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Media visibility and corporate social responsibility investment evidence in Spain

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Abstract

Despite the extensive research in both the determinants and the results of corporate social responsibility (CSR), relatively few studies have considered extra-legal institutions as potential determinants of CSR. Our work fills this gap by looking at how media attention affects CSR over a long-term period in a continental European setting. Our results show that media coverage positively affects CSR. Additional scrutiny triggered by media coverage encourages dominant owners to signal their commitment to limiting self-dealing transactions and their orientation toward stakeholders' needs through CSR investments. Additionally, our results reveal that this signaling device offers greater benefits and lower costs in firms where controlling owners show a voting-cash flow wedge. Our results are relevant to different actors such as investors, auditors, and policy makers as they provide solid evidence that media coverage is an important driver of CSR orientation in a continental European setting.

KEYWORDS
corporate social responsibility, media coverage, voting-cash flow wedge

1 | INTRODUCTION

According to the Global Sustainable Investment Alliance (2019), sustainable investment assets grew by 24.5% in Europe in the 2014–2018 period. However, despite the extensive academic research addressing both the determinants and results of corporate social responsibility (CSR), relatively few studies consider extra-legal institutions as potential determinants of CSR. In this sense, the media collect, aggregate, disseminate, and amplify information (Bushee et al., 2010; Fang & Peress, 2009). By offering coverage of corporate action, the media make corporate behavior a matter of public interest and can enhance awareness of company matters (Ahern & Sosyura, 2014; Anderson et al., 2009; Bushee et al., 2010). In addition to helping to convey information that might otherwise remain undisclosed, the media evaluate corporate actions, which affects the perceptions of larger audiences and, subsequently, a firm's relation with its stakeholders (Baron, 2005; Bednar, 2012; Dai et al., 2015; Dyck & Zingales, 2002; Farrell & Whidbee, 2002; Henriques & Sadorsky, 1999; Johnson et al., 2005; Miller, 2006; Pollock & Rindova, 2003; Stahl & Sully de Luque, 2014; Wiesenfeld et al., 2008). Considering the above, corporate actions might be sensitive to media coverage. This study examines whether, and to what degree, dominant owners of publicly traded Spanish firms might be sensitive to media coverage when selecting their social policies. More specifically, we study what impact the level of media attention has on CSR. Our work focuses on what impact an extra-legal institution, namely the media, might have and explores its effect on CSR performance.

Interactions between media visibility and CSR performance have mainly been considered in the US context (Borghesi et al., 2014; Li

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et al., 2019; Zyglidopoulos et al., 2012). However, when compared to firms in the US, firms in continental Europe operate in a setting where investors are poorly protected by the legal system and where capital markets are less developed (Djankov et al., 2008; Faccio & Lang, 2002). In such a context, the political influence of governments and other stakeholders on business is strong and ownership concentration is prevalent. In fact, listed Spanish firms have a single large controlling shareholder, who holds at least 10% of the company's voting stakes (La Porta et al., 1999). Previous institutional differences will trigger different patterns of stakeholder involvement in corporate decision making and might translate into important variations in insiders' incentives to pursue CSR investments. Consequently, it is important to explore the channels through which these controlling owners might affect CSR investments in this setting as well as how media coverage might shape previous controlling owners' incentives to impact CSR investments. Furthermore, isolated empirical evidence shows greater commitment to CSR for CEOs who face greater media exposure in the Spanish context (Godos-Díez et al., 2020). Nevertheless, the research design of previous work is limited and fails to consider medium and long-term relationships, such that findings from studies addressing what effect media coverage has on CSR performance are far from conclusive.

Our work fills this gap by analysing how media attention affects CSR over a long-term period and by providing novel evidence concerning the moderating effect of the controlling owner's voting-cash flow wedge on the impact of media coverage on CSR performance. This wedge allows controlling owners to commit low equity investment while maintaining tight control of the firm, creating a separation in control (voting rights) and ownership (cash flow rights) (Fan & Wong, 2002). Previous wedge matters because a controlling owner in this situation could extract wealth from the firm, receive the whole benefit, and yet bear only a fraction of the cost (Bebchuk, 1999; Bebchuk et al., 2000), which might increase agency conflicts from inside and outside the firm. This increase in agency conflicts might also affect the role of CSR investments in the presence of heightened media scrutiny.

Our results evidence a positive effect of media coverage on CSR performance, showing that additional scrutiny triggered by media coverage encourages dominant owners to signal—through CSR investments—their commitment to limiting their self-dealing transactions. Through CSR investments, controlling shareholders thus forge a reputation for treating minority shareholders and other stakeholders well. This bonding mechanism provides controlling owners with wide-ranging benefits. By reducing agency conflicts from outside and inside the firm, CSR investments allow controlling owners to mitigate the firm value discount due to anticipated expropriation, protect the firm's reputation and avoid any wealth transfer through the political process. Furthermore, our results also show that controlling shareholders' incentives to signal their self-constraint and to cater to the different stakeholders' demands in the presence of heightened media scrutiny increase in companies where controlling owners show a voting-cash flow wedge. The results are consistent with the use of CSR investment as a signaling mechanism conveying less costs and more benefits in these firms.

We test the robustness of our results by using alternative measures of media visibility and different procedures to address different endogeneity issues. We also rule out the possibility that our results may be driven by the fact that firms with higher levels of CSR performance are more likely to be followed by the media. Although we use data from a single country—Spain—our results can be extrapolated to most continental European countries where media independence is high (Freedom of the Press Index, Freedom House), where companies tend to be controlled by dominant owners (Fan & Wong, 2002), and where institutions provide little protection for company transactions (Djankov et al., 2008).

