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October 28, 2024

Media Consolidation Reduces the Diversity of Business News Coverage and Could Affect Investors

FOR IMMEDIATE RELEASE

Lakewood Ranch, Fla. _ A new study finds that business news outlets owned by the same media holding companies produce more similar news stories covering companies' earnings announcements, reducing the amount of unique news content available to investors. The study also suggests that fewer unique sources of news make investors less efficient at interpreting and processing information in earnings reports. The work was published in the American Accounting Association's journal *The Accounting Review*.

At issue are common media holding companies that own and operate multiple media outlets.

"In recent years, many business news outlets have come under the control of an increasingly small number of common media holding companies," says Ken Merkley, co-author of the study and the Conrad Prebys Professor of Accounting at Indiana University.

"You don't always realize the media outlets where you get your news are owned by the same company and may not be truly independent of each other in their coverage. That means investors are getting fewer distinct voices in the business news marketplace, which limits the range of information available to investors."

For this study, the researchers collected news stories covering earnings announcements from 2007-2019 covering 4,462 publicly traded companies, focusing specifically on stories from 34 major media outlets. Across those 34 outlets, 12 were independent throughout the sample period, while the others belonged to a media group for at least part of the sample period. In total, this data set included 288,385 media articles regarding 95,820 earnings announcements.

The researchers used a suite of statistical tools to analyze this data set and identify similarities and differences in coverage both within and across common media holding companies.

"Essentially, we wanted to see if stories on a given earnings announcement by news outlets owned by the same company were more similar than stories on the same announcement from outlets owned by different companies," says Merkley.

"One key finding is that news outlets owned by the same company made similar decisions about which earnings announcements to cover," says Flora Sun, co-author of the paper and an assistant professor of accounting at Binghamton University. "Not only that, but we found that the tone, headlines and content of their stories were also more similar to each other than to stories by news outlets owned by other companies."

"We also found these similarities were more pronounced across outlets owned by the same company on busy news days, when one of the news outlets had a particularly large audience, and/or if the common media holding company was publicly traded," Merkley says. "These results suggest outlets produce more similar content if the company that owns them has economic incentives to limit what it spends on producing unique content."

The paper also includes an analysis that suggests the availability of unique business news content affects "price formation," or how quickly markets respond to earnings reports. In short, it appears that less diverse news coverage may slow response time to new information.

"Investors should be cautious about where they're getting their business news," says Sun. "You may read multiple stories, from different news outlets, but not really be getting multiple perspectives."

"If nothing else, it's good to be aware that news outlets owned by the same holding companies can effectively serve as an echo chamber," says Merkley.

The paper, "Common Media Holding Companies and the Uniqueness of Business Press Content," was also co-authored by Joseph Pacelli, the Gerald Schuster Associate Professor of Business Administration at Harvard Business School, and Brady Twedt, the Arthur Andersen Chair in Accounting at Texas A&M University.

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