

Slap or clap? Impact of controversial governance practice on media coverage

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Abstract

Purpose – This study aims to examine the impact of controversial governance practices on media coverage under a specific context. Based on the attribution theory, this study develops a theoretical framework to explore how antecedent factors can influence attribution process under a particular cultural context.

Design/methodology/approach – This paper presents a behavioral view of the media and corporate governance to demonstrate how media attributes different reasons for the same controversial governance practice in Chinese-specific context. Using 1,198 non-state-owned listed company observations in China as the study sample, cross-section data are used to build a multiple linear regression mode to test hypotheses.

Findings – The analysis indicates that the media imposes fewer penalties on founder-CEO firms than on non-founder-CEO firms for engaging in controversial governance practices, such as CEO compensation. CEO tenure negatively moderates the effect of CEO compensation on negative media coverage in non-founder-CEO firms. The positive media bias evidence for founder-CEO firms exists only when the firm is better performed.

Social implications – This study's contribution to the governance literature starts with its logical reasoning of basic assumptions in the agency theory, and that media penalty will arise when managers impose actions that against interests of shareholders or other stakeholders. This study shows that the rule is not always true. The findings also bridge the connection of governance literature and reputation literature to better explain how media can act as a social arbitration role.

Originality/value – This study provides insights into how belief and information of reputational evaluators affect attribution consequences on controversial governance practices. Moreover, this study looks beyond the internal elements and focuses on China's traditional cultural context as well. Specifically, the authors concentrate on the attribution process by showing the importance of evaluators' framing tendency with regard to controversial practices. The results extend the knowledge about how conformity makes media coverage shows a bias effect on interactions during the evaluation process.

Keywords Behavior, Cognition, Management, Governance

Paper type Research paper



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Introduction

A common idea is that managers are agents whose roles are fraught with conflicting interests (Jensen, 1986). Governance literature mainly focuses on the elaborate role of internal and external mechanisms (Zingales, 1998; Shleifer and Vishny, 1997; Gillan and Starks, 1998; Gillan, 2006). The agency theory has been the most commonly used theory in studying managers' controversial behavior. According to this theory, managers are motivated by self-interest rather than the good of the firm. A considerable body of research has investigated how incentive mechanisms operate to reduce agency cost (Jensen and Meckling, 1976). However, a new question arises: Are all controversial behaviors considered self-serving? Answering this question is crucial to governance and reputation research. A theme in corporate governance shows promising is the evaluating audience's tendency to perceive controversial governance practices (Bednar, 2012; Rhee and Fiss, 2014). The assumption that underlies the discussion is that evaluating audiences perceive that managers' behavior is opposed to owner interests (Deephouse, 2000; Miller, 2006).

However, the majority of this research highlighted the reputational penalties paid by managers when they take part in controversial governance practices that cast doubts on managerial self-interest (Dyck *et al.*, 2010), despite the particular view that different attributions may vary. Furthermore, a behavioral view is emerging as a possible explanation for how reputational penalties work, such as account formulating and view framing (Pfarrer *et al.*, 2010; Zavyalova *et al.*, 2012). As a result, a theoretical interpretation is developing, which serves to explain how the penalties are actually imposed and to emphasize that reputational penalties differ across audiences because of varying interpretations of the practice and causal attributions about its use (Bednar *et al.*, 2015; Fiske and Taylor, 2013; Kelley, 1973). However, existing theory about the role of reputation in governance seems to be oversimplified, and an understanding of the complex attribution process has not been developed, especially in new, specific contexts.

The abovementioned studies have been critical in breaking new ground on the topic. However, our understanding of reputation mechanism, which depends on a specific cultural background, offers a more reasonable account for attribution. Studies have contended that reputation reaction may differ across different audiences because of differences in causal attribution (Bednar *et al.*, 2015; Westphal and Zajac, 2013; Zavyalova *et al.*, 2017), yet our knowledge about how the attribution process actually works remains limited. These challenges seem to be especially important in the specific context of controversial practice, which may have an unclear reputational reaction. With China's traditional cultural context as the focus, our paper provides a clear explanation of reputational reaction on controversial governance practices.

To address the above issues, we develop and test the antecedent of attribution for behavior, which has critical roles in reputation mechanism. Reputational reaction is typically regarded as a social judgment in which evaluators interpret managers' behavior and assign its content to other actors (Tetlock, 2007). However, the inherent aspects that impact the attribution process may be underemphasized in the existing study. Existing evidence have made it clear that media reaction varies because of different attribution traits (Bednar *et al.*, 2015; Love *et al.*, 2017). To explain the internal mechanism of attribution process, this study focuses on how antecedent factors, including information, belief and motivation, influence the attribution consequences. On account of the attribution theory, we examine antecedent factors by explaining how media apply different frameworks to the same controversial practices.

We look beyond the internal elements and pay attention to the cultural context as well. A company's practices may vary across different countries and cultural backgrounds. A

considerable amount of evidence suggests that the western theory may not be suitable for emerging markets, such as China (Chan *et al.*, 2008; Zhou and Zhu, 2011; Yang and Yang, 2014; Giannetti *et al.*, 2015; Chen *et al.*, 2017; Chan and Kwok, 2017; Yang, 2019). The attribution process in a particular cultural context is another missing piece in the existing links between controversial governance practices and reputation reaction. In combination, our arguments advance the literature on the attribution process of reputational evaluators by showing that the evaluators' framing tendency with regard to controversial practices is important, as well as the context in which the accounts are formed.

However, cultural environments that have a "collectivist but relatively loose" character (Triandis, 1989; Vogel *et al.*, 2015), such as Asian cultures, have distinct conceptions of individuality which maintain that individuals have a fundamental relatedness with one another (Markus and Kitayama, 1991; Friedman *et al.*, 2018). Evaluators may have a different interpretation of management's behavior under specific consequences for cognition, emotion and motivation, as in China (de Oliveira and Nisbett, 2017). Given the specific attribution framework and perceptual mechanism in China, examining reputational reaction on controversial practices becomes a particularly pressing matter (Morris and Peng, 1994; Lesch *et al.*, 2016).

Our conjecture focuses on the findings of Bednar *et al.* (2015), who developed a theoretical framework that includes different audiences and attributions. In this study, we begin to address this issue by adopting a more cultural-based attribution mechanism to understand the effect of media accounts by examining the facts that have occurred in China. This paper examines whether evaluators implement reputational penalty to controversial practices and how the attribution process functions in China. Using a unique sample from China, we find less negative media coverage on CEO compensation when the CEO is also the founder of the company, which is consistent with our expected results.

Theory and hypotheses

Media response to corporate governance

The media are one of the subjects referenced in reputational reaction. Two views of information mediaries or "infomediaries" can be identified in explaining how media coverage is involved in corporate behavior. According to the social arbiter perspective, the media are a social arbiter given its "prominent and legitimate platform for rendering assessments of firms and individuals associated with them." By contrast, the information intermediary view emphasizes how infomediaries legitimize firms by influencing how stakeholders perceive the desirability and appropriateness of the actions and characteristics of a firm.

In the social arbiter view, media coverage serves as a proxy for corporate reputation, which affects performance and market return (Wartick, 1992; Deephouse, 2000). Firms evoke a positive response from the media on symbolic governance changes with respect to board independence and to CEO dismissal (Bednar, 2012). However, no significant relationship exists between media coverage and board social independence, thereby indicating that media coverage influences the symbolic governance index instead of the substantial governance improvement. A particular branch of research focuses on the indirect supervision of media coverage, which calls on the attention of other intermediaries, such as financial institutions (Dyck *et al.*, 2008), the securities and exchange commission (Miller, 2006) and audit opinions (Joe, 2003). Media coverage may also have an effect on earning shocks and investor reactions through firm reputation and celebrity (Pfarrer *et al.*, 2010). The literature stream stretches from the sense of identity of financial journalists (Tambini, 2010) to the contribution of the media to market maturity (Kennedy, 2008). From

the perspective of this branch of literature, media coverage is an outsider that has a direct effect on social approval assets through information transmission, and it also influences corporate behavior and market performance.

