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Relationship between earnings management and media coverage of a company: corporate opportunism during the Covid-19 pandemic

Abstract

The oversight potential of the business media has been recognised in the earnings management literature during the last decade. However, the COVID-19 pandemic changed the business media environment considerably. The primary objective of this research was to investigate the influence of the COVID-19 pandemic on the relationship between media coverage of a company and earnings management in the different stages of the pandemic. The research sample of Croatian non-financial listed companies in the period from 2018 to 2021 was used to estimate panel regression models. The modified Jones model was used to estimate the level of earnings management. In the times of the highest uncertainty, such as after the coronavirus outbreak and during the mandatory vaccination debate, the moderating influence of the pandemic on the relationship between negative media coverage and earnings management was positive, implying that negative media coverage was not effective in restraining earnings management during the pandemic. The findings indicate that companies anticipate the public impact of negative media coverage when applying earnings management techniques. More specifically, companies with negative publicity took advantage of the changed business media environment during the pandemic. Besides scientific implications, these findings also have practical implications for forensic accountants, auditors, and other experts responsible for the examination of financial statements, including business journalists. Future research should be conducted in countries with different media environments and more developed stock markets, as well as consider small or medium enterprises which, to the authors' knowledge, were not examined in the context of the relationship between media coverage and earnings management.

Keywords: COVID-19, crisis, earnings management, manipulation, media

Relationship between earnings management and media coverage of a company: corporate opportunism...
EKONOMSKI PREGLED, 75 (5) 380-396 (2024)

381

1. INTRODUCTION

Considering its large audience, media is perceived as "an effective information intermediary" (Qi, Yang & Tian, 2014, p. 574). It also serves as "an external monitoring mechanism" (Dyck & Zingales, 2002; Dyck et al., 2008, in Chahine, Mansi & Mazboudi, 2015, p. 3) suitable for deterring earnings management activities (Chen, Cheng, Li & Zhao, 2021, p. 534). Previous research also highlights it as "a watchdog in detecting corporate frauds" (Chen, Huynh & Tao, 2018, p. 10), given that the media can reveal a significant number of fraud cases before their public announcement (Miller, 2006; Dyck et al., 2010, in Chen et al., 2018).

In this context, business media is more relevant because its journalists are specialized in financial and accounting matters (Dyck et al., 2010, in Qi et al., 2014). Research has indicated that they attach great importance to their corporate oversight role (Call, Emett, Maksymov & Sharp, 2018, in Chen et al., 2021). Business media is "one of the most important information intermediaries" (Chen et al., 2021, p. 533), especially in capital markets (Tetlock, 2010; Engelberg & Parsons, 2011; Peress, 2014, in Ahern & Sosyura, 2015).

It is "the broadest and most widely disseminated of all potential information intermediaries, reaching both sophisticated and unsophisticated investors, as well as managers, regulators, and other market participants" (Bushee, Core, Guay & Hamm 2010, p. 2). Media can either rebroadcast secondary information initially created by, for instance, auditors or analysts, or generate primary information (Miller, 2006, in Qi et al., 2014). Given that online media "has greater communication power and influence than traditional media and can maximize its media effect through the internet in a short time" (Wang, Wang & Liu, 2022, p. 396), this research utilized business news reported by the online business news portal with the majority of page views in Croatia.

The coronavirus outbreak in 2020 changed the business media environment considerably. The topics related to business became secondary in relation to the health topics (Akhtaruzzaman, 2022) and, after the initial stages of the pandemic, trust in the news in Croatia fell significantly (Newman, Fletcher, Eddy, Robertson & Nielsen, 2023; Newman, Fletcher, Robertson, Eddy & Nielsen, 2022; Newman, Fletcher, Schulz, Andı, Robertson & Nielsen, 2021; Newman, Fletcher, Schulz, Andı & Nielsen, 2020; Newman, Fletcher, Kalogeropoulos & Nielsen, 2019). The fall in Croatia was most intense in the Reuters Institute Digital News Report published after the vaccination debates, when the proportion of people that trust most news most of the time fell seven percentage points, which was the second highest fall among all countries included in the sample (Newman et al., 2022; Newman et al., 2021). Mentioned trust issues and the shift of focus to health topics in times of uncertainty opened the possibility for managers to take advantage of new circumstances in the media environment. In that sense, the main objective of this paper was to examine the moderating influence of the pandemic on the relationship between media coverage and earnings management.

