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MEDIA COVERAGE AND ACCOUNTING

CONSERVATISM

MARIEM KHALIFA EP SANAA

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Media Coverage and Accounting Conservatism

Mariem Khalifa Ep Sanaa

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CERTIFICATE OF ORIGINALITY

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Abstract

I investigate whether high media coverage decreases accounting conservatism. On one hand, I predict that media creates pressure for managers to provide conservative financial reporting, suggesting that media plays an important corporate governance role in the financial reporting process. On the Other hand, I posit that the media may impose short-term earnings pressure on managers, which induces them to be less conservative.

Two main findings follow. First, I find that firms followed by high media coverage provide less conservative financial reporting. Second, I find that the negative association between media coverage and accounting conservatism is stronger in firms with weak corporate governance mechanisms.

Overall, the evidence is consistent with my prediction that media news coverage may impose short-term price pressure on managers and drive them to be less conservative.

This study makes several contributions. Assessing how media coverage affects firms' conservative behavior is of considerable interest to regulators, investors and researchers. This study is the first to show that media coverage exerts pressure on managers to show good performance and be less conservative and this pressure role of the media is accentuated when the governance mechanisms are weak. My results support the strand of literature about the dark side of media coverage in the capital market. This study also contributes to the literature on the economic determinants of accounting conservatism and adds to the debate on the potency of the U.S. media.

Keywords: Media Coverage; Media Sentiment; Corporate Governance; Accounting Conservatism

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Chapter 1. Introduction

In this study, I examine the effect of media coverage on firms' accounting conservatism practices to shed light on this issue. My study is timely, as the severe debate on the media's role in the 2016 U.S. presidential election generates great attention from the public. The news media are an important source of public information regarding a firm for the U.S. capital markets. Prior literature documents that the business press affords information regarding firms' fundamentals to the market, especially when drawing attention to suspicious behavior of managers (Tetlock, 2007; Fang and Peress, 2009; Bushee et al., 2010; Dai et al., 2015; Bushman et al., 2017; Chen et al., 2017). Also, several studies show that the media serves a monitoring role in many aspects of firms' corporate governance (Miller, 2006; Dyck et al., 2008; Joe et al., 2009; Dyck et al., 2010; Bednar, 2012; Liu and McConnell, 2013; Dai et al., 2015).

However, media coverage is criticized for lacking in-depth research and tending towards sensationalism. In some circumstances, the media is even held responsible for putting too much pressure on firms to increase profits and diverting managers' attention and effort from efficient operation (Sutton and Galunic, 1996; Malmendier and Tate, 2009), thereby increasing firms' propensity to adopt aggressive accounting practice. This calls for further research on the impact of media coverage on the U.S. capital market.

Due to agency problems, managers have incentives to manage earnings for their own benefits. Other factors, such as capital market pressures and career-related incentives, are also shown to motivate managers to manipulate earnings (Healy and Wahlen, 1999; Graham et al., 2005; Dichev et al., 2013). Accounting conservatism plays a critical role in mitigating the agency conflicts between managers and shareholders. Specifically, conservatism helps constrain managers from undertaking unprofitable investments (Ball and Shivakumar, 2005) as well as their ability to overstate earnings (Watts, 2003a, b). Since accounting conservatism is a

governance mechanism through which shareholders guarantee better monitoring for firms that are plagued by more severe agency problems (Watts, 2003a), it is important to examine whether the media plays a positive or a negative role in the area of accounting conservatism which has an important information effect on the capital market.

One view suggests that high media coverage may alleviate the conflicts of interests between managers and shareholders. According to this point of view, media can act as a watchdog and serves as an external monitor on managerial opportunism, which encourages firms to be more conservative in their financial reports to avoid media scrutiny. There are numerous studies showing that the media serves a monitoring role in many aspects of firms' corporate governance (Miller, 2006; Dyck et al., 2008; Joe et al., 2009; Dyck et al., 2010; Bednar, 2012; Liu and McConnell, 2013; Dai et al., 2015).

An alternative point of view advocates that the association between media coverage and accounting conservatism is influenced by short-term earnings pressure on managers, which induces them to be less conservative. Prior studies show that the media tends to report news sensationally to attract readership (DeAngelo et al., 1994, 1996; Core et al., 2008) and that sensational media reporting pressures managers to deviate from optimal corporate policies (Kuhnen and Niessen, 2012). A recent survey reports that U.S. corporate executives often feel media pressure to pursue short-term performance, forgoing long-term strategic plans (Bailey and Godsall, 2013, McKinsey and Company). Accordingly, a news release announcing bad earnings could send a company's stock price plummeting. Considering this, managers may have extra incentives to report in a less conservative way when media coverage is high. Therefore, whether media coverage curbs or amplifies firm accounting conservatism is an empirical question.

To analyze the relationship between media coverage and accounting conservatism, I use a large U.S. sample for the period 2001–2016 and count the number of news articles about a given firm each year. I then examine whether firms with high media coverage engage in more or less conditional accounting conservatism. I measure conditional conservatism using the firm-specific C-Score following Khan and Watts (2009). Consistent with the short-term pressure hypothesis, I find that higher media coverage leads to less conservative financial reporting.

I then examine cross-sectional hypotheses. I provide evidence that the negative impact of media on accounting conservatism is more pronounced in firms with low analyst following, low board independence, low board size, high E-index, CEO/chairman duality and non-independent audit committee. Collectively, my evidence is consistent with the view that the media's role as exerting short-term pressure is accentuated with weak monitoring.

I also run several sensitivity tests to ensure that my findings are not driven by any other specification. I test the direction of causation between media and accounting conservatism and find that it is media coverage that causes less conservative financial reporting, and not the other direction. In addition, the results are qualitatively similar when I use Basu (1997) and Beaver and Ryan (2000) non-operating accruals measures. I further include a number of additional control variables in the regression and the results are still consistent with the short-term pressure role of the media in conservatism.

I contribute to the accounting literature by showing that media coverage significantly affects both conditional and unconditional conservatism. To my knowledge, previous work has not demonstrated the presence of such effects. My study adds new empirical evidence to the debate about the role of the media in the U.S. capital markets and sheds light on the real consequences for the market. I find that media coverage increases price pressure, which drives managers to hide bad news and accelerate the recognition of good news. Therefore, I contribute

to the literature by documenting evidence on the dark side of media coverage. My results have strong policy implications, given that investors and regulators need to be aware of potential negative market consequences when promoting media disclosure. Finally, my study adds to the literature on the drivers of accounting conservatism. Prior literature documents several factors that affect accounting conservatism, namely contracting, litigation, taxation, and regulation (Watts, 2003).

The remainder of the thesis is organized as follows. Chapter 2 discusses the related literature and presents the hypotheses development related to the relationship between media coverage and accounting conservatism. Chapter 3 describes the sample selection and data collection. Chapter 4 presents the research design. Chapter 5 presents the empirical results and the robustness checks. Chapter 6 concludes.

Chapter 2. Literature Review

This chapter is framed as follows. Section 2.1 presents an overview on accounting conservatism. Section 2.2 discusses the literature related to media coverage. Section 2.3. presents the hypotheses development.

2.1. Review on Accounting Conservatism

2.1.1. Concept of accounting conservatism

Sterling (1970, p. 256) considers that conservatism is the most influential principle in accounting valuation. While accounting conservatism is a very important attribute of earnings quality, there is however still no explicit and exhaustive definition by neither accounting standard-setters, nor scholars.

Traditionally, Bliss (1924) describes conservatism as "Anticipate no profit but anticipate all losses." For Watts and Zimmerman (1986, pp. 205–206), conservatism means "that the accountant should report the lowest value among the possible alternative values for assets and the highest alternative value for liabilities. Revenues should be recognized later rather than sooner and expenses sooner than later". Basu (1997) represents an important contribution to my understanding of the conservatism concept. Basu (1997, p. 7) defines conservatism in his famous article as follows " …the accounting tendency to require a higher degree of verification to recognize good news as gains than to recognize bad news and losses". In addition, he points out that accounting conservatism has influenced accounting practice for at least five hundred years. Moreover, he states that accounting conservatism results in the timely inclusion of bad news in current profits and the delay in taking good news into account until effective realization. This property is called, in the Anglo-Saxon studies "Asymmetric timeliness of earnings". This definition somewhat coincides with Watts (2003, p.207), when he defines conservatism as "the

differential verifiability required for recognition of profits versus losses". This means that there exists a difference in requirement for recognizing profits and losses.

Givoly and Hayn (2000, p. 292) define conservatism as "a selection criterion between accounting principles that leads to the minimization of cumulative reported earnings by slower revenue recognition, faster expense recognition, lower asset valuation, and higher liability valuation".

Besides, Penman and Zhang (2002, p. 238) interpret conservative accounting as a matter of "choosing methods and estimates that keep book value and net assets relatively low". They provide the application of Last In, First Out (LIFO) versus First In, First Out (FIFO), the expense of research and development (R&D) cost instead of capitalizing and amortizing it as examples of conservative reporting methods.

Regulators also dedicate attention to accounting conservatism. Statement of Financial Accounting Concepts (SFAC) No. 2 (FASB, 1980, paragraph. 95) defines conservatism as "a prudent reaction to uncertainty...If two estimates of amounts to be received or paid in the future are about equally likely, conservatism dictates using the less optimistic estimate".

However, in 2010, the standard setting body FASB removes conservatism principle from its framework. It reports that "Chapter 3 does not include prudence or conservatism as an aspect of faithful representation because including either would be inconsistent with neutrality (FASB, 2010, BC3.27). Thus, it argues that conservatism biases accounting information and compromises neutrality (FASB, 2010). Some researchers provide evidence to support the view that conservatism biases financial statement numbers to result in inefficient decision-making and uselessness of accounting information (Guay and Verrecchia 2006; Gigler et al. 2009; Kim and Kross 2005; Dichev and Tang 2008; Paek et al., 2007; Bandyopadhyay et al., 2010).

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Moreover, conservatism in the current period gives rise to overstatement of reported earnings in future periods, allowing the use of reserves to strategically manage earnings upward (Levitt 1998; Jackson and Liu, 2010).

In contrast with the view of the FASB, some other academic researchers argue that accounting conservatism emerges naturally between contracting parties and is crucial as an efficient contracting mechanism (Basu, 1997; Watts, 2003a). Watts (2003a,b) contends that accounting conservatism is driven by some fundamental economic forces, and is an efficient reporting mechanism in response to the economic, legal and political environment in which the firm operates.

Prior literature (Basu, 2005, p. 194; Ball and Shivakumar, 2005; Beaver and Ryan, 2005, pp. 269-270; Qiang, 2007; Ball et al., 2008; García-Lara et al., 2009) identifies two distinct forms of accounting conservatism, which are conditional conservatism, also named as income statement conservatism, ex-post conservatism (Richardson and Tinaikar, 2004) or news-dependent conservatism (Chandra, 2011), and unconditional conservatism, also named as balance sheet conservatism, ex-ante conservatism (Richardson and Tinaikar, 2004) or news-independent conservatism (Chandra, 2011).

The first one depends on news events and refers to an accounting system that requires stronger verification to recognize profits versus losses (Basu, 1997; Watts, 2003a). Under this specification, economic losses will be recognized in earnings faster than economic gains. The seminal paper is by Basu (1997), where he refers to this form by the asymmetric timeliness of earnings. Examples of conditional conservatism include the asymmetric treatment of loss and gain contingencies, the goodwill impairment, the long-lived asset impairment, and accounting for inventory using the lower-of-cost-or-market convention.

The second form of accounting conservatism reflects the understatement of the book value of net assets relative to their market value (Feltham and Ohlson, 1995; Beaver and Ryan, 2005; Beaver, 2006). Examples of unconditional conservatism include immediately expensing of R&D, accelerated depreciation, historical cost accounting for positive net present value projects, and LIFO inventory.

Beaver and Ryan (2005) argue that the difference between the two forms is that ex-ante (unconditional) conservatism constitutes a form of ''accounting slack'' that preempts the application of ex-post (conditional) conservatism). In other words, ex-ante conservatism can constrain opportunistic ex-post conservatism. Basu (2005) points out that the critical difference between conditional and unconditional conservatism is that conditional conservatism uses information when it is received in future periods, while unconditional conservatism only uses information which is known at the start of the asset's life.

Some researchers focus on the relation between the two forms of conservatisms (Pope and Walker, 2003; Beaver and Ryan, 2005; Roychowdhury and Watts, 2007). They find that the firm's level of unconditional conservatism, measured by the market-to-book ratio, is negatively associated with the degree of conditional conservatism, measured by the asymmetric timeliness in earnings. Ball et al. (2000) contend that income statement conservatism (conditional conservatism) is linked to that of the balance sheet (unconditional conservatism). However, they are not equivalent. Roychowdhury and Watts (2007) also show empirically that unconditional conservatism in year t is negatively associated with conditional conservatism in year t+3. Also, they find that conditional conservatism in year t-1 is positively associated with unconditional conservatism in year t. In addition, the application of conditional conservatism depends on economic news events, whereas the application of unconditional conservatism does not. Beaver and Ryan (2005) develop a model that captures the interaction between conditional

conservatism and unconditional conservatism. They demonstrate that unconditional conservatism is determined at the beginning life of assets and liabilities and thus precedes conditional conservatism. They also show that conditional conservatism affects subsequent unconditional conservatism when it resets the cost bases of net assets. Therefore, it is important to define which dimension of accounting conservatism is examined.

2.1.2. Measures of accounting conservatism

Several measures of accounting conservatism are used in the literature (Basu, 1997, Givoly and Hyan, 2000; Beaver and Ryan, 2000; Penman and Zhang, 2002; Ball and Shivakumar, 2005; Khan and Watts, 2009; Callen et al., 2010b).