The information intermediary view investigates the role of the media as an information intermediary that legitimizes firms by creating an interpretive context for stakeholders. This legitimization effect reflects directly on investors' buyout behavior, thereby prompting the literature to focus on the relationship between media coverage and market response. Joe *et al.* (2009) determined that media exposure of board ineffectiveness elicits a negative reaction in individual investors and requires investment firms to implement corrective actions. Barber and Odean (2007) found that media coverage captures individual investors' attention and drives their buying decisions; however, this conclusion is not applicable to institution investors. Through model verification, Pollock *et al.* (2008) analyzed the information cascades among the media and investors. Bushee *et al.* (2010) focused on the information source of media coverage and showed that firm-initiated coverage has a greater influence than press-initiated coverage on the reduction of information asymmetry around earning announcements. Frankel and Li (2004) reported that company news has a positive association with insider purchase frequency. Pollock and Rindova (2003) examined media coverage and initial public offerings (IPOs) first-day trading performance, and they observed that media coverage is positively related to stock turnover on the first day of trading. This branch of literature uses media coverage as an intermediary to reduce the information asymmetry between investors and managers, given that media coverage enables investors to react effectively and it promotes higher performance of companies (Frankel and Li, 2004).

Contrasting opinions have been presented with regard to the tenor of media coverage. According to Fang and Peress (2009), stocks that receive media coverage have higher market return than those that do not receive media coverage. Johnson *et al.* (2005) showed that a relationship exists between board ratings and positive abnormal returns. However, contrary to the above research, Johnson's conclusion depends on the existence of a positive abnormal return in both favorable and unfavorable board ratings. To examine the interaction between media coverage and market response, Tetlock (2007) reported that both high and low media pessimism trigger high market trading volume, and that a low market return in turn triggers high pessimism; the latter is applicable to small stocks. Chan (2003) documented that negative coverage has a stronger drift than positive coverage, that a strong drift in stocks exists with public news and that a reversal occurs in stocks with similar returns but no public news. Bhattacharya *et al.* (2009) concluded that the media are unable to explain the internet bubble. The view that the media are an information intermediary differentiates media coverage from other observers and indicates that the media have various roles, from confirming the beliefs of readers (Strömberg, 2004; Di Tella and Franceschelli, 2011) to offering slanted stories that influence readers' conception (Joe *et al.*, 2009; Mullainathan and Shleifer, 2005). This research contributes to the understanding of the role of media coverage as an information intermediary.

Reputational reaction and controversial governance practices

Governance literature provides insights into the behavioral view. Reputational literature has largely focused on the impact of the media and considers the media a social arbiter (Hoffman and Ocasio, 2001; Zavyalova *et al.*, 2012; George *et al.*, 2016). Reputation market as a monitoring mechanism has attracted general concern in the past few years, which is expected to supervise managers' behavior (Bitektine, 2011; Keeses *et al.*, 2017). However, evaluators perform their monitoring role imperfectly (Griffin *et al.*, 2011). The situation

becomes uncertain with the existence of governance-related practices that attract controversy. One classification of typical controversial governance practices is related to compensation agreements. For example, high compensation, regardless of firm performance, usually attracts negative attention from the media and analysts (Core *et al.*, 2008). Another classification of controversial governance practices depends on managerial power. For example, the dual identity of a CEO and chairman of board is often regarded as a way to circumvent the supervisory power of the board (Finkelstein and D'aveni, 1994). The final classification of controversial governance practices is related to the takeover market. Anti-takeover provisions are usually described as an attempt to achieve job security without appropriate scrutiny (Gompers *et al.*, 2003).

In all cases, these practices cause outsider observers to perceive the self-serving character of the managers. For legal practices like this, reputational reaction becomes important in implementing penalties on managers. However, despite a large amount of research on reputational penalties (Farzipoor Saen, 2011; Boivie *et al.*, 2015; Busenbark *et al.*, 2016; Zorn *et al.*, 2017; Love *et al.*, 2017), the attribution process and the broader governance context introduce complexities that have not been clarified. The difference of attribution has been emphasized in recent work, which presents new topics, such as the elements that affect the attribution process and cultural differences affecting conceptualization. Controversial practices make the attribution process operable when evaluators react differently on the same practice. Our study presents significant factors in the attribution process under a particular cultural context, developing a theoretical framework that is suitable for China.

Conceptualization, cultural context and reputation reaction

According to the reputational reaction research, evaluators implement penalties on controversial governance practices (Wartick, 1992; Deephouse, 2000; Love *et al.*, 2017). The attribution theory states that the evaluation process depends on the cause of observed behaviors (Kelley and Michela, 1980). Specifically, a firm's action and public image and the industry character may attenuate or amplify the negative effect on the tenor of media coverage (Zavyalova *et al.*, 2012). Thus, when a firm engages in controversial practices, the evaluator, such as media coverage, makes sense of this phenomenon by applying a different attribution process that considers various contexts.

Attribution. With reference to the perception or inference of cause, the attribution theory focuses on interpretations by evaluators. These interpretations are essential in determining the reactions to managerial behavior. According to previous literature, evaluators conceptualize managers' behavior by interpreting it as an indicator of the managers' underlying character traits (Jones and Davis, 1965). If external reasons (e.g. situational factors) are assigned to the controversial practice, then an evaluator considers the situation appropriate. When the evaluator attributes the manager's behavior to internal causes (e.g. self-serving), then negative traits are assigned to the manager (Bednar *et al.*, 2015). The attributing consequence largely depends on the antecedents of causal attribution, i.e. the factors that prompt the subject to attribute a particular event to one cause other than another cause. Existing research emphasizes the motivation of managers; however, information and belief also reflect the tendency to perform attributions based the correspondence between cause and effect (Kelley, 1973). Primacy and salient information are information processing rules that assume that the first and salient cause provides a sufficient explanation that then influences the subsequent attribution process. Expectations associated with an actor reflect the beliefs that explain events without analyzing information in a more complex way (Kelley and Michela, 1980). For controversial practices, causal attribution is affected not only by the manager's incentive but also by the main

character of the manager, which the evaluator first perceives, and the general expectation of managers.

Cognition. Cultural limitations are given for the existing attribution theoretical framework. East Asian cultures are more interdependent, with people adjusting their behavior more to situational norms than westerners do (Kitayama *et al.*, 2003). The differences between western and East Asian causal attributions reflect more fundamental differences in cognition than in the characterization process (Büyükoğkan and Ilıcak, 2019). Cognition is intellectual knowledge acquisition that often represents the general beliefs about categories of people, things or events. Westerners exhibit uncertainty-oriented traits, whereas East Asians are certainty-oriented people who stick to the familiar and the predictable, avoiding anything that poses a threat to their current understanding of the world (Sorrentino *et al.*, 2008; Fiske *et al.*, 2007). The situational difference determines the thoughtfulness of cognitive response (Fiske and Taylor, 2013). Uncertainty avoidance affects the need for cognition and the evaluation process. For example, *Wall Street Journal* described anti-takeover provision of *Union Carbide* as “totally uncalled for and obviously against the interests of shareholders.” On the other side, *Securities Daily* in China described anti-takeover provision as a protection to prevent “savages.” The different reaction of western and eastern media shows that cognition difference plays an important role in the attribution process of evaluators. The seniority-order payment system in Japan also constitutes certainty orientation in the eastern culture. The certainty orientation trait lies not only on the defense for existing stakeholders, but also on the founding member. In Chinese traditional culture, respect for senioritis and pioneers is rooted in people’s potential concept. Generally, in China, the founder of a company is regarded as a “hero” who should be treated with respect. The founder preference can also be identified in the case of “the battle for control of GOME,”[1] in which massive media stand up for Wong Kwong Yu who is the founder of GOME. This cognition affects the causal attribution of evaluators by showing how certainty orientation works in people’s perception. The founder’s high status is consistent with social cognition’s emphasis on belief persistence (Andrews and Debus, 1978; Lange and Washburn, 2012). In China, attributional ambiguity makes evaluators reluctant to ascribe negative traits to the company founder. The stereotyping of the founder shows a bias effect on interactions during the evaluation process.

