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Study Examines How Companies Stay Quiet When They Can Be Blamed For Negative Events

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Companies are at least four times less likely to release information following a negative event for which they are likely to be blamed than a similar event where they appear to be blameless, according to a study forthcoming in The Accounting Review.

In a study titled "Blame Attribution and Disclosure Propensity” researchers identified and analyzed 383 material, negative corporate events that occurred between 2001 and 2013. The article is authored by Jason D. Schloetzer from Georgetown University, Ayun Tseng of Indiana University, Teri Lombardi Yohn from Emory University, and Yeo Sang Yoon of the University of Minnesota.

“A long stream of research has attempted to understand a company’s voluntary disclosure decisions. Much of the research collects company
disclosures in order to understand the company characteristics that are associated with more/less disclosure. We questioned whether the characteristics of the event itself are associated with more/less disclosure,” says Yohn.

The negative events analyzed in the study included casualty accidents like plane crashes, natural catastrophes, oil spills, and class action lawsuits. The researchers categorized the events as those where the company was likely to be blamed and those events where the company was likely perceived as blameless. The researchers then searched company SEC filings and press releases following the event to determine if the potential for blame impacted a company’s willingness to comment publicly about a negative event.

For example, the study describes how companies in the oil industry issued multiple detailed disclosures following oil spills resulting from Hurricanes Katrina and Rita, but chose not to disclose any information about larger oil spills caused by equipment failures or human error.

Of the 211 negative events that were categorized as blameless, companies chose to comment publicly on 48% of the events. However, for the 172 negative events where the company was likely to be blamed, only 19% of the events were followed by company disclosures. “The magnitude of the differences in the disclosure propensity between blamed and blameless events surprised us,” says Yohn.

The study then illustrates that the hesitancy to comment on such events may be warranted. Companies in the study that commented after a blamed event experienced greater reputation and litigation costs than companies that did not disclose. For example, these companies encountered declines in their
Fortune 1000 Most Admired Companies score and paid an additional $8 to $21 million for legal settlements.

Overall, Yohn advises that, “Stakeholders should not necessarily assume that companies will be equally likely to provide information about blamed versus blameless events. Stakeholders should attempt to find out about events independently if the company is more likely to be perceived as blamed for it.”

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