2.1.2.1. Basu's Asymmetric Timeliness Measure (AT)

Conditional conservatism can be measured by the Basu coefficient. Ryan (2006) argues that despite some critics and limitations, the Basu's measure of asymmetric timeliness continues to be the best measure of conditional conservatism available and the most popular measure of accounting conservatism. In addition, Ball et al. (2013) confirm that the Basu model is conceptually considered more relevant compared to other measures of conservatism. Basu supposes that earnings capture bad news in a timely fashion than good news. Specifically, Basu (1997) estimates the following model:

$$X_{it} / P_{it-1} = \beta_0 + \beta_1 D_{it} + \beta_2 R_{it} + \beta_3 D_{it} * R_{it} + \varepsilon_{it} \qquad (1)$$

Where X_{it} is earnings per share divided by the beginning of the fiscal year price; R_{it} is the annual stock return of the firm, measured compounding twelve monthly stock returns ending three months after the fiscal year-end t; D_{it} is a dummy variable that equals to 1 if returns are negative, and 0 otherwise. In this model, the coefficient β_3 measures the level of conservatism and it is expected to be positive and significant.

Despite many criticisms from recent literature (Dietrich et al., 2007; Givoly et al., 2007; Patatoukas and Thomas, 2011; Ball et al., 2013b; Cano-Rodriguez and Nunez-Nickel, 2015), the Basu (1997) measure remains the most used besides the C-score measure. Dietrich et al. (2007) demonstrate that the Basu specification gives rise to evidence consistent with accounting conservatism even in the absence of accounting conservatism; that is, Basu (1997) overstates the level of accounting conservatism. Patatoukas and Thomas (2011) further support the point of view of Dietrich et al. (2007) by arguing that the scale variable used in the Basu (1997) regressions entails an effect that biases the Basu estimator. However, Givoly et al. (2007) argue that Basu's (1997) measure understates accounting conservatism. In addition, Ball et al. (2013) challenge the views of Patatoukas and Thomas (2011) by arguing that the bias in the Basu estimator is in fact caused by the correlation between the expected values of earnings and return, rather than the sample truncation suggested by Dietrich et al. (2007) and Patatoukas and Thomas (2011). Ball et al. (2013) contend for using fixed-effects in the Basu (1997) regression to correct for this bias.

Cano-Rodriguez and Nunez-Nickel (2015) study the influence of the aggregation effect on the estimates of models based on the original Basu model – specifically the Ball et al. (2013b) model (Ball et al., 2013b). They show that the estimates of conditional conservatism based on regressions of (unexpected) earnings on (unexpected) returns, as in the paper by Ball et al., are contaminated by substantial aggregation bias. More specifically, the aggregation effect drives these models to underestimate good-news timeliness and overestimate bad-news timeliness, thereby overestimating differential timeliness. Moreover, when they use proxies that better control for the aggregation effect, the differential timeliness coefficient tends to 0, suggesting that the effect of conditional conservatism on the returns–earnings relationship is, at best, marginal.

2.1.2.2. Asymmetric Accrual to Cash-flow Measure (AACF)

Ball and Shivakumar (2005) develop the Asymmetric Accrual to Cash-flow measure (AACF) as a proxy for the level of accounting conservatism in private firms because Basu's asymmetric timeliness measure is not suitable for private companies because there is no stock price information available for private companies. To overcome this problem, Ball and Shivakumar (2005) develop essentially the non-stock-market equivalent of the asymmetric timeliness, which is based on the following cross-sectional regression:

$$ACC_{it} = \beta_0 + \beta_1 D_{it} + \beta_2 CFO_{it} + \beta_3 D_{it} * CFO_{it} + \varepsilon_{it} \qquad (2)$$

Where ACC_{it} is operating accruals; CFO_{it} is Cash-flow for period t; D_{it} is a dummy variable that equals to 1 if CFO it are negative, and 0 otherwise. In this model, the coefficient β_3 is the AACF measure of accounting conservatism. A higher β_3 indicates a higher level of accounting conservatism. It is clear that the AACF measure and the Basu measure are based on the same fundamental idea of asymmetric timeliness and are estimated from models with a very comparable structure.

The strengths and weaknesses of the AACF measure have not been discussed in conservatism literature. Future research can do more tests in order to understand it and examine its reliability.

2.1.2.3. The Market-to-Book ("MTB") or Book-to-Market ("BTM") ratio

Penman and Zhang (2002) argue that conservatism influences the value of equity so that the MTB ratio is superior than 1 (book value of assets below their economic value). The idea behind the use of MTB as a proxy of conservatism is that, ceteris paribus, a conservative accounting system tends to depress the net book value of a firm relative to the firm's 'true' economic value. Then, a higher MTB (and a lower BTM) reflects higher degree of accounting conservatism, and vice versa. Wang et al. (2009a) believe that this measure is used 14 times in

the works examined. The advantage of using such a measure with respect to the other two cited above, is that it provides a specific measure of conservatism at the firm level and measures the cumulative effect of the two forms of conservatism. Moreover, the MTB measure is strongly rooted in the analytical work based on the Residual Income Valuation Model (RIVM) (Feltham and Ohlson, 1995; Zhang, 2000; Beaver and Ryan, 2000).

Besides the raw MTB (or BTM) ratio, Beaver and Ryan (2000) develop a refinement in using the BTM as a measure of conservatism, which is largely used in the literature as a proxy for unconditional conservatism. They decompose the BTM ratio into two components - the bias component and the lag component. Beaver and Ryan (2000) argue that the bias component of BTM should be interpreted as a measure of accounting conservatism.

In terms of weaknesses, Roychowdhury and Watts (2007) argue that the MTB (or BTM) ratio may be a (upward) biased estimator of the degree of conservatism, due to the existence of economic rents in most firms. They explain that the economic rents of a firm are generally not recognizable in the book value of the firm, per GAAP. Consequently, regardless of the degree of conservatism, economic rents lower the book value of a firm relative to the market value of the firm. The more economic rents the firm has, the more likely its MTB (or BTM) ratio overvalues the true level of conservatism in such firm. Only if the firm has zero economic rents, the MTB ratio can be an unbiased estimator of the firm's true level of accounting conservatism. Moreover, the MTB (or BTM) ratio is a well-known proxy for many factors besides conservatism in accounting and finance literature.

2.1.2.4. The Negative Accruals Measure (Givoly and Hayn, 2000)

Givoly and Hayn (2000) propose a measure of conservatism based on non-operating accruals as a subset of the firm's book value. Non-operating accruals are calculated as total accruals minus operating accruals. Total accruals are equal to the firm's net income before

depreciation minus the cash flow from operating activities, whereas operating accruals are calculated using the balance sheet approach. The rationale behind using negative accruals as a measure of accounting conservatism is that accounting conservatism uses the mechanism of accruals to defer the recognition of economic gains and accelerate the recognition of economic losses. Givoly and Hayn (2000) examine the evolution of conservatism and show that total accruals decrease.

This measure is used to estimate the specific level of conservatism for each firm, which is its major advantage over the AT and AACF measures. Similarly, it is not based on market data and thus can be applied to both listed and non-listed companies. However, Givoly and Hayn (2000) do not take into account depreciation and amortization, representing an element significant of accruals. Then, future research should focus on the potential biases in the NOA measure.

2.1.2.5. The Hidden Reserves Measure

Penman and Zhang (2002) develop another measure of accounting conservatism, which is the hidden reserves. They consider the reserves resulting from the accounting treatment of inventory, R& D and advertising costs. They argue that accounting conservatism creates hidden reserves (i.e. cookie jar reserves), the amount of which can be used to gauge the degree of conservatism in a firm. They contend that the higher the amount of the hidden reserves, the more conservative is the firm. But, since hidden reserves are not explicitly reported in either the financial statements or anywhere else, they can only be estimated by the researchers themselves.

2.1.2.6. The C-score (Khan and Watts, 2009)

Khan and Watts (2009) also provide a measure for conservatism, which is an extension of the Basu's model and estimates the level of conservatism per firm and per year. According to Khan and Watts (2009), the conservatism score is a function of firm-specific characteristics: firm size, leverage, and the market-to-book ratio.

$$X_{it} / P_{it-1} = \beta_0 + \beta_1 D_{it} + R_{it}(\mu_0 + \mu_1 Size_{it} + \mu_2 MTB_{it} + \mu_3 LEV_{it}) + D_{it}*R_{it}(\lambda_0 + \lambda_1 Size_{it} + \lambda_2 MTB_{it} + \lambda_3 LEV_{it}) + (\delta_1 Size_{it} + \delta_2 MTB_{it} + \delta_3 LEV_{it} + \delta_4 D_{it}*Size_{it} + \delta_5 D_{it}*MTB_{it} + \delta_6 D_{it}*LEV_{it}) + \varepsilon_{it} \qquad (3)$$

Where X_{it} is earnings per share deflated by the beginning of the fiscal year price; R_{it} is the annual stock return of the firm, measured compounding twelve monthly stock returns ending three months after the fiscal year-end t; D_{it} is a dummy variable that equals to 1 if returns are negative, and 0 otherwise; Size is the natural log of market value of equity; MTB is the market-to-book ratio; LEV is leverage, measured as the sum of long-term and short-term debt scaled by the total numbers of assets. Then, they calculate C_Score and *G_Score* for each firm-year as follows:

$$C\_Score = \lambda_0 + \lambda_1 Size_{it} + \lambda_2 MTB_{it} + \lambda_3 LEV_{it} \qquad (4)$$

$$G\_Score = \mu_0 + \mu_1 Size_{it} + \mu_2 MTB_{it} + \mu_3 LEV_{it} \qquad (5)$$

Where *C_Score* reflects the incremental timeliness of bad news and *G_Score* reflects the timeliness of good news.

2.1.2.7. Conservatism Ratio Callen et al. (2010b)

Callen et al. (2010b) develop the conservatism ratio (CR) at the firm-year level, which is based on Vuolteenaho (2002) return variance decomposition model. This metric is defined as the ratio of the current earnings shock divided by earnings news. Callen et al. (2010b) argue that the greater the conservatism ratio is, the more conservative is the firm. Specifically, they calculate CR as following:

$$CR_t = n_{2,t} / N_{et} \qquad\qquad (6)$$

Where $n_{2,t}$ is the current period earnings divided by earnings news (N_{et}).

2.1.3. Explanations of accounting conservatism

In the literature, there are four potential explanations for accounting conservatism: contracting, litigation, taxation and regulation (Watts, 2003a,b; Qiang, 2007; Garcia-Lara et al., 2009).

Watts (2003a,b) states that contracting is the most likely determinant of accounting conservatism. There are two important contracts: debt contracts between the firm and its debt holders and compensation contracts between the company and its managers. In debt contracts, there is information asymmetry problem between managers and debtholders. Managers are motivated by overstating earnings and net assets. However, debt holders demand verifiable loss recognition and net assets values than unverifiable gains in order to guarantee that the amount of net assets exceeds their contracted sum. In case the firm is in financial distress, debtholders will suffer and lose their money.

Therefore, conservatism plays an important role in protecting the debt holders' benefits by restricting managers' opportunistic behavior and reducing the probability that managers bias

earnings upwards. Several studies provide empirical evidence that accounting conservatism plays a key role in debt contracts. For example, Ahmed et al. (2002) show that firms with conservative accounting have lower cost of debt. Then, they conclude that conservative financial reporting is beneficial since it improves debt contracts efficiency. Also, Ball and Shivakumar (2005) document that conditional conservatism improves contracting efficiency. Bushman and Piotroski (2006) find that conservatism improves debt contracting efficiency by reducing the debt covenant slacks. Moreover, Beatty et al. (2008) find a positive relationship between debt contracts and the level of timely loss recognition. In fact, managers overstate earnings to avoid breaching debt covenants.

More recently, using a sample of private bank loans, Zhang (2008) finds that both lenders and borrowers may take advantage from conservative financial reporting. For lenders, they benefit from conservatism since it prevents them from the downside risk. As to the borrowers, given that accounting conservatism helps reduce the downside risk for lenders, it will then drive lenders to demand low interest rates ex ante from them.

Ball et al. (2008) conduct an international analysis to study the relationship between conditional conservatism in the debt market and the equity market. Using the Basu (1997) model, they find that it is the debt market and not the equity one representing the main driver of conditional conservatism. Indeed, Ball et al. (2008) find that conditional conservatism is positively associated with the debt market, but negatively to the equity market.

However, Gigler et al. (2009) examine and show that accounting conservatism reduces the efficiency of debt contracting. Since more conservative accounting system produces less informative signals about the bad state, the loss from inefficient liquidation of a good project upon observing a bad signal outweighs the loss of inefficient continuing a bad project upon a

good signal. Hence, they show a negative association between accounting conservatism and debt contracts efficiency, in contrast with the suggestions of above studies.

In compensation contracts, managers are motivated to overstate earnings because their compensation is in part based on accounting numbers. Conditional conservatism limits the tendency of managers to maximize earnings by timely loss recognition and deferring gain recognition. Watts (2003a) argues that accounting conservatism reduces the possibility for managers to receive excess compensation. Nonetheless, only very few studies look at the effect of conservatism on compensation contracts. O'Connell (2006) is the first who provides empirical evidence that CEO cash compensation is associated with stronger (weaker) accounting earnings for good (bad) news.

Hence, both lenders and shareholders resort to conservatism to protect their own benefits. Qiang (2007) and Garcia-Lara et al. (2009) find that contracting induces conditional conservatism, indicating that this form improves contracting efficiency. Overall, contracting is one of the main sources of conservatism.

Under the litigation perspective, both managers and auditors have incentives to be conservative in their financial reporting. Seeing that managers and auditors are more likely to be sued when they overstate net assets than understate them (Kellogg's, 1984; St. Pierre and Anderson, 1984), then they are motivated to use conservatism. In other words, in order to avoid high litigation costs, managers recognize bad news earlier and delay the recognition of good news. Basu (1997) examines the conservatism in the U.S. in four periods and shows that the increase of conservatism is related to the increase of auditors' litigation exposure. This significant positive relationship between auditors' legal liability exposure and accounting conservatism indicates that more litigation risk drives more conservatism. Qiang (2007) and

Garcia-Lara et al. (2009) find evidence that litigation induces both conditional and unconditional conservatism, indicating that both forms may reduce litigation costs.