We offer several contributions to the previous literature. Our work moves from the traditional approach focused on the consequences of CSR investments to now centre on the potential drivers of CSR investments in a continental European setting. In so doing, we show that media attention provides a potential explanation to understand why certain companies show better CSR performance than others. Our findings contribute to the current debate and provide a better understanding of CSR orientation and its interaction with extra-legal institutions by discussing the channels through which dominant owners could affect CSR investment in the presence of heightened media scrutiny. Furthermore, and in contrast to previous studies in the area, our work does not focus on media coverage of questionable CSR practices but on media coverage of all the stories related to a firm. We provide novel evidence regarding what effect the controlling owner's voting cash-flow wedge has on the relation between media coverage and CSR performance. Our study thus provides a new opportunity for researchers to understand the interactions between media coverage and CSR performance. Finally, we also contribute and expand the literature on the relationship between corporate governance and media coverage (Li & Chen, 2018). Our results might prove particularly important to managers, investors, auditors, financial analysts, and policy makers as they evidence that media visibility promotes CSR orientation.

The rest of the paper is organized as follows. Our hypotheses concerning how media visibility might influence CSR performance are shown in Section 2. Section 3 describes the sample, the data sources, the model specification as well as the summary statistics. We provide the empirical results in Section 4, while Section 5 concludes.

2 | THEORETICAL ARGUMENTS

The media collect, analyze, and distribute information, thereby increasing scrutiny of corporate behavior (Ahern & Sosyura, 2014; Anderson et al., 2009; Bednar, 2012; Bushee et al., 2010; Dyck et al., 2008; Dyck & Zingales, 2002; Fang & Peress, 2009; Farrell & Whidbee, 2002; Miller, 2006; Saxton & Anker, 2013). By selecting the firms and actions to be covered, the media shed light on certain issues which might not otherwise become widely known to relevant stakeholders. Moreover, organizational literature has emphasized the role of the media in spreading legitimacy (Hoffman & Ocasio, 2001;

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Pollock & Rindova, 2003). Many of the studies that address the media's evaluative role have focused principally on the resources and positive outcomes conferred upon firms as a result of media attention (Deephouse, 2000). As a social arbiter, the media make judgments about firms, evaluate company performance, and so influence the perceptions of larger audiences (Baron, 2005; Bednar, 2012; Dai et al., 2015; Dyck & Zingales, 2002; Farrell & Whidbee, 2002; Henriques & Sadorsky, 1999; Miller, 2006; Pollock & Rindova, 2003; Stahl & Sully de Luque, 2014; Wiesenfeld et al., 2008). Considering the above, this extra-legal institution might affect corporate behavior and, in particular, CSR performance.

Yet, despite the existence of substantial research addressing the determinants of CSR, current knowledge of the media's potential to affect CSR performance remains far from conclusive. In the US, Zyglidopoulos et al. (2012) show a positive impact of media attention on CSR performance. According to the previous authors' results, highly visible firms usually invest more in their CSR activities than firms that are less visible, with the authors providing two different explanations for their results; namely, (1) firms that are more visible usually receive more diverse stakeholder demands and usually engage more in CSR activities so as to meet such demands, and (2) firms that are more visible are more vulnerable to crises and tend to engage in CSR activities in an effort to build a positive reputation that protects them from stock markets falls, should any negative events occur. Also in the US, Borghesi et al. (2014) show how firms that display a higher level of media coverage will be those who are more likely to invest in CSR. They provide two alternative explanations for their results; namely, (1) media scrutiny leads managers to focus on stakeholders' interests (perhaps at stockholders' expense), and (2) CEOs who come under greater press coverage see CSR investments as a means to promote their own private career interests and reputations at the expense of stockholders. Focusing on S&P 500 firms, Li et al. (2019) find that firm visibility positively impacts CSR rating. Their evidence also suggests that this relationship is causal and works in one direction; namely, from visibility to CSR. Previous authors' results are consistent with visibility being an important factor that must be considered when looking at the firm's level of CSR involvement. Additionally, in the context of charitable donations—one subset of CSR actions—Campbell and Slack (2006) provide evidence that firms with higher public visibility are more likely to manage stakeholders' claims through charitable giving.

However, when compared to firms in the US/UK, firms in continental Europe operate in an environment that offers less investor protection and lower capital market development (Djankov et al., 2008). In such a context, ownership concentration is prevalent (Cuervo, 2002) and the political influence of governments and other stakeholders on business is strong. Prior institutional differences will lead to different patterns of stakeholder involvement in corporate decision making and might translate into important variations in insiders' incentives to pursue CSR activities. Findings from studies into the impact of media coverage on CSR performance from the US/UK cannot therefore be directly extrapolated to a continental European setting. Moreover, except for Godos-Díez et al. (2020), available evidence is practically non-existent in the context of Spain. In this sense, the previous authors conclude that a higher level of CEO media exposure may give rise to greater commitment to CSR, and they attribute their results to companies being more attentive to stakeholders' demands and/or to media presence being positively related to closer identification with the company as well as to firms' attempts to preserve or enhance their image. However, the above authors' analysis is limited because they carried out their study on a sample of 60 publicly listed companies exclusively for the year 2014. In fact, these authors encourage further similar studies using panel data to demonstrate the existence or absence of any links in the medium and long-term, which are the time horizons for which CSR decisions are usually made.

In this sense, the legal system in continental Europe offers poor protection for the rights of minority shareholders (Djankov et al., 2008), and ownership concentration is prevalent (Cuervo, 2002; Santana-Martín & Aguiar Díaz, 2006). In fact, most listed Spanish firms have a single large controlling shareholder, who holds at least 10% of the company's voting stakes and who uses control devices, such as pyramids, to enhance effective control with a relatively lower level of cash flow rights (Claessens et al., 2000; Faccio & Lang, 2002; La Porta et al., 1999). Moreover, ownership structure in these companies makes takeover threats practically non-existent. In light of the above, dominant owners in continental Europe are long-term investors and natural monitors with the ability and incentives to monitor managers' behavior (La Porta et al., 1999). Consequently, the main agency conflict in the considered setting is the potential expropriation of minority shareholders by controlling owners (Faccio et al., 2001).

