PUBLISHING WITH CONTENT ANALYSIS: OPPORTUNITIES AND PITFALLS

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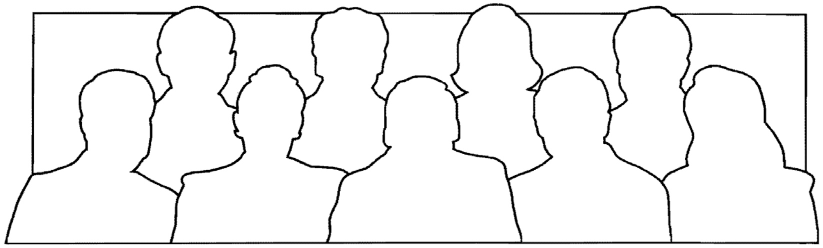
The Directors of Sears, Roebuck and Co.



Warren L. Batts, Chairman and Chief Executive Officer of Premark International, Inc.; *Edward A. Brennan*, Chairman of the Board of Directors, President and Chief Executive Officer of Sears, Roebuck and Co.; *E. Mandell de Windt*, Chairman and Chief Executive Officer of Eaton Corporation; *Sybil C. Mobley*, Dean of the School of Business and Industry at Florida A&M University; *Norma Pace*, President of Economic Consulting and Planning Inc.; *Nancy C. Reynolds*, Vice Chairman of The Wexler Group of Hill and Knowlton, Inc. and Senior Vice President of Hill and Knowlton Public Affairs Worldwide; *Clarence B. Rogers, Jr.*, President and Chief Executive Officer of Equifax, Inc.; *Donald H. Rumsfeld*, Chairman and Chief Executive Officer of General Instrument Corporation; *Edgar B. Stern, Jr.*, Chairman of Royal Street Corporation and affiliated subsidiary corporations.

NON-PERFORMING ASSETS

Two years ago, Sears was the nation's largest retailer. It's now number three. Its share price today is less than it was in 1986. In my opinion, the reputation of the Sears Board of Directors also has fallen, due largely to its lack of energy and interest in making management accountable to shareholders. Make no mistake, a board's value translates into stock price.

The most recent and clear example, of course, is General Motors. The day after the Board reorganized senior management, GM stock *gained* $1.25 even while the Dow Jones Industrial Average *fell* 62 points. Two weeks later, GM was sufficiently reinvigorated to launch the largest equity offering in history.

PROTECTING THE OWNERS–THE GM PRECEDENT

The GM Board acted to protect its owners. We ask the Sears Board to give shareholders and the investment community a sign that it, too, understands its priorities. We ask the Board to take a modest step toward independence by reconsidering its blanket opposition to five shareholder proposals:

- **Make Shareholder Votes Confidential**
  The Board's current practice is to deny shareholders complete confidentiality in voting, a right Americans expect. Why would a board oppose giving the secret ballot to the very shareholders it's supposed to represent?
- **Separate Chairman Position from CEO/President**
  This proposal offered by the $20 billion New York City Employees' Retirement System seeks to establish a truly independent chairman. Mr. Edward Brennan is Sears Chairman, President and CEO, as well as operating head of the seriously troubled retail group. How can a chairman objectively monitor management when the chairman *is* management? Would a board genuinely accountable to owners let an executive hold not just one but ~~all of the~~ most crucial jobs in the company?
- **Study Divestiture**
  In each of the last ten years, Sears management's goal of a 15% return on equity has never been reached. It's clear to investors that if Sears' non-merchandising businesses were spun-off, shareholders would have a better chance of achieving that return. An employee proposal calls for an independent study to determine the value of a divested Sears. Would a board committed to shareholder value oppose such a reasonable request?
- **End Staggered Board Terms**
  A staggered board is a device by which entrenched management keeps control. The Sears Board repeatedly has allowed manipulation of board size to protect current management. Would an accountable board allow itself to be used to protect management interests?
- **Require Directors to Own Minimum Shares**
  Thanks to management, last year each Board member received an average of $70,000 in fees and a gift of 100 shares. The position of Director should not be a patronage job. To insure accountability, shouldn't Board members have an investment of their own money in a company?

