When Home Pride Meets Professional Integrity:

Journalists' Strategic Reporting about Hometown Firms under Misconduct Investigations

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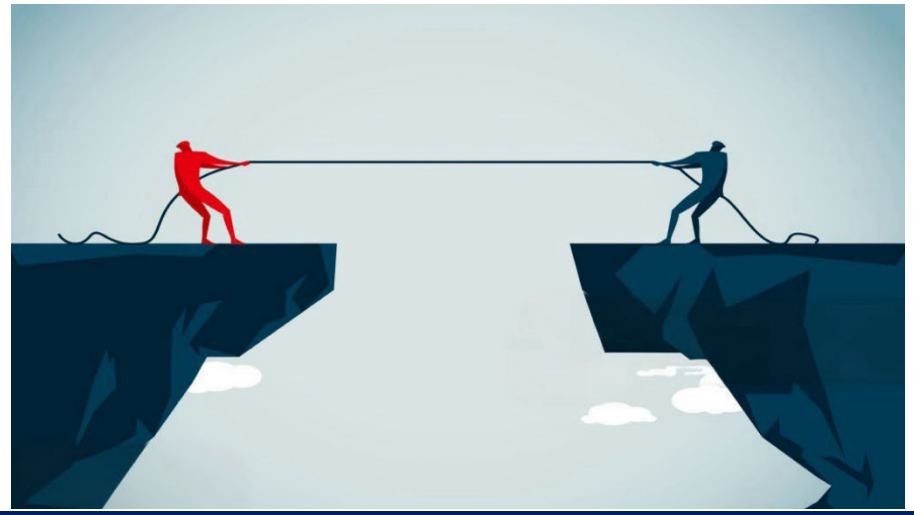
Motivation

- Social identity is an integral part of one's self-concept
  - Individuals are motivated to defend their social group's reputation as much as they would defend their own.

- Individuals often possess multiple social identities, each with its unique norms and expectations
  - Psychology research on how individuals manage multiple social identities.

- How do people reconcile competing identity demands in the business context?



Research Question

- How journalists manage the tension between their social (hometown) and professional identities when reporting on firms under misconduct investigation?
  - Financial misconduct can negatively affect the reputation of the region where the firm is located: e.g., Enron
  - Hometown is a salient social identity, and people are motivated to defend their hometown's reputation when it faces threats.
  - However, the desire to safeguard hometown reputation inherently conflicts with the core principles of journalistic ethics (e.g., impartiality and objectivity).
  - Journalists' role as an important information intermediary necessitates deeper understanding of how their social identities influence reporting objectivity.

Research Setting

- We leverage the unique context of the Chinese media industry.
  - High-quality journalist information collected from press registration card.
  - Hand-collected sample of nearly 20 million news articles from 495 newspapers with varying ownership structures and geographical reach.
  - Results are likely generalizable given the significance of hometown as a social identity in both developed and developing economies.

A Preview of Key Findings

- Home journalists engage in strategic reporting to protect the reputation of the misconduct firms without directly violating professional codes of conduct.
  - After the investigation announcement, home journalists are *less* likely to cover the misconduct firm.
  - Conditional on the coverage decision, home journalists adopt a more positive reporting tone, while non-home journalists become more negative.
  - However, home journalists are equally likely to cover the misconduct over the investigation period as non-home journalists.
  - The increased positivity from home journalists mainly concentrates in articles covering non-misconduct-related topics.

A Preview of Key Findings (cont'd)

- This defensive reporting is more pronounced among journalists with stronger hometown identification, and is weaker among those with higher professional reputation concerns.
- Home journalists' reporting hinders market price discovery about the severity of the misconducts.
- Alternative explanations ruled out: information advantage, managerial influence, local political pressure, unconscious bias.

Contribution

- We aim to study journalists' response to *competing* social identity demands, rather than merely documenting a bias.

Extant literature	Our paper
Home bias: Local favoritism due to unconscious bias or information advantage.	A novel mechanism: Local favoritism due to the intentional protection of group reputation.
Relationship-driven bias: Bias arising from reciprocal exchanges.	A distinct bias: Arising from a reputational defense motive.
Social identity bias: Prior research quantifies the presence of bias.	Strategic response to competing identity demands.