We now apply these general ideas on attribution and cognition to our more specific research context. We consider media coverage as the evaluator in our empirical study. Media serves as a social arbiter whose views are widely spread and accepted by the public. Instead of focusing on the consequences, the antecedents of causal attribution is our subject, and we form a relevant hypothesis about the cognition factors that lead media to attribute specific controversial practices, CEO compensation and CEO power to one cause rather than another. To explain the cognitive differences in different cultures, our study visualizes certainty orientation by arguing that the company founder receives a higher degree of positive prejudice in China. This condition leads the evaluator (media) to attribute controversial practices to external reasons (e.g. situational factors that give rise to the practices) rather than internal reasons (e.g. managerial self-interest).

As mentioned above, we specifically focus on CEO compensation and CEO power, which are controversial settlements that increase the manager’s benefits. The CEO’s overpayment results in both apparent and potential costs to companies (Wade *et al.*, 2006), which is perceived as self-interest. Both positive and negative association between CEO compensation and organization outcome have been discussed extensively in existing studies (Wowak and Hambrick, 2010; Tervio, 2008). Scholars focused on three main topics: CEO payment, stock options and decoupling of firm performance from CEO cash compensation

(Boivie *et al.*, 2011; Chhaochharia and Grinstein, 2009). In most cases, CEO compensation is associated with self-serving attributes. However, CEO duality is typically viewed as a double-edged sword for the firm (Finkelstein and D'aveni, 1994). When the CEO is also the chairman of the board, the CEO power is greater with higher efficiency and is accompanied by a lack of insight and scrutiny (Core *et al.*, 2008). Even though these settlements are surrounded by controversy, they are nevertheless prevalent in both Asian and western companies.

These controversies are centered on the varying attribution and cognition processes of the evaluators. Anecdotal evidence suggests that the media plays an arbiter role in monitoring governance behavior (Deephouse, 2000; Pfarrer *et al.*, 2010). Within the agency theory framework, controversial practices are portrayed as evidently negative actions. Meanwhile, the attribution theory indicates that controversial practices can be attributed to different accounts by different audiences, which leads to different evaluation processes (Bednar *et al.*, 2015; Kelley, 1973). To answer the questions beginning with "why," information, belief and motivation should be considered in causal accounts. The motivations of managers and information asymmetry have been widely discussed in the agency theory framework (Wade *et al.*, 1990; Jensen, 1986; Frankel and Li, 2004; Bushee *et al.*, 2010). Our study highlights the evaluator's belief about what others would do in the same situation (social desirability). We emphasized the cultural characteristics that affect social cognition, which reflects on the attribution process of the media. In China, the certainty orientation cognition variable indicates that familiar and predictable understanding is maintained, thereby affecting the belief in the attribution process. The traditional perception constitutes belief, such as respect for senioritis and pioneers, which is instantiated in attribution process of evaluators. To be more specific, the founder-CEO is always accepted as the motivation for the good, such as fewer financial incentives (Palia *et al.*, 2008) and more capital expenditures (Fahlenbrach, 2009). Fewer penalties are also imposed on the founder-CEO (Leone and Liu, 2010). In this regard, the certainty orientation is shown to favor the founder-CEO, who is perceived as well entrenched in his/her position. As a result, the evaluator (media) is inclined to react favorably to the founder-CEO by attributing the controversial practice to external factors (situational factors) instead of internal factors (managerial self-interest). In other words, media coverage is more tolerant of founder-CEOs than it is of non-founder-CEOs, even though they engage in the same controversial governance practice. When the founder-CEO receives more payment, the media are more likely to explain it as an appropriate reward. By contrast, the media considers the payment of non-founder-CEO as self-serving. The same idea applies to CEO power. These situations lead to the following hypotheses:

- H1a.* Media coverage of CEO compensation is less negative for founder-CEO firms than for non-founder-CEO firms.
- H1b.* The media coverage of CEO power is less negative for founder-CEO firms than for non-founder-CEO firms.

The perception of CEO tenure is another symbolic index for the certainty orientation cognition variable. The positive and negative influences of CEO tenure on firm performance have been widely discussed in previous work (Finkelstein and Hambrick, 1990; Miller, 1991; Wu *et al.*, 2005; Henderson *et al.*, 2006; Simsek, 2007; Luo *et al.*, 2014). Time is a crucial component for motivated behavior; thus, CEOs in different seasons of tenure are likely to be motivated by different incentives (Hambrick and Fukutomi, 1991; Zheng, 2010; Hou *et al.*, 2017). Tenure is clearly a critical factor in explaining the payoffs and penalties received by the CEO (Hill and Phan, 1991; Wowak *et al.*, 2011). For example, the practice of lifetime

employment is unique to Japan. As previously discussed, East Asians exhibit certainty orientation traits, that is, they are comfortable when their situation is consistent with their culture's emphasis on certainty (Fiske and Taylor, 2013). Respect for one's superiors or older people is widely demonstrated in Chinese culture, thereby making the attribution process of evaluators more informative (Kelley and Michela, 1980). The attribution of managers' controversial practices is affected by information, in this case, the seasons of their tenure. When a person is in the latter phase of his/her tenure, he/she has an entrenched relationship with the firm, which conforms to the certainty-oriented cognition. As a result, when a manager has a longer tenure, the evaluator (media) would show more tolerance of the manager. The media would attribute controversial practices to external reasons (situational factors) for late-tenure CEOs and to internal reasons (managerial self-interest) for early-tenure CEOs. In our case, the negative effect of media coverage on CEO compensation is negatively moderated by CEO tenure. The same idea applies to CEO compensation:

- H2a. CEO tenure negatively moderates the effect of CEO compensation on negative coverage, such that the media coverage of CEO power is less negative in the later stages of CEO tenure than in the earlier stages of CEO tenure.
- H2b. CEO tenure negatively moderates the effect of CEO power on negative coverage, such that the media coverage of CEO compensation is less negative in the later stages of CEO tenure than in the earlier stages of CEO tenure.

Effects of firm performance

We focus on the different ways that the media attributes controversial practices. Another integral part of our argument is that the attribution process may vary across firms and over time. We firstly consider how media reaction to controversial practices is affected by the firm's financial performance. A primary function of the reputation mechanism is to criticize managers at poorly performing firms (McMillan and Joshi, 1997; Westphal *et al.*, 2012). This idea implies that the firm's financial performance is likely to be a salient contextual factor that would influence how the media would explain controversial practices (Pfarrer *et al.*, 2010), that is to say, we expect that firm performance would have an effect on evaluations of controversial governance practices, such as CEO compensation. The difference is because of the different expectations of the media. As mentioned previously, the attribution process is informed by respect for the founder and for those with seniority. Consistent with the attribution theory, motivation is another key antecedent in causal attribution. Expectation entails an assessment of the motivation to determine the perceived causes of their effects on a specific behavior. In this case, firm performance would directly influence the expectation of evaluators, e.g., media. If the firm is better performed, it would ease the negative coverage on controversial practices, which would lead media attribute CEO compensation to external factors (situational factors). For worse-performing firms, internal factors (managerial self-interest) may be attributed for CEO compensation. According to this logic, when controversial practices are adopted in firms with better performance, the media are more likely to defend arguments stating that CEO deserves rewards. Thus, weaker penalties are imposed on managers at firms with better performance, especially when the CEO is also the founder:

- H3a. Media coverage of CEO compensation is less negative for firms with better performing than for worse-performing firms.
- H3b. Media coverage of CEO power is less negative for firms with better performing than for worse-performing firms.

