

# *Media Governance and Non-punitive Supervision Research Based on Stock Exchange Comment Letters*

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**Abstract:** With the in-depth development of Internet technology, financial media has increasingly become an important role in capital market supervision. This paper empirically examines the corporate governance effect of the media from the perspective of non-punitive supervision. The research finds that, first, the media coverage of the company will cause the exchange to pay attention to and issue stock exchange comment letters; second, the trigger effect of media coverage is more obvious when the information environment is poor. Under the background of the implementation of post-supervision in China, this paper helps people understand the governance effect of the media in the process of exchange supervision, and provides suggestions for the regulatory authorities to formulate relevant policies.

## 1. Introduction

Since the implementation of the information disclosure through train reform in 2013, China's stock exchanges have shifted from "pre-audit" to "post-supervision". The stock exchange comment letters of stock exchanges to listed companies have increased year by year, which provides good empirical evidence for the study of the first-line supervision of stock exchanges in the context of China. With the deepening of the era of news media communication, the media plays an increasingly important role in transmitting information in contemporary society. Research in the field of corporate governance shows that the media can play an active role in supervision and governance through the reputation constraint mechanism and the involvement of regulatory agencies. In practice, does the stock exchange pay attention to the company information spread by the media in the process of supervision, and is the stock exchange comment letters sent to the enterprise affected by the media? This is an important issue worthy of attention.

Based on the stock exchange comment letters issued by Shanghai Stock Exchange and Shenzhen Stock Exchange from 2015 to 2021, this paper examines the internal relationship between media governance and stock exchange comment letters supervision. The empirical results of this paper show that, first, the media coverage of the company will lead to the exchange's attention and the issuance of stock exchange comment letters. Second, the triggering effect of media reports is more obvious when the governance environment is poor.

The research significance of this paper is as follows: Firstly, it examines the role of media governance from a new perspective of the stock exchange comment letters and supplements the literature on media in corporate governance. Secondly, based on the Chinese scenario, this paper incorporates media coverage into the study of the influencing factors of the probability of issuing stock exchange comment letters by exchanges, which enriches the relevant research on the stock exchange comment letters supervision mechanism of stock exchanges. Thirdly, the research is helpful for the stock exchange to use the media power to accurately inquire and further improve the relevant system of stock exchange comment letters.

## 2. Theoretical Analysis

In theory, can media coverage affect the exchange's issuance of stock exchange comment letters? On the one hand, from the perspective of media, as an information intermediary, the media itself has the function of exposing information, and has the tendency to excavate and transmit negative news<sup>[1]</sup>. Listed companies gather the eyes of a large number of investors, and are naturally the object of media attention and reporting. The supervision and disclosure of corporate governance issues is not only the embodiment of the media's social responsibility, but also the consideration of their own interests, because the media contains corporate governance issues through outward reporting, attracting the attention of investors, regulatory authorities and other stakeholders, which helps them win social reputation and gain commercial interests<sup>[2]</sup>. In addition, existing studies have found that the role of reputation mechanism in constraining the behavior of Chinese corporate managers is very limited. At this time, the transition from "media supervision" to "media governance" requires the path of "administrative intervention"<sup>[3]</sup>. Therefore, the media coverage causes the exchange to pay attention to the reported enterprises, and then uses the stock exchange comment letters to govern the enterprise problems.

On the other hand, for supervision organization, media coverage reduces the cost of collecting information and also implies public opinion pressure. Compared with the CSRC's administrative punitive supervision, which often takes up to one year or more, the exchange usually takes less than one month to issue stock exchange comment letters. Media coverage can provide information in a short period of time, help the exchange to quickly obtain information such as the company's anomalies and irregularities, reduce the cost of information collection by the exchange, reduce the information asymmetry between the exchange and the listed company, and also help small and medium-sized investors to understand more information about listed companies. When a large number of financial media question a listed company, the potential pressure of public opinion has prompted the exchange to conduct in-depth investigations. If the information available is not sufficient to make a final judgment, the probability of sending stock exchange comment letters to a listed company is greatly increased. This paper proposes the following hypothesis:

H: The more media coverage, the higher the possibility of the company receiving stock exchange comment letters from the exchange.

## 3. Research Design

### 3.1. Sample Selection and Data Sources

This paper takes A-share listed companies from 2015 to 2021 as the research object, and empirically examines the relationship between media coverage and regulatory inquiries. The stock exchange comment letters data and media coverage data are from China Research Data Service Platform (CNRDS), and the company's financial data are from CSMAR. Finally, the samples are processed as follows: (1) excluding financial and insurance companies; (2) the missing observations

are eliminated; (3) winsorize upper and lower 1% tail processing of continuous variables; finally, we obtain the annual observations of 20,496 A-share listed companies.

### 3.2. Model Design

This paper studies the influence of media coverage before inquiry on stock exchange comment letters, and refers to Xiaoxi Li et al. (2019)<sup>[4]</sup> to establish Model (1) to test hypotheses:

$$\text{Inquiry} = \alpha_0 + \alpha_1 \text{Media} + \alpha_2 \text{Size} + \alpha_3 \text{Lev} + \alpha_4 \text{ROA} + \alpha_5 \text{Growth} + \alpha_6 \text{Top1} + \alpha_7 \text{Big4} + \alpha_8 \text{Opinion} + \alpha_9 \text{SOE} + \alpha_{10} \text{ListedAge} + \text{Ind} + \text{Year} + \varepsilon \quad (1)$$

*Media* is the explanatory variable, including *Media* (measured by the natural logarithm of the number of media coverage in the 60 days before the receiving stock exchange comment letters plus 1) and *Negative* (measured by the natural logarithm of the number of negative reports in the 60 days before the receiving stock exchange comment letters plus 1).