- Respond to Jagolinzer (2024)'s call for more research on the role of social identities in explaining economic behaviors.

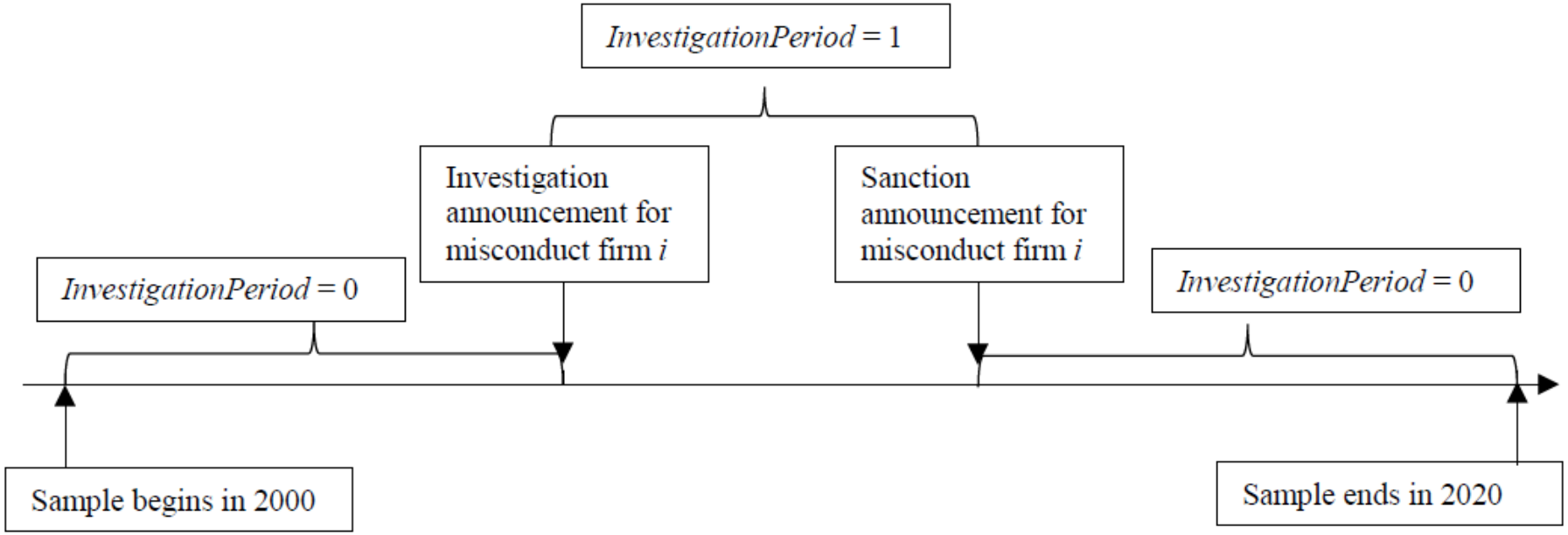
Sample Construction

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

Research Design



Research Design (cont'd)

- Heckman (1979) two-stage model:
  - First stage: Models journalists' coverage decisions

Exclusion restriction →

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

  - Second stage: Models journalists' reporting tone, controlling for coverage probability.

Tone: The principal component of a dictionary-based and a machine-learning-based tone measure. →

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

Journalists' Propensity to Cover the Firm (Heckman 1st Stage)

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

Journalists' Reporting Tone (2nd Stage)

DV is *Tone*	(1)	(2)	(3)	(4)
Home	**0.980*** **	**0.227**	**0.011**	**0.013**
	(3.73)	**(1.64)**	**(0.11)**	**(0.14)**
Home×InvPeriod	**0.853*** **	**0.873*** **	**0.484*** **	**0.481*** **
	(3.80)	**(4.13)**	**(4.29)**	**(4.38)**
InvPeriod	**-1.092*** **	**-0.898*** **	**-0.233*** **	**-0.170*** **
	(-5.23)	**(-5.12)**	**(-6.74)**	**(-4.54)**
IndFirmNum				
IMR			-0.186	-0.182
			(-1.61)	(-1.59)
Controls	No	Yes	Yes	Yes
Add. Controls	No	No	No	Yes
Firm FE	No	No	Yes	Yes
Year FE	No	No	Yes	Yes
Journalist FE	No	No	Yes	Yes
Newspaper FE	No	No	Yes	Yes
N	30,893	30,893	30,893	30,893
Adj-R^2	0.111	0.254	0.684	0.684

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.