Taxation also drives conservatism. Since that deferring gain recognition and anticipating loss recognition lead to reduced taxes and increased firm value, managers have an incentive to report conservative earnings. Watts (2003) argues that the association between financial and tax reporting results in conservatism in accounting given that the timelier earnings recognition of losses than gains enable managers to delay reporting unrealized revenue but recognize anticipated losses timely as to reduce present value of tax payment. Shackelford and Shevlin (2001) show that the choice of accounting methods is affected by tax planning. Watts (2003) provides some examples of financial accounting method which are affected by tax system. For example, firms may apply LIFO accounting method to inventory valuation so as to record more product cost in current income statement. Moreover, the adoption of different measures for conservatism affects the results of study on the relation between conservatism and firms' tax payment. Kim and Jung (2007) find a positive relation between conservatism and taxes using unconditional conservatism measure. But, they do not find such relation using conditional conservatism measures. The results suggest that the study on tax-induce conservatism is influenced by the choice of conservatism measure. Qiang (2007) documents that taxation induces unconditional conservatism, suggesting that this form helps in deferring taxes. On the other hand, Garcia-Lara et al. (2009) find that taxation drives to both forms of conservatism.

Finally, regulation explanation asserts that standard setters and regulators are more likely to receive blames and criticism from constituents when firms overstate net assets than understate them. They can reduce these political costs by responding to the demand of conservatism from constituents. For example, SEC is hardly criticized when the scandal of Enron arises and therefore, it issues Sarbanes-Oxley Act to defend shareholders' rights. The

new joint conceptual framework of the IASB and FASB adopted in 2010 does not include conservatism as a desirable quality of financial reporting information (IASB 2010) and instead considers "faithful representation" as a fundamental quality characteristic of financial information, which implies a focus on completeness, neutrality, and freedom from errors. However, empirical studies show that accounting conservatism is a useful tool if financial reporting (Watts, 2003a, b; Zhang, 2008). More recently, Zhong and Li (2017, p.195) conclude that accounting conservatism is "important and cannot be excluded from accounting standards". Qiang (2007) shows that regulation drives unconditional conservatism. However, Garcia-Lara et al. (2009) provide evidence that regulation leads to both forms of conservatism. Collectively, contracting, litigation, taxation and regulation are the main drivers of accounting conservatism.

2.1.4. Other research on accounting conservatism

Since the work of Watts (2003), empirical studies look at the determinants of accounting conservatism. A huge amount of this literature focus on the relationship between accounting conservatism and corporate governance (Beekes et al., 2004; Ahmed and Duellman, 2007; Lafond and Watts, 2008; Chi, et al., 2009; García-Lara et. al, 2009; Goh and Li, 2011). Another stream looks at the informational role of accounting conservatism (LaFond and Watts, 2008; Wittenberg-Moerman, 2008; Hui et al., 2009; Kim et al., 2013). More recently, some studies look into managerial psychological attributes (Ahmed and Duelleman, 2013; Hsu et al., 2017; Ham et al., 2017), market competition (Dhaliwal et al., 2014; Haw et al., 2015), and corporate lobbying (Kong et al., 2017).

Watts (2003) and Ball and Shivakumar (2005) consider accounting conservatism as a desirable attribute of accounting earnings. Then, in order to reduce managers' opportunistic behavior, shareholders require timely recognition of losses than for earnings. According to LaFond and Watts (2008), conservatism benefits users of financial statements. Indeed, they

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document that conservatism in financial reporting is considered as a governance mechanism that decreases the managers' ability to manipulate financial performance. LaFond and Watts (2008) find that conservatism also helps to reduce information asymmetry between the manager and outside investors, which benefits all financial statements' users.

Beekes et al. (2004) investigate the relationship between board of directors and accounting quality, using earnings timeliness and conservatism as proxies. Employing a sample of U.K. companies, they document that board composition and managerial ownership are positively associated with conditional conservatism. They conclude that board structure is a crucial element of earnings quality.

Ahmed and Duellman (2007) examine the effect of board of director characteristics on accounting conservatism. They find that conservatism is negatively correlated with the percentage of inside directors, and positively correlated with the percentage of shareholding by outside directors in U.S. firms. This suggests that conservatism reduces the agency costs and improves corporate governance.

Garcia-Lara et. al (2009) investigate whether firms with strong corporate governance exhibit a higher degree of accounting conservatism than firms with weak corporate governance. They also find that corporate governance quality is positively associated with the Basu measure of conservatism, suggesting that corporate governance improves accounting conservatism.

Goh and Li (2011) examine the level of conservatism in firms with and without material weaknesses in their internal control quality. They show that firms with lower internal control quality are less likely to exhibit conservatism. This indicates that strong internal control is an important factor that promotes accounting conservatism.

However, Chi, et al., (2009) argue that conservative accounting is a vehicle to reduce uncertainty and information asymmetry as a substitute to corporate governance mechanisms. Then, they support a view that weak corporate governance structures resulted in more contracting demand for conservatism.

Another stream of literature looks at the informational role of accounting conservatism (LaFond and Watts, 2008; Wittenberg-Moerman, 2008; Hui et al., 2009; Kim et al., 2013). Information asymmetry between managers and shareholders creates agency costs and decreases firm value. Managers have incentives to take advantage from their informational position and manipulate financial statements to maximize their wealth (Jensen and Meckling, 1976). Accounting conservatism is a useful mechanism to alleviate this information asymmetry problem. For example, LaFond and Watts (2008) test the relationship between PIN score as a proxy for information asymmetry and accounting conservatism. They show that firms with high PIN scores exhibit higher demand for accounting conservatism. They argue that given that higher level of information asymmetry increases agency problems, and then driving the demand for conservative financial reporting.

Wittenberg-Moerman (2008) test the impact of conservatism on information asymmetry in a unique setting of the secondary loan market in U.S. They provide empirical evidence that conservative reporting helps attenuate the level of information asymmetry, not only in the equity market but also in the secondary loan market.

Hui et al. (2009) test the relationship between management forecasts and accounting conservatism and document a significant negative effect of conservatism on the frequency and the timeliness of management earnings forecasts. They conclude that since conservatism may reduce the level of information asymmetry, it serves as a substitute for management forecasts.

Kim et al. (2013) examine the association between accounting conservatism and equity market in the setting of seasoned equity offerings (SEOs) over the period 1989 to 2008. They show that by alleviating information asymmetry, firms with greater conservatism suffer from fewer negative market reactions to SEO announcements.

Recently, the extant literature focuses on different factors that might affect accounting conservatism, namely CEO psychological characteristics (Ahmed and Duelleman, 2013; Hsu et al., 2017; Ham et al., 2017), competition (Dhaliwal et al., 2014; Haw et al., 2015), corporate lobbying (Kong et al., 2017).

Ahmed and Duelleman (2013) investigate the association between managerial overconfidence and accounting conservatism. Using several measures of conservatism, they find that overconfidence affects negatively the level of conservatism. This indicates that overconfident managers are less likely to report in a conservative manner.

Hsu et al. (2017) examine whether accounting conservatism can mitigate the shortcomings of managerial overconfidence. They argue that conservatism is, in particular, effective when an overconfident CEO runs the company. They find similar results as in Ahmed and Duelleman (2013). They also show that companies with both overconfident CEO and conservative accounting experience higher financial performance.

Ham et al. (2017) look at the impact of CFO narcissism on financial reporting quality, proxied by earnings management, timely loss recognition, internal control quality, and the likelihood of restatements. They predict that narcissistic CFOs have more incentives to misreport. They provide empirical evidence that companies with narcissistic CFOs experience higher levels of accruals and real earnings management, lower conditional conservatism, weaker internal control quality, and a higher probability of restatements.

Another line of literature highlights the role of competition in conservative accounting. For example, Dhaliwal et al. (2014) study how product market competition plays a role in strategic reporting decision, and more specifically, in driving conditional accounting conservatism in a U.S. sample. They find that intense product market competition is positively associated with conditional conservatism. Their argument is consistent with the strategic consideration view of product market competition. In other words, firms strategically exhibit higher level of conservatism in order to improve their competitive position from potential entrants or existing rivals. Their findings are inconsistent with the political costs view or improved governance argument of product market competition, which exhibit lower level of conditional conservatism. Also, the cross-sectional results show that the positive association between product market competition and conditional conservatism holds for industry followers, but not for industry leaders. The time-series results show an increase in timely loss recognition after deregulation and in periods of increased antitrust enforcement.

More recently, Haw et al. (2015) replicate the findings of Dhaliwal et al. (2014) in an international setting. They examine whether the results in the U.S., where investors are well protected, and regulations are strictly enforced, are generalizable to other countries in which low investor protection and financial reporting environments. Consistent with Dhaliwal et al. (2014)'s findings, they document that product market competition is positively related to the level of conditional conservatism. They also find that the positive association between product market competition and conservatism exists only in countries with strong legal institutions, and not in countries with weak legal institutions.

A recent study by Kong et al. (2017) highlights another factor that affects accounting conservatism, which is corporate lobbying. The authors provide evidence that companies with

greater lobbying activities are more likely to adopt conservatism in their reporting and this positive association is accentuated in lobbying firms with a greater visibility level.

While previous literature examines different factors affecting the level of conservatism, there is no previous research that looks at the impact of media coverage on conservative reporting. The objective of my dissertation is to test whether firms followed by wider media coverage exhibit higher or lower conservatism.

2.2. Review on Media Coverage

2.2.1. The Governance Role of Media

Prior literature documents that media may be able to act as an external corporate governance mechanism. Specifically, the media can play a monitoring role to reduce the agency problems and the information asymmetry between the manager and shareholders (Miller, 2006; Dyck et al., 2008; Joe et al., 2009; Dyck et al., 2010; Bednar, 2012; Liu and McConnell, 2013; Dai et al., 2015). These studies generally assert that media act as watchdog and monitoring instrument against frauds, expropriations and other harmful behaviors.

Miller (2006) uses a sample of U.S. firms whose accounting practices were challenged and sanctioned by the Securities and Exchange Commission (SEC) to directly examine whether media helps in the identification of fraud. He finds that the media plays a monitoring role by providing early detection of accounting fraud. Gillan (2006) reviews a comprehensive literature about to corporate governance and classifies media as one of the private sources of external corporate governance. He notes that media plays a significant role in the U.S. corporate governance and provides the example of Bethany Mclean of Fortune Magazine, the first journalist who shines the light on Enron's black box.

Dyck et al. (2008) use a unique sample of Russian firms to examine whether the media coverage affects corporate governance. They find that the magnitude of violations is positively associated with the coverage by international media such as Financial Times and the Wall Street Journal. Furthermore, they find that the violations are more likely to be readdressed following the international media coverage, after controlling for the extent of foreign ownership and the involvement of international organizations. The authors argue that media coverage can affect corporate governance as negative media coverage can damage the firm reputation and increase the probability of enforcement and/or litigation.

Dyck et al. (2010) investigate who blows the whistle on corporate fraud. They document that the media is responsible for ''blowing the whistle" on between 17% and 24% of corporate frauds in the U.S. between 1996 and 2004, suggesting that media is a useful tool in overseeing firms' behavior.

Furthermore, Joe et al. (2009) investigate the economic consequences of media attention on board effectiveness. They argue that negative publicity would force the board to correct the wrongdoing and behave with more diligence. Using Business Week's List of the Worst Corporate Boards as the proxy for negative media exposure, they find that firms on the list will take more actions to improve the quality of their boards as well as their performance, compared to their industry performance-matched peers. For example, they will change the CEO or the chairman and hire more outside directors. In addition, the tendency of firms to use staggered boards is reduced after they are reported by Business Week.

Bednar (2012) questions the role of media as a watchdog in that largely symbolic actions may have important corporate effects. In addition, he examines how more favorable media coverage may affect CEO job security, executive compensation, and board composition. Using a random sample of 250 (S&P) 500 firms, he finds that increases in formal board independence

will increase the favorability of subsequent press by generating more positive coverage. He shows that negative media coverage is positively related to CEO dismissal in both the CEO and management issues subsamples, and positive coverage has a negative effect for the management issues subsample. Finally, he finds that less favorable press coverage is related to increase in the formal board independence. His findings contribute to the governance literature and enhance researchers' understanding of the role that the media can play as a governance control mechanism by providing additional theoretical nuance to extant work that focuses on the media as a watchdog of top management.

Liu and McConnell (2013) investigate whether managers take into account the level and tone of media attention when making acquisition decisions. Using 636 large acquisition attempts over the period 1990 - 2010, they document that in case the firm receives wider media coverage and more negative tone of the media before the announcement of the acquisition, the manager is more likely to abandon a value decreasing project. The results reflect the role of media in aligning managers' interests with those of the shareholders in making acquisition decisions. Furthermore, the findings are consistent with the positive role of media in corporate governance.

Dai et al. (2015) look at the informational role played by the media in corporate governance through diffusing news. Using a sample of corporate and insider news coverage for the period 2001 to 2012, they predict and find that insiders' future trading profits decrease with the degree of news coverage. They suggest that such reduction is explained by three channels, namely (a) the decrease of information asymmetry, (b) concerns regarding litigation risk, and (c) the impact on insiders' personal wealth and reputation.

More recently, Chen et al. (2017) investigate whether media coverage may impact managers' earnings management decisions. They argue that the media can serve as an external

monitor on managerial opportunism, which lowers corporate earnings management behavior. They provide evidence that media coverage is negatively associated with both accrual-based and real earnings management. Also, they find that earnings-related news coverage is more effective at curbing accrual-based earnings management, whereas product and service-related news coverage is more effective at curbing real earnings management. Additional analyses show that the impact of media coverage on earnings management is more pronounced for firms with low audit quality and weak corporate governance, suggesting a substitutional role of the media in corporate governance.

2.2.2. The Information Intermediary Role of Media

Prior literature documents that media has an information intermediary role by helping reducing information asymmetry issues between firms and outsiders and therefore improves the efficiency of the stock market. Klibanoff et al. (1998) examine whether dramatic country-specific news affects the response of closed-end country fund prices to asset value. They find that in weeks with news appearing on the front page of The New York Times, prices react much more; the elasticity of price with respect to asset value is closer to one. These results are consistent with the hypothesis that news events lead some investors to react more quickly.

