	0.202	0.401	0.000	0.000	0.000	0.000	1.000
Violation1	30,893	0.093	0.291	0.000	0.000	0.000	0.000	1.000
Violation2	30,893	0.151	0.358	0.000	0.000	0.000	0.000	1.000
Violation3	30,893	0.132	0.339	0.000	0.000	0.000	0.000	1.000
Violation4	30,893	0.003	0.056	0.000	0.000	0.000	0.000	1.000
Violation5	30,893	0.074	0.262	0.000	0.000	0.000	0.000	1.000
Violation6	30,893	0.010	0.100	0.000	0.000	0.000	0.000	1.000
Violation7	30,893	0.026	0.160	0.000	0.000	0.000	0.000	1.000
Violation8	30,893	0.005	0.068	0.000	0.000	0.000	0.000	1.000
Penalty	30,893	3.077	5.884	0.000	0.000	0.000	0.000	19.299

Table 2 reports the summary statistics of the main variables. *Violation1* to *Violation8* are indicator variables representing the type of firm misconduct, and refer to Delayed Disclosure, False Disclosure or Misleading Statement, Major Omission, False Statement, Inflated Profits, Illegal Guarantee, Fraudulent IPO, and Inflated Assets, respectively. Appendix A provides detailed variable definitions.

TABLE 3
Home and Non-home Journalists' Coverage of Misconduct Firms

Panel A. Home and non-home journalists' propensity to cover the misconduct firms

	(1)
DV is	*ReportDum*
Home	**0.531*** **
	(7.06)
Home×InvPeriod	**-0.296*** **
	(-3.77)
InvPeriod	**0.019**
	(0.83)
IndFirmNum	**-0.025** **
	(-2.00)
Size	0.007
	(0.32)
Lev	-0.056
	(-1.17)
ROA	-0.111**
	(-2.41)
Growth	-0.013**
	(-2.39)
BM	-0.077
	(-1.58)
BoardSize	0.039*
	(1.91)
BoardIndSize	0.046
	(0.39)
SOE	-0.038
	(-0.74)
Age	-0.010***
	(-5.87)
Sex	0.050***
	(2.73)
LocalNewspaper	0.826***
	(8.11)
Firm FE	Yes
Year FE	Yes
N	38,515,950

Panel B. Changes in home and non-home journalists' reporting tone

DV is *Tone*	(1)	(2)	(3)	(4)
Home	**0.087**	**0.088**	**0.011**	**0.013**
	(1.20)	**(1.23)**	**(0.11)**	**(0.14)**
Home×InvPeriod	**0.448*** **	**0.445*** **	**0.484*** **	**0.481*** **
	(4.24)	**(4.43)**	**(4.29)**	**(4.38)**
InvPeriod	**-0.231*** **	**-0.167*** **	**-0.233*** **	**-0.170*** **
	(-6.76)	**(-4.47)**	**(-6.74)**	**(-4.54)**
IndFirmNum	**-0.015**	**-0.016**		
	(-0.78)	**(-0.85)**		

