Rotterdam School of Management
Erasmus University

“Political Bias in the Coverage of Corporate Misconduct: Effects on Employees and Managers” by Marchica, Petry and Zhang

Discussion by **Thomas Lambert** – Erasmus Corporate Governance Conference 2025

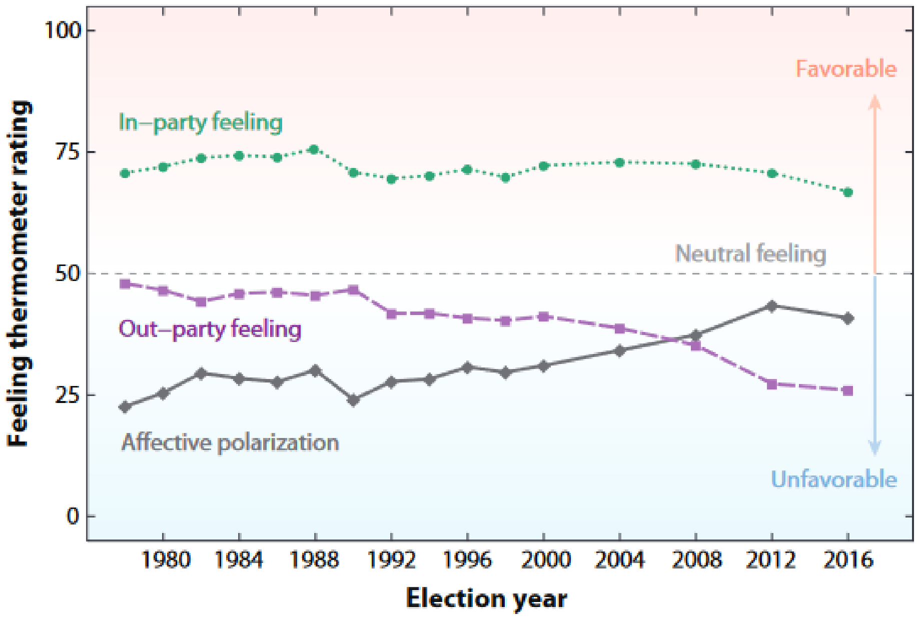
Media and affective polarization

- Rising ideological polarization among *political representatives* in the U.S. (Canen, Kendall and Trebbi 2021)

- While ideological polarization among *the public* has grown moderately, affective polarization – hostility and distrust toward opposing partisans – has increased sharply (Westwood and Iyengar 2015 AJPS; Boxell, Gentzkow and Shapiro 2024 RESTAT)

- The role of media:
  - Partisan media exposure contributes to out-party animus
  - Partisan cable news both persuades viewers and increases polarization (DellaVigna and Kaplan 2007 QJE; Martin and Yurukoglu 2017 AER)

Source: Iyengar et al. (2012)



What this paper does

- Compares corporate misconduct-related newspaper articles
- Classifies political leaning of firms by political contributions and of media outlets by AllSides bias rating
- Finds that from 2010-2021
  - Media coverage of corporate misconduct is more negative when the reporting outlet and the misbehaving firm are politically misaligned (“incongruent”)
  - Such bias not driven by more positive coverage of aligned firms (“congruent”) → suggestive of affective polarization
  - Political bias in media coverage affects employees’ perception of their employer, translating into lower productivity and increased management turnover
- Concludes that media is biased when reporting news about incongruent firms, which has real-side consequences

Contribution

- One of few papers on the real-side consequences of (politically) connected media:
  - Xu (2024 JAR): connected financial journalists and coverage of “connected” M&A deals
  - Luo, Manconi and Massa (2025): politically connected media and investor beliefs
  - Rees and Twedt (2022 TAR): biased media coverage of earning announcements of misaligned firms
  - Goldman, Gupta and Israelsen (2024 JFE): political bias in coverage of financial news and polarization

- Finding that “affective” political bias underlies how media outlets frame negative corporate events and whether it affects employee perception is novel

- Paper sheds new light on the political-alignment phenomenon in finance (Kempf and Tsoutsoura 2024 ARFE)

Suggestion 1: misalignment measurement

- Alignment between media outlets and…
- … political contributions > USD 10,000 of (1) the firm and (2) its employees (that is, mainly its executives)
- … agencies, including DoJ, who may be partisan (cf. Engelberg, Henriksson, Manela and Williams 2023 RFS)
- … executive/legislative branches at the state level, who are partisan
- Media alignment with agencies and executive/legislative branches likely correlate with media alignment with firms, which may confound the explanation for negative coverage (Part I)
    - Control for alternative misalignment measures and improve motivation/explanation for media-firm alignment focus