It is important to acknowledge that when an owner effectively controls a firm, they also control its investment policies and consequently its commitment to invest in CSR. As a result, when shedding light on what effect media coverage has on CSR performance in continental Europe, it is important to further our knowledge on the controlling shareholders' incentives to invest in CSR.

CSR investments might benefit all shareholders, although not all of them bear the same costs. In this sense, previous literature has pointed out that the greater the shareholder's share, the less likely they are to favor CSR investments that do not provide a clear return, even if they are socially optimal (Ducassy & Montandrau, 2015). However, in the presence of heightened corporate scrutiny, CSR investments might also bring important benefits to controlling shareholders. In a context where investor protection is low and where controlling shareholders will show incremental incentives to pursue private benefits at the expense of minority shareholders and other stakeholders, we predict that—as scrutiny over a firm increases—controlling owners may show greater incentives to invest in CSR in order to signal to minority shareholders and other stakeholders that they are voluntarily committing to constraining their self-dealing activities such as perquisites and pet projects. In the considered setting, the controlling shareholder's commitment seems credible because in the presence of heightened scrutiny, CSR investments might provide this shareholder with multiple benefits. They can therefore help to

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mitigate the discount of the firm's value due to the expected expropriation of minority shareholders and so build a sound reputation founded upon a stakeholder friendly orientation. This proves particularly important in a context where dominant owners show a long-term investment horizon in the firm and operate under a bank-oriented financial system with heavy government intervention in the economy through political influence over financial institutions and through central banks (Cuervo, 2002). In such a system, companies rely heavily on insiders' political and social networks to conduct business (Bona-Sánchez et al., 2014; Cuervo, 2002). Consequently, contracts are primarily organized based on relationships rather than on market mechanisms and, therefore, company reputation becomes critical to successfully conclude not only market-based but also relationship-based contracting (La Porta et al., 2000). As an example, the reputation promoted by CSR investments might allow dominant owners in continental Europe to safeguard political connections from public scrutiny, thereby increasing the company's ability to obtain implicit and explicit contracts from the government (Fisman, 1998; Johnson & Mitton, 2003; Leuz & Oberholzer-Gee, 2006). Moreover, insiders' preservation of political connections also improves their firms' ability to engage in relationship contracting with other firms within the same political network. Establishing a reputation for being socially responsible might also be profitable by keeping high quality employees, attracting new customers and suppliers decreasing cash flow risk and increasing operational flexibility (Klein & Leffler, 1981).

Furthermore, as the media increase their attention on corporate matters, firms who come under greater media coverage are faced with the incremental risk of becoming the target for politically motivated actions. The political cost theory (Cahan, 1992; Watts & Zimmerman, 1978; Wong, 1988) states that companies with higher visibility are more vulnerable to wealth transfers through the political process. Controlling owners in firms with higher media coverage will thus show a greater commitment to CSR in an effort to diminish political costs.

In the Spanish context, where dominant owners show a long-term orientation (La Porta et al., 1999), we predict that heightened media scrutiny encourages controlling owners to use CSR investments as a credible signal of their self-constraint commitment to reducing transaction, agency and political costs, thereby mitigating internal and external pressures and, overall, diminishing any potential threat to corporate survival. Considering the above, we state the following hypothesis:

Hypothesis 1 *Media coverage has a positive impact on CSR performance.*

Ownership structures which separate voting from cash flow rights are frequent outside the US, and previous studies (Francis et al., 2005) point out how pyramids are prevalent in institutional settings where outside investors' interests are weakly protected. Pyramidal structures are the most common way in which dominant owners can separate voting and cash flow rights (Almeida & Wolfenzon, 2006; Claessens et al., 2000; Faccio & Lang, 2002; La Porta et al., 1999). In the presence of these ownership structures, controlling owners could extract wealth from the firm, receive the whole benefit, yet only bear a fraction of the cost. The presence of pyramids thus conveys a voting-cash flow wedge which allows controlling owners to elude the pro rata consequences of the investment decisions they make (Bebchuk, 1999; Bebchuk et al., 2000). In this sense, previous empirical evidence points to a negative relation between this wedge and firm value (Claessens et al., 2000).

In light of the above, the controlling owner's voting-cash flow wedge might therefore intensify agency conflicts from outside and inside the firm. Consequently, as scrutiny over the firm increases, controlling owners may show greater incentives to invest in CSR in an effort to signal to minority shareholders and to the other stakeholders, their commitment to constraining their self-dealing transactions in the presence of previous wedge. The benefits of using CSR as a bonding mechanism might be greater in companies where controlling owners are subject to heightened media scrutiny and show a voting-cash flow wedge, because this CSR orientation might help controlling owners to mitigate the greater agency conflicts from outside and inside the firm. It is also important to acknowledge that since this wedge allows controlling owners to elude the pro rata consequences of the investment decisions they make, CSR investments convey lower costs for controlling shareholders in companies where previous wedge exists. Consequently, our second hypothesis is stated as follows:

Hypothesis 2 *The controlling owner's voting-cash flow wedge strengthens the positive impact of media coverage on CSR performance.*

3 | RESEARCH DESIGN

3.1 | Sample

Initially, the sample includes 109 non-financial Spanish listed firms from the OSIRIS database between 2007 and 2020. The final sample includes 1288 firm-year observations, representing 98.1% of market capitalization in 2020. The continuous variables were winsorized at the 1st and 99th percentiles so as to reduce the impact of possible outliers.