IMR			-0.186	-0.182
			(-1.61)	(-1.59)
Size	0.160***	0.162***	0.159***	0.161***
	(4.68)	(4.95)	(4.75)	(5.02)
Lev	-0.361***	-0.357***	-0.349***	-0.346***
	(-5.24)	(-4.88)	(-5.06)	(-4.73)
ROA	0.252***	0.223***	0.275***	0.246***
	(3.51)	(2.91)	(3.71)	(3.06)
Growth	0.032**	0.032**	0.034**	0.033**
	(2.54)	(2.42)	(2.64)	(2.47)
BM	-0.568***	-0.585***	-0.553***	-0.569***
	(-5.00)	(-5.20)	(-4.99)	(-5.18)
BoardSize	-0.125***	-0.114***	-0.130***	-0.118***
	(-4.64)	(-3.90)	(-4.39)	(-3.67)
BoardIndSize	-0.351**	-0.365**	-0.347**	-0.359**
	(-2.40)	(-2.40)	(-2.26)	(-2.29)
SOE	-0.035	-0.031	-0.027	-0.022
	(-0.94)	(-0.94)	(-0.70)	(-0.66)
Age	0.012***	0.012***	0.012***	0.012***
	(5.17)	(5.04)	(5.18)	(5.06)
Sex	-0.118*	-0.118*	-0.117*	-0.117*
	(-2.00)	(-1.97)	(-1.97)	(-1.94)
LocalNewspaper	0.087***	0.086***	0.008	0.009
	(3.42)	(3.33)	(0.19)	(0.20)
Violation1		-0.105*		-0.102*
		(-1.91)		(-1.87)
Violation2		0.023		0.024
		(0.56)		(0.59)
Violation3		-0.030		-0.031
		(-0.70)		(-0.71)
Violation4		0.213**		0.214**
		(2.22)		(2.23)
Violation5		0.009		0.008
		(0.16)		(0.14)
Violation6		0.082		0.082
		(0.66)		(0.65)
Violation8		-0.218**		-0.215**
		(-2.24)		(-2.14)
Penalty		-0.003		-0.003
		(-0.75)		(-0.77)
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Journalist FE	Yes	Yes	Yes	Yes
Newspaper FE	Yes	Yes	Yes	Yes
N	30,893	30,893	30,893	30,893
Adj-R^2	0.684	0.684	0.684	0.684

Table 3 provides evidence on home and non-home journalists' reporting of the misconduct firms. Panel A presents the estimation results from a probit model on the journalists' propensity to cover the misconduct firms in the investigation period, with *IndFirmNum* as the exclusion restriction. Panel B tabulates the OLS regression results on the changes in home and non-home journalists' reporting tone about the misconduct

firms in the investigation period using the Heckman selection model. Standard errors are double-clustered by firm and year. t-stats are presented in brackets. *, **, and *** represent significance levels at 10%, 5%, and 1%, respectively. Please refer to Appendix A for detailed variable definitions.

TABLE 4
Do home journalists compromise professional integrity to protect local firms?

	InvPeriod = 1	
	(1)	(2)
DV is	*NonMisconductArticle*	*Tone*
Home	**-0.018**	**-0.584**
	(-0.21)	**(-1.49)**
Home×NonMisconductArticle		**1.081****
		(2.18)
NonMisconductArticle		**0.326*****
		(3.14)
IMR	0.206	-0.125
	(1.21)	(-0.30)
Size	-0.050	0.235**
	(-0.87)	(2.24)
Lev	0.208**	-0.339**
	(2.62)	(-2.17)
ROA	0.027	0.092
	(0.34)	(0.63)
Growth	-0.032	0.011
	(-1.60)	(0.23)
BM	0.141	-0.749*
	(0.59)	(-1.76)
BoardSize	-0.017	0.002
	(-0.30)	(0.01)
BoardIndSize	0.018	-0.352
	(0.08)	(-0.57)
SOE	0.193**	-0.520
	(2.40)	(-1.37)
Age	0.002	-0.016
	(0.52)	(-1.58)
Sex	0.065	0.268
	(0.75)	(1.22)
LocalNewspaper	0.112	-0.094
	(0.86)	(-0.41)
Firm FE	Yes	Yes
Year FE	Yes	Yes
Journalist FE	Yes	Yes
Newspaper FE	Yes	Yes
N	1,980	1,980
Adj-R^2	0.161	0.711

Table 4 provides OLS regression results from the subsample analysis using investigation-period articles. Panel A tabulates the results on home journalists' propensity to publish misconduct-related articles during the investigation period. Panel B presents the results on the differential tone of home and non-home journalists in misconduct- and non-misconduct-related articles. Standard errors are double-clustered by firm and year. t-stats are presented in brackets. *, **, and *** represent significance levels at 10%, 5%, and 1%, respectively. Please refer to Appendix A for detailed variable definitions.