Political misalignment and media tone

Variables	Article Tone (1)	Negative Article Tone (2)	Article Tone (3)	Negative Article Tone (4)
Political Incongruence	-0.0354***	0.00135**	-0.0292***	0.00135*
	(-5.16)	(2.36)	(-3.44)	(1.92)
Home Bias			-0.0222	0.00128
			(-1.06)	(0.65)
Media Exposure			0.00475	0.0000143
			(1.57)	(0.06)
Constant	0.163***	0.0550***	0.146***	0.0548***
	(52.97)	(214)	(11.31)	(55.40)
Violation fixed effects	Yes	Yes	Yes	Yes
Observations	6,091	6,091	6,091	6,091
Adjusted R^2	0.417	0.478	0.417	0.478

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Suggestion 2: misconduct detection is endogenous

- A major premise of the paper (Part II) is that the announcement of the misconduct by agencies is **exogenous**

- Lots of evidence showing that firms can affect enforcement actions and penalties, including their timing:
  - Steel (2024 JLEO): firms aligned with the party in power face less SEC enforcement actions
  - Correia (2014 JAE): politically connected firms face fewer SEC enforcement actions and smaller fines
  - Yu and Yu (2011 JFQA): firms engage in lobbying are detected later when involved in fraud
  - Lambert (2019 MS): lobbying banks face less enforcement actions imposed by Fed, FDIC, and OCC
  - Heitz, Wang and Zhang (2023 MS): politically connected firms face fewer EPA penalties and incur lower fines

- Instrument or at least acknowledge

Suggestion 3: *Why* media bias matters

- The mechanism could be better specified and tested
  - Cross-sectional heterogeneity tests are somewhat “disorganized”

- Channels should be discussed in a coherent framework:
  - **Financial hardship fears:** employees worry about the firm
  - **Moral shock (content-driven effects):** disillusionment with management and firm value
  - **Partisan identity alignment (source-driven effects):** if employees share the political ideology of the media outlet, they may be more persuaded by negative coverage than if they distrust the outlet’s viewpoint.

- This would help to clarify **contribution** and **implications**

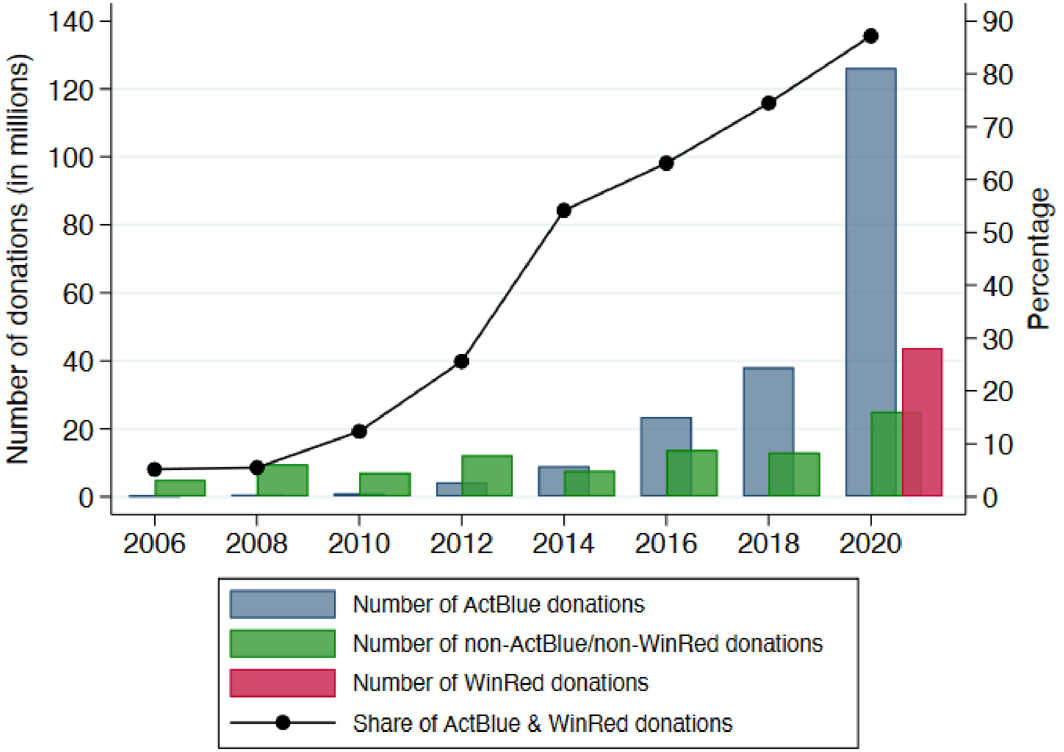
- Now, one could argue the core mechanism – that is, biased coverage affecting perceptions – might be expected based on existing literature on media partisanship and investor (from e.g. Rees and Twedt 2022 TAR)