Methods

Data and sample

To remove the policy effect of executive payment restriction and tenure arrangement in state-owned companies, non-state-owned listed companies in China are chosen as our initial sample. The controlling shareholder information is obtained from the CCER Economic and Financial Database (abbreviated as CCER) for sample selection. In the CCER database, the variable naming “the actual controller category of listed companies” defines 1 if the firm is non-state owned, while it is 0 if the firm is state owned. Then, we hand-collect media coverage of non-state-owned listed companies from the “news” column in the Wind Financial database (abbreviated as Wind). Basic accounting and market information is accessed from the China Stock Market and Accounting Research Database (abbreviated as CSMAR), which was developed by GTA Information Technology, one of the major providers of Chinese data. To avoid endogeneity, we select media coverage in 2015 and financial data in 2014. After combining financial data in 2014 and media coverage data in 2015, 1,389 non-state-owned listed company observations are gathered as our initial sample. To avoid the interference by CEO change, 118 firms are excluded which change CEO in 2014-2015. Due to missing data in the CSMAR database, 60 missing observations of CEO-share, two missing observations of CEO-duality and nine missing observations of CEO-tenure are excluded from the sample. Also, 11 abnormal observations are also excluded from the sample to avoid the deviation effect of outliers if return on assets is less than -10 or leverage ratio is more than 1. Our final sample is composed of 1,198 non-state-owned listed company observations.

To test *H1a* and *H1b*, we estimate the parameters of the following model grouping by using certainty-oriented variables:

$$\begin{aligned} Media_{i,t} = & \beta_0 + \beta_1 Controv_{i,t-1} + \beta_2 SIZE_{i,t-1} + \beta_3 LEV_{i,t-1} + \beta_4 EPS_{i,t-1} + \beta_5 Ind_{i,t-1} \\ & + \beta_6 CurAsRa_{i,t-1} + \beta_7 TATurnover_{i,t-1} + \varepsilon \end{aligned} \tag{1}$$

Unlike the founder-CEO variable, CEO tenure is a continuous variable. A dummy variable is generated according to the median of the total sample. *CEOTenHigh* is 1 if CEO tenure is above the median of total sample; 0 otherwise. We estimate the parameters of the following model to test *H2a* and *H2b*:

$$\begin{aligned} Media_{i,t} = & \beta_0 + \beta_1 Controv_{i,t-1} + \beta_2 Controv * CEOTenHigh + \beta_3 CEOTenHigh \\ & + \beta_4 SIZE_{i,t-1} + \beta_5 LEV_{i,t-1} + \beta_6 EPS_{i,t-1} + \beta_7 Ind_{i,t-1} + \beta_8 CurAsRa_{i,t-1} \\ & + \beta_9 TATurnover_{i,t-1} + \varepsilon \end{aligned} \tag{2}$$

To test *H3*, we estimate the parameters of Model (1) grouping by using certainty-oriented and performance variables. [Table I](#) shows the definition of the main variables.

Dependent variables. We use measures of media coverage as our dependent variable to test our hypotheses. We obtain the media coverage data from the Wind Financial database, which contains a large amount of publications (both online and offline) and is widely used in Chinese literature ([Peng and Tang, 2019](#); [Wu and Lv, 2018](#)). The Wind Financial database has a special column called “news,” which identifies the news as positive/neutral/negative so

Table I.
Definition of main
variables

Variables	Index	Definition
<i>Media</i>	<i>medianeg</i>	Number of negative articles on the firm from the Wind Database
	<i>mediapos</i>	Number of positive articles on the firm from the Wind Database
<i>Controv</i>	<i>CEOpay</i>	CEO annual salary
	<i>Duality</i>	1 if the CEO is also the chairman; 0 otherwise
<i>Certainty-oriented</i>	<i>CEO-founder</i>	1 if the CEO is also the founder; 0 otherwise
	<i>CEOTenHigh</i>	1 if CEO tenure is above the median of total sample; 0 otherwise
<i>Performance</i>	<i>profit_medIn</i>	1 if the firm's profit is above the median of the industry; 0 otherwise
<i>Control variables</i>	<i>SIZE</i>	Firm size, the natural logarithm of total assets
	<i>LEV</i>	Debt-to-assets ratio
	<i>EPS</i>	Earnings per share
	<i>Ind</i>	Proportion of independent directors in the board
	<i>CurAsRa</i>	Liquidity assets divided by total assets
	<i>TATurnover</i>	Turnover of total assets

that we can collect the number of negative articles related to specific firm. Take “Shen Zhou Shu Ma” company as an example, by advanced research in the “news” column, we can firstly fill “Shen Zhou Shu Ma” in the blank of “Scope of Securities.” Then, we select “negative news” (including total negative news, negative macro news, negative industry news, negative stock market news, negative fund news and negative future news) in the selection of “Scope of News.” Lastly, January 1 in 2015 to December 31 in 2015 are chosen as our time range in the selection of “Time Bound.” The total negative news of “Shen Zhou Shu Ma” in 2015 are listed in the database. With the same procedure, positive news (including total positive news, positive macro news, positive industry news, positive stock market news, positive fund news and positive future news) are also collected in our sample. We used the number of negative articles as a key index of negative coverage. The number of positive articles is also controlled in the model as a variable of positive coverage. The measurement is consistent with our conception of media coverage as an overall perceptual evaluation of managerial behavior. The descriptive statistics table shows that the average number of positive articles is almost twice that of negative articles.

Independent variables. Controversial governance practice functions as the core independent variable. As previously discussed, we use CEO payment as a proxy index of CEO compensation during the previous year. CEO power is used as a dummy variable to test whether the CEO is also the chairman of the company.

Control variables. We include controls for several prominent financial characteristics. The key financial variables of firm size, leverage of debt, earnings per share, proportion of liquidity asset and turnover of total assets are controlled. The portion of independent board member is also controlled as the key governance variable. CEO tenure and the number of positive articles are listed in our equation. At the same time, we use the median profit of the industry as a standard to measure whether the firm is better performed or not. Industry is defined as the same two-digit industry as a focal firm. Table II presents the descriptive statistics.

Table II shows that 67.195 per cent of our total sample are founder-CEO firms, which indicates that founders who also act as the company's CEO is a common phenomenon in Chinese non-state-owned enterprises. Interestingly, an average of 32 positive articles have been written about founder-CEO firms, whereas an average of 28 positive articles have been written about non-founder-CEO firms, thereby proving that the media portrays founder-CEO firms more positively. Founder-CEO firms also receive more attention – both positive