Using a comprehensive database of headlines about individual companies, Chan (2003) examines monthly returns following public news. He finds that firms covered by the media experience drifts on bad news while firms not covered by the media experience return reversals after large stock price jumps.

Tetlock (2007) investigates how qualitative information, and particularly the fraction of negative words in a widely read news column about the stock market is incorporated in aggregate market valuations. He shows that media pessimism predicts downward pressure on

market prices followed by a reversion to fundamentals using the linguistic content from a popular Wall Street Journal column.

Tetlock et al. (2008) complement the work by Tetlock (2007) and quantify the language used in financial news stories to predict firms' accounting earnings and stock returns. They first find that the fraction of negative words in firm-specific news stories forecasts low firm earnings. Second, they find that firms' stock prices briefly underreact to the information embedded in negative words. Finally, they show that earnings and return predictability from negative words is largest for the stories that focus on fundamentals. Overall, their findings suggest that linguistic media content captures otherwise hard-to-quantify aspects of firms' fundamentals, which investors quickly incorporate into stock prices.

Bushee et al. (2010) investigate whether press coverage can serve as information intermediary to reduce information asymmetry between managers and shareholders. Given the function of the press to package and diffuse information, along with creating new information through journalism practices, they predict that the press is likely to shape the firms' information environments. They find that around earnings announcements, higher press coverage is associated with lower spreads and higher depths, after controlling for firm-initiated disclosures, market reactions to the announcement, as well as other information intermediaries. These results imply that the press may have a great impact in reducing the level of information asymmetry during the earnings announcement period.

Blankespoor et al. (2014) use technology sample to directly investigate the consequences of diffusing additional media news through Twitter on information asymmetry. They find that this diffusion of news is negatively associated with abnormal bid-ask spreads and positively associated with both abnormal depths and liquidity ratio. Consistent with their prediction, they document that direct-access information technologies reduces a firm's

information asymmetry, measured by the bid-ask spread. They further provide evidence that these findings are more pronounced for firms with a lower level of visibility.

Drake et al. (2014) argue and find that since business press has two main roles: (1) diffusing firm-generating information more broadly, and (2) creating new information to the market, then press coverage of the annual earnings announcement may alleviate cash flow mispricing. Nevertheless, they do not find that both roles of press significantly mitigate the accruals' mispricing. The evidence suggests emphasizes the important role played by business press as an information intermediary in capital markets.

Bushman et al. (2017) further provide evidence that in the private debt market, firms with a greater media coverage are associated with lower information asymmetry, suggesting that media plays an essential role in the debt market in addition to the capital market.

2.2.3. The Price Pressure Role of Media

Media attention can exert pressure on the market, motivating managers to hide bad news and disclose good news earlier. Therefore, they will make short-term decisions and manage their earnings to protect their reputations and careers. For example, Wu et al. (2016) examine whether the media has an impact on executives' behavior in the case of earnings management. Using Chinese, A-share listed firms, they find that although the Chinese Stock Markets are still immature compared to those of developed countries, the media seems to play a role in affecting executives' decisions about dabbling in earnings management. Specifically, firms receiving more media attention are more likely to undertake earnings management. Furthermore, negative media reports result in even higher levels of earnings management activities, indicating that managers tend to use earnings management to achieve earnings goals to reduce or relieve the pressure they feel from the media and to remedy any reputation loss. Moreover, the authors

have find that firms whose CEOs have higher reputations are more likely to manage earnings and they are more likely to be affected by negative media reports.

Chen et al. (2017) examine whether media coverage triggers management's bad news hoarding. They find that wider media coverage triggers managers to withhold bad news, as reflected in higher future stock price crash risk. They also show that media coverage's adverse effect is amplified when management has a short-term perspective. They interpret the results to imply that media coverage creates price pressure, driving managers to hide bad news that cannot be easily detected nor monitored.

Also, media creates much pressure on managers to perform well, which gives them incentives to adopt aggressive accounting choices, resulting in higher misreporting. Furthermore, media coverage has been criticized for lacking in-depth research and tending towards sensationalism. In such circumstances, the bad news is transferred faster and affect the stock prices negatively. Therefore, this will create high pressure on managers to make every effort to manage earnings upwards.

2.3. Development of Hypotheses

Prior literature suggests that the media potentially serves as an effective governance mechanism (Miller, 2006; Dyck et al., 2008; Joe et al., 2009; Dyck et al., 2010; Bednar, 2012; Liu and McConnell, 2013; Dai et al., 2015). Dyck et al. (2008) argue that media coverage might impact corporate governance because negative media coverage can damage the firm reputation and increase the probability of enforcement of punishment and/or litigation. Furthermore, Liu and McConnell (2013) argue that managers consider the level and tone of media coverage when they make acquisition decisions. This is because in case of an announcement of a value-decreasing acquisition attempt, managers are more likely to suffer a loss in tangible capital as well as human capital via their loss in reputation.

Following Dyck et al. (2008) and Liu and McConnell (2013), I argue that a firm's reporting behavior is also determined by the extent of media coverage. As media coverage increases, firms will be exposed to more public attention and could have scrutiny effects on the firm's accounting conservatism strategy. Therefore, managers become asymmetrically timelier in recognizing losses into earnings to avoid being sued, suggesting that wider media attention constraints managers from undertaking actions that contradict shareholder interests. An implication of this argument is that media coverage plays a governance role, and hence managers would become more conservative in their financial reporting. The idea behind is that if managers are monitored more carefully, then they have more incentives to engage in conservative accounting. Then, I predict a positive association between media coverage and accounting conservatism.

H1: *Firms exposed to media coverage will engage in more conservative accounting.*

On the other hand, the price pressure due to media coverage could also curb the firm's conservative reporting strategy. Prior studies show that media coverage can put pressure on the market, deterring managers from disclosing bad news and revealing good news earlier. Given that negative media reports result in higher pressure and greater probability of reputation loss, a firm tends to use more earnings management strategies to achieve earnings goals to reduce or relieve the pressure they feel from the media and to remedy any reputation loss (Wu et al., 2016). In addition, Chen et al. (2017) predict and provide evidence that wider media coverage triggers managers to hide bad news, as reflected in higher future stock price crash risk. To the extent that making short-term decisions and timely revelation of good news can protect reputation and CEO careers, a firm will disclose and recognize good news in a timelier manner than bad news. Thus, price pressure considerations can shape the relationship between media

coverage and accounting conservatism. In other words, managers of followed firms could perceive excessive pressure from media, leading to lower level of accounting conservatism.

H2: *Firms exposed to media coverage will engage in less conservative accounting.*

Previous literature shows that media may play a governance role and act as a watchdog (Miller, 2006; Dyck et al., 2008; Joe et al., 2009; Dyck et al., 2010; Bednar, 2012; Liu and McConnell, 2013; Dai et al., 2015). However, some other studies provide evidence that media can also impose short-term performance (Wu et al., 2016; Chen et al., 2017).

Accounting literature shows that corporate governance is positively related to accounting conservatism (e.g., Ahmed and Duellman, 2007; Garcia-Lara et al., 2009). These studies document that strong boards are more likely to require more conservative financial reporting. Therefore, I predict that the pressure role of media in accounting conservatism may be mitigated by strong boards. Further, firms with separate CEO/Chair duality in the board and low E-index are more likely to have better corporate governance structure, limiting managerial opportunism (Cornett et al., 2008). In addition, Lary and Taylor (2012) consider that the independence of the audit committee is one of the main features of the audit committee to guarantee effective controlling. I then conjecture that more independent audit committees may attenuate the role of pressure exerted by media in accounting conservatism. Jensen and Meckling (1976) argue that financial analysts play an important role in monitoring especially when agency problems exist. Also, Sun and Liu (2011) examine the relation between analyst following and accounting conservatism and provide evidence that financial analysts lead to more conservatism in accounting.

As strong monitoring is likely to alleviate (exacerbate) the negative (positive) relation between media coverage and accounting conservatism, I conjecture the following hypothesis:

H3: *The positive (negative) association between media coverage and accounting conservatism is stronger (weaker) for firms with stronger external monitoring, ceteris paribus.*

Chapter 3. Sample selection and variable measurement

3.1. Sample Selection

I retrieve data on media coverage of U.S. publicly listed firms from RavenPack[1] News Analytics, a comprehensive media database, which provides real time news. The major sources are Dow Jones Newswires, regional editions of the Wall Street Journal, and Barron's; business publishers, national and local news, blog sites, and government and regulatory updates; and press releases and regulatory, corporate, and news services, including PR Newswire, the CNW Group, and the Regulatory News Service. This dataset covers news data since the year 2000 and uses a variety of advanced textual analysis methods to build news sentiment scores[2] for business news stories.

My sample results from the intersection of media coverage data from RavenPack, financial data from Compustat[3], and stock price and return data from the Center for Research in Security Prices (CRSP). The governance variables and analyst characteristics data used in robustness checks and cross-sectional analyses are obtained from the Institutional Shareholder Services (formerly RiskMetrics) and I/B/E/S datasets, respectively. I start from 2000 because RavenPack start its coverage in that year. I impose the following restrictions on the data. First, I remove the duplicates data. Second, I exclude financial firms (SIC codes 6000-6999) and utility industries (SIC codes 4000-4999) because their financial reporting and capital structure are different from those of other firms. Third, I remove missing observations for my independent, dependent and control variables in main regression analyses. Fourth, my tests

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[1] Prior accounting and finance literature have used RavenPack dataset (e.g., Drake et al., 2014; Dai et al., 2015; Dang et al., 2015; Twedt, 2016).
[2] RavenPack creates a sentiment score for each given story, named the composite sentiment score (CSS). It ranges from 0 to 100. CSS=50 indicates neutral sentiment; CSS>50 indicates positive sentiment; CSS<50 indicates negative sentiment.
[3] I follow De Franco et al. (2011) and eliminate holding firms. As I only focus on firms domiciled in the United States, I remove ADRs and limited partnerships. Specifically, if the word Holding, Group, ADR, or LP (and associated variations of these words) appear in the firm name on Compustat, the firm is removed.

require that all independent variables are lagged one period, leaving a final sample of 36,242 firm-year observations (4,720 unique U.S. firms) over the period 2001 to 2016. Finally, I winsorize all continuous variables at the one percent level in order to mitigate the effect of outliers. Sample sizes vary across different tests and are noted in the tables. Table 1 summarizes the sample selection process.

[Insert Table 1 here]

Table 2, Panel A reports the observations of media news among each two-digit SIC industry. About 27 % of the observations are within the top three industries, Business Services, Electronic Equipment, and Pharmaceutical Products. These three industries represent also the high-tech industries, according to the classification of Loughran and Ritter (2004).

[Insert Table 2 here]

3.2 Variable Measurements

3.2.1. Construction of Media coverage measure

To capture a company's media coverage, I collect news story analytics from RavenPack dataset, which designates a relevance score for each news article varying from 0 (low relevance) to 100 (high relevance). I follow previous literature (e.g., Drake et al., 2014; Dai et al., 2015) and focus only on news articles with a relevance score equal to 100, which means that the firm is significantly relevant to the news article involved. Then, I use my first proxy of media coverage as a continuous variable (NEWS) and computed as the natural logarithm of one plus the number of news articles. Further, I set the value of NEWS to zero for firm-years without any news coverage in RavenPack dataset.

3.2.2. Measurement of Accounting Conditional Conservatism

I follow Khan and Watts (2009)[4] to estimate my main measure of conditional conservatism, which is the firm-specific asymmetric timeliness score (C-score). Specifically, I first use the following annual cross-sectional Fama MacBeth regression to estimate C-score and G-score:

$$X_{it} / MV_{it-1} = \beta_0 + \beta_1 D_{it} + R_{it} (\mu_0 + \mu_1 Size_{it} + \mu_2 MTB_{it} + \mu_3 LEV_{it}) + D_{it}*R_{it} (\lambda_0 + \lambda_1 Size_{it}$$

$$+ \lambda_2 MTB_{it} + \lambda_3 LEV_{it}) + (\delta_1 Size_{it} + \delta_2 MTB_{it} + \delta_3 LEV_{it} + \delta_4 D_{it}*Size_{it} + \delta_5 D_{it}*MTB_{it} + \delta_6$$

$$D_{it}*LEV_{it}) + \varepsilon_{it} \tag{3}$$

Where X_{it} / MV_{it-1} is net income before extraordinary items (Compustat #18), scaled by lagged market value of equity (Compustat #125*Compustat #199); R_{it} is the annual stock return of the firm, measured compounding twelve monthly CRSP stock returns ending three months after the fiscal year-end t; D_{it} is a dummy variable that equals to 1 if returns are negative, and 0 otherwise; *Size* is the natural log of market value of equity (Compustat # 25 * Compustat # 199); *MTB* is the market-to-book ratio [(Compustat # 25* Compustat # 199) / Compustat # 60]; *LEV* is leverage, measured as the sum of long-term and short-term debt (Compustat # 9 + Compustat #34) scaled by the total numbers of assets (Compustat # 6). Then, I calculate *C-score* for each firm-year as follows:

$$C\text{-}score = \lambda_0 + \lambda_1 Size_{it} + \lambda_2 MTB_{it} + \lambda_3 LEV_{it} \tag{4}$$

Where *C-score* reflects the incremental timeliness of bad news. A higher C-score indicates a greater level of accounting conservatism in a given year.

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[4] More detail on this measure is provided in section 2.1.2.6.

Chapter 4. Research Design

To test the effect of media coverage on accounting conservatism, I estimate the following regression model:

$$AC_{i,} = \beta_0 + \beta_1\ NEWS_{i,t-1} + \beta_2\ SG_{it-1} + \beta_3\ RADA_{i,t-1} + \beta_4\ INVCYCLE_{i,t-1} +$$

$$\beta_5\ ROA_{i,t-1} + \beta_6\ PMC_{i,t-1} + \beta_7\ BIG4_{i,t-1} + \beta_8\ LITIG_{i,t-1}$$

$$+\ Industry\ Fixed\ Effect + Year\ Fixed\ Effect + \varepsilon_i \qquad (7)$$

Where i stands for firm, t stands for year, and ε is the error term. AC is the dependent variable, measuring accounting conservatism. Following Khan and Watts (2009), I use a firm-year specific measure C-score. The variable of interest in Equation (7) is NEWS, which is my measure of media coverage that reflects the public attention the firm has been drawing. It is a continuous variable, computed as the natural logarithm of one plus the number of news articles.