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

Conclusion

- We study the behavioral consequences of social identity conflicts in the setting of journalist reporting.
- We find that journalists engage in strategic reporting to safeguard the reputation of their hometown without directly compromising professional ethics.
- The extent of strategic reporting depends on the journalist's hometown identification and professional reputation concerns.
- This strategic reporting impedes the stock market's assessment of the severity of the misconducts.
- Our findings suggest an under-explored mechanism of in-group bias: protecting group reputation

Thank you!

Cross-sectional Analysis

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)
Controls	Yes	Yes
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

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)
Controls	Yes	Yes
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

Home Journalist Reporting and Price Discovery about Severity of Misconduct

	InvPeriod = 1				
	(1)	(2)	(3)	(4)	(5)
DV is	*ARET1*	*ARET2*	*ARET3*	*ARET4*	*ARET5*
Penalty	**-0.003*** **	**-0.005*** **	**-0.006*** **	**-0.005** **	**-0.004**
	(-4.40)	**(-3.89)**	**(-3.74)**	**(-2.58)**	**(-1.64)**
Penalty×PerHome	**0.000**	**0.001** **	**0.001***	**0.001***	**0.001**
	(0.69)	**(2.29)**	**(2.02)**	**(2.09)**	**(1.43)**
PerHome	0.006***	0.002	0.007**	0.004	0.009**
	(3.88)	(0.77)	(2.78)	(1.47)	(2.72)
L1Size	-0.012*	-0.020**	-0.024**	-0.030**	-0.036*
	(-1.88)	(-2.40)	(-2.24)	(-2.13)	(-1.99)
L1Lev	0.006	0.011	0.013	0.016	0.017
	(1.43)	(1.69)	(1.66)	(1.59)	(1.50)
L1ROA	0.011*	0.016*	0.019	0.022	0.025
	(1.75)	(1.75)	(1.74)	(1.66)	(1.68)
L1Growth	-0.000	0.001*	0.001**	0.001	0.001*
	(-0.01)	(1.87)	(2.15)	(1.61)	(1.96)
L1BM	0.024	0.028	0.048	0.055	0.099*
	(1.20)	(1.19)	(1.59)	(1.34)	(1.92)
L1BoardSize	0.002	-0.001	0.005	0.010	-0.000
	(0.17)	(-0.04)	(0.24)	(0.45)	(-0.01)
L1BoardIndSize	0.039	0.057	0.054	0.065	0.057
	(1.62)	(1.61)	(1.31)	(1.31)	(1.00)
L1SOE	0.006	0.017*	0.026*	0.036*	0.036
	(1.07)	(2.03)	(1.88)	(1.88)	(1.68)
LARET	-0.001	-0.001	-0.002	-0.000	0.000
	(-0.34)	(-0.27)	(-0.42)	(-0.02)	(0.05)
SMBn	0.462**	0.686**	0.686**	0.489	0.429
	(2.18)	(2.52)	(2.21)	(1.58)	(1.43)
HMLn	-0.085	0.122	0.201	0.110	0.045
	(-0.40)	(0.52)	(0.78)	(0.37)	(0.14)
RMWn	-0.746**	-1.014***	-0.902**	-1.168***	-1.189***
	(-2.81)	(-3.50)	(-2.54)	(-3.40)	(-3.89)
CMAn	0.483	-0.043	-0.001	0.084	0.235
	(1.72)	(-0.18)	(-0.00)	(0.36)	(0.81)
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	0.123	0.152	0.161	0.182	0.198

Alternative Explanations

- Hometown information advantage
  - Home journalists' tone is *not* associated with firm performance in both the investigation period and the post-investigation period.

- Managerial influence
  - The heightened positivity from home journalists remains robust when the firm managers are less likely to influence media reporting (e.g., more listed firms in the city, higher analyst coverage).

- Biased reporting by local newspapers
  - The more positive tone from home journalists remains in a sample of non-local newspapers.

- Hometown political pressure
  - Findings remain robust among non-SOE firms.

- Unconscious tendency to discount negative news about hometown
  - Home journalists become more positive when the firm is charged of multiple counts of violations.