

## CUHK Business School Research Reveals a Stronger Impact of Business Newspapers on Company's Stock Price Than State Owned Media

HONG KONG, CHINA -- (Marketwire) -- 01/27/16 -- Do investors react differently to corporate news published in party papers or business publications? Given that the media in China is controlled by the government, will conglomeration of the media industry ultimately yield a more diverse and transparent media? These are some of the questions explored in the working paper 'Political Bias of Corporate News in China: Role of Commercialization and Conglomeration Reforms', the first paper looking into the consequence of the media reform in China.

The working paper<sup>1</sup> is written by Tianyu Zhang, Associate Director of Center for Institutions and Governance and an associate professor at the School of Accountancy in collaboration with fellow CUHK academics T.J. Wong, Choh-Ming Li Professor of Accountancy and Director of Center for Institutions and Governance at CUHK Business School, as well as Joseph D. Piotroski, Associate Professor of Accounting at the Stanford Graduate School of Business.

"Corporate news from an official newspaper is more likely to be positive but less reliable. Relatively, corporate news published in a professional paper is much more reliable, which implies a stronger impact on the stock price," says Prof. Zhang.

The paper looked at the consequence of two serial media reforms implemented within China, that is, the commercialization of newspapers and the conglomeration of newspapers, a move to bundle them within larger regional media groups. Specifically, the paper investigated whether the business newspapers become less biased after commercialization and whether diversity of corporate news increases after conglomeration. If the reform is effective, the market should react differently to news articles published in official and business newspapers. The paper also finds evidence for that.

To conduct their research, the team rely on machine learning techniques to examine some 1.77 million domestic Chinese newspaper articles covering China's listed companies between 2000 and 2010. To measure the political bias, the paper constructs the tones as well as the political tagging for each news articles through textual analysis.

### *The Reforms of Chinese Media*

China began to liberalize its press in the 1980s; this has resulted in a proliferation of commercially driven business focused newspapers. Unlike their state-funded counterparts, these newspapers receive no government subsidies and rely upon subscriptions and advertising revenue. According to the researchers, the newspapers in China serve as mouthpieces of Chinese Communist Party or government prior to the reform.

Beginning in 1996, the government also made a move to regroup both the commercial and state-run local newspapers under one roof to create geographically-based media conglomerates. The process began with the formation of the Guangzhou Daily News Group; now 38 such news groups exist across China. These reforms bring state-funded government mouthpieces under the same roof as commercial newspapers.

"This is the 'double-track' reform strategy that China government prefers," says Prof Zhang. "We've seen it in other markets, such as double exchange rate in currency market, and double-track price in commodity market. Now the government put two types of media -- the professionally-run financial papers alongside the mouthpiece of the government. It's about balance," he says.

China's state owned media serves a dual purpose -- as the government's mouthpiece and as a market-oriented information institution. "These missions require a careful balance between political and commercial objectives, which are often in conflict with each other," he adds.

When Asian stocks crashed in 1997, both markets and the Chinese government came out in favour of more transparency within the market, and in the reporting of it in the media. Some publications were able to act as watc