*Inquiry* is the explained variable, whether the stock exchange comment letters is received in the year, take 1, otherwise it is 0.

We control other variables including *Size* (company size), *Lev* (financial leverage), *ROA* (return on assets), *Top1* (ownership concentration), *SOE* (property rights), *Growth* (company growth), *ListedAge* (age of listing), *Big4* (whether the auditor), *Opinion* (the type of audit opinion).

## 4. Empirical Results

### 4.1. Descriptive Statistic

Descriptive statistics show that the mean value of *Media* is 2.342, sd is 1.110; the mean value of *Negative* is 1.393, sd is 0.899, which shows that there is a big difference between the media attention and the number of negative tone reports among listed companies. The average value of *Inquiry* is 0.227, which can be seen that the proportion of inquiry companies in the sample companies is 22.7%, and the proportion of inquiry letters is not low.

According to whether the stock exchange comment letters were received, the main variables were grouped and tested. The mean values of *Media* in the two groups of non-received stock exchange comment letters and received stock exchange comment letters were 2.274 and 2.572, respectively. The mean values of negative reports *Negative* were 0.862 and 1.603, respectively. This indicates that compared with enterprises that have not received the stock exchange comment letters, it indicates that the media attention of the enterprises being questioned before receiving the stock exchange comment letters is higher and the number of negative reports is more.

### 4.2. Analysis of Relationship

We performed Pearson correlation coefficient analysis and Spearman correlation coefficient analysis on the main variables. The VIF values of the main variables are not more than 10, which proves that there is no serious multicollinearity. The results of correlation analysis preliminarily support the research hypothesis.

### 4.3. Analysis of Regression Results

Table 1 is the regression result of the influence of media coverage before the inquiry on the probability of issuing stock exchange comment letters. *Media* and *Negative* in the 60 days before the inquiry are significantly positive at the 1% statistical level, indicating that the higher the media

attention and the more negative reports of the enterprise, the more likely it is to cause the exchange to issue the stock exchange comment letters, which verifies the hypothesis of the article.

Table 1: Media coverage and stock exchange comment letters.

Variables	Inquiry	Inquiry
Media	0.321***(11.43)	
Negative		0.716***(22.03)
Control Variables	Control	Control
Constant	3.989***(5.83)	4.447***(6.60)
Observations	20,470	20,470
R-squared	0.188	0.222
Ind FE	Yes	Yes
Year FE	Yes	Yes

Robust z-statistics in parentheses, \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

#### 4.4. Robustness Test

In order to ensure the robustness of the research conclusions, this paper adopts the following methods to test: (1) the number of negative reports 90 days before the inquiry plus 1 and then take the natural logarithm to measure the explanatory variables; (2) the explained variable is measured by adding 1 to the amount of inquiry function received in the year and then taking the natural logarithm; (3) Other types of stock exchange comment letters are included in the sample, and regression is performed according to Model (1). The above test results are consistent with the previous results, which proves that the results of this paper are robust.

#### 4.5. Further Analysis

Table 2: Media coverage and stock exchange comment letters: based on the information environment.

Variables	Inquiry	Inquiry	Inquiry	Inquiry
Media×Analyst	-0.048*(-1.94)			
Negative×Analyst		-0.053**(-2.00)		
Media×Investor			-0.002**(-2.02)	
Negative×Investor				-0.004***(-2.65)
Control Variables	Control	Control	Control	Control
Constant	1.844**(2.44)	2.536***(3.40)	4.762***(6.57)	5.350***(7.54)
Observations	20,165	20,165	20,435	20,435
R-squared	0.191	0.225	0.187	0.222
Ind FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes

Robust z-statistics in parentheses, \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

When the company's information environment is good, the more information the exchange can obtain from other channels such as analysts, and the incremental role of media coverage in the supervision of stock exchange comment letters is relatively limited. Studies have shown that, the higher the attention of analysts and the higher the shareholding ratio of institutional investors, the better the company's information environment<sup>[5-6]</sup>.

The results of Table 2 show that the interaction coefficient is significantly negative, indicating that analysts' attention and institutional investors significantly reduce the probability of negative

media coverage triggering the supervision of stock exchange comment letters. We can think that the triggering effect of negative media coverage on regulatory inquiries is more obvious in listed companies with poor external information environment.

## 5. Conclusions

This paper takes China's A-share listed companies from 2015 to 2021 as the research object, and empirically examines the impact of media coverage on the probability of issuing stock exchange comment letters. The results show that the more media attention and negative reports, the more inquiries the company receives, and the trigger effect of media coverage is more obvious when the governance environment is poor.

This paper finds that the negative media coverage plays a whistleblower role in triggering the exchange's regulatory inquiries, which makes up for the lack of media governance in the existing research on the influencing factors of stock exchange comment letters. It is expected that external governance mechanisms such as regulators and media can effectively play a governance role and jointly promote the high-quality development of the company.

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