Media Attention given to six CEO news types and its Influence on Consumer Evaluations

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As chief executive officers (CEO) often serve to be the essential face of a company, CEO behavior is increasingly tracked by many stakeholders including investors, consumers, and news media. For example, when media reported about CEO Steve Wynn being accused of sexual misconduct in 2018, the stock of Wynn Resorts Ltd. fell by 10% and another 9% in one day (Wall Street Journal, 2018). On the contrary, when media reported CEO Elon Musk's accomplishment of reporting net profits in its third quarter through Tesla announcements, the stock went up by 9% in afterhours trading. Similarly, media coverage of CEO behaviors significantly impact consumer perceptions. For example, when the media covered Chick-fil-A CEO Dan Cathy speaking out against same sex marriages in 2012, the company lost 15% of consumers after the reported political tweet (Mikeska and Harvey, 2015). Thus, mass media plays an important role in disseminating and molding public opinions about CEOs. Furthermore, the need for an analytical emphasis on media coverage of CEOs rather than CEO activities itself arises because corporate activities need to gain a critical minimum of media attention before they are perceived by investors or consumers.

However, not all types of CEO news covered by the media impact same way nor are they covered in the same tone and volume. This study focuses on the top six CEO related news type categories that have the highest frequency of occurrence in news media and have been frequently mentioned in prior literature, albeit with different labels (e.g. Park & Berger 2004). These categories, defined later, include CEO scandals (e.g., sexual harassments), CEO altruism (e.g., personal donations), CEO political ideology (e.g., running for office), CEO changes (e.g., retirements), CEO compensation (e.g., stories about salary increases), and CEO accomplishments (e.g., awards).

In order to explain the consequences of CEO behavior, the authors refer to signaling theory (*e.g.*, Connelly et. al 2011). Signaling theory stems from research in economics where signals can be used to communicate information that is not directly observable (*e.g.,* Dahlén, Rosengren, and Karsberg 2018). In the context of this study, CEO behavior may serve consumers with a signal of the commitment and brand ability to produce high quality services and products which may yield returns to shareholders.

We focus on brand attention and brand strength to conceptualize consumer perception. Conceptually, both brand performance dimensions relate to the consumer-based brand equity model (Keller 1993). To capture shareholder perception, we focus on stock return. Conceptually, we suggest that the effects of CEO behavior on stock return vary with the impact of CEO behavior on consumers.

As potential drivers, we include the valence of media (i.e., negative versus positive tone), and the intensity of media coverage (i.e. high or low). In addition, we control for a wide range of different control factors (e.g., CEO compensation, prior firm reputation, financial leverage, firm age, firm size, CEO tenure, CEO age, CEO gender) known to have a possible impact on the stock returns and customer perceptions along with year and industry dummies.

Empirically, we cover all the CEO-related news events that appeared in the 13 leading U.S. newspapers (e.g., New York Times), magazines (e.g., Forbes) and TV news shows (e.g., CNN news) during the years 2009 to 2019 using a rich dataset of 733 CEO related news events from 127 companies and 193 CEOs. We match this data with data covering customer perceptions dimensions (YouGov) and stock returns (Eventus) along with CEO and firm related databases (Compustat and Execucomp). To capture the effect of CEO related news events on stocks and consumers, we use to the methodology of an event study and a quasi-experimental design, respectively.

To best of our knowledge, this is the first study to simultaneously look at a variety of categories of CEO news and how they impact consumers and investors, thus making important theoretical and practical contributions. First, we use signaling theory (e.g., Connelly et. al 2011) to connect CEO related news to consumer and investor responses. While the media coverage of CEOs sends the same message via news to investors and customers that would otherwise not be observable, how this signal is differently interpreted by each entity, is explained by signaling theory. Second, we give specific guidance to CEOs about how the news of their behavior can influence consumer perceptions and have financial consequences on the stock markets, enabling CEOs to adjust their behavior. Additionally, we highlight what kind of behavior Public Relation (PR) departments should emphasize through the press, which may positively affect the image and the financial well-being of a company. Third, the study's results intend to help the board of directors who formulate regulations and keep a track of their CEO performance. Fourth, investors may benefit from our study results to better anticipate the future performance of their stocks. The study gives guidance to shareholders which CEO news type category is likely to significantly fluctuate stock prices. Finally, we demonstrate how and to what degree news media change the perception of consumers and investors, as the media coverage has lately been criticized for their bias in volume and valence of media content.

We find that news coverage about CEO altruism and CEO political ideology improve brand strength. Additionally, media stories about CEO accomplishments only impact brand strengths in a positive way if the media reports about these stories in a positive way. On the contrary, news coverage about CEO compensation, CEO changes, and CEO scandals harm brand strength. Also CEO changes cause negative brand strength effects, in particular, if many media outlets report about it. Media coverage about CEO changes may signal to consumers a change within the firm thus hinting a lower product or service quality. Even worse, CEO scandals such as fraud, human right violations, bribery and alike are no longer tolerated and have a strong negative impact on consumers. These scandals turn into a more severe crisis, if more media (volume) report about it. Contrary to consumers, we do not find media coverage of CEO altruism or CEO political ideologies to increase stock returns. Activities performed outside of the core business of firms may be perceived as misallocation of resources that could be better invested into the business itself. Additionally, stories about CEO compensations or CEO changes do not cause significant negative effects on investors. Investors may believe that high management salaries indicate financial well-being, which signals increasing future cash flows and better future firm performance. CEO changes are also seen as welcoming by investors as they perceive the well thought move to be for the greater good of the company. On top of that, contrary to consumer responses, we find that stories about CEO accomplishments do create positive investor responses. Many of the news stories about CEO accomplishments like achieving the pre-mentioned goals in the annual meetings or annual reports may be of stronger interest for investors, who are involved in these interactions, than consumers, who do not participate in these interactions. CEO scandals cause negative reactions and destroys the financial value of a firm on stock markets, a finding in line with how consumers respond.

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