This relationship, to the authors' knowledge, was not previously investigated and, thus, it is the most important scientific contribution of this research. Conducting research on the companies that operated in Croatia is also a contribution considering the country's specificities regarding the public response to the COVID-19 pandemic events. According to the Reuters Institute Digital News Reports from 2019 to 2023, the decrease of trust in the news in Croatia during the COVID-19 pandemic measured in percentage points was among the highest considering the countries included in the sample (Newman et al., 2023; Newman et al., 2022; Newman et al., 2021; Newman et al., 2020; Newman et al., 2019). Additionally, most of the research on the relationship between earnings management and media coverage is conducted either in China or in the United States of America and, to the authors' knowledge, only one in the European Union (Spain). Also, the leading position in Croatia is dominantly held by one online business news portal, Poslovni dnevnik.

The remainder of the paper is organized in the following manner. Section 2 reviews the literature relevant to hypothesis development. Section 3 presents the sample selection procedure

and data sources, regression models used for verification of the hypothesis and methods of variable measurement. Section 4 presents the research results and section 5 discussion regarding theoretical contributions and practical implications, as well as the conclusion which includes research limitations and the potential avenues for future research.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Theoretical foundations of the relationship between earnings management and media consist of two opposing theories – market pressure theory and effective monitoring theory (Wang et al., 2022). Comiran, Fedyk & Ha (2018) also refer to them as the attention pressure and watchdog hypothesis. Market pressure theory accents the negative side of media attention as a stimulus for companies to manage their financial result (Yu et al., 2011, in Wang et al., 2022), because of the inability to satisfy expected financial performance (Meng, 2020). This theory highlights the failure of the media's monitoring function (Lu, 2013, in Wu, Gao & Li, 2016). Conversely, effective monitoring theory "asserts that media report can effectively monitor and govern earnings management behaviour and that market-oriented media have greater governance effects" (Wang et al., 2022, p. 397). It suggests a positive relationship between media attention and oversight effect on the companies, which deters earnings management (Meng, 2020).

Public perception of media can vary significantly because its influence on society is not always beneficial. Generally, its positive impact is expressed through the reduction of information asymmetry (Qi et al., 2014) and oversight of corporate activities (Miller, 2006; Joe, Louis & Robinson, 2009; Dyck, Morse & Zingales, 2010; Liu & McConnell, 2013; Dai, Parwada & Zhang, 2015, in Chen et al., 2021).

In order to reduce information asymmetry, the less informed side needs access to relevant information. The media can „dramatically reduce" the costs of obtaining this information (Dyck, Volchkova & Zingales, 2008, p. 1098) and „overcome the rational ignorance" (Dyck et al., 2005,

in Dyck et al., 2008, p. 1098), i.e. the paradox implying that „the cost of becoming informed exceeds the benefit (...) from that information" (Dyck et al., 2008, p. 1098). Media can also serve as a powerful motivating factor for enhancing the effectiveness of politicians, managers and boards of directors (Dyck & Zingales, 2002, in Qi et al., 2014).

Despite the intense market competition between media companies and „an incentive to maintain a good reputation by providing accurate and credible information" (Gentzkow & Shapiro, 2006, in Peña-Martel, Pérez-Alemán & Santana-Martín, 2018, p. 169), deviations are relatively frequent. Bushee et al. (2010, p. 17) stressed that „the press has the potential to influence the degree of information asymmetry across investors". It is notable that they had not used the word „reduce" instead of „influence", implying that business journalists could also deepen information asymmetry. In this regard, a number of authors raised doubts regarding the efficiency of media, calling it "an entertainer and does not provide valuable information to the market" (Jensen, 1979, in Chen et al., 2021, str. 537) or an entity that "reports sensational news, which can lead to suboptimal economic consequences" (DeAngelo et al., 1994, 1996, in Chen et al., 2021, str. 538). Potential repercussions can be classified into three categories.

Firstly, journalists could be biased due to selectiveness in publishing news (DeAngelo, DeAngelo & Gilson, 1994, 1996; Ahern & Sosyura, 2015, in Chen et al., 2021), i.e. accentuation of favourable news or censorship of negative news. Secondly, even high-quality news can initiate negative managerial reactions since "media exposure places the firm in the spotlight" (Chen et al., 2018, p. 10). More specifically, it can stimulate managers to be more focused on short-term activities (Dai, Shen & Zhang, 2020, in Chen et al., 2021) and earnings management (Meng, 2020). Thirdly, media is "skewed toward speculative stories, possibly at the expense of accuracy", which "could distort investors' beliefs and impact asset prices" (Ahern & Sosyura, 2015, p. 2050).