Table II.
Descriptive statistics
table

Group	Variables	N	MEAN	SD	P25	P50	P75	MIN	MAX
Non-founder- CEO firms	<i>medianeg</i>	393	13.0051	13.2723	6	11	17	0	206
	<i>mediatop</i>	393	28.6514	23.8875	15	23	35	0	287
	<i>CEOpcy</i>	393	6.99E + 05	8.42E + 05	2.75E + 05	4.74E + 05	8.11E + 05	0	7.24E + 06
	<i>CEOfenHigh</i>	393	0.3003	0.459	0	0	1	0	1
	<i>Duality</i>	393	0.1858	0.3894	0	0	0	0	1
	<i>profit_medIn</i>	393	0.5089	0.5006	0	1	1	0	1
	<i>SIZE</i>	393	21.7369	1.3093	20.9095	21.6831	22.5211	17.7569	26.8963
	<i>LEV</i>	393	0.4628	0.2186	0.2794	0.4539	0.639	0.0401	0.9803
	<i>EPS</i>	393	0.3372	0.658	0.0367	0.1958	0.4653	-2.0308	6.4342
	<i>Ind</i>	393	0.3745	0.0519	0.3333	0.3333	0.4286	0.25	0.6
	<i>CorAsRa</i>	393	0.5853	0.2219	0.4237	0.594	0.7635	0	0.951
	<i>TATurnover</i>	393	0.6327	0.8119	0.2792	0.4549	0.7091	0.001	8.7869
	<i>medianeg</i>	805	14.9814	19.3646	8	14	18	0	399
Founder-CEO firms	<i>mediatop</i>	805	32.9565	29.3609	20	28	39	4	502
	<i>CEOpcy</i>	805	6.13E + 05	5.59E + 05	3.25E + 05	4.77E + 05	7.28E + 05	7500	7.13E + 06
	<i>CEOfenHigh</i>	805	0.7081	0.4549	0	1	1	0	1
	<i>Duality</i>	805	0.4534	0.4981	0	0	1	0	1
	<i>profit_medIn</i>	805	0.5031	0.5003	0	1	1	0	1
	<i>SIZE</i>	805	21.5419	0.9574	20.8769	21.3991	22.0629	19.6869	30.6568
	<i>LEV</i>	805	0.3387	0.1835	0.1918	0.3183	0.4601	0.0091	0.9526
	<i>EPS</i>	805	0.4181	0.433	0.1513	0.3261	0.577	-1.3595	2.7806
	<i>Ind</i>	805	0.3771	0.0557	0.3333	0.3333	0.4286	0.25	0.625
	<i>CorAsRa</i>	805	0.6083	0.168	0.4918	0.6171	0.735	0	0.9902
	<i>TATurnover</i>	805	0.5846	0.3757	0.3735	0.5018	0.7053	0.0315	3.9334
	<i>medianeg</i>	1198	14.3331	17.6187	7	13	17	0	399
	<i>mediatop</i>	1198	31.5442	27.7486	18	27	38	0	502
Total	<i>CEOpcy</i>	1198	6.41E + 05	6.66E + 05	3.07E + 05	4.76E + 05	7.50E + 05	0	7.24E + 06
	<i>CEOfenHigh</i>	1198	0.5743	0.4947	0	1	1	0	1
	<i>Duality</i>	1198	0.3656	0.4818	0	0	1	0	1
	<i>profit_medIn</i>	1198	0.505	0.5002	0	1	1	0	1
	<i>SIZE</i>	1198	21.6059	1.0888	20.8836	21.472	22.1702	17.7569	30.6568
	<i>LEV</i>	1198	0.3794	0.2041	0.2161	0.3569	0.5188	0.0091	0.9803
	<i>EPS</i>	1198	0.3916	0.5188	0.1027	0.2907	0.5557	-2.0308	6.4342
	<i>Ind</i>	1198	0.3762	0.0545	0.3333	0.3333	0.4286	0.25	0.625
	<i>CorAsRa</i>	1198	0.6008	0.1876	0.4669	0.6117	0.7429	0	0.951
	<i>TATurnover</i>	1198	0.6004	0.5578	0.3407	0.4906	0.7061	0.001	8.7869

and negative – from the media than non-founder-CEO firms do. CEO payment varies considerably in our sample. A total of 45.34 per cent founder-CEO firms select a duality of CEO and chairman, whereas only 18.58 per cent non-founder-CEO firms show duality. Founder-CEO firms also have longer CEO tenure than non-founder-CEO firms do. To verify the rationality of grouping, we run a mean comparison test for variables between founder-CEO and non-founder-CEO firms.

Table III shows considerable differences in negative and positive coverage between the two groups. Founder-CEO firms evidently receive more media coverage than non-founder-CEO firms do. Controversial governance practices, such as CEO compensation and duality, also show marked differences between the groups, which indirectly supports our hypothesis. Most financial variables also have remarkable differences. Table IV displays the correlation analysis.

Table IV shows that CEO payment is positively correlated with both positive and negative coverage. Media coverage focuses more attention on CEO payment than on CEO power. As for financial performance, media coverage shows more interest in firm size, liabilities, earnings per share, current asset ratio and total asset turnover.

Analysis

To test our hypotheses, we use cross-section data to build a multiple linear regression model. Founder-CEO acts as a group variable to divide the sample into two subsamples. Table V presents our analysis of the effect of controversial governance on negative coverage.

Table V indicates that CEO compensation is positively associated with negative media coverage in the non-founder-CEO subsample. By contrast, CEO compensation is negatively associated with negative coverage in the founder-CEO subsample. The evidence shows that media would impose less penalties (negative coverage) on founder-CEO firms than that of non-founder-CEO firms as the CEO's compensation arises. Thus, H1a is supported. However, unlike with the results for CEO compensation, the relationship between CEO power and negative media coverage is not found in both subsamples. Thus, H1b is not supported. The internal reason may lie on the less media attention to CEO power. Normally, media have an incentive to publish attention-grabbing stories by using phrases such as “sky-high compensation.” Contrast to CEO compensation, CEO power is difficult to capture

Variables	G1 (non-founder-CEO firms)	Mean1	G2 (founder-CEO firms)	Mean2	MeanDiff
<i>medianeg</i>	393	13.0051	805	14.9814	-1.9763*
<i>mediapos</i>	393	28.6514	805	32.9565	-4.3051**
<i>CEOpay</i>	393	7.00E + 05	805	6.10E + 05	8.6e + 04**
<i>CEOTenHigh</i>	393	0.3003	805	0.7081	-0.4078***
<i>Duality</i>	393	0.1858	805	0.4534	-0.2677***
<i>profit_medIn</i>	393	0.5089	805	0.5031	0.0058
<i>SIZE</i>	393	21.7369	805	21.5419	0.1950***
<i>LEV</i>	393	0.4628	805	0.3387	0.1241***
<i>EPS</i>	393	0.3372	805	0.4181	-0.0809**
<i>Ind</i>	393	0.3745	805	0.3771	-0.0026
<i>CurAsRa</i>	393	0.5853	805	0.6083	-0.0230**
<i>TAturnover</i>	393	0.6327	805	0.5846	0.0481

Notes: * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$

Table III.
Two-group mean
comparison test table

Table IV.
Correlation table

Variables	medianeg	mediapos	CEOpay	CEOTenHigh	Duality	profit_medIn	SIZE	LEV	EPS	Ind	CurAsRa	TATurnover
medianeg	1											
mediapos	0.780***	1										
CEOpay	0.212***	0.308***	1									
CEOTenHigh	-0.006	0.03	0.009	1								
Duality	-0.022**	-0.006	-0.050*	0.205***	1							
profit_medIn	0.060**	0.241***	0.288***	-0.008	-0.042	1						
SIZE	0.334***	0.424***	0.456***	0.013	-0.096***	0.498***	1					
LEV	0.110***	0.119***	0.142***	-0.082	-0.079	0.078	0.466***	1				
EPS	0	0.153***	0.271***	-0.093***	-0.012	0.510***	0.234***	-0.089***	1			
Ind	0.034	0.033	-0.045	0.041	0.124	0.009	-0.069**	-0.036	-0.052*	1		
CurAsRa	-0.154***	-0.064**	0.001	-0.015	0.018	0.069**	-0.083**	-0.035	0.188***	0.026	1	
TATurnover	-0.02	0.002	0.036	0.001	-0.002	0.113***	0.039	0.151***	0.135	-0.033	0.135	1