TABLE 5
Cross-sectional Analysis

Panel A. Hometown identification

DV is *Tone*	(1)	(2)
COND is	*Age*	*ClanCulture*
Home	0.021	-0.040
	(0.09)	(-0.16)
Home×InvPeriod	-0.521	-0.277
	(-1.11)	(-1.35)
Home×InvPeriod×COND	**0.026****	**3.212*****
	(2.52)	**(3.34)**
Home×COND	-0.001	0.125
	(-0.10)	(0.14)
InvPeriod×COND	-0.001	0.030
	(-0.16)	(0.09)
InvPeriod	-0.214	-0.242***
	(-1.64)	(-3.12)
COND	0.012***	-2.247***
	(4.00)	(-3.92)
IMR	-0.217*	-0.219*
	(-1.98)	(-1.98)
Size	0.159***	0.159***
	(4.77)	(4.78)
Lev	-0.347***	-0.344***
	(-5.03)	(-4.94)
ROA	0.276***	0.275***
	(3.62)	(3.53)
Growth	0.034**	0.035**
	(2.48)	(2.53)
BM	-0.551***	-0.552***
	(-4.98)	(-4.91)
BoardSize	-0.130***	-0.132***
	(-4.07)	(-4.30)
BoardIndSize	-0.351**	-0.344**
	(-2.30)	(-2.23)
SOE	-0.028	-0.036
	(-0.73)	(-0.86)
Sex	-0.116*	-0.127**
	(-1.92)	(-2.11)
Age		0.012***
		(5.24)
LocalNewspaper	-0.004	-0.003
	(-0.10)	(-0.07)
Firm FE	Yes	Yes
Year FE	Yes	Yes
Journalist FE	Yes	Yes
Newspaper FE	Yes	Yes
N	30,893	30,893
Adj-R^2	0.684	0.684

Panel B. Reputation concerns

DV is *Tone*	(1)	(2)
COND is	*FollowFirm*	*FollowInd*
Home	-0.003	-0.001
	(-0.03)	(-0.01)
Home×InvPeriod	0.630***	0.631***
	(4.51)	(4.70)
Home×InvPeriod×COND	**-0.459*** **	**-0.413*** **
	(-3.06)	**(-3.49)**
Home×COND	-0.013	-0.013
	(-0.23)	(-0.27)
InvPeriod×COND	-0.007	-0.016
	(-0.10)	(-0.37)
InvPeriod	-0.232***	-0.228***
	(-6.74)	(-7.63)
COND	0.014	0.008
	(0.44)	(0.37)
IMR	-0.215*	-0.218*
	(-1.96)	(-1.96)
Size	0.159***	0.159***
	(4.79)	(4.77)
Lev	-0.347***	-0.348***
	(-4.99)	(-4.98)
ROA	0.274***	0.274***
	(3.64)	(3.65)
Growth	0.035**	0.035**
	(2.63)	(2.65)
BM	-0.550***	-0.550***
	(-4.99)	(-4.97)
BoardSize	-0.133***	-0.132***
	(-4.58)	(-4.65)
BoardIndSize	-0.346**	-0.346**
	(-2.26)	(-2.26)
SOE	-0.029	-0.028
	(-0.76)	(-0.75)
Sex	-0.118*	-0.117*
	(-2.05)	(-2.02)
Age	0.012***	0.012***
	(5.29)	(5.34)
LocalNewspaper	-0.003	-0.004
	(-0.08)	(-0.09)
Firm FE	Yes	Yes
Year FE	Yes	Yes
Journalist FE	Yes	Yes
Newspaper FE	Yes	Yes
N	30,893	30,893
Adj-R^2	0.684	0.684

Table 5 provides evidence on the factors that may affect home journalists' strategic reporting about the misconduct firm in the investigation period. Panel A (Panel B) presents results on the cross-sectional variation in the change of home journalists' reporting tone over the investigation period by the extent of their hometown identification (reputation concerns). Standard errors are double-clustered by firm and year.

t-stats are presented in brackets. *, **, and *** represent significance levels at 10%, 5%, and 1%, respectively. Please refer to Appendix A for detailed variable definitions.