After the analysis of the potential impacts of media on society, previous research on the rela-

Relationship between earnings management and media coverage of a company: corporate opportunism...
EKONOMSKI PREGLED, 75 (5) 380-396 (2024)

383

tionship between media coverage and earnings management, which was used as a framework for developing the research hypothesis, is presented in the remainder of the chapter.

The paper authored by Qi et al. (2014) was among the first to investigate the relationship between media coverage of a company and earnings management. The listed firms from China were analysed over the nine-year period from 2001 to 2009 and a negative relationship between media exposure and earnings management was discovered (Qi et al., 2014). Based on these results, authors have characterised Chinese media „as an external monitor to the majority of firms" (Qi et al., 2014, p. 571), despite the fact that this research was conducted in the socialist market economy environment where the „government has tried to keep a tight rein on traditional and new media to prevent any challenges to its political authority" (Qi et al., 2014, p. 572).

Chahine et al. (2015) differentiated between informative and uninformative news and, using the sample of equity carve-outs in the USA from 1990 to 2009, found evidence of a negative relationship between earnings management and informative news before equity carve-outs, but also a positive relationship in the case of uninformative news.

Another research in the Chinese business environment, yet over a shorter period (from 2008 to 2012), was carried out by Wu et al. (2016), who found a positive relationship between media attention and earnings management, which is more pronounced if media attention is negative. In this context, earnings management is a managerial instrument used „to reduce or relieve the pressure they feel from the media and to remedy any reputation loss" (Wu et al., 2016, p. 627).

The approach by Chen et al. (2018) differed from others because they investigated news commonality in the context of earnings management. Using data from listed companies in the USA from 2003 to 2015, they have founded a negative relationship between news commonality and earnings management (Chen et al., 2018). In contrast, the relationship between

earnings management and total news coverage was positive (Chen et al., 2018).

Comiran et al. (2018) investigated the relationship between earnings management and media coverage in a sample of companies in the process of equity offering which operated in the USA from 1993 to 2014, taking into account the difference between different categories of earnings management. Authors have found that media is useful in preventing manipulative activities, but only in the case of real earnings management (Comiran et al., 2018). They also pointed out the complementarity between the auditors, who are relevant for the prevention of accrual earnings management, and the media, which is more efficient at deterrence of real earnings management (Comiran et al., 2018).

Peña-Martel et al. (2018) investigated earnings informativeness in the context of media coverage using data of Spanish listed companies in the period from 1996 to 2014. As a scientific contribution, they have highlighted the fact that their research was conducted „in a continental European context in which the presence of dominant owners is prevalent and media independence is high" (Peña-Martel et al., 2018, p. 169). Their results showed a positive relationship between coverage in financial media and earnings informativeness, as well as between earnings informativeness and the news with a negative tone (Peña-Martel et al., 2018).

Another research related to the Chinese corporate environment was conducted by Kong (2019) on a sample of Chinese listed companies from 2009 to 2013. Besides the verification of the negative relationship between earnings management and media oversight and the tendency of companies towards utilizing real earnings management, they have founded the substitution effect between the legal system and the media in terms of preventing earnings management (Kong, 2019).

Chen et al. (2021) have proven a negative relationship between earnings management and media coverage, which they found to be more effective in the case of weak auditors' oversight, in terms of audit engagement duration and auditor's specialization. They have referred to this

Table 1. Systematic review of previous research regarding
the relationship between media coverage and earnings management

Author(s)	Country	Period	Result(s)	Specificities
Qi et al. (2014)	China	2001 - 2009	* negative relationship between media exposure and earnings management	socialist market economy
Chahine et al. (2015)	USA	1990 - 2009	* negative (positive) relationship between earnings management and informative (uninformative) news before equity carve-outs	equity carve-outs
Wu et al. (2016)	China	2008 - 2012	* positive relationship between media attention and earnings management	
Chen et al. (2018)	USA	2003 - 2015	* negative relationship between news commonality and earnings management * positive relationship between earnings management and total news coverage	news commonality
Comiran et al. (2018)	USA	1993 - 2014	* media prevents manipulative activities (real earnings management only) * complementarity between the auditors and the media	complementarity between the auditors and the media
Peña-Martel et al. (2018)	Spain	1996 - 2014	* positive relationship between coverage in financial media and earnings informativeness * positive relationship between earnings informativeness and the news with a negative tone	continental European environment
Kong (2019)	China	2009 - 2013	* negative relationship between earnings management and media oversight * founded substitution effect between the legal system and the media in terms of preventing earnings management	substitution effect between the legal system and the media
Chen et al. (2021)	USA	2000 - 2016	* negative relationship between earnings management and media coverage (more effective in the case of weak auditors' oversight) * significant relationship with media coverage only in the case of income-increasing earnings management	sample divided into two parts regarding the direction of earnings management
Wang et al. (2021)	China	2014 - 2018	* media attention can curb earnings management by directors with high compensation	
Wang et al. (2022)	China	2014 - 2018	* online media reports can attract abnormal public attention and motivate earnings management	online media