Notes: * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$

Table V.
Influence of
controversial practice
on negative coverage
by founder-CEO

Group Variables	Non-founder-CEO firms <i>medianeg</i> <i>1a</i>	Founder-CEO firms <i>medianeg</i> <i>1a</i>	Non-founder-CEO firms <i>medianeg</i> <i>1b</i>	Founder-CEO firms <i>medianeg</i> <i>1b</i>
<i>CEOpay</i>	0.00000323*** (4.52)	-0.00000223*** (-2.91)		
<i>Duality</i>			1.457 (1.10)	-1.127 (-1.45)
<i>CEOtenHigh</i>	-1.047 (-0.96)	-3.282*** (-3.82)	-0.788 (-0.71)	-3.223*** (-3.69)
<i>mediapos</i>	0.338*** (14.17)	0.530*** (36.02)	0.372*** (15.65)	0.527*** (35.77)
<i>SIZE</i>	-0.872* (-1.80)	2.152*** (3.62)	-0.0870 (-0.19)	1.599*** (2.75)
<i>LEV</i>	0.725 (0.29)	-6.168** (-2.27)	0.530 (0.21)	-5.338* (-1.96)
<i>EPS</i>	-1.980** (-2.42)	-5.705*** (-5.51)	-1.706** (-2.04)	-6.361*** (-6.31)
<i>Ind</i>	-8.387 (-0.87)	6.758 (0.99)	-9.690 (-0.99)	8.238 (1.20)
<i>CurAsRa</i>	-5.413* (-2.34)	-10.76*** (-4.54)	-4.675** (-1.97)	-10.44*** (-4.39)
<i>TAturnover</i>	-0.181 (-0.29)	0.773 (0.72)	-0.220 (-0.34)	0.675 (0.63)
<i>Constant</i>	27.09** (2.51)	-37.11*** (-2.95)	11.03 (1.06)	-26.73** (-2.16)
<i>N</i>	393	805	393	805
<i>R</i> ²	0.471	0.704	0.445	0.701
<i>Adjusted R</i> ²	0.459	0.700	0.432	0.698

Notes: *t*-statistics in parentheses, **p* < 0.10; ***p* < 0.05; ****p* < 0.01

the readers' attention. According to limited attention, media would publish more sensational stories (Ahern and Sosyura, 2015), which is able to explain that media pay less attention on CEO power. The different attribution process of CEO power is not proved. For control variables, positive coverage shows a positive interaction effect on negative coverage. We can also determine that negative media coverage is negatively associated with earnings per share and liquidity asset ratio. Interestingly, the negative relationship between CEO tenure and negative media coverage is found only in founder-CEO firms, thereby indicating less negative media coverage when the CEO is in the later stage of his/her tenure only if CEO is also the founder. We then examine the relationship of negative coverage and CEO compensation by using CEO tenure as a moderating variable.

Table VI shows the moderating effect of CEO tenure. CEO tenure has a significantly negative moderating impact on the relationship between CEO compensation and negative coverage in non-founder-CEO firms. Thus, *H2a*, which states that CEO tenure would reduce the negative coverage associated with CEO compensation, is supported. But, the cross term of CEO tenure and CEO compensation has no significant effect on negative coverage in founder-CEO firms. Bonding with results in Table V, we can tell that media show positive prejudice on founder-CEO firms. Even for non-founder-CEO firms, media also impose less negative coverage for later stage of CEO tenure firms. The identity of founder and the later stage of CEO tenure show embeddedness of the CEO, which consists with the certainty-oriented cognition in China. Media attribute high compensation of founder-CEOs and later-stage CEOs on external reasons, leading to less negative coverage. However, the coefficient for the interaction term of CEO tenure and CEO duality indicates a positive significant effect on negative coverage. Nevertheless, *H2b* is unsupported. Given that we did not find a significant coefficient between CEO duality and negative coverage, the positive significance cannot be simply explained as moderating effect. The results exhibits that the cross term between CEO tenure and controversial governance practices only shows significance in non-founder-CEO firms, which reveals the dominant character of founder-CEO variable. Next, we estimate the effect of firm performance.

Table VI.
Moderating effect of
CEO tenure on
negative coverage

Variables	Group	Non-founder-CEO firms	Founder-CEO firms	Non-founder-CEO firms	Founder-CEO firms
		<i>medianeg</i> 2a	<i>medianeg</i> 2a	<i>medianeg</i> 2b	<i>medianeg</i> 2b
<i>CEOpay</i>		0.00000398*** (4.71)	-0.00000266** (-2.41)		
<i>CEOTenHigh</i>		0.487 (0.34)	-3.718*** (-3.13)	-1.709 (-1.39)	-2.907*** (-2.69)
<i>corTenHiPay</i>		-0.00000205* (-1.66)	0.000000726 (0.53)		
<i>Duality</i>				-0.0707 (-0.04)	-0.483 (-0.32)
<i>corTenHiDua</i>				4.971* (1.75)	-0.872 (-0.50)
<i>Mediapos</i>		0.336*** (14.13)	0.531*** (35.73)	0.369*** (15.52)	0.527*** (35.76)
<i>SIZE</i>		-0.853* (-1.76)	2.136*** (3.59)	-0.0376 (-0.08)	1.608*** (2.76)
<i>LEV</i>		0.631 (0.26)	-6.148** (-2.26)	0.372 (0.15)	-5.411** (-1.98)
<i>EPS</i>		-2.055** (-2.52)	-5.663*** (-5.45)	-1.739*** (-2.09)	-6.380*** (-6.32)
<i>Ind</i>		-8.462 (-0.88)	6.899 (1.01)	-10.40 (-1.06)	8.167 (1.19)
<i>CurAsRa</i>		-5.706** (-2.47)	-10.84*** (-4.56)	-5.041** (-2.12)	-10.53*** (-4.41)
<i>TATurnover</i>		-0.237 (-0.38)	0.767 (0.72)	-0.210 (-0.33)	0.657 (0.61)
<i>Constant</i>		26.53* (2.47)	-36.58*** (-2.89)	10.89 (1.05)	-27.01*** (-2.18)
<i>N</i>		393	805	393	805
<i>R</i> ²		0.475	0.704	0.449	0.702
Adjusted <i>R</i> ²		0.461	0.700	0.435	0.698

Notes: *t*-statistics in parentheses; **p* < 0.10; ***p* < 0.05; ****p* < 0.01

Table VII shows that a negative association between CEO payment and negative coverage for founder-CEO firms exists only with better performing firms. If the firm is worse performed, the media would not attribute CEO payment to external factors even for founder-CEOs. Paradoxically, the positive association of CEO payment and negative coverage for non-founder-CEO firms is significant, no matter the firm performance is better or worse. The results show that media would attribute

Table VII.
Influence of CEO
payment on negative
coverage by founder-
CEO and firm
performance

Variables	Group	Non-founder-CEO and worse-performing firms	Non-founder-CEO and better-performing firms	Founder-CEO and worse-performing firms	Founder-CEO and better-performing firms
		<i>medianeg</i> 3a	<i>medianeg</i> 3a	<i>medianeg</i> 3a	<i>medianeg</i> 3a
<i>CEOpay</i>		0.00000243* (1.84)	0.00000280*** (2.89)	0.00000159 (0.95)	-0.00000355*** (-3.93)
<i>CEOTenHigh</i>		-0.814 (-0.71)	-1.081 (-0.61)	-1.725* (-1.86)	-3.784*** (-2.89)
<i>mediapos</i>		0.409*** (8.94)	0.328*** (10.64)	0.256*** (9.55)	0.577*** (30.86)
<i>SIZE</i>		-0.894* (-1.71)	1.682 (1.43)	1.849** (2.36)	2.879*** (3.18)
<i>LEV</i>		-0.819 (-0.34)	-7.956 (-1.45)	-7.410** (-2.50)	-7.820* (-1.87)
<i>EPS</i>		-8.305*** (-4.36)	0.130 (0.11)	-9.882*** (-5.60)	-0.825 (-0.56)
<i>Ind</i>		-9.387 (-0.97)	-13.30 (-0.79)	4.515 (0.60)	7.532 (0.75)
<i>CurAsRa</i>		-0.777 (-0.33)	-7.378* (-1.88)	-2.307 (-0.89)	-15.80*** (-4.38)
<i>TATurnover</i>		-0.234 (-0.38)	0.357 (0.32)	1.488 (1.22)	0.668 (0.43)
<i>Constant</i>		25.92** (2.23)	-25.35 (-0.99)	-28.45* (-1.67)	-54.53*** (-2.79)
<i>N</i>		193	200	400	405
<i>R</i> ²		0.364	0.541	0.273	0.801
Adjusted <i>R</i> ²		0.333	0.520	0.256	0.796

Notes: *t*-statistics in parentheses; **p* < 0.10; ***p* < 0.05; ****p* < 0.01

managerial self-interest to CEO compensation for non-founder-CEO firms, regardless of firm performance. But the positive media bias for founder-CEO firms only exist when the firm is better performed. For worse-performing firms, the media would pay more attention to the firm's financial performance than to the CEO's identity. Thus, *H3a* is partially supported. Additionally, the negative association between CEO tenure and negative coverage remains significant in founder-CEO firms, no matter the firm is well performed or not. The results verify that certainty-oriented cognition only affects the attribution process when the information is not strong enough. When a powerful message arises, such as bad performing, the consequence is mostly determined by the explicit information other than by the implicit information. We then test *H3b*, as Table VIII shows.