TABLE 6
Home Journalists' Reporting and Market Price Discovery about Investigation Outcome

	InvPeriod = 1				
	(1)	(2)	(3)	(4)	(5)
DV is	*ARET1*	*ARET2*	*ARET3*	*ARET4*	*ARET5*
Penalty	**-0.003*** **	**-0.005*** **	**-0.005*** **	**-0.005** **	**-0.004**
	(-4.01)	**(-3.55)**	**(-3.33)**	**(-2.34)**	**(-1.45)**
Penalty*×*PerHome	**0.000**	**0.001** **	**0.001** **	**0.001** **	**0.001**
	(0.74)	**(2.47)**	**(2.18)**	**(2.31)**	**(1.56)**
PerHome	0.006***	0.002	0.007***	0.004	0.009**
	(4.34)	(0.93)	(2.93)	(1.50)	(2.69)
L1Size	-0.010	-0.019**	-0.023**	-0.028*	-0.034*
	(-1.53)	(-2.33)	(-2.19)	(-2.03)	(-1.94)
L1Lev	0.006	0.011	0.013	0.016	0.018
	(1.35)	(1.65)	(1.65)	(1.62)	(1.59)
L1ROA	0.010	0.015	0.019	0.022	0.026*
	(1.66)	(1.70)	(1.72)	(1.69)	(1.76)
L1Growth	-0.000	0.000	0.001*	0.001	0.001*
	(-0.17)	(1.52)	(1.95)	(1.72)	(1.99)
L1BM	0.019	0.027	0.049	0.054	0.102*
	(0.95)	(1.16)	(1.66)	(1.34)	(2.06)
L1BoardSize	0.002	-0.000	0.005	0.009	0.001
	(0.15)	(-0.02)	(0.25)	(0.39)	(0.05)
L1BoardIndSize	0.042	0.060	0.056	0.068	0.054
	(1.74)	(1.75)	(1.36)	(1.37)	(0.94)
L1SOE	0.009	0.021**	0.031**	0.043**	0.041*
	(1.50)	(2.52)	(2.34)	(2.27)	(1.97)
LARET	-0.001	-0.001	-0.003	-0.001	-0.001
	(-0.33)	(-0.24)	(-0.48)	(-0.13)	(-0.10)
SMBn	0.437*	0.629**	0.624*	0.438	0.379
	(2.06)	(2.21)	(2.00)	(1.42)	(1.27)
HMLn	-0.085	0.088	0.141	0.052	-0.009
	(-0.40)	(0.38)	(0.57)	(0.18)	(-0.03)
RMWn	-0.717**	-0.966***	-0.857**	-1.138***	-1.179***
	(-2.55)	(-3.12)	(-2.43)	(-3.31)	(-3.82)
CMAn	0.522	0.033	0.116	0.175	0.314
	(1.65)	(0.13)	(0.57)	(0.76)	(1.08)
Firm FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
N	1,852	1,852	1,852	1,852	1,852
Adj-R^2	0.119	0.147	0.156	0.180	0.200

Table 6 examines if home journalists' strategic reporting about the misconduct firm in the investigation period impedes the market's price discovery about the severity of the misconduct as implied by the investigation outcome. Specifically, we regress the firm's article-publication-window cumulative market-adjusted abnormal returns in the investigation period on the logarithm of the yet-to-be-announced penalty amount, the percentage of articles covering the firm on a particular day that are written by home journalists, and the interaction between the two, along with control variables and fixed effects. Standard errors are double-clustered by firm and year. t-stats are presented in brackets. *, **, and *** represent significance levels at 10%, 5%, and 1%, respectively. Please refer to Appendix A for detailed variable definitions.