Source: Authors' creation

Relationship between earnings management and media coverage of a company: corporate opportunism...
EKONOMSKI PREGLED, 75 (5) 380-396 (2024)

385

as a „substitutional role of the media in monitoring" (Chen et al., 2021, p. 535). Also, they divided their sample into two parts regarding the direction of earnings management and founded a statistically significant relationship with media coverage only in the case of income-increasing earnings management (Chen et al., 2021).

Wang, Wang & Liu (2021) have researched the relationship between managers' compensation and earnings management considering different aspects, including media attention. By analysing the sample of Chinese listed companies over the five-year period from 2014 to 2018, they have concluded that media attention can curb earnings management by directors with high compensation and stated that „media supervision has effectively played the role of external governance" (Wang et al., 2021, p. 9).

Wang et al. (2022) examined the relationship between earnings management and media in a sample of Chinese listed companies in the period from 2014 to 2018, focusing on online media. They found evidence that online media reports can attract abnormal public attention and motivate earnings management (Wang et al., 2022).

Considering the previous research results (systematized in Table 1), predicting the relationship between earnings management and media coverage is rather complex. The research was mostly carried out on the samples of companies that had operated in China and the USA, except for one research conducted in Spain. When considering research on moderating variables on the relationship between earnings management and media coverage, research is quite scarce. For instance, Ying, Guo and Deng analysed the moderating effect of investor attention on the relationship between aforementioned variables (Ying et al., 2017, in Wang et al., 2022). This paper provides a new perspective by examining the moderating influence of the pandemic on the relationship between media coverage and earnings management. Since its declaration on 11th March 2020 (World Health Organization [WHO], 2020), the COVID-19 pandemic has received a lot of research attention. It has lasted for more than three years, until 5th May 2023, when its end was declared (WHO, 2023). Besides the severe economic repercussions (Svabova, Kramarova

& Chabadova, 2022; Rose, 2021, in Walmsley, Rose, John, Wei, Hlávka, Machado & Byrd, 2023), the pandemic was also challenging in terms of information overload, also known as "COVID-19 infodemic" (Gupta, Li, Farnoush & Jiang, 2022, p. 670), which additionally undermined the trust in the news (Newman et al., 2023; Newman et al., 2022; Newman et al., 2021; Newman et al., 2020; Newman et al., 2019). Akhtaruzzaman (2022) analysed the structure of business news in the most prominent online newspapers in New Zealand during the COVID-19 pandemic and concluded that the topics related to business were secondary in relation to health topics. Mentioned trust issues and the shift of focus to health topics in times of uncertainty provided managers with an opportunity to take advantage of the new circumstances for their opportunistic intentions.

Considering the relevant literature in the field provided in this chapter and the primary aim of the paper, the research hypothesis was established as follows:

> *There is a statistically significant positive impact of the COVID-19 pandemic on the relationship between media coverage and earnings management.*

3. METHODOLOGY

3.1. Sample selection and data sources

The entire population of companies listed on the Zagreb Stock Exchange (ZSE) (n.d.) on the 1st of October 2020 was initially included in consideration. The companies classified in the activities with fewer than six observations were excluded considering the modified Jones model estimation approach adopted by Dowdell and Krishnan (2004), as well as financial companies following the sample selection approach applied by Chen et al. (2018) and Nguyen (2021). Finally, the sample used in the analysis comprised 70 companies (244 observations). Financial data were collected from the ZSE official webpage for the 4-year period from 2018 to 2021 and media coverage data were gathered from the Poslovni dnevnik, the most viewed Croatian online business news portal.