ACTIVIST BOARDS AND SHAREHOLDERS INCREASE STOCK VALUES

Scholars and experts, looking at the concept of the "governance dividend," are documenting how owner activism and board performance increase stock value.

- Entrenched boards depress value. A 1991 study of 1,100 major companies by Professor John Pound of Harvard and Lilli A. Gordon of the Gordon Group (whose permission has been obtained to use their study in this advertisement) showed that companies with poor governance profiles did worse over the long term than their peers with better governance profiles. Pound and Gordon documented "significant and systematic differences…for return on assets, operating margin, and market valuation relative to cash flow."
- Shareholder initiatives increase value. A 1992 study by Wilshire Associates found that shareholder proposals submitted by the California Public Employees' Retirement System resulted in a $137 million net gain, even when the proposals did not get a majority vote.

There can be no assurance that a "governance dividend" will result from the adoption of Sears shareholders' proposals. But, by withdrawing its opposition to these proposals and demonstrating independent thinking, the Sears Board could give Sears owners a governance dividend of their own.

MAY 14 ANNUAL MEETING

We urge the Board, before the May 14 annual meeting, to recognize its responsibilities and reconsider its rejection of the five shareholder proposals. The Sears Board should follow the example of GM by realizing it reports to the owners, not management.

VOTE FOR SHAREHOLDER PROPOSALS

We urge all Sears shareholders to endorse the need for Board accountability and vote for fellow shareholders' proxy proposals. Even if you've voted, you can still change your vote. Send in your proxy card or contact Georgeson & Co., Wall Street Plaza, New York, NY 10005, 1-800-223-2064.

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Can the media play a “governance” role?

- Finance and accounting folks seemed to be saying yes
- Management scholars focused on legitimating role of positive media coverage but not really governance role
- My dissertation tried to come in with a yes, but…

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WATCHDOG OR LAPDOG? A BEHAVIORAL VIEW OF THE MEDIA AS A CORPORATE GOVERNANCE MECHANISM

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This study begins to provide a behavioral view of the media and corporate governance by showing how firms enact largely symbolic governance changes with respect to board independence that essentially protect managerial interests, yet still elicit positive responses from the media. I show why this media response is important for firm leaders by examining how more favorable media coverage may affect CEO job security, executive compensation, and board composition. To the extent that largely symbolic actions affect media coverage, this study raises questions about the effectiveness of the media as a governance control mechanism.

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Burr Under the Saddle: How Media Coverage Influences Strategic Change