As Table VIII exhibits, we do not find a significant effect between CEO duality and negative coverage in non-founder-CEO firms and better performing firms, which consists with Table V. However, the negative association between CEO duality and negative coverage is verified in founder-CEO firms which perform badly. The results further indicate that media coverage focuses more on CEO payment than it does on CEO power. Therefore, *H3b* is not supported. Comparing with the founder-CEO identity, the duality of CEO and chairman of board show more controversy for the firm. There is abundant evidence on both sides of CEO duality (Finkelstein and D'aveni, 1994; Core et al., 2008), which makes the results vague. The relationship between CEO duality and media coverage needs further exploration.

Furthermore, Tables IX and X list the moderating effect of CEO tenure on the relationship between controversial practices and negative coverage grouping by founder-CEO and firm performance. Interestingly, Table IX shows that the moderating effect of CEO tenure only exists in worse-performing firms. For non-founder-CEO and worse-performing firms, CEO tenure would negatively moderate the relationship between CEO compensation and negative coverage, which means that the longer CEO tenure is, the fewer negative coverage is for CEO compensation. The results further confirm that *H2a* is valid only in the

Group Variables	Non-founder-CEO and worse-performing firms <i>medianeg</i> 3b	Non-founder-CEO and better-performing firms <i>medianeg</i> 3b	Founder-CEO and worse-performing firms <i>medianeg</i> 3b	Founder-CEO and better-performing firms <i>medianeg</i> 3b
<i>Duality</i>	-0.758 (-0.61)	3.451 (1.45)	-1.669** (-2.10)	-0.516 (-0.41)
<i>CEOTenHigh</i>	-0.705 (-0.61)	-1.016 (-0.56)	-1.313 (-1.41)	-3.944*** (-2.91)
<i>mediapos</i>	0.417*** (8.94)	0.358*** (11.62)	0.259*** (9.69)	0.572*** (29.99)
<i>SIZE</i>	-0.669 (-1.30)	3.088*** (2.85)	1.976** (2.59)	1.932** (2.12)
<i>LEV</i>	-1.381 (-0.58)	-10.54* (-1.91)	-7.659*** (-2.62)	-6.471 (-1.52)
<i>EPS</i>	-8.434*** (-4.40)	0.381 (0.33)	-9.543*** (-5.44)	-2.220 (-1.52)
<i>Ind</i>	-11.53 (-1.19)	-12.50 (-0.73)	6.052 (0.80)	8.553 (0.82)
<i>CurAsRa</i>	-0.289 (-0.12)	-5.832 (-1.46)	-1.860 (-0.72)	-15.07*** (-4.10)
<i>TAturnover</i>	-0.0291 (-0.05)	0.281 (0.25)	1.696 (1.41)	0.589 (0.37)
<i>Constant</i>	22.93** (1.97)	-55.99** (-2.34)	-30.93* (-1.84)	-36.32* (-1.84)
<i>N</i>	193	200	400	405
<i>R</i> ²	0.354	0.526	0.279	0.793
<i>Adjusted R</i> ²	0.322	0.504	0.262	0.788

Notes: *t*-statistics in parentheses; * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$

Table VIII.
Influence of CEO
power on negative
coverage by founder-
CEO and firm
performance

Table IX.
Moderating effect of
CEO tenure of CEO
compensation by
founder-CEO and
firm performance

Variables	Group		Group		Founder-CEO and	Founder-CEO and
	Non-founder-CEO and	Non-founder-CEO and	Non-founder-CEO and	Non-founder-CEO and	worse-performing	better-performing
	worse-performing firms	better-performing firms	worse-performing firms	better-performing firms	firms	firms
	<i>medianeg</i>	<i>medianeg</i>	<i>medianeg</i>	<i>medianeg</i>	<i>medianeg</i>	<i>medianeg</i>
<i>CEOpay</i>	0.00000347** (2.51)	0.00000359*** (3.05)	-0.00000572* (-1.88)	-0.00000498*** (-3.79)		
<i>CEOTenHigh</i>	2.908 (1.46)	0.834 (0.34)	-6.126*** (-3.43)	-5.657*** (-3.13)		
<i>corTenHiPay</i>	-0.00000814** (-2.26)	-0.00000190 (-1.17)	0.0000103*** (2.87)	0.00000249 (1.50)		
<i>mediapos</i>	0.411*** (9.08)	0.326*** (10.56)	0.261*** (9.82)	0.580*** (30.85)		
<i>SIZE</i>	-0.858* (-1.66)	1.643 (1.40)	1.649** (2.12)	2.896*** (3.21)		
<i>LEV</i>	-0.764 (-0.32)	-8.154 (-1.49)	-7.313** (-2.49)	-7.870* (-1.89)		
<i>EPS</i>	-8.311*** (-4.42)	0.0363 (0.03)	-9.917*** (-5.67)	-0.523 (-0.35)		
<i>Ind</i>	-11.64 (-1.21)	-13.00 (-0.78)	6.457 (0.86)	8.160 (0.81)		
<i>CurAsRa</i>	-1.070 (-0.46)	-7.763** (-1.97)	-2.699 (-1.05)	-16.17*** (-4.48)		
<i>TAturnover</i>	-0.365 (-0.60)	0.319 (0.29)	1.478 (1.22)	0.656 (0.43)		
<i>Constant</i>	25.74** (2.24)	-24.82 (-0.97)	-21.88 (-1.28)	-54.16*** (-2.77)		
<i>N</i>	193	200	400	405		
<i>R</i> ²	0.381	0.545	0.288	0.802		
<i>Adjusted R</i> ²	0.347	0.521	0.269	0.797		

Notes: *t*-statistics in parentheses, * *p* < 0.10; ** *p* < 0.05; *** *p* < 0.01

Table X.
Moderating effect of
CEO tenure of CEO
power by Founder-
CEO and firm
performance