According to H1, I expect the coefficient on NEWS, β_1, to be positive, suggesting that media coverage plays a governance, and according to H2, I predict the coefficient to be negative., implying that media serves a pressure role. I measure media coverage with a one-year lag relative to the accounting conservatism measure to mitigate the reverse causality issue.

In Model (7), I control for numerous factors[5] considered to be related with accounting conservatism in prior studies: Controls = {SG, RADA, INVCYCLE, ROA, PMC, BIG4, LITIG}. I follow Ahmed and Duelleman (2007) and Kong et al. (2017) and control for sales growth (SG), which is computed as the percentage of annual growth in total sales, and the sum of research and development and advertising expenditures deflated by total assets (RADA)[6].

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[5] The Cscore measure is computed according to firm characteristics such as size, leverage, and MTB. That is why I did not control for size in my regression of Cscore on media coverage otherwise the relation becomes mechanical and the adjusted R2 will increase.

[6] I set missing R&D expenditures and advertising expenses to zero instead of eliminating the observation.

The association between growth opportunities and accounting conservatism may be positive or negative. While Ball et al. (2013) argue that growth options decrease conditional conservatism, LaFond and Watts (2008) advocate that growth options may drive higher information asymmetry and therefore increase the demand for accounting conservatism. I also include a proxy for the investment cycle length (INVCYCLE). Prior studies show a positive association between conditional conservatism and investment cycle length, as a proxy for agency costs (Khan and Watts, 2009). I include (ROA), measured as earnings scaled by total assets to control for the impact of firm performance, as Ahmed et al. (2002) argue that high profitable firms are more conservative. Following Dhaliwal et al. (2014), I include, PMC, as a proxy for product market competition as they argue that product market competition may induce firms to increase accounting conservatism. Additionally, I control for the auditor litigation risk (BIG4). Basu (1997) provides evidence that earnings are more conservative in periods where auditors' legal liability increases. I further add litigation risk (LITIG) seeing that firms bearing higher litigation risk are more likely to be conservative in order to mitigate such risk. I follow LaFond and Watts (2008) and use a dummy variable that equals one if the company pertains to high litigation industry (SIC codes 2833–2836, 3570–3577, 3600–3674, 5200–5961 and 7370–7374), and zero otherwise. I include year and industry fixed effects in my model. All the standard errors are clustered by firm and year (Petersen, 2009). Detailed definitions of these variables are presented in Appendix A.

Next, I consider the effect of external governance monitoring on the relation media coverage-accounting conservatism. As strong monitoring is likely to alleviate (exacerbate) the negative (positive) relation between media coverage and accounting conservatism, I further conduct several cross-sectional tests with certain characteristics that capture the strength of internal and external monitoring from other stakeholders.

For internal mechanism of governance, I use the board size, the board independence, the CEO duality and the E-index. For external mechanism of monitoring, I use the analyst following and the independent audit committee. A detailed definition of these variables is included in the Appendix A. To do so, I split my sample into subsamples according to the above governance variables and re-estimate the model (7) for each individual sub-sample.

Chapter 5. Empirical results and robustness analyses

5.1. Summary Statistics

Table 3 reports the summary statistics for the variables used in the empirical analysis. The mean value of CSCORE is 0.238, consistent with previous literature. The mean value of media coverage is 2.750, indicating that there are on average 15 news articles about one firm over the year. Regarding the controls variables, their statistics are comparable to those reported by Ahmed and Duelleman (2007), LaFond and Roychowdhury (2008), and Kong et al. (2017). The average firm size in my sample is 5.902. The mean value of sales growth is about 14%. On average, research and development and advertising expenditures account for 7.40 percent of total assets, and firm leverage is about 0.171. The average firm in my sample belongs to an industry with mean PMC value of -0.105 and a median value of -0.081, consistent with the findings of Dhaliwal et al. (2014). The variable *RET* has a right-skewed distribution—the mean value of RET of 0.157 is higher than the median value of 0.054. Although, the mean of net income scaled by beginning of fiscal year market value of equity (EARN) is negative (-0.029), the median of this variable is positive (0.034), revealing left skewness of earnings, consistent with Basu (1995) and Ball et al. (2000). About 75,8% of my sample firms are audited by Big4 auditors and 40,3% of observations are in a litigious industry (LITIG).

[Insert Table 3 here]

Table 4 provides the Pearson correlations among the accounting conservatism measure, media coverage, and control variables. The significant negative correlation (-0.359) between Lagged NEWS and CSCORE suggests that firms followed by high media coverage exhibit less accounting conservatism. This provides univariant evidence indicating that firms with wider

media coverage are less likely to report conservative earnings. The results are consistent with the pressure role of the media.

[Insert Table 4 here]

5.2. Regression Results

Table 5 presents the estimation results of the equation (7). I find evidence consistent with H2. The negative coefficient on NEWS (coefficient = -0.017, t-value = -8.775) indicates that firms with high media coverage exhibit less conditional accounting conservatism, after controlling for firm characteristics.

[Insert Table 5 here]

The coefficients on control variables are generally consistent with prior literature (e.g., Ahmed and Duelleman, 2007; LaFond and Roychowdhury, 2008; Kong et al., 2017).

Panel A of Table 6 shows that negative effect of media coverage on accounting conservatism is stronger for the sub-sample of low analyst following. Panel B shows that the relation between media and conservatism is intensified for firms with high E-index (i.e., firms with weak governance). Panel C and D show a similar result for the sub-samples of low board independence and small board size, respectively. Panel E indicates that negative association between media and conservatism is stronger for firms where the CEO is also serving as Chairman of the Board. Finally, Panel F shows that this negative effect is also accentuated for the sub-sample of non-independent audit committee. Taken together, the results provide consistent evidence that negative relation between media coverage and accounting conservatism exacerbates for firms with weak corporate governance monitoring. Therefore, these findings confirm my main results with regard to the pressure role played by media coverage in accounting conservatism, suggesting that the pressure role exerted by media in

conservative financial reporting is accentuated when other controlling mechanisms are weak and ineffective.

[Insert Table 6 here]

Overall, the combined evidence reported in Table 5 and 6 suggest that media has a pressure role in firm accounting conservatism, and this role is stronger in firms with weak corporate governance mechanisms.

5.3. Robustness tests

I conduct several additional analyses to ensure the result presented above is robust. The results are presented in Table 7. For the sake of brevity, I only report the coefficient of media coverage. First, I test the economic significance to assess the association between media coverage and accounting conservatism. Second, I use alternative news coverage measures and samples. Third, I use alternative accounting conservatism measures. Finally, I use other model specifications

5.3.1. Economic Significance

To test the economic impact of media coverage on accounting conservatism, media coverage and accounting conservatism, I use the decile rank (from 1 to 10) of every independent variable in equation (7) in each year. Then, I re-estimate the model. Results are presented in Panel A of Table 7. The magnitude of the coefficient reveals that shifting from the 1st to the 10th decile of media coverage reduces CSCORE by $0.0327*(10-1) = 0.2943$, which is a change equivalent to 123,65% of the sample mean.

Therefore, the results corroborate with the main findings that the negative relation between media coverage and accounting conservatism is both statistically economically significant.

[Insert Table 7 here]

Then, rather than using a continuous media coverage variable (NEWS), I use DMEDIA as a binary variable that equals one if the firm is reported in at least one news article, and zero otherwise. I then re-estimate Equation (7) with DMEDIA as my independent variable. The controls variables are same used in Equation (7). The first row of Panel B in Table 7 provides the results. The coefficient on DMEDIA is negative and significant at the 1 percent level (coefficient = -0.033, t-value = -5.713). This result confirms my finding in the baseline repression that firms followed by high media coverage are less conservative, which reflects the pressure role played by media.

Second, I delimit my sample to firms that are only covered by RavenPack dataset and use the log transformation of number of news articles in the database. This is to ensure that my results are not due to the difference between firms that are covered by RavenPack and those are not covered. The second row of Panel B in Table 7 provides the results. The coefficient on NEWS is negative and significant at the 1 percent level (coefficient = -0.033, t-value = -10.03). The results confirm my main results, indicating that media coverage is negatively associated with accounting conservatism.

5.3.3. Alternative accounting conservatism proxies

To further ensure the robustness of my main regression about the relation between media coverage and conditional conservatism, I use another measure of conditional conservatism widely employed in prior research, Non-Operating Accruals (NOA) averaged over a 3-year and 5-year period and multiplied by negative one so positive values reveal greater conservatism (e.g., Givoly and Hayn, 2000; Ahmed and Duellman, 2007; Beatty et al., 2008). It is measured

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as the difference between total accruals and operating accruals[7]. Qiang (2007) argues that non-operating accruals stem from conditional conservatism. The results are provided by Panel C of Table 7. When non-operating accruals are cumulated over 3 years (row1), the coefficient on NEWS is negatively significant at the 1 percent level (coefficient = -0.003, t-value = -3.164). This result is also the same when non-operating accruals are cumulated over 5 years (row2) (coefficient = -0.032, t-value = -2.830). Taken together, these results corroborate with my main findings about media coverage and conservatism in Table 5.

5.3.4. Other model specifications

The underlying premise of my predictions is that accounting conservatism is affected by media coverage, and not vice versa. In this section, although there is no theoretical argument to explain why firms that are conservative in reporting are followed by high media coverage, I investigate the direction of the causal relationship.

First, I run changes analysis. I replace all the independent and control variables in model (7) by their first differences. The results are reported in the first row of Panel D in Table 7. Specifically, I find a significant negative association between ΔNEWS and ΔCSCORE (coefficient = -0.002, t-value = -2.147). This result reflects a negative relation between changes in media coverage and changes in accounting conservatism, which in turn, supports that media coverage lead to lower levels of accounting conservatism rather than the opposite way.

Second, I include firm fixed effects rather than the industry fixed effects in Equation (7). Row 2 of Panel D in Table 7 reports the results. They show a negative and significant relation between media coverage and accounting conservatism (coefficient = -0.004, t-value= -5.739). This is consistent with my previous findings, suggesting that any firm fixed effect

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[7] Operating accruals = ΔInventory + ΔDebtors + ΔOther current assets - ΔCreditors - ΔOther current liabilities

missed in the model (7) is not driving my main results on the association between media coverage and accounting conservatism.

Third, I add a set of control variables in my main regression. Specifically, these variables are: the analyst following, the Entrenchment index, the board independence, the board size, the CEO duality, and the independent audit committee. Analyst following is the number of analyst following a firm in a given year. The Entrenchment index is the E-index of 6 governance provisions as calculated in Bebchuk et al. (2009). The board independence is the proportion of independent directors on the board. The board size is the log of number of directors on the board. The CEO duality is dummy variable that equals to one if the positions of CEO and chairman of the board are occupied by are the same person, and zero otherwise. The independent audit committee is a dichotomous variable set to 1 if the audit committee is completely independent, and 0 otherwise. The results are included in row 3 of Panel D in Table 7. They show that the coefficient on the NEWS is -0.011 (t-stat=-2.173), indicating that the association between media coverage and accounting conservatism is not driven by analyst following and corporate governance variables.

5.3.5. Alternative conditional conservatism measure: Basu's (1997) model

To ensure the robustness of my findings, I repeat my tests utilizing the Basu (1997) model to measure accounting conservatism as follows:

$$NI_{i,t} = \beta_0 + \beta_1 D_{i,t} + \beta_2 Ret_{i,t} + \beta_3 D_{i,t} * Ret_{i,t} + \beta_4 NEWS_{i,t-1} + \beta_5 NEWS_{i,t-1} * D_{i,t} +$$

$$\beta_6 NEWS_{i,t-1} * Ret_{i,t} + \beta_7 NEWS_{i,t-1} * D_{i,t} * Ret_{ti,t} + \beta_8 X_{i,t-1} + \beta_9 X_{i,t-1} * D_{i,t} +$$

$$\beta_{10} X_{i,t-1} * Ret_{i,t} + \beta_{11} X_{i,t-1} * D_{i,t} * Ret_{i,t} + Year\ Fixed\ Effect + Industry\ Fixed$$

$$Effect + Error \qquad (9)$$

Where $NI_{i,t}$ is net income before extraordinary items (Compustat #18), scaled by lagged market value of equity (Compustat #125*Compustat #199); $Ret_{i,t}$ is the annual stock return of

the firm, measured compounding twelve monthly CRSP stock returns ending three months after the fiscal year-end t; D_{it} is a dummy variable that equals to 1 if returns are negative, and 0 otherwise; $NEWS_{i,t-1}$ is the media coverage measure. I include the following control variables in the model: X={SIZE, MB, LEV, LITIG}. *Size* is the natural log of market value of equity (Compustat # 25 * Compustat # 199); *MTB* is the market-to-book ratio [(Compustat # 25* Compustat # 199) / Compustat # 60]; *LEV* is leverage, measured as the sum of long-term and short-term debt (Compustat # 9 + Compustat #34) scaled by the total numbers of assets (Compustat # 6). LITIG is the firm litigation risk. All variables are defined with detain in the Appendix A. I also control for year and industry fixed effects.

In this regression, I pay attention to the coefficient on the three interaction terms $NEWS_{i,t-1} * D_{i,t} * Ret_{i,t}$ (β_7). It measures the effect of media coverage on the incremental timeliness of earnings with respect to bad news. Table 8 provides the results. They show that the coefficient $\beta7$ is negatively significant (coefficient = -0.021, t-value = -2.795). Overall, I find consistent evidence that companies report less conservatively when they are followed by wider media coverage. The robustness of the phenomenon provides additional evidence that earnings reflect economic losses in a less timely fashion when media coverage is high and supports H2.