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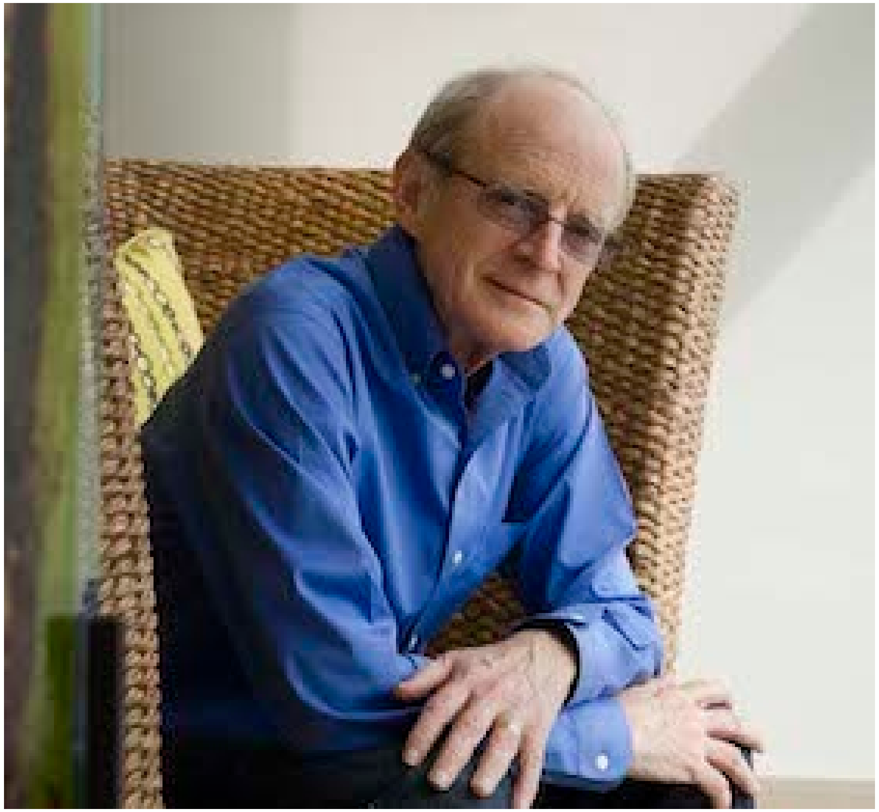
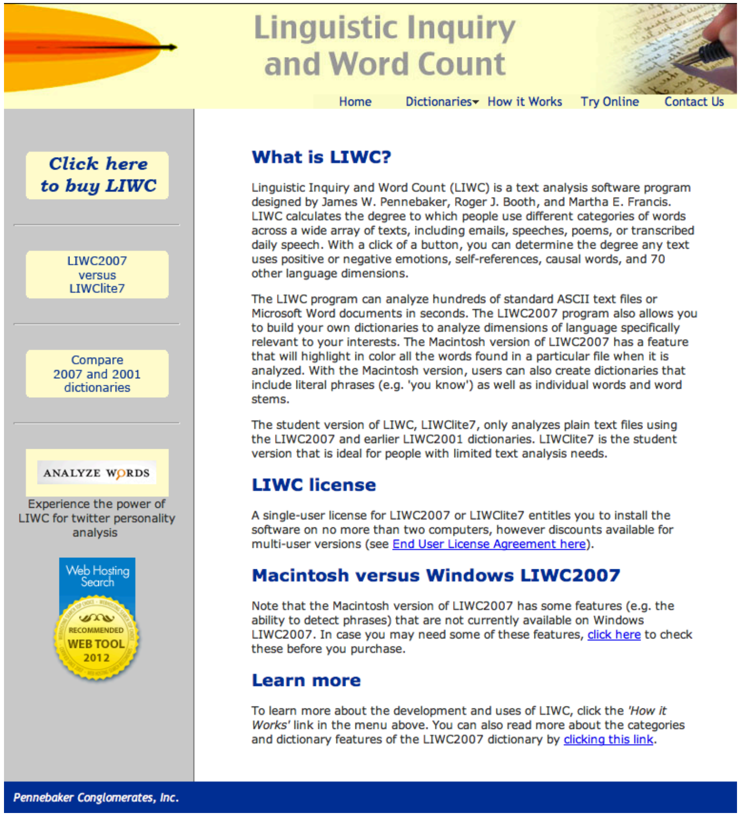
In this paper we introduce a new antecedent to the strategic change literature by examining the effect of media coverage on the extent of strategic change. Specifically, we examine how negative media coverage may prompt firms to make changes to their resource allocations and then explore how the makeup of the board and firm performance can moderate this relationship. We develop a theoretical framework to explain why media coverage may affect strategic change and then test our theory with a longitudinal analysis of 250 firms over a four-year period. The empirical results lend support to our theory of media influence on strategic change and suggest that the evaluations of firms by outside constituents may influence the decision making of executives.

Key words: strategic change; media; corporate governance; top management teams
History: Published online in *Articles in Advance*.

How to measure media content on a large scale?





Media Coverage – What I Did

- News articles from four leading business publications and major newspapers (WSJ, Business Week, Forbes, Fortune, NYTimes, Washington Post)

- Tracked coverage of half of S&P 500 firms from 2001-2005 for a total of 42,330 articles
- Also had sub-categories of coverage in first paper
  - Excluded if firm was not mentioned in title or opening paragraph, article had less than 50 words, or mentioned more than 4 other firms.

