



Five Questions: Umit Gurun on Companies and the Media

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Now hear this: When senior-level media veterans sit on corporate boards, companies get better press, and more favorable press, in the wake of sensational events. That's not conjecture but fact, according to a new research paper entitled, "Price of Publicity," by Umit Gurun, an associate professor at the University of Texas in Dallas. Even in the advent of new media, this edge persists.

Institutional Investor contributor Steven Mintz spoke with Gurun recently about his research and its implications.

1. What started you down this road?

Earlier academic literature shows that board members with special qualifications bestow advantages. Scrutiny is more informed and networks are more extensive. Companies with bankers on their boards, for instance, enjoy an edge when dealing with banks generally, from an advisory or monitoring standpoint. Attorneys often confer beneficial effects on legal matters before companies.

Given these correlations, I wondered if a board member with media chops improves media slant — more news coverage and more favorable content when bad news breaks. If firms with media experts are more successful in doing so, we should not only see more coverage but also more favorable coverage of a firm with a media expert on the board than one without after one of these events.

2. How did you handle the research?

We identified 1,200 media experts. In that group, around 500 serve on boards of public companies. It's a finite talent pool, which rules out filling board seats at every company with someone savvy about media. But at the same time, it's a large enough sample to furnish statistically significant evidence of a trend we suspected. An econometric model added routine variables: firm size, geographic location, growth rate, institutional ownership and analyst coverage, among others.

Then research examined media coverage in the wake of two kinds of events that garner media attention: news pertaining to product safety and employee safety. We looked into whether coverage and news slant varied where media experts joined boards more than a year before events occurred.

3. What did you find out — the bottom line?

Public companies with a media expert on their boards received 40 percent more media coverage, or seven more news articles a year for an average company in the sample. The news that's reported also includes 25 percent fewer negative words compared with articles on control firms.

If a board of directors includes a media expert then news coverage is more likely to follow a press release within five days of a press release. What I found is that if you have a board member with media expertise, your press releases are 10 percent more likely to appear in the news. That means, for an arbitrary example, if a company does not have a media expert, its press releases might get covered in the news 20 percent of the time. A company with media chops on its board should see coverage 30 percent of the time. If there is an Internet effect after 2002, it is partially captured by sample.

4. Wouldn't you say there is a quid pro quo element to some results?

A fraction of this effect may be quid pro quo if board members who control media help shape a media message by influencing their own outlets. Far more often than not,

though, an "effective press relations hypothesis" intervenes: Board members with media expertise furnish direct and indirect links to the media that lowers information acquisition costs for journalists.

5. So do you foresee demand for writers and editors on corporate boards?

Journalists hoping for board appointments can stand down. The benefits extend only to board members who are current or former media owners, directors and top executives.