[Insert Table 8 here]

The purpose of this section is to examine the possible association between media coverage and unconditional conservatism. I conduct additional analysis by using the book-to-market (Beaver and Ryan, 2000) as a proxy for unconditional conservatism. Beaver and Ryan (2000) decompose the BTM ratio into two components - the bias component and the lag component. They argue that the bias component of BTM should be interpreted as a measure of accounting

conservatism. To do so, they regress BTM on a series of lagged stock returns, leading up to six lagged years, as follows:

$$BTM_{it} = \alpha_t + \alpha_i + \sum_{j=0}^{6} Bj \; ROE_{i, t-j} + \varepsilon_{it} \qquad (10)$$

Where BTM_{it}: Book-to-Market (BTM) ratio of firm i, at the end of year t, α_t is the variation in the BTM from year to year common to the sample firms, α_i is the bias component of BTM for firm i, ROE_{t-j} is the Return on Equity (ROE) in each of the 6 years preceding year t. I include the same control variables in the model (7). Table 9 provides the results of replacing the CSCORE in equation (7) with BTM. I find that the coefficient on lagged NEWS is positive and significant at the 1 percent level (coefficient = 0.034, t-value = 4.919). This finding is consistent with prior research arguing that conditional and unconditional conservatism are negatively associated (Beaver and Ryan, 2005)

[Insert Table 9 here]

5.4. Media sentiment

To mitigate the endogeneity problem, I implement a sensitivity test on the impact of media sentiment variable SENTIMENT (which distinguishes positive from negative tone of media news) on accounting conservatism after controlling for media coverage. If my results are driven by the high pressure induced by media coverage, media sentiment will not be related to future accounting conservatism. The results are report in Table 10.

[Insert Table 10 here]

The sentiment is the composite sentiment score (CSS) extracted from RavenPack News Analytics dataset. CSS ranges from 0 to 100. CSS=50 represents neutral sentiment; CSS>50 represents positive sentiment; CSS<50 represents negative sentiment.

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I compute media sentiment as the average CSS for all media news articles released for each firm in each fiscal year, and then scaled by 100. I then re-estimate the model (7) by adding SENTIMENT in the regression. I find that the coefficient on SENTIMENT is not statistically significant (coefficient = -0.006, t-value = -1.187), whereas the coefficient on NEWS is still negative and significant at the level of 1 percent level (coefficient = -0.051, t-value = -19.82). This finding indicates that my main results regarding the negative impact of media coverage on accounting conservatism is not driven by endogeneity issues.

Chapter 6. Conclusion

In this study, I investigate the effect of media coverage on U.S. firms' accounting conservatism practices and examine the role of governance in shaping the relationship between media and accounting conservatism. On one hand, I predict that media coverage may increase accounting conservatism if it plays a governance role. On the other hand, I also conjecture that media may exert pressure role and decreases accounting conservatism.

Two main findings follow. First, I find that media coverage has a negative effect on accounting conservatism, consistent with my second hypothesis with regard the pressure role of media. Second, I find that the negative association between media coverage and accounting conservatism is stronger in firms with weak corporate governance mechanisms.

My prediction is based on the fact that media coverage is the mechanism causing accounting conservatism, and not vice versa. For this reason, I examine the causality issue and provide evidence that the change in media predicts changes in accounting conservatism, and not the opposite direction, indicating that media coverage causes accounting conservatism.

My findings are both economically and statistically significant. Also, they are robust to alternative media news coverage proxies and sample, different accounting conservatism measures, and alternative model specifications.

This study contributes to the literature by affording an additional explanation for the variation of accounting conservatism level across firms. I add to the literature on the drivers of accounting conservatism. Prior literature documents several factors that affect accounting conservatism, including contracting, litigation, taxation, and regulation (Watts, 2003). This study further adds to the media literature by proving the pressure role of media in accounting conservatism and adds to the debate with regard the role of the media in the U.S. capital

markets. I therefore contribute to the literature by providing evidence about the dark side of media coverage. My results have strong policy implications, given that investors and regulators need to be aware of potential negative market consequences when promoting media disclosure.

Appendices
Appendix A: Definition of Variables

Variable	Definition
Measures for Accounting Conservatism	
CSCORE	Firm-year measure of conditional accounting conservatism introduced by Khan and Watts (2009).
NI	Net income before extraordinary items scaled by market value of equity at the beginning of the fiscal year.
RET	The 12-month buy-and-hold return compounded from monthly returns beginning in the fourth month after the fiscal year-end.
NOA	Non-operating accruals, measured as the average over a 3-year and 5-year period and multiplied by negative one (Givoly and Hayn, 2000; Ahmed and Duellman, 2007)
UCC	Unconditional conservatism, measured using the book-to-market developed by Beaver and Ryan (2000)
Measures for Media Converge	
NEWS	News coverage, defined as the log of one plus the number of news articles for a firm year. I set the number of news articles to zero if there is no news information in RavenPack dataset for a firm-year.
DMEDIA	Dummy variable equal to one if the firm is reported in at least one news article, and zero otherwise.
Rank (NEWS)	The decile ranks of NEWS, which are assigned by year.
Control Variables	

SIZE	Firm size, defined as the natural log of market value of equity (Compustat # 25 * Compustat # 199).
LEV	Firm leverage, measured as the sum of long-term and short-term debt (Compustat # 9 + Compustat #34) scaled by the total numbers of assets (Compustat # 6).
MB	The market-to-book ratio [(Compustat # 25* Compustat # 199) / Compustat # 60];
SG	Sales growth, measured as the percentage of annual growth in total sales for the fiscal year (Ahmed and Duelleman, 2013; Kong et al., 2017).
RADA	The sum of R&D and advertising expenses scaled by total sales for a given fiscal year.
INVCYCLE	A measure of the length of the investment cycle, defined as the depreciation expense deflated by lagged assets.
ROA	Return on assets.
PMC	Product market competition, measured as (-1) times Herfindahl–Hirschman Index (Hj) computed as the sum of squared market shares of all firms on Compustat in an industry based on three-digit SIC code. Market share is calculated based on the ratio of firm i's sales to industry j's total sales.
LITIG	An indicator variable equal to one if the company operates in a high litigation industry (i.e., SIC codes 2833–2836, 3570–3577, 3600–3674, 5200–5961 and 7370–7374), and zero otherwise.
BIG4	1 if the auditor is a Big 4 firm for the current fiscal year and 0 otherwise.

All Other Variables

SENTI MENT   News sentiment, defined as the average event sentiment score across all the news articles for a firm-year. Since the event sentiment score ranges from 0 to 100, I divide the score by 100 for ease of interpretation.

Analyst   Analyst following, measured as the number of analyst following a firm in a given year.

E-index   The Entrenchment index composed of 6 governance provisions as calculated in Bebchuk et al. (2009).

Board independence   The proportion of independent directors on the board.

Board size   The log of number of directors on the board.

CEO duality   A dummy variable that equals to one if the positions of CEO and chairman of the board are occupied by are the same person, and zero otherwise.

Independent audit committee   A dichotomous variable set to 1 if the audit committee is completely independent, and 0 otherwise

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Table 1
Sample Selection

This table describes the sample selection of corporate tax avoidance news over the period from 2001 to 2016.

	Firm-year observations
Data from Compustat, CRSP, and RavenPack after deleting duplicates from 2000-2016	79,924
Less: financial firms (SIC codes 6000-6999) and utility industries (SIC codes 4000-4999)	(30,978)
Less: missing observations (including missing lagged variables)	(12,704)
Final sample from 2001-2016	36,242

Table 2

Panel A: Sample distribution by Industry following Fama and French (1997)

2-digit SIC	Industry Name	N of Observations	Percentage
24	Aircraft	265	0.73
1	Agriculture	149	0.41
23	Automobiles and Trucks	628	1.73
4	Beer & Liquor	182	0.50
17	Construction Materials	890	2.46
8	Printing and Publishing	266	0.73
39	Shipping Containers	118	0.33
34	Business Services	5,684	15.68
14	Chemicals	939	2.59
36	Electronic Equipment	3,209	8.85
10	Apparel	633	1.75
18	Construction	490	1.35
29	Coal	108	0.30
35	Computers	1,756	4.85
13	Pharmaceutical Products	3,126	8.63
22	Electrical Equipment	760	2.10
20	Fabricated Products	115	0.32
2	Food Products	805	2.22
7	Entertainment	549	1.51
27	Precious Metals	78	0.22
26	Defense	114	0.31
11	Healthcare	844	2.33
9	Consumer Goods	581	1.60
37	Measuring and Control Equipment	1,143	3.15
21	Machinery	1,65	4.55
43	Restaraunts, Hotels, Motels	763	2.11
12	Medical Equipment	1,751	4.83
28	Non-Metallic and Industrial Metal Mining	178	0.49
30	Petroleum and Natural Gas	2,017	5.57
38	Business Supplies	541	1.49
33	Personal Services	529	1.46
42	Retail	2,345	6.47
15	Rubber and Plastic Products	313	0.86
25	Shipbuilding, Railroad Equipment	127	0.35
5	Tobacco Products	33	0.09
3	Candy & Soda	90	0.25
19	Steel Works Etc	508	1.40
6	Recreation	321	0.89
16	Textiles	132	0.36
41	Wholesale	1,512	4.17
Total		**36,242**	**100**

Panel B: Sample distribution by Year

Year	N of Observations	Percentage
2001	2,924	8.07
2002	2,925	8.07
2003	2,756	7.60
2004	2,643	7.29
2005	2,503	6.91
2006	2,452	6.77
2007	2,344	6.47
2008	2,222	6.13
2009	2,208	6.09
2010	2,086	5.76
2011	2,006	5.54
2012	1,964	5.42
2013	1,913	5.28
2014	1,894	5.23
2015	1,840	5.08
2016	1,562	4.31
Total	**36,242**	**100**

Table 3
Descriptive Statistics

This table presents the summary statistics and correlation matrix of the variables for the sample period 2001-2016. My initial sample consists of all firms in the Compustat database. I merge the sample with the news coverage data from RavenPack and stock returns data from CRSP. I require each firm–year observation to have non-missing values for the variables in the baseline analysis and I winsorize all variables at both the 1st and 99th percentiles. Variable definitions are provided in Appendix A.

	Mean	S.D.	25%	Median	75%
$CSCORE_t$	0.238	0.123	0.158	0.233	0.315
$NEWS_{t-1}$	2.750	2.091	0.000	2.944	4.522
SG_{t-1}	14.938	47.563	-3.273	7.391	21.132
$RADA_{t-1}$	0.074	0.112	0.000	0.030	0.099
$INVCYCLE_{t-1}$	0.047	0.034	0.026	0.040	0.059
ROA_{t-1}	-0.031	0.222	-0.043	0.033	0.077
PMC_{t-1}	-0.105	0.079	-0.114	-0.081	-0.062
$SIZE_{t-1}$	5.902	1.979	4.434	5.824	7.279
LEV_{t-1}	0.171	0.172	0.003	0.130	0.287
MB_{t-1}	3.061	3.152	1.267	2.092	3.584
$LITIG_{t-1}$	0.403	0.491	0.000	0.000	1.000
NI_t	-0.029	0.210	-0.050	0.034	0.066
RET_t	0.157	0.652	-0.233	0.054	0.372
$BIG4_{t-1}$	0.758	0.428	1.000	1.000	1.000
Obs.	36,242	36,242	36,242	36,242	36,242

Table 4
Correlations (Pearson)

	CSCORE	NEWS	REG	RADA	INVCY	ROA	PMC	LITIG	BIG4	SIZE	LEV	MB
CSCORE	1.000											
NEWS	-0.359***	1.000										
	0.000											
REG	0.222***	-0.241***	1.000									
	0.000	0.000										
RADA	-0.092***	-0.082***	0.380***	1.000								
	0.000	0.000	0.000									
INVCY	0.077***	-0.071***	-0.006	-0.038***	1.000							
	0.000	0.000	0.252	0.000								
ROA	-0.173***	0.231***	-0.435***	-0.559***	-0.052***	1.000						
	0.000	0.000	0.000	0.000	0.000							
PMC	0.021***	-0.050***	0.093***	0.082***	-0.003	-0.056***	1.000					
	0.000	0.000	0.000	0.000	0.506	0.000						
LITIG	-0.148***	0.005	0.240***	0.382***	0.017***	-0.182***	0.155***	1.000				
	0.000	0.281	0.000	0.000	0.000	0.000	0.000					

BIG4	-0.3064**	0.144***	-0.294***	0.005	0.019***	0.102***	0.032***	0.026***	1.000			
	0.000	0.000	0.000	0.310	0.000	0.000	0.000	0.000				
SIZE	-0.483***	0.454***	-0.538***	-0.314***	-0.009	0.367***	-0.096***	-0.114***	0.477***	1.000		
	0.000	0.000	0.000	0.000	0.066	0.000	0.000	0.000	0.000			
Lev	0.459***	0.027***	-0.190***	-0.267***	0.089***	0.061***	-0.070***	-0.245***	0.101***	0.332***	1.000	
	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000		
MB	-0.332***	0.102***	0.093***	0.281***	0.014***	-0.106***	0.000	0.127***	0.055***	-0.002	0.021***	1.000
	0.000	0.000	0.000	0.000	0.005	0.000	0.937	0.000	0.000	0.642	0.000	

*** indicate two-tail significance at 1% level, Appendix A contains the variable definitions

Table 5
Media coverage and Accounting Conservatism (CSCORE)

This table presents the results of baseline regression analysis on the relation between accounting conservatism and news coverage for the sample period 2001-2016. My sample consists of all firms in the Compustat database, news coverage data from RavenPack and stock returns data from CRSP. All continuous variables are winsorized at the 1% level. The regressions are performed by ordinary least squares, with the t-statistics (in parentheses) computed using standard errors robust to both clustering at the firm and year levels. Constant, industry fixed effects based on two-digit SIC codes following Fama and French (1997) and year fixed effects are included. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Appendix A.