Variables	Group		Group		Founder-CEO and	Founder-CEO and
	Non-founder-CEO and	Non-founder-CEO and	Non-founder-CEO and	Non-founder-CEO and	worse-performing	better-performing
	worse-performing firms	better-performing firms	worse-performing firms	better-performing firms	firms	firms
	<i>medianeg</i>	<i>medianeg</i>	<i>medianeg</i>	<i>medianeg</i>	<i>medianeg</i>	<i>medianeg</i>
<i>Duality</i>	-1.426 (-0.95)	1.245 (0.44)	-0.160 (-0.10)	-1.630 (-0.69)		
<i>CEOTenHigh</i>	-1.219 (-0.92)	-2.000 (-1.03)	-0.538 (-0.46)	-4.467*** (-2.71)		
<i>corTenHiDua</i>	2.139 (0.79)	7.227 (1.40)	-2.019 (-1.12)	1.527 (0.56)		
<i>mediapos</i>	0.411*** (8.68)	0.357*** (11.63)	0.260*** (9.74)	0.573*** (29.97)		
<i>SIZE</i>	-0.604 (-1.16)	3.009*** (2.78)	1.935** (2.53)	1.900** (2.08)		
<i>LEV</i>	-1.271 (-0.53)	-10.97** (-1.99)	-7.642*** (-2.61)	-6.297 (-1.47)		
<i>EPS</i>	-8.407*** (-4.38)	0.327 (0.29)	-9.568*** (-5.46)	-2.140 (-1.45)		
<i>Ind</i>	-11.52 (-1.18)	-13.88 (-0.81)	5.718 (0.76)	8.608 (0.83)		
<i>CurAsRa</i>	-0.413 (-0.17)	-6.432 (-1.60)	-1.997 (-0.77)	-14.83*** (-4.00)		
<i>TAturnover</i>	-0.0711 (-0.12)	0.441 (0.39)	1.562 (1.30)	0.575 (0.36)		
<i>Constant</i>	21.88* (1.87)	-52.87** (-2.20)	-30.34* (-1.81)	-35.59* (-1.80)		
<i>N</i>	193	200	400	405		
<i>R</i> ²	0.356	0.531	0.281	0.793		
<i>Adjusted R</i> ²	0.320	0.506	0.263	0.788		

Notes: *t*-statistics in parentheses, * *p* < 0.10; ** *p* < 0.05; *** *p* < 0.01

situation of worse-performing and non-founder-CEO firms. For founder-CEO and worse-performing firms, CEO compensation will strengthen the negative effect between CEO tenure and negative coverage. Table X shows that the moderating effect of CEO tenure on the relationship between CEO duality and negative coverage does not exist grouping by firm performance. The examination for firm performance is essential to explain the attribution process of media on controversial practices. The empirical finding makes the antecedent concepts in attribution theory verifiable.

Conclusion

The results show that negative coverage has a positive association with CEO payment in non-founder-CEO firms only. Negative coverage has a considerably negative association with CEO payment in founder-CEO firms. *H1a*, *H2a* and *H3a* are supported. CEO tenure negatively moderates the effect of CEO payment on negative media coverage in non-founder-CEO firms. The positive media bias evidence for founder-CEO exists only when the firm is better performed. However, the relationship between CEO power and media coverage still remains unclear.

On the basis of the attribution theory, this paper analyzes the relationship between controversial governance practices and media coverage. The results show that media have positive bias about founder-CEO firms versus non-founder-CEO firms, so under the same circumstances, media will positively cover founder-CEO firms. This conclusion helps explain how media coverage exhibits bias when faced with the same controversial governance practice. Prior evidence has found both political and economical bias in media coverage, e.g. media would use less negative words for local firms than non-local firms, or that newspapers slant more positive coverage for democrats than republicans in America (Cohen *et al.*, 2017; Eberl *et al.*, 2017; Lott and Hassett, 2014; Gurun and Butler, 2012; Baron, 2006). Besides visible bias, the concept of media bias also contains invisible bias. Unlike political and economical bias, invisible bias is hard to catch. The present study firstly explores how social belief influences media bias. Following the framework of the attribution theory, our results demonstrate how media coverage attributes the same controversial governance practice into different reasons depending on the social belief in China. The results verify the inherent effect of social belief on media bias, which sheds new light on the understanding of media bias.

Using the extent that negative coverage is affected by controversial governance practices as an indirect measure of media bias, the method can also be generalized to other forms of media bias. Specifically, bias can be divided into three types: stereotype, conformity, in- and out-group prejudice. Our finding lies on how conformity makes media coverage slant toward founder-CEO firms. If designed reasonably, for instance, stereotype can also be empirically verified by examining the relationship between previous positive images (such as corporation social responsibility) and the media reaction on controversial governance practices.

With the use of a specific certainty-oriented cultural context, we provide evidence that shows the role of belief in affecting the attribution process. In addition to belief, we also test firm performance as information causes in attribution antecedents. Adopting founder-CEO as a proxy variable of certainty-oriented cognition in China, this insight can also be generalized of other fields of Chinese economy, especially those where corporate behavior is affected by social situational variables. For example, Cao *et al.* (2016) tested the relationship between social trust and stock price crash risk among Chinese listed firms. Fan and Wong (2002) examined how the corporate ownership structure affects earnings informativeness in East Asia. This paper emphasizes how social belief affects the reaction of reputation evaluators, which also suggest that social cognition is likely to hinder the judgment of stakeholders.

Our findings support most of our conceptual arguments and make contributions to both reputation and governance literatures. They also bridge connection on these two bodies of work to better explain how media can act as a social arbitration role. Our study's contribution to the governance literature starts with its logical reasoning of basic assumptions in the agency theory, and that media penalty will arise when managers impose actions that against interests of shareholders or other stakeholders. Our study shows that the rule is not always true. What occurs in our findings is a highly contingent of reputational penalty following controversial practices such as CEO compensation. We find that media reaction on controversial practices varies differently from the conformity pressure, specifically how social belief affect the

attribution process of media. For instance, CEO compensation is associated with less penalties in founder-CEO firms than in non-founder-CEO firms, which consists with certainty-oriented cognition feature in China. The findings indicate to understand the situation in which reputational penalties function well or not. We also emphasize the casual attribution process in shaping media's evaluation and particularly focus on how attributions are formed under specific belief factor. We find evidence that social belief leads to significant differences in reputational penalties. These arguments and findings significantly extend the existing work on the understanding of media's role in corporate governance. The research has applied the attribution theory on how media would attribute observed behavior on different causes. Our insight is that the reputational impact of these cues can also be importantly influenced by the attribution process, and that those attributions may also be influenced by belief, social cognition and cultural characteristics more generally. In addition to providing a more behavioral view of the attribution bias in media evaluation on controversial governance practices, this study contributes to the ongoing stream of work in the governance literature that examines how social cognition affects media evaluation of firms and also when the media may act as a social arbiter by imposing public pressure. Prior work has focused on the role of media as a "watchdog" or the effect on market reaction. This study takes a somehow different perspective and focuses on why and when media may reduce penalties on controversial governance practices. Taken together, these studies suggest that bias exists naturally in the attribution process of evaluators, which is underestimated in previous research.

These perspectives hold the potential to show us meaning as the behavior is attributed and to link it to the reputation market. We believe there are two practical implications to be drawn from the above analysis. On the one hand, we find media coverage shows bias in the reputation market, and the bias is not always triggered by profitability. One of the main factors affecting the evaluator's bias is the social conformity, as shown in founder-CEO and later stage of CEO tenure firms. The interest implication of our results implies that media are not always an impartial arbitrator and even firm's CEO identity can affect firms' reputation cost. While market participants and company managers recognize that inherent bias exist in media coverage, the focus has been on the accuracy of information provided by media. For managers, the understanding of media bias helps in both public relation management and estimation of reputational reaction for proposed behavior. On the other hand, the extent to which media can provide information that is newly released or it has not been widely disseminated may have political and social implications. As efficiency market predicted, stock price fluctuates with new information. For market participants, such as investors, the insight of media bias provides new perspective in adopting the information of media. Our conclusion would offer specific advice about improving the capital market efficiency with the accurate understanding of reputation market for regulators, such as China Securities Regulatory Commission. The empirical evidences demonstrate how information is generated, which also benefits in understanding the price volatility.

This paper contributes to the academic discussion of the cognition feature in the East Asian culture. Furthermore, other antecedent variables, such as information and motivation, still need to be explored in the attribution process. Except for focusing on Chinese cultural character, future work could extend our findings to test cross-border comparison of media reaction to the same controversial governance practices across different countries. Moreover, future work should attempt to direct measure of media bias and incorporate other forms of media bias, such as stereotype, in- and out-group prejudice into studies examining changes of company reputation around controversial governance practices. We believe our findings provide guidance for research on how cause is formed and its limitations. We hope our work encourages further studies in this vein.

Note

1. Available at: www.china.org.cn/business/2010-09/16/content_20945750.htm

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