3.2 | Empirical specification

To test our hypothesis, we estimate the following regressions (Equations 1 and 2):

$$CSR_{Index\,i,t} = \alpha + \beta Media_{Attention\,i,t-1} + \gamma Z_{i,t} + Industry_i + Year_t + + \varepsilon_{i,t} \text{ Placeholder Text} \quad (1)$$

$$CSR_{Index\,i,t} = \alpha + \beta Media_Attention_{i,t-1} + \gamma Div_{i,t-1} + \varphi Media_Attention \text{ x } DIV_{i,t-1} + \gamma Z_{i,t} + Industry_i + Year_t + \varepsilon_{i,t} \quad (2)$$

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In both models, the dependent variable is the *CSR_Index*. Using data from different sources, previous literature has used indexes to measure CSR performance (Harjoto & Jo, 2011; Kamasak et al., 2019; Katmon et al., 2019; Maas, 2018). We follow Hong and Andersen (2011), Belu and Manescu (2013) and Rodríguez-Fernández (2016) to build a cumulated index based on four sources of information: the Global Reporting Initiative, the Dow Jones Sustainability Index, the United Nations Global Compact, and Compliance with the Spanish Recommendations of Good Corporate Governance. To obtain the variable CSR_index we first aggregate the value obtained for each source of information and then display it in base one.

Specifically, in order to obtain the *CSR_Index*, an equally weighted sum of the values provided by the four sources of information, we consider the following criteria: (1) the Global Reporting Initiative (GRI). Our first measure relates the total number of implemented recommendations to the total number of applied recommendations included in the GRI. We provide a value of 1 if the firm has been rated as an *A+* or "In Accordance-Comprehensive", the value of 0.5 if the firm has been rated as *A* or "In Accordance-Core", the value of 0.25 if the firm has been rated as *B*, *B+* or "In Accordance", and the value 0 for the remaining firms. (2) the Dow Jones Sustainability Index (DJSI). In line with our second measure, we consider a value of 1 if the firm is listed in the DJSI, and 0 otherwise (3) United Nations Global Compact (UNGC). In line with our third measure, we provide a value of 1 if the firm has committed to the GC, and 0 otherwise. (4) the Good Corporate Governance Index (CG). Our fourth measure is calculated by considering the number of recommendations implemented to the total number of recommendations included in the CG. We consider the value of 1 per each recommendation fully implemented by the firm, the value of 0.5 per each recommendation partially implemented by the firm, and 0 otherwise. The total score obtained by each firm is then divided by the total number of recommendations so as to obtain the value of CG. Possible CG values range from 0 to 1.

In Equation 1, we test Hypothesis 1. The variable of interest is *Media_Attention*, the level of media coverage. Following previous literature (Borochin & Cu, 2018; Dai et al., 2015; Dyck et al., 2008; Dyck & Zingales, 2002; Lauterbach & Pajuste, 2017; Liu & McConnell, 2013; Peña-Martel et al., 2018; Peña-Martel et al., 2021, 2022), we use the variable *Media_Attention*, which is defined as the natural logarithm of the number of news items on a firm reported by the media. We obtain the data to build the variable media attention from Peña-Martel et al. (2018), who used the Factiva database, to retrieve the number of news items published in the Spanish financial press for each firm (El Economista, Cinco Días and Expansión) and in the international financial press (Dow Jones and Business Wire, Reuters, Wall Street Journal and Financial Times).[1] Since Peña-Martel et al. (2018) cover the period 1996–2014, we complete the sample by adding media data until 2020.

In Equation 2, we extend our analysis of the impact of media coverage on CSR performance by also including the dominant owner's voting-cash flow wedge (Hypothesis 2). The variable *Div* is defined as a dummy variable that takes the value 1 if the dominant owner shows a voting-cash flow wedge, and 0 otherwise. Given the focus on the complex ownership structures common in continental Europe, we use the control chain methodology (La Porta et al., 1999). The coefficient φ captures the moderating effect of the voting-cash flow wedge in the effect of media coverage on CSR.

In the equations, *Z* includes a set of control variables affecting CSR performance. We consider firm size (*Size*, the natural logarithm of total assets) (Choi et al., 2010; Harjoto & Jo, 2011; Katmon et al., 2019; Li & Chen, 2018; Rodríguez-Fernández, 2016); firm performance (*ROA*, earnings before interest, taxes, depreciation, and amortization divided by total assets) (Deckop et al., 2006; García-Meca & Santana-Martín, 2022; Maas, 2018; Pucheta-Martínez et al., 2019); growth opportunities (*QTobin*, the market value of equity plus total debt, all divided by total assets) (Boubakri et al., 2016); leverage (*Leverage*, the sum of debts divided by total assets) (Katmon et al., 2019; Lan et al., 2013; Rodríguez-Ariza et al., 2017); ownership structure (*Voting*, the voting rights of the five largest shareholders) (Lopatta et al., 2017; Oh et al., 2011; Simerly & Bass, 1998; Zaid et al., 2020); and *Ibex35*, a dummy variable which takes the value 1 if the firm is included in the Spanish stock market index (Ibex-35), and 0 otherwise (Odriozola & Baraibar-Diez, 2017; Roberts, 1992).[2] The rest of the variables included in Equation 1 are those related to industry (*Industry*) and year (*Year*) fixed effects.

4 | RESULTS

4.1 | Descriptive analysis

Descriptive statistics are reported in Table 1. In Panel A (Table 1), we show how the average value of the *CSR_Index* is 0.39, with the median being 0.21. As regards the variable used to measure media coverage, the average number of news items is 356, with a median of 118. In Panel B (Table 1), we show the correlation matrix. In addition, the correlation coefficients between the key variables of interest are low, except for some values for the variable *Media_Attention*. In order to test whether our regressions are affected by multicollinearity problems, we calculate the Variation Inflation Factors (VIF). Panel B (Table 1) shows low VIF values for the variables, indicating the absence of multicollinearity concerns in our regressions.