Dependent Variable :	$CSCORE_t$	
	Coef.	_t-stat_
$NEWS_{t-1}$	-0.0176**	(-8.775)
SG_{t-1}	-6.20e-05***	(-3.003)
$RADA_{t-1}$	-0.187***	(-10.93)
$INVCYCLE_{t-1}$	0.168***	(2.760)
ROA_{t-1}	-0.107***	(-10.22)
PMC_{t-1}	0.005	(0.207)
$BIG4_{t-1}$	-0.072***	(-23.05)
$LITIG_{t-1}$	-0.030***	(-4.979)
Intercept	0.300***	(12.11)
Year Fixed Effect	YES	
Industry Fixed Effect	YES	
Obs.	36,242	
Adj. R^2	0.293	

Table 6
Regressions of Accounting Conservatism on Media Coverage: Cross-Sectional Analyses

This table presents the results of cross-sectional hypotheses on the relation between accounting conservatism and media coverage for the sample period 2001-2016. My sample consists of all firms in the Compustat database, news coverage data from RavenPack and stock returns data from CRSP. All continuous variables are winsorized at the 1% level. The regressions are performed by ordinary least squares, with the t-statistics (in parentheses) computed using standard errors robust to both clustering at the firm and year levels. All the control variables, constant, industry fixed effects based on two-digit SIC codes following Fama and French (1997) and year fixed effects are included. For the sake of brevity, I only report the coefficient of news coverage. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Appendix A.

Dependent Variable:	$CSCORE_t$		
	Coefficient of News $_{t-1}$		Chow Test
	(t-stat)		
(A) Subsamples by analyst following	High	Low	
	-0.008***	-0.012***	15.74***
	(-6.999)	(-8.446)	
(B) Subsamples by Entrenchment index	High	Low	
	-0.020***	-0.010***	9.80***
	(-6.774)	(-4.190)	
(C) Subsamples by board independence	High	Low	
	-0.017***	-0.024***	18.20***
	(-3.794)	(-6.880)	
(D) Subsamples by board size	High	Low	
	-0.019***	-0.021***	19.03***
	(-5.411)	(-5.238)	
(E) Subsamples by CEO duality	Yes	No	
	-0.024***	-0.019***	26.12***
	(-5.312)	(-5.581)	
(F) Subsamples by independent audit committee	Yes	No	
	-0.018**	-0.021***	14.73***
	(-2.182)	(-6.151)	

Table 7
Regressions of Accounting Conservatism on Media Coverage: Robustness Checks

This table presents the results of robustness checks on the relation between accounting conservatism and media coverage for the sample period 2001-2016. My sample consists of all firms in the Compustat database, news coverage data from RavenPack and stock returns data from CRSP. All continuous variables are winsorized at the 1% level. The regressions are performed by ordinary least squares, with the t-statistics (in parentheses) computed using standard errors robust to both clustering at the firm and year levels. All the control variables, constant, industry fixed effects based on two-digit SIC codes following Fama and French (1997) and year fixed effects are included. For the sake of brevity, I only report the coefficient of media coverage. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Appendix A and detailed results are reported in Appendix B.

Dependent variable	CSCORE$_t$	
	Coefficient of NEWS$_{t-1}$	*t-stat*
Panel A. Economic significance		
(1) Decile ranking of independent variables	-0.032***	(-31.49)
Panel B. Alternative news coverage measures and samples		
(1) News coverage dummy	-0.033***	(-5.713)
(2) Subsample with news coverage data	-0.033***	(-10.03)
Panel C. Alternative accounting conservatism measures		
(1) NOA over 3 years	-0.003***	(-3.164)
(2) NOA over 5 years	-0.032***	(-2.830)
Panel D. Alternative specifications		
(1) Changes analysis	-0.002**	(-2.147)
(2) Firm Fixed Effect	-0.004***	(-5.739)
(3) Regression with additional controls	-0.011**	(-2.173)

Table 8
Media coverage and Timely Recognition of Losses (Basu's 1997 Model)

This table tests the effect of media coverage on conditional accounting conservatism using Basu's (1997) model. NEWS is a proxy for media coverage, defined as the logarithm of one plus the number of news articles for a given firm-year. The standard errors are corrected by clustering on firm and year. Appendix A contains the variable definitions. ***, **and*indicate significance of two-sided t-value at the 0.01, 0.05 and 0.10 levels, respectively.

VARIABLES	Coef.	t-stat
Intercept	-0.145***	(-5.090)
$NEWS_{t-1}$	0.009***	(3.297)
$SIZE_{t-1}$	0.011***	(6.372)
MB_{t-1}	0.001*	(1.866)
LEV_{t-1}	-0.056***	(-3.787)
$LITIG_{t-1}$	-0.019*	(-1.927)
D_t	-0.010	(-0.648)
$D_t * NEWS_{t-1}$	-0.001	(-0.757)
$D_t * SIZE_{t-1}$	0.003	(1.642)
$D_t * MB_{t-1}$	-0.0002	(-0.190)
$D_t * LEV_{t-1}$	-0.003	(-0.138)
$D_t * LITIG_{t-1}$	-0.016***	(-3.461)
RET_t	-0.031	(-1.172)
$RET_t * NEWS_{t-1}$	0.001	(0.490)
$RET_t * SIZE_{t-1}$	0.003	(0.839)
$RET_t * MB_{t-1}$	0.003	(1.395)
$RET_t * LEV_{t-1}$	0.007	(0.231)
$RET_t *LITIG_{t-1}$	-0.028***	(-2.715)
$D*RET_t$	0.535***	(10.34)
$D_t * RET_t * NEWS_{t-1}$	**-0.021***	**(-2.795)**

$D_t * RET_t * SIZE_{t-1}$	-0.016		(-1.462)
$D_t * RET_t * MB_{t-1}$	-0.038***		(-9.799)
$D_t * RET_t * LEV_{t-1}$	0.202**		(2.485)
$D_t * RET_t * LITIG_{t-1}$	0.012		(0.604)
Year Fixed Effect		Yes	
Industry Fixed Effect		Yes	
Obs.		36,242	
Adj. R^2		0.222	

Table 9
Media coverage and Unconditional Accounting Conservatism Score (UCC)

This table tests the effect of media coverage on unconditional accounting conservatism. BTM is the measure of unconditional conservatism according to Beaver and Ryan (2000). *NEWS* is the measure of media coverage, defined as the logarithm of one plus the number of news articles for a given firm-year. The standard errors are corrected by clustering on firm and year. Appendix A contains the variable definitions. ***, ** and * indicate significance of two-sided t-value at the 0.01, 0.05 and 0.10 levels, respectively.

Dependent variable	UCC= BTM_t	
VARIABLES	*Coef.*	*t-stat*
Intercept	-0.471***	(-4.002)
$NEWS_{t-1}$	0.034***	(4.919)
SG_{t-1}	0.0003***	(2.935)
$RADA_{t-1}$	1.028***	(14.73)
$INVCYCLE_{t-1}$	0.932***	(4.437)
ROA_{t-1}	0.061*	(1.896)
PMC_{t-1}	-0.080	(-0.750)
$LITIG_{t-1}$	0.026	(1.138)
$Big4_{t-1}$	0.126***	(9.198)
Year Fixed Effect	Yes	
Industry Fixed Effect	Yes	
Obs.	29,039	
Adj. R^2	0.191	

Table 10

Regressions of Accounting Conservatism on Media Coverage: The Effect of News Sentiment

This table presents the results of baseline regression analysis on the relation between accounting conservatism and news sentiment for the sample period 2001-2016. My sample consists of all firms in the Compustat database, news coverage data from RavenPack and stock returns data from CRSP. All continuous variables are winsorized at the 1% level. The regressions are performed by ordinary least squares, with the t-statistics (in parentheses) computed using standard errors robust to both clustering at the firm and year levels. Constant, industry fixed effects based on two-digit SIC codes following Fama and French (1997) and year fixed effects are included. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Appendix A.

VARIABLES		
	Coef.	_t-stat_
Intercept	0.501***	(14.89)
NEWS$_{t-1}$	**-0.051***	(-19.82)
SENTIMENT$_{t-1}$	**-0.006**	(-1.187)
_SG$_{t-1}$_	2.92e-05	(0.991)
RADA$_{t-1}$	-0.187***	(-6.560)
INVCYCLE$_{t-1}$	0.220**	(2.239)
ROA$_{t-1}$	-0.122***	(-6.097)
PMC$_{t-1}$	0.010	(0.249)
LITIG$_{t-1}$	-0.019**	(-2.177)
Big4$_{t-1}$	-0.047***	(-9.238)
Year Fixed Effect	Yes	
Industry Fixed Effect	Yes	
Obs.	8,818	
Adj. R^2	0.375	

Appendix B: Detailed Cross-Sectional Results of Table 6

Panel A. Subsamples by analyst following

This table presents the detailed results of cross-sectional analyses using variables that capture the strength of monitoring from other stakeholders. In this Panel A, I use subsamples by analyst following. My sample consists of all firms in the Compustat database, news coverage data from RavenPack and stock returns data from CRSP. All continuous variables are winsorized at the 1% level. The regressions are performed by ordinary least squares, with the t-statistics (in parentheses) computed using standard errors robust to both clustering at the firm and year levels. Constant, industry fixed effects based on two-digit SIC codes following Fama and French (1997) and year fixed effects are included. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Appendix A.

Dependent Variable :	CSCORE$_t$	
	Coefficient of News $_{t-1}$	
	(t-stat)	
	High	Low
NEWS$_{t-1}$	-0.008***	-0.0122***
	(-6.999)	(-8.446)
SG$_{t-1}$	-6.77e-06	6.06e-05*
	(-0.303)	(1.682)
RADA$_{t-1}$	-0.161***	-0.256***
	(-7.756)	(-7.642)
INVCYCLE$_{t-1}$	0.297***	0.275***
	(3.841)	(2.918)
ROA$_{t-1}$	-0.074***	-0.193***
	(-6.195)	(-10.92)
PMC$_{t-1}$	-0.003	0.0533
	(-0.115)	(1.180)
BIG4$_{t-1}$	-0.031***	-0.0260***
	(-6.530)	(-3.765)
LITIG$_{t-1}$	-0.031***	-0.0195*
	(-1.749)	(-1.794)
Intercept	0.353***	0.334***
	(7.546)	(8.872)
Year Fixed Effect	YES	
Industry Fixed Effect	YES	

Panel B. Subsamples by Entrenchment index

This table presents the detailed results of cross-sectional analyses using variables that capture the strength of monitoring from other stakeholders. In this Panel B, I use subsamples by Entrenchment index. My sample consists of all firms in the Compustat database, news coverage data from RavenPack and stock returns data from CRSP. All continuous variables are winsorized at the 1% level. The regressions are performed by ordinary least squares, with the t-statistics (in parentheses) computed using standard errors robust to both clustering at the firm and year levels. Constant, industry fixed effects based on two-digit SIC codes following Fama and French (1997) and year fixed effects are included. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Appendix A.

Dependent Variable :	CSCOREt	
	Coefficient of News $_{t-1}$ *(t-stat)*	
	High	Low
NEWSt-1	-0.020***	-0.0103***
	(-6.774)	(-4.190)
SGt-1	-0.0001**	1.10e-05
	(-2.194)	(0.144)
RADAt-1	-0.127***	-0.0981
	(-4.576)	(-1.539)
INVCYCLEt-1	0.130*	0.275*
	(1.893)	(1.860)
ROAt-1	-0.087***	-0.0839***
	(-7.025)	(-2.752)
PMCt-1	-0.083	0.112
	(-1.188)	(1.563)
BIG4t-1	-0.081***	-0.0976***
	(-10.10)	(-7.776)
LITIGt-1	-0.020*	-0.0128
	(-1.803)	(-0.624)
Intercept	0.217	0.529***
	(-1.008)	(81.42)
Year Fixed Effect	YES	
Industry Fixed Effect	YES	

Panel C. Subsamples by board independence

This table presents the detailed results of cross-sectional analyses using variables that capture the strength of monitoring from other stakeholders. In this Panel C, I use subsamples by board independence. My sample consists of all firms in the Compustat database, news coverage data from RavenPack and stock returns data from CRSP. All continuous variables are winsorized at the 1% level. The regressions are performed by ordinary least squares, with the t-statistics (in parentheses) computed using standard errors robust to both clustering at the firm and year levels. Constant, industry fixed effects based on two-digit SIC codes following Fama and French (1997) and year fixed effects are included. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Appendix A.

Dependent Variable :	CSCOREt	
	Coefficient of News $_{t-1}$ _(t-stat)_	
	High	Low
NEWSt-1	-0.017***	-0.0240***
	(-3.794)	(-6.880)
SGt-1	-9.75e-05	2.25e-05
	(-1.195)	(0.433)
RADAt-1	-0.066	-0.199***
	(-1.476)	(-3.348)
INVCYCLEt-1	0.108	0.107
	(0.530)	(0.510)
ROAt-1	-0.090***	-0.0818***
	(-3.133)	(-3.828)
PMCt-1	0.417***	0.194
	(3.192)	(1.559)
BIG4t-1	-0.094***	-0.0565***
	(-7.370)	(-4.369)
LITIGt-1	-0.045*	-0.0107
	(-1.782)	(-0.617)
Intercept	0.410***	0.430***
	(10.81)	(12.48)
Year Fixed Effect	YES	
Industry Fixed Effect	YES	

Panel D. Subsamples by board size

This table presents the detailed results of cross-sectional analyses using variables that capture the strength of monitoring from other stakeholders. In this Panel D, I use subsamples by board size. My sample consists of all firms in the Compustat database, news coverage data from RavenPack and stock returns data from CRSP. All continuous variables are winsorized at the 1% level. The regressions are performed by ordinary least squares, with the t-statistics (in parentheses) computed using standard errors robust to both clustering at the firm and year levels. Constant, industry fixed effects based on two-digit SIC codes following Fama and French (1997) and year fixed effects are included. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Appendix A.