TABLE 7
Alternative Explanations

Panel A. Home journalists' information advantage

	(1)	(2)	(3)	(4)
DV is	*GrowthQ*	*GrowthQ*	*GrossProfitQ*	*GrossProfitQ*
HomeJToneQ	**0.025**		**0.003**	
	(0.96)		**(0.78)**	
HomeJToneQ×InvPeriod_Qtr	**-0.095****		**-0.006**	
	(-2.13)		**(-0.68)**	
NonHomeJToneimentQ		**0.010**		**0.001**
		(0.95)		**(0.36)**
NonHomeJToneQ×InvPeriod_Qtr		**0.059***		**0.013****
		(1.92)		**(2.24)**
InvPeriod_Qtr	-0.044	-0.026	0.022*	0.014*
	(-0.81)	(-0.40)	(2.11)	(1.88)
L1DV	0.399***	0.475***	0.760***	0.687***
	(5.76)	(24.97)	(8.94)	(25.28)
L4DV	-0.201***	-0.152***	0.170	0.138***
	(-4.01)	(-11.50)	(1.55)	(4.80)
L1SizeQ	-0.085	0.014	-0.014**	-0.002
	(-1.20)	(0.52)	(-2.78)	(-0.75)
L1LevQ	0.075	0.085	0.021	-0.023
	(0.37)	(0.78)	(1.05)	(-1.41)
L1ROAQ	1.456	1.650***	0.030	0.081*
	(1.07)	(4.27)	(0.17)	(2.10)
L1GrowthQ			0.007	0.001
			(1.64)	(1.02)
L1BMQ	-0.411**	-0.190**	-0.015	-0.015**
	(-2.77)	(-2.67)	(-0.59)	(-2.47)
L1BoardSizeQ	-0.029	0.214***	-0.027**	0.006
	(-0.18)	(3.68)	(-2.51)	(1.02)
L1BoardIndSizeQ	-0.070	-0.093	0.009	0.004
	(-0.43)	(-0.45)	(0.17)	(0.24)
L1SOEQ	-0.054	-0.043	-0.001	-0.008
	(-1.02)	(-0.77)	(-0.07)	(-1.17)
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
N	887	6,236	887	6,236
Adj-R^2	0.524	0.516	0.875	0.814

Panel B. Local newspaper bias

DV is *Tone*	(1)
Home	0.009
	(0.09)
Home×InvPeriod	0.383***
	(2.88)
Home×InvPeriod×LocalNewspaper	**0.174**
	(0.79)
Home×LocalNewspaper	-0.029
	(-0.30)

InvPeriod×LocalNewspaper	-0.008
	(-0.11)
InvPeriod	-0.233***
	(-6.61)
LocalNewspaper	-0.002
	(-0.05)
IMR	-0.223*
	(-1.91)
Size	0.159***
	(4.76)
Lev	-0.348***
	(-5.04)
ROA	0.277***
	(3.74)
Growth	0.034**
	(2.65)
BM	-0.551***
	(-5.00)
BoardSize	-0.130***
	(-4.32)
BoardIndSize	-0.352**
	(-2.28)
SOE	-0.024
	(-0.65)
Sex	0.012***
	(5.17)
Age	-0.117*
	(-1.97)
Firm FE	Yes
Year FE	Yes
Journalist FE	Yes
Newspaper FE	Yes
N	30,893
Adj-R^2	0.684

Table 7 provides evidence to rule out two main alternative explanations to our findings. Panel A presents the estimation results on whether home journalists' more positive tone in the investigation period is attributable to their information advantage about the local firms. Panel B tabulates the results on whether the more positive tone of home journalists during the investigation period is driven by those affiliated with local newspapers. Standard errors are double-clustered by firm and year. t-stats are presented in brackets. *, **, and *** represent significance levels at 10%, 5%, and 1%, respectively. Please refer to Appendix A for detailed variable definitions.