To shed some initial light on whether media visibility is related to CSR performance, we report the difference in means in the variable *CSR_Index* for the subsamples of firms with high and low media attention (Table 1. Panel C). The results indicate greater socially responsible performance in firms with higher media attention. Moreover, data suggest that firms with higher media coverage show larger voting-cash flow wedge (*Div*), larger size (*Size*), greater profitability (ROA), fewer investment opportunities (*QTobin*), lower concentrated ownership (*Voting*), and are exposed to greater stock market scrutiny (*Ibex35*). Moreover, there are no statistically significant differences in leverage (*Leverage*) between firms that are subject to high and low media coverage.

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TABLE 1 Descriptive statistics

Panel A. Summary statistics

	Mean	Median	S.D	1st Q	3rd Q
CSR_Index	0.39	0.21	0.27	0.18	0.59
News	356.70	118.00	621.11	52.00	366.00
Div	0.37	0.00	0.48	0.00	1.00
Size	14.00	13.91	2.03	12.49	15.27
Roa	0.05	0.05	0.10	0.01	0.08
QTobin	1.56	1.20	1.17	0.99	1.61
Leverage	0.80	0.67	0.25	0.51	0.80
Voting	50.33	51.67	20.91	33.99	65.91
Ibex35	0.30	0.00	0.50	0.00	1.00

Panel B. Correlation matrix

	CSR_Index	*Media_Attention*	*Div*	*Size*	*ROA*	*QTobin*	*Leverage*	*Voting*	*VIF*
Media_Attention	0.587***								
Div	0.043	0.010							1.04
Size	0.728***	0.672***	0.007						2.86
Roa	0.041	0.040	−0.018	0.041					1.43
QTobin	−0.111***	−0.070	0.014	−0.252***	0.409***				1.55
Leverage	0.032	0.095***	0.051*	0.111***	−0.252***	0.121***			1.20
Voting	−0.108***	−0.211***	0.179***	−0.090***	0.007	0.069**	−0.010		1.11
Ibex35	0.664***	0.568***	0.005	0.676***	0.076***	−0.018	0.101***	−0.167***	2.03

Panel C. Firms with high and low media attention

	Firms with high media coverage (N = 644)			*Firms with low media coverage (N = 644)*			*t*-Student
	Mean	Median	SD	Mean	Median	SD	
CSR_Index	0.55	0.57	0.29	0.23	0.19	0.11	−25.79***
Div	0.40	0.00	0.49	0.35	0.00	0.47	−2.07**
Size	15.31	15.18	1.71	12.66	12.62	1.35	−30.44***
Roa	0.06	0.05	0.09	0.04	0.04	0.11	−3.24***
QTobin	1.52	1.23	0.94	1.60	1.16	1.38	2.783***
Leverage	0.70	0.70	0.22	0.63	0.61	0.27	1.18
Voting	48.01	49.13	19.60	52.63	55.49	21.93	4.03***
Ibex35	0.58	1.00	0.57	0.01	0.000	0.13	−24.00***

***Statistically significant at *p* .01;; **Statistically significant at *p* .05;; *Statistically significant at *p* .10.

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4.2 | Multivariate analyses

After a preliminary descriptive analysis, we use two different estimators to test the effect of media visibility on CSR performance (Hypothesis 1). First, we run the OLS regressions with firm-fixed effects. This allows us to control one important source of endogeneity; unobserved heterogeneity. This problem arises when one or more variables associated to specific firm characteristics—such as firm culture or firm strategy—affect the impact of media coverage on CSR performance. The results for these regressions are shown in Model 1 (Table 2) and are seen to be consistent with our hypothesis, which predicts a positive effect of media coverage on CSR performance (*CSR_index*).

However, OLS regression with firm fixed effect does not address another key source of endogeneity (simultaneity), which occurs when our explanatory variable (*Media_Attention*) is also a function of our dependent variable (*CSR_index*). Accordingly, Borghesi et al. (2014) contend that internal agents who are especially sensitive to their public reputation might be more motivated to promote media coverage. Managers and controlling shareholders may influence media coverage themselves through enhanced accessibility. Insiders who view CSR as a means of boosting their reputation may therefore attempt to promote these activities by cooperating with the media. In this scenario, the results of the OLS regressions might prove to be biased and inconsistent (Wooldridge, 2010). To address simultaneity, Model 2 (Table 2) uses the generalized method of moments (GMM) by Blundell and Bond (1998). As in the previous model, the GMM regressions show a positive effect of *Media_Attention* on CSR performance. In addition, to test the consistency of the GMM estimates we run two tests: first, the Hansen test which indicates that instruments used by GMM regressions are valid, and second, the m^2 test which shows that there is no second-order autocorrelation in the GMM regressions. Finally, we run Wald tests for the joint significance of the coefficients reported (z_1), the time dummies (z_2), and the industry dummies (z_3).

In Table 2, we run models 3 (OLS) and 4 (GMM) to test Hypothesis 2. The moderating effect of the voting-cash flow wedge for the effect of media coverage on CSR is captured by the