Dependent Variable :	CSCOREt	
	Coefficient of News $_{t-1}$	
	(t-stat)	
	High	Low
NEWSt-1	-0.019***	-0.0214***
	(-5.411)	(-5.238)
SGt-1	2.39e-05	-0.000128
	(0.392)	(-1.289)
RADAt-1	-0.214***	0.00498
	(-3.751)	(0.0911)
INVCYCLEt-1	0.209	-0.00470
	(0.963)	(-0.0250)
ROAt-1	-0.111***	-0.0621**
	(-3.995)	(-2.070)
PMCt-1	0.341***	0.182
	(3.431)	(1.094)
BIG4t-1	-0.089***	-0.0590***
	(-6.158)	(-3.987)
LITIGt-1	-0.025	-0.0335
	(-1.122)	(-1.423)
Intercept	0.675***	0.508***
	(14.83)	(5.993)
Year Fixed Effect	YES	
Industry Fixed Effect	YES	

Panel E. Subsamples by CEO duality

This table presents the detailed results of cross-sectional analyses using variables that capture the strength of monitoring from other stakeholders. In this Panel E, I use subsamples by CEO duality. My sample consists of all firms in the Compustat database, news coverage data from RavenPack and stock returns data from CRSP. All continuous variables are winsorized at the 1% level. The regressions are performed by ordinary least squares, with the t-statistics (in parentheses) computed using standard errors robust to both clustering at the firm and year levels. Constant, industry fixed effects based on two-digit SIC codes following Fama and French (1997) and year fixed effects are included. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Appendix A.

Dependent Variable :	CSCORE$_t$	
	Coefficient of News $_{t-1}$	
	(t-stat)	
	Yes	No
NEWS$_{t-1}$	-0.024***	-0.0199***
	(-5.312)	(-5.581)
SG$_{t-1}$	6.12e-06	-5.75e-05
	(0.0932)	(-0.824)
RADA$_{t-1}$	-0.165**	-0.102**
	(-2.304)	(-2.418)
INVCYCLE$_{t-1}$	0.438*	0.0199
	(1.760)	(0.0972)
ROA$_{t-1}$	-0.115***	-0.0744***
	(-4.262)	(-2.879)
PMC$_{t-1}$	0.367	0.261*
	(1.577)	(1.906)
BIG4$_{t-1}$	-0.075***	-0.0711***
	(-4.731)	(-5.045)
LITIG$_{t-1}$	-0.035	-0.0274
	(-1.417)	(-1.255)
Intercept	0.367***	0.655***
	(4.800)	(7.250)
Year Fixed Effect	YES	
Industry Fixed Effect	YES	

Panel F. Subsamples by independent audit committee

This table presents the detailed results of cross-sectional analyses using variables that capture the strength of monitoring from other stakeholders. In this Panel F, I use subsamples by independent audit committee. My sample consists of all firms in the Compustat database, news coverage data from RavenPack and stock returns data from CRSP. All continuous variables are winsorized at the 1% level. The regressions are performed by ordinary least squares, with the t-statistics (in parentheses) computed using standard errors robust to both clustering at the firm and year levels. Constant, industry fixed effects based on two-digit SIC codes following Fama and French (1997) and year fixed effects are included. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Appendix A.

Dependent Variable :	CSCOREt	
	Coefficient of News $_{t-1}$ _(t-stat)_	
	Yes	No
NEWSt-1	-0.018**	-0.0216***
	(-2.182)	(-6.151)
SGt-1	0.0001	-6.22e-05
	(1.070)	(-1.090)
RADAt-1	-0.069	-0.140***
	(-0.931)	(-2.772)
INVCYCLEt-1	-0.727**	0.239
	(-2.512)	(1.319)
ROAt-1	-0.133***	-0.0868***
	(-4.135)	(-3.477)
PMCt-1	0.260	0.286**
	(1.501)	(2.484)
BIG4t-1	-0.101***	-0.0752***
	(-3.937)	(-6.785)
LITIGt-1	-0.057	-0.0235
	(-1.165)	(-1.377)
Intercept	0.254***	0.603***
	(3.822)	(5.354)
Year Fixed Effect	YES	
Industry Fixed Effect	YES	

Appendix C: Detailed Robustness Results of Table 7

Panel A: Economic significance

This table presents the detailed results of the economic significance of the impact of media coverage on accounting conservatism for the sample period 2001-2016. I use the decile-ranking of *NEWS*, and all continuous control variables ranging from 1 to 10. My sample consists of all firms in the Compustat database, news coverage data from RavenPack and stock returns data from CRSP. All continuous variables are winsorized at the 1% level. The regressions are performed by ordinary least squares, with the t-statistics (in parentheses) computed using standard errors robust to both clustering at the firm and year levels. Constant, industry fixed effects based on two-digit SIC codes following Fama and French (1997) and year fixed effects are included. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Appendix A.

Dependent Variable :	CSCOREt	
	Coef.	*t-stat*
Rank (NEWS)	-0.032***	(-31.49)
Rank (SG)	-0.001**	(-2.383)
Rank (RADA)	-0.001**	(-2.132)
Rank (INVCYCLE)	0.0003	(0.719)
Rank (ROA)	-0.012***	(-16.98)
Rank (PMC)	-0.001***	(-2.815)
BIG4t	-0.082**	(-25.95)
LITIGt	-0.006	(-1.199)
Intercept	0.422***	(13.71)
Year Fixed Effect	YES	
Industry Fixed Effect	YES	
Obs.	23,496	

Panel B: Alternative news coverage measures and samples

(1) News coverage dummy

This table presents the detailed results of the impact of media coverage on accounting conservatism using alternative news coverage measures and samples for the sample period 2001-2016. My sample consists of all firms in the Compustat database, news coverage data from RavenPack and stock returns data from CRSP. All continuous variables are winsorized at the 1% level. The regressions are performed by ordinary least squares, with the t-statistics (in parentheses) computed using standard errors robust to both clustering at the firm and year levels. Constant, industry fixed effects based on two-digit SIC codes following Fama and French (1997) and year fixed effects are included. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Appendix A.

Dependent Variable :	CSCORE$_t$	
	Coef.	*t-stat*
$DMEDIA_{t-1}$	-0.033***	(-5.713)
SG_{t-1}	-6.30e-05***	(-2.678)
$RADA_{t-1}$	-0.190***	(-10.63)
$INVCYCLE_{t-1}$	0.163**	(2.560)
ROA_{t-1}	-0.125***	(-9.898)
PMC_{t-1}	0.014	(0.558)
$BIG4_{t-1}$	-0.085***	(-28.13)
$LITIG_{t-1}$	-0.032***	(-5.086)
Intercept	0.260***	(4.938)
Year Fixed Effect	YES	
Industry Fixed Effect	YES	
Obs.	36,242	

Panel B: Alternative news coverage measures and samples

(2) <u>Subsample with news coverage data</u>

This table presents the detailed results of the impact of media coverage on accounting conservatism restricting my sample to only firms that are covered by RavenPack database for the period 2001-2016. My sample consists of all firms in the Compustat database, news coverage data from RavenPack and stock returns data from CRSP. All continuous variables are winsorized at the 1% level. The regressions are performed by ordinary least squares, with the t-statistics (in parentheses) computed using standard errors robust to both clustering at the firm and year levels. Constant, industry fixed effects based on two-digit SIC codes following Fama and French (1997) and year fixed effects are included. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Appendix A.

Dependent Variable :	CSCOREt	
	Coef.	*t-stat*
NEWSt-1	-0.033***	(-10.03)
SGt-1	-1.78e-05	(-0.910)
RADAt-1	-0.216***	(-11.67)
INVCYCLEt-1	0.200***	(2.923)
ROAt-1	-0.138***	(-12.08)
PMCt-1	-0.009	(-0.305)
BIG4t-1	-0.057***	(-13.97)
LITIGt-1	-0.024***	(-3.959)
Intercept	0.231***	(8.961)
Year Fixed Effect	YES	
Industry Fixed Effect	YES	
Obs.	27,364	

Panel C: Alternative accounting conservatism measures

(1) NOA over 3 years

This table presents the detailed results of the impact of media coverage on accounting conservatism using averaged cumulative non-operating accruals (NOA) over 3 years following Givoly and Hayn (2000). My sample consists of all firms in the Compustat database, news coverage data from RavenPack and stock returns data from CRSP. All continuous variables are winsorized at the 1% level. The regressions are performed by ordinary least squares, with the t-statistics (in parentheses) computed using standard errors robust to both clustering at the firm and year levels. Constant, industry fixed effects based on two-digit SIC codes following Fama and French (1997) and year fixed effects are included. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Appendix A.

Dependent Variable :	CSCOREt	
	Coef.	*t-stat*
NEWSt-1	-0.003***	(-3.164)
SGt-1	-0.0002***	(-10.83)
RADAt-1	-0.014	(-0.756)
INVCYCLEt-1	-0.007	(-0.154)
ROAt-1	0.092***	(4.137)
PMCt-1	-0.025	(-1.235)
BIG4t-1	-0.004	(-1.557)
LITIGt-1	-0.00691	(-1.635)
Intercept	0.026*	(1.746)
Year Fixed Effect	YES	
Industry Fixed Effect	YES	
Obs.	9,129	

Panel C: Alternative accounting conservatism measures

(2) <u>NOA over 5 years</u>

This table presents the detailed results of the impact of media coverage on accounting conservatism using averaged cumulative non-operating accruals (NOA) over 5 years following Givoly and Hayn (2000). My sample consists of all firms in the Compustat database, news coverage data from RavenPack and stock returns data from CRSP. All continuous variables are winsorized at the 1% level. The regressions are performed by ordinary least squares, with the t-statistics (in parentheses) computed using standard errors robust to both clustering at the firm and year levels. Constant, industry fixed effects based on two-digit SIC codes following Fama and French (1997) and year fixed effects are included. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Appendix A.

Dependent Variable :	CSCOREt	
	Coef.	*t-stat*
$NEWS_{t-1}$	-0.003***	(-2.830)
SG_{t-1}	-0.0002***	(-8.255)
$RADA_{t-1}$	-0.040**	(-2.224)
$INVCYCLE_{t-1}$	-0.013	(-0.279)
ROA_{t-1}	0.070***	(3.817)
PMC_{t-1}	-0.012	(-0.579)
$BIG4_{t-1}$	-0.006**	(-2.038)
$LITIG_{t-1}$	-0.005	(-1.296)
Intercept	0.036**	(2.280)
Year Fixed Effect	YES	
Industry Fixed Effect	YES	
Obs.	9,476	

Panel D Alternative specifications

    (1) Changes analysis

This table presents the detailed results of the impact of media coverage on accounting conservatism using changes analysis. My sample consists of all firms in the Compustat database, news coverage data from RavenPack and stock returns data from CRSP. All continuous variables are winsorized at the 1% level. The regressions are performed by ordinary least squares, with the t-statistics (in parentheses) computed using standard errors robust to both clustering at the firm and year levels. Constant, industry fixed effects based on two-digit SIC codes following Fama and French (1997) and year fixed effects are included. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Appendix A.

Dependent Variable :	ΔCSCORE	
	Coef.	*t-stat*
Δ NEWS	-0.002**	(-2.147)
Δ SG	-0.004***	(-4.146)
Δ RADA	-0.094***	(-5.443)
Δ INVCYCLE	0.240***	(3.797)
Δ ROA	-0.055***	(-11.93)
Δ PMC	-0.007	(-0.989)
Δ BIG4	0.0002	(0.411)
Δ LITIG	0.002*	(1.737)
Intercept	-0.002	(-0.147)
Year Fixed Effect	YES	
Industry Fixed Effect	YES	
Obs.	31,176	

Panel D Alternative specifications

   (2) Firm Fixed Effect

This table presents the detailed results of the impact of media coverage on accounting conservatism using firm fixed effect. My sample consists of all firms in the Compustat database, news coverage data from RavenPack and stock returns data from CRSP. All continuous variables are winsorized at the 1% level. The regressions are performed by ordinary least squares, with the t-statistics (in parentheses) computed using standard errors robust to both clustering at the firm and year levels. Constant, industry fixed effects based on two-digit SIC codes following Fama and French (1997) and year fixed effects are included. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Appendix A.

Dependent Variable :	CSCORE$_t$	
	Coef.	*t-stat*
NEWS$_{t-1}$	-0.004***	(-5.739)
SG$_{t-1}$	-3.77e-05***	(-3.041)
RADA$_{t-1}$	-0.073***	(-4.865)
INVCYCLE$_{t-1}$	0.053*	(1.687)
ROA$_{t-1}$	-0.048***	(-9.963)
PMC$_{t-1}$	-0.018	(-0.797)
BIG4$_{t-1}$	-0.002	(-0.865)
Intercept	0.274***	(67.38)
Year Fixed Effect	YES	
Firm Fixed Effect	YES	
Obs.	36,242	

Panel D Alternative specifications

(3) Regression with additional controls

This table presents the detailed results of the impact of media coverage on accounting conservatism including additional control variables. My sample consists of all firms in the Compustat database, news coverage data from RavenPack and stock returns data from CRSP. All continuous variables are winsorized at the 1% level. The regressions are performed by ordinary least squares, with the t-statistics (in parentheses) computed using standard errors robust to both clustering at the firm and year levels. Constant, industry fixed effects based on two-digit SIC codes following Fama and French (1997) and year fixed effects are included. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Appendix A.

Dependent Variable :	CSCOREt	
	Coef.	*t-stat*
NEWSt-1	-0.011**	(-2.173)
SGt-1	0.0003	(1.470)
RADAt-1	-0.033	(-0.378)
INVCYCLEt-1	0.582**	(2.433)
ROAt-1	-0.084	(-1.332)
PMCt-1	0.396	(1.418)
BIG4t-1	-0.077***	(-3.597)
LITIGt-1	0.102***	(3.131)
ANALYSTt-1	-0.004***	(-3.758)
E-indext-1	-0.015***	(-2.970)
Board independencet-1	-0.054	(-0.913)
Board sizet-1	0.022	(0.859)
CEO dualityt-1	-0.011	(-0.810)
Independent audit committee t-1	-0.013	(-0.386)
Intercept	0.274***	(67.38)
Year Fixed Effect	YES	
Firm Fixed Effect	YES	
Obs.	4,330	