- Measured the favorability of each article using the LIWC (Language Inquiry Word Count) software program (Pennebaker et al. 2001)
  - Uses predefined dictionaries to assess various constructs
  - Dictionaries have been validated by human coders and by use in multiple studies
  - Used the positive and negative emotion dictionary (Pfarrer et al. 2010)
  - Conducted validity and robustness checks manually

Reviewer Concerns

I have several pressing concerns about the construct validity of your variable capturing negative media attention. I think that you should take a small subsample of your text and manually check the accuracy of the LIWC negative emotions database. Specifically, for a sample of your corpus you ought to manually tease through each instance of the negative emotional triggers identified by the software and confirm whether the word is actually being said with the company as its object. It strikes me that more socially active companies (that express their own outrage or negative emotions about issues when interviewed in the press) are likely to be conflated in your method with those companies to which the media is directing its own outrage.

Initial Response

We followed your suggestion and conducted a sub-sample analysis of articles in our sample. Specifically, we drew a random sample of 100 articles from our corpus of articles that registered at least some degree of negative sentiment from the LIWC program. We then had one of the authors read each article with words from the negative emotion dictionary highlighted in the text. For each occurrence of a negative word, we coded whether the word was written in the context of a journalist referencing some aspect of the company or whether the words came from corporate spokespersons. In the sample of 100 articles, there were a total of 831 negative words of which 75% referred to the focal company. 10% of the words came from corporate spokespersons, often the CEO, who were occasionally interviewed as part of the article. In 4% of the cases, the words referred to another firm and in 11% of the cases, the words were unrelated to the focal firm.

This sub-sample analysis confirms that the vast majority of negative words highlighted by LIWC did in fact reflect negative sentiment about the focal company. The analysis also confirms that there is some noise in the measure, which is not surprising but the presence of this noise should make our tests more conservative in nature.

Initial Validation Analysis

Sub-sample analysis of 100 sample articles

	Negative Words	About Focal Firm	Company Spokesperson	Other Firm	Unrelated
Words	831	627	79	31	94
Percentage	100	75.4	9.6	3.7	11.3

N= 100 articles

R2 - Still Unconvinced

- *…my primary reservation with this paper continues to be the construction of the negative media attention variable. I very much appreciate that you conducted the manual content analysis of the LIWC-coded data. However, in my opinion the results of this analysis confirm the inconsistency of this variable.*

- *…As I suggested in my earlier review, it seems possible that firms whose CEOs or spokespeople use negative words in the articles – who are openly criticizing something -- may be more socially-oriented or be more likely to have defiant governance cultures, either of which could make them more likely to adopt more drastic strategic changes. I know that this is quite a large corpus of articles you are working with, but it doesn't seem to me to be too many to preclude a manual coding, especially if you pared down your sample to a smaller number of firms or years.*

- *…I just do not think that this automatic analysis has resulted in a measure that is accurate enough to be a reliable empirical test of your theory.*

LIWC examples of negative quotes

*#1: Chief executive officer Jacques Nasser has publicly declared his **irritation** at those and other quality snafus that he said cost the company $1 billion last year.*

*#2: Palmolive says profit fell 8.3% on restructuring. New York Palmolive co.'s quarter profit fell 8.3% **hurt** by restructuring costs*

*#3: Chief executive David J. O'reilly said in an interview yesterday that he **regretted** some of his company's moves with Dynegy. "When you make an investment you assess the downside risk," he said. "I think we fell short of assessing the downside risk."*

*#4: HP chief executive Carly Fiorina said in an early morning conference call that while results in the firm's personal computer business were strong they were more than **overwhelmed** by **weakness** in computer server and storage sales to businesses. The **weakness** caused the company's quarter earnings to come in well under Wall Street expectations and sparked a dramatic selloff in HP shares. Fiorina meanwhile said on the conference call that she shared the **frustration** of analysts over HP's performance and she declared that heads would roll at her firm. Fiorina said in addition to economic **weakness**, the server and storage units were **hurt** by a problematic transition to a new chain processing system that caused the company to **miss** some orders and take expensive measures*

Takeaways

- It is possible to publish in high quality outlets using computer aided content analysis
- Quite a bit of variance in reviewers' response to content analysis data
- Be ready to validate what the machine says