TABLE 2 Media and CSR

	Dependent variable: CSR_Index			
	OLS (Model 1)	GMM (Model 2)	OLS (Model 3)	GMM (Model 4)
Media_Attention$_{t-1}$	0.047*** (7.40)	0.038*** (5.59)	0.035*** (4.76)	0.022*** (3.02)
Div$_{t-1}$			−0.046 (−1.23)	−0.059** (−2.47)
Media_Attention x Div$_{t-1}$			0.013* (1.79)	0.016*** (3.52)
Size	0.032*** (6.74)	0.042*** (6.62)	0.054*** (11.21)	0.049*** (7.44)
ROA	0.131** (2.46)	0.050** (1.97)	0.007 (1.24)	0.106*** (3.37)
QTobin	0.008 (1.56)	0.008** (2.01)	0.008** (2.28)	0.015*** (3.25)
Leverage	−0.123*** (−5.64)	−0.071*** (−3.54)	−0.017*** (−2.85)	−0.082*** (−3.97)
Voting	−0.006 (−0.10)	−0.003** (−2.03)	−0.001 (−0.60)	−0.001 (−0.88)
Ibex35	0.134*** (9.78)	0.099*** (3.12)	0.128*** (8.86)	0.108*** (3.80)
Constant	−0.361*** (−6.51)	−0.503*** (−5.47)	−0.607*** (−10.82)	−0.507*** (−5.43)
Year	*Yes*	*Yes*	*Yes*	*Yes*
Industry	*Yes*	*Yes*	*Yes*	*Yes*
m^2		−0.55		−0.49
Z_1		66.86***		34.75***
Z_2		6.77***		10.80***
Z_3		24.99***		16.99***
Hansen test		71.75		63.46
F test	85.24***	271.45***	161.91***	277.93***
Adj. R^2	0.68		0.606	
No. of observations	1288	1288	1288	1288

***Statistically significant at *p* .01;; **Statistically significant at *p* .05.; *Statistically significant at *p* .10.

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coefficient on *Media_Attention x Div*. In both models, this coefficient is positive and significant, showing that the effect of media coverage on CSR is greater for firms where the voting-cash flow wedge exists.

As regards the control variables, we conclude that firm size (*SIZE*), market visibility (*Ibex35*), profitability (*ROA*), and growth opportunities (*QTobin*) show a positive and statistically significant effect on CSR. Moreover, leverage (*Leverage*) and ownership concentration (*Voting*) have a negative effect on CSR.

4.3 | Sensitivity analysis

Following earlier research on CSR (Delgado-García et al., 2010; Gras-Gil et al., 2016; Odriozola & Baraibar-Diez, 2017), we use an alternative index to measure CSR performance. The index is based on the Spanish Monitor of Corporate Reputation (MERCO), which measures the reputation of firms that operate in Spain, as carried out by Fortune or The Financial Times. The Merco index takes the main role of corporate reputation rankings in Spain, considering the perceptions of all stakeholders, collecting data from different information sources (interviews with directors, experts' assessments, direct assessment and Merco tracking from the population). Firms are then rated on a scale ranging from 0 to 10,000 points. We construct the alternative CSR index by considering the points obtained by each firm in the ranking published by MERCO. The results shown in Table 3 (models 5 and 6) confirm the positive effect of media visibility on CSR performance and the positive impact of the voting-cash flow wedge for the link between media coverage and CSR performance.

Although the fixed effects approach and estimation through GMM reduce the potential concerns associated with endogeneity in the media visibility-CSR relationship, we alternatively address the

TABLE 3 Media and CSR. Alternative measure for CSR

	Dependent variable Merco_Index	
	Model 5	**Model 6**
$Media_Attention_{t-1}$	0.417*** (6.34)	0.327*** (3.20)
Div_{t-1}		−1.111*** (−6.67)
$Media_Attention \times Div_{t-1}$		0.317*** (6.54)
Size	0.574*** (10.37)	0.364*** (7.25)
ROA	0.755** (2.10)	0.617*** (2.69)
QTobin	0.175*** (4.17)	0.166*** (2.28)
Leverage	−0.185 (−1.04)	−0.197*** (−3.47)
Voting	−0.004** (−2.45)	−0.007** (−3.10)
Ibex35	0.106 (0.42)	0.429*** (3.48)
Constant	−9.747*** (−11.21)	−4.674*** (−8.67)
Year	*Yes*	*Yes*
Industry	*Yes*	*Yes*
m_2	−1.25	−1.74
Z_1	35.68***	32.44***
Z_2	7.62***	8.37***
Z_3	44.39***	33.44***
Hansen test	72.46	44.15
F test	273.65***	232.12***
No. of observations	1288	1288

***Statistically significant at *p* .01; **Statistically significant at *p* .05;

TABLE 4 Media and CSR. IV estimator

Panel A: First-stage regressions		
Dependent variable	*Media_Attention*	
$FTSEEurotop100_{t-1}$	0.03*** (2.87)	
Controls	*Yes*	
Industry effects	*Yes*	
Year effects	*Yes*	
F-statistics	8.24***	
Panel B. Second-stage regressions		
	Dependent variable CSR_Index	
	Model 7	Model 8
$Media_Attention_{t-1}$	0.32*** (2.60)	0.06*** (2.60)
Div_{t-1}		−0.017*** (−2.64)
$Media_Coverage \times Div_{t-1}$		0.002** (2.24)
Size	0.08 (8.81)	0.06*** (14.06)
ROA	0.18** (2.06)	0.14*** (3.42)
QTobin	0.004* (1.68)	0.016*** (5.55)
Leverage	−0.167*** (−3.98)	−0.11*** (−6.29)
Voting	−0.001** (−2.02)	−0.001 (−1.11)
Ibex35	0.004 (0.01)	0.132*** (4.52)
Constant	0.06 (0.22)	−0.53*** (−9.92)
Year	*Yes*	*Yes*
Industry	*Yes*	*Yes*
F-test	81.38***	472.71***
No. of observations	1288	1288

***Statistically significant at *p* .01; **Statistically significant at *p* .05; *Statistically significant at *p* .10.

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endogeneity problem by using an instrumental variable approach; namely, the 2SLS estimator. We obtain the exogenous instrument from media visibility and then use it to estimate CSR performance (Table 4). In this sense, media coverage attends different stakeholders' demands to maximize media firm revenue by increasing readership income while controlling for the cost of needing to provide information (Core et al., 2008). The media thus select those firms which are worth covering. Moreover, media coverage increases for firms listed in international indexes, as stakeholders' demands for these companies are greater (Baker et al., 2002). As a result, we define our instrumental variable FTSE which proxies for firms' media attractiveness, measured as the firm's percentage of capitalization over the total capitalization of the FTSE Eurotop 100 index. A higher value of the previous variable will positively affect media coverage. Table 4 (Panel A) shows the results of the first-stage regression, where *Media_Attention* is the dependent variable. For brevity, we show the estimated coefficients for the main variables. FTSE is statistically significant and shows a positive effect on media coverage. Table 4 (Panel B) shows the second-stage regressions, where *CSR_Index* is the dependent variable. The results of the regressions confirm the significant and positive effect of media coverage on CSR performance, providing consistent evidence to our previous findings.