The rise of individual campaign contributions and small donors

Source: Lambert's own data collection (from FEC)

Election cycle	No. of individuals	Total amount ($ M)
1992	894,819	711.00
1994	843,601	577.48
1996	1,239,586	1,053.13
1998	1,017,883	818.53
2000	1,717,011	1,683.68
2002	1,451,373	1,505.96
2004	2,535,661	2,180.16
2006	1,866,545	1,637.80
2008	3,636,060	3,222.43
2010	2,147,290	1,963.85
2012	3,838,820	4,755.50
2014	2,264,840	2,670.22
2016	17,786,563	6,540.15
2018	16,507,682	5,647.00
2020	80,409,784	13,010.10

Source: Bouton, Caje, Dewitte and Pons (2022)



- For instance, in Igan, Lambert, Prachi and Zhang (2025 RCFS), we exploit such small donor (< USD 200) data

Random rants

- **Sampling.** It's difficult to link some results together due to the different sample size. Can you estimate your regressions on the same sample of firms to show that differences in results are not due to differences in samples?

- **Drivers of media political bias.** Results reported in Appendix C are interesting (cf. my general comment on affective polarization) and should deserve more attention.

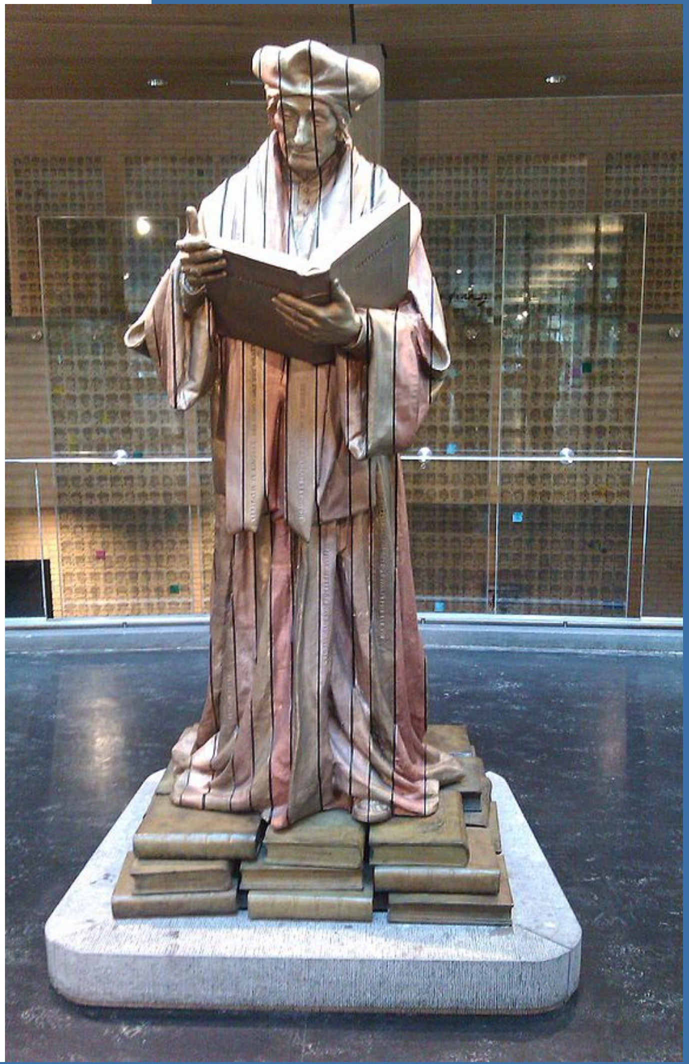
- **Poisson regressions.** Some key outcome variables are count variables (TM dismissals, Negative Article Tone). Can you report robustness using alternative regression models, including Poisson regressions

- **Staggered DiD.** Use of TWFE in section 5 while you exploit staggered DiD settings. Can you report robustness by estimating, for instance, the adjusted event study estimator proposed by Borusyak, Jaravel and Spiess (2024 RESTUD), which better handles treatment timing and heterogeneity?

- **Parallel trends.** Columns 2 and 3 (Table 7) may indicate pre-trend actually. Can you show more formal and graphical evidence of parallel trends. Can you show longer time dummies pre-trend?

My take

- Political misalignment btw media and firms drives negative coverage of firm misconduct, with significant labor effects and insights into affective polarization
- Fascinating and timely topic
- My suggestions:
    1. Refine some measurement and investigate impact on results
    2. Instrument corporate misconduct
    3. Explore (theoretical) mechanisms and beef up your motivation
- **Good luck!**



Thank You

thomaslambert.org

www.rsm.nl

Burgemeester Oudlaan 50
3062 PA Rotterdam
The Netherlands

+31 10 408 1450
t.lambert@rsm.nl

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