Finally, Dyck et al. (2008) point out that media impact is higher the greater the distribution and credibility. Moreover, media judgments work when society as a whole shares the same set of values (Dyck & Zingales, 2002). Thus, we analyze whether our results are sensitive to the scope of the coverage (international versus national) (Table 5, Models 9 and 10 for Hypothesis 1 and Models 11 and 12 for Hypothesis 2). As shown, our results are similar to others reported previously and are consequently not affected by the scope of coverage.

TABLE 5 Media and CSR. Alternative measures for media coverage

	Dependent variable CSR_Index			
	Model 9	**Model 10**	**Model 11**	**Model 12**
Anglo_Media_Attention$_{t-1}$	0.02*** (7.85)		0.007** (2.12)	
Spanish_Media_Attention$_{t-1}$		0.03*** (5.92)		0.02*** (17.03)
Div$_{t-1}$			−0.06*** (2.64)	−0.07*** (−2.92)
Anglo_Media_Attention x Div$_{t-1}$			0.02*** (4.13)	
Spanish_Media_Attention x Div$_{t-1}$				0.02*** (3.39)
Size	0.05*** (10.21)	0.04*** (8.60)	0.05*** (9.60)	0.04*** (6.26)
ROA	0.05** (2.38)	0.002 (0.07)	0.10*** (4.54)	0.13*** (2.88)
QTobin	0.01*** (2.84)	0.003 (0.70)	0.02*** (4.97)	0.007 (1.52)
Leverage	−0.09*** (−6.40)	−0.008*** (−4.85)	−0.10*** (−5.62)	−0.07*** (−3.58)
Voting	−0.002* (−1.65)	−0.004** (−2.41)	−0.006 (−0.48)	−0.001*** (−0.20)
Ibex35	0.08*** (2.77)	0.07** (2.41)	0.13*** (3.88)	0.124*** (4.18)
Constant	−0.43*** (−5.99)	−0.379*** (−5.36)	−0.521*** (−12.06)	−0.36*** (−4.06)
Year	*Yes*	*Yes*	*Yes*	*Yes*
Industry	*Yes*	*Yes*	*Yes*	*Yes*
m^2	−0.30	−0.56	−0.56	−0.32
Z_1	227.65***	62.73***	317.05***	29.04***
Z_2	72.31***	15.29***	66.26***	11.85***
Z_3	14.75***	22.49***	11.51***	14.45***
Hansen test	75.60	70.42	68.75	64.30
F test	185.05***	328.37***	995.15***	315.96***
No. of observations	1288	1288	1288	1288

***Statistically significant at *p* .01;; **Statistically significant at *p* .05;; *Statistically significant at *p* .10.

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5 | DISCUSSION AND IMPLICATIONS

CSR performance varies among firms. However, our understanding of the media's potential to influence CSR performance remains far from conclusive. Previous studies generally support a positive effect of media visibility on CSR performance (Borghesi et al., 2014; Campbell & Slack, 2006; Godos-Díez et al., 2020; Li et al., 2019; Zyglidopoulos et al., 2012). However, no previous research has specifically considered this relationship over the medium and long-term in a context where the effective control of the firm is dependent upon dominant shareholders who have the ability and the incentives to control managers and where the main agency problem derives from the potential expropriation of minority shareholders by controlling owners (Cuervo, 2002).

We show that media visibility positively affects CSR performance. In a context where the legal system offers poor protection to outsiders' interests and where reputation remains key to concluding not only market-based but also relationship-based contracting, an increase in media scrutiny provides controlling shareholders with greater incentives to signal their commitment to limiting their self-dealing transactions and to cater to stakeholders' demands through CSR. Using CSR investments as a bonding mechanism thus offers important benefits to controlling shareholders. In particular, it helps them to mitigate the firm value discount due to anticipated expropriation and so build a sound reputation by showing a stakeholder-friendly orientation. Furthermore, it also helps to reduce political costs and, overall, to decrease any potential threat to corporate survival. We also find that the controlling owner's voting-cash flow wedge increases the controlling owner's incentives to use CSR investments as a signaling mechanism. Our results are robust to endogeneity and other potential econometric concerns.

5.1 | Theoretical contribution

Our work makes some important contributions to previous research. First, by focusing on a continental European country, our results complement the literature addressing the drivers of corporate social responsibility by showing that in the medium and long-term, media coverage drives corporate social responsibility performance by encouraging dominant shareholders to signal their commitment to self-constraint through CSR investments. Second, through an in-depth analysis of a continental European country, the study adds to cross-country studies on the drivers of CSR (Boubakri et al., 2016; Dam & Scholtens, 2013; López-Iturriaga & López-de-Foronda, 2011), allowing us to better disentangle firm-level from country-level influences. Third, our research design allows us to provide evidence on the direction of the causality between media coverage and CSR. Fourth, we contribute to previous literature by identifying the channels through which controlling owners might affect CSR investments in continental Europe and by considering how heightened media scrutiny might alter a controlling owner's incentives to affect CSR investments. We thereby improve current knowledge concerning what role certain extra-legal institutions play in shaping corporate social policies. Fifth, we extend present knowledge on the real consequences of increased public scrutiny of corporate behavior (Allen et al., 2016; Dyreng et al., 2016). Sixth, in contrast to studies that focus on negative media coverage of inadequate corporate social responsibility practices, we focus on media coverage of any news about a firm. Consequently, we add to the more recent line of research on the role of the media as social arbiters and their potential effects on CSR investments. Seventh, while the governance role of media coverage has not been widely studied in the previous literature, the current study contributes and complements the literature on the relationship between corporate governance and CSR (Li & Chen, 2018). Finally, we provide novel evidence concerning the moderating effect of a first order corporate governance mechanism; namely, ownership structure and, particularly, one of its most critical dimensions—the controlling owner's voting-cash flow wedge—for the relation between media coverage and CSR investments.

5.2 | Practical implications

Our results offer some practical implications and provide new opportunities to better understand the drivers of CSR investments. In a context where the legal system provides scant protection to outside interests and where the main agency conflict derives from potential expropriation of minority shareholders by controlling owners, our findings evidence the importance of an extra-legal institution—the media—in disciplining controlling shareholders to act in the interests of minority shareholders and other stakeholders. These results might prove particularly important to different actors such as regulators, socially sensitive stakeholders, investors, auditors, and financial analysts. Our findings should therefore help investors in their investment decisions. Moreover, the results suggest that firms with heightened media scrutiny should not be a priority on regulators' agenda, at least vis-à-vis increasing corporate social responsibility orientation. Our results imply that greater media visibility will continue to increase the firm's orientation toward CSR as long as controlling owners continue to believe that the benefits outweigh the costs. Finally, our results might also be beneficial to financial analysts and auditors since they underscore the relevance of the media as a disciplining mechanism.

5.3 | Limitations and future research

Although it appears reasonable to think that this study can provide major implications which might be extrapolated to other settings that display similar institutional characteristics, analyzing the impact

of media coverage on CSR performance under the control of dominant owners should be studied in different institutional contexts to enhance current understanding of the interactions examined. It would also prove interesting to consider how the nature of dominant owners could affect such a relationship. Thus, another line of research worth exploring concerns how family or institutional dominant owners might impact the relation between media and CSR performance. We leave such inquiry for future research.

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CONFLICT OF INTERESTS

No Conflict of interest.

PEER REVIEW

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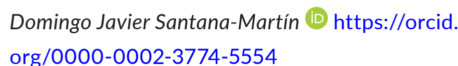
DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available from the corresponding author upon reasonable request.

ORCID

Domingo Javier Santana-Martín  https://orcid.org/0000-0002-3774-5554

ENDNOTES

[1] The authors excluded news in which there was no informative content, such as quotations listings or announcements of dividend payments.

[2] The Appendix includes the definitions of all the variables used in our research.

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APPENDIX A. DEFINITIONS OF VARIABLES

Corporate Social Responsibility	
CSR_Index	Accumulated index based on four sources of information: the Global Reporting Initiative, the Dow Jones Sustainability Index, the United Nations Global Compact, and Compliance with the Spanish Recommendations of Good Corporate Governance. Specifically, in order to obtain the Index, an equally weighted sum of the values provided by the four sources of information is used, considering the following criteria: (1) the Global Reporting Initiative (GRI). We calculate this by relating the number of implemented recommendations to the number of applied recommendations. We provide a value of 1 if the firm has been rated as an A+ or "In Accordance-Comprehensive", the value of 0.5 if the firm has been rated as A or "In Accordance-Core", the value of 0.25 if the firm has been rated as B, B+ or "In Accordance", and the value 0 for the remaining firms. (2) The Dow Jones Sustainability Index (DJSI). We consider the value of 1 if the firm is listed in the DJSI, and 0 otherwise. (3) United Nations Global Compact (UNGC). We consider a value of 1 if the firm has committed to the GC, and 0 otherwise. (4) the Good Corporate Governance Index (CG). We calculate this index by considering the number of recommendations implemented to the total number of recommendations. We consider the value of 1 per each recommendation fully implemented by the firm, the value of 0.5 per each recommendation partially implemented by the firm, and 0 otherwise. Once the total value of the index is obtained, we transfer it to base one
Merco_Index	Points divided by 1000 obtained by each firm in the ranking published by the Spanish Monitor of Corporate Reputation (MERCO), which measures the reputation of firms that operate in Spain, as carried out by Fortune or the Financial Times. The Merco index takes the main role of corporate reputation rankings in Spain, considering the perceptions of all stakeholders, collecting data from different information sources (interviews with directors, experts' assessments, direct assessment and Merco tracking from the population). Firms are then rated on a scale ranging from 0 to 10,000 points
Measures of media attention	
Media_Attention	The natural logarithm of the number of news items on a firm reported by Expansión, Cinco Días, El Economista, Financial Times, Wall Street Journal, Reuters, Dow Jones, and Business Wire
Spanish_Media_Attention	The number of news items on a firm reported by Expansión, Cinco Días and El Economista
Anglo_Media_Attention	The number of news items on a firm reported by the Financial Times, Wall Street Journal, Reuters, Dow Jones, and Business Wire
Pyramids	
Div	Dummy variable that takes the value 1 if the dominant owner shows a voting-cash flow wedge, and 0 otherwise
Control variables	
ROA	Return on assets, computed as earnings before interest, taxes, depreciation, and amortization divided by total assets
Size	The natural logarithm of total assets
QTobin	Market value of equity plus total debt, all divided by total assets
Debt	The sum of short- and long-term debt divided by total assets
Voting	The voting rights of the five biggest shareholders
Ibex35	Dummy variable that takes the value 1 if the company is part of the representative index of the Spanish stock market (IBEX-35), and 0 otherwise
Instruments	
FTSEEurotop100	The percentage of capitalization of a firm out of the total capitalization of the FTSE Eurotop 100 index

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