3.2. Regression models

Given that there were three variables representing news coverage (NWS) and three business years during the COVID-19 pandemic in which audited annual financial statements were published (COV), nine regression models were estimated to examine the validity of the established hypothesis. These models were formed to distinguish the research variables in three significantly different COVID-19 settings. There was excessive fear regarding the future of the world around the deadline for disclosing financial statements in the first year of the pandemic which moved the focus of all other topics to the COVID-19 issue. The mood around the deadline for disclosing financial statements in the second year of the pandemic changed drastically due to optimism which followed the production of the COVID-19 vaccines. Finally, optimism transformed into distrust caused by infodemia and contradictory information around the deadline for disclosing financial statements in the third year of the pandemic. Models 1-3 were estimated using three different news coverage measures in the year in which the first audited annual financial statements during the COVID-19 pandemic were published, Models 4-6 were estimated with the same measures in the year in which the second audited annual financial statements were published, and Models 7-9 were estimated with same measures in the year in which third audited annual financial statements were published. The equation representing all mentioned models is as follows:

$$aDACC_{i,t} = \beta_0 + \beta_1{*}NWS_{i,t} + \beta_2{*}COV_{i,t} +$$
$$+ \beta_3{*}NWS{*}COV_{i,t} + \beta_4{*}LVG_{i,t} + \beta_5{*}PROF_{i,t} +$$
$$+ \beta_6{*}CF_{i,t} + \beta_7{*}SGW_{i,t} + \beta_8{*}LOSS_{i,t}$$
$$+ \beta_9{*}SIZE_{i,t} + e_{i,t} \qquad (1)$$

Table 2 shows all the variables included in the research model with their respective abbreviations and definitions. The absolute value of accrual-based earnings management (aDACC) is the dependent variable which is equal to the absolute value of e_{it} calculated in the modified Jones model, i.e. the difference between total accruals and non-discretionary accruals, while news coverage variables (NWS_t, NWS_p and NWS_n) and the interaction variables between news coverage variables and the year in which audited annual financial statements during the COVID-19 pandemic were published (NWS*-COV) are the test variables.

The remaining variables are the control variables utilized in the previous research (Qi et al., 2014; Lu & Zhang, 2016; Wu et al., 2016; Comiran et al., 2018; Peña-Martel et al., 2018; Meng, 2020; Chen et al., 2021; Wang et al., 2021; Wang et al., 2022) to increase the regression model accuracy.

3.3. Variable measurement

3.3.1. Earnings management

After the introduction of the Jones model (Jones, 1991), several alterations to the initial model were proposed. Among the earnings management measures, one of the most frequently used in previous research is the modified Jones model introduced by Dechow, Sloan and Sweeney (1995). In accordance, authors who investigated the relationship between media coverage and earnings management also used mentioned model (e.g. Chen et al., 2021). The following formula was used to estimate earnings management through the discretionary accruals (Lobo & Zhou, 2001):

$$TACC_{it} = a_1(1/A_{it-1}) + a_2(\Delta REV_{it} - \Delta REC_{it}) +$$
$$+ a_3 PPE_{it} + e_{it} \qquad (2)$$

where:

- "$TACC_{it}$ = total accruals for firm i in year t divided by total assets for firm i at the end of year t-1;
- ΔREV_{it} = change in revenue for firm i in year t divided by total assets for firm i at the end of year t-1;
- ΔREC_{it} = change in net receivable for firm i in year t divided by total assets for firm i at the end of year t-1; and
- PPE_{it} = property, plant and equipment for firm i in year t divided by total assets for firm i at the end of year t-1" (Lobo & Zhou, 2001, p. 7).

Relationship between earnings management and media coverage of a company: corporate opportunism...
EKONOMSKI PREGLED, 75 (5) 380-396 (2024)

387

Table 2. Definitions of the research variables

Abbreviation	Variable	Definition
aDACC	Absolute value of accrual-based earnings management	Value of discretionary accruals is estimated with the Modified Jones model
NWS_t	Total number of media reports	Total number of news published in the analysed media source
NWS_p	Number of positive media reports	Number of positive news published in the analysed media source
NWS_n	Number of negative media reports	Number of negative news published in the analysed media source
COV_{20}	The year in which first audited annual financial statements during the COVID-19 pandemic were published	Dichotomous variable in which value 1 signifies that financial statements were disclosed during the period from 11th March 2020 to 31st December 2020 and value 0 signifies that financial statements were disclosed in other periods
COV_{21}	The year in which second audited annual financial statements during the COVID-19 pandemic were published	Dichotomous variable in which value 1 signifies that financial statements were disclosed during the period from 1st January 2021 to 31st December 2021 and value 0 signifies that financial statements were disclosed in other periods
COV_{22}	The year in which third audited annual financial statements during the COVID-19 pandemic were published	Dichotomous variable in which value 1 signifies that financial statements were disclosed during the period from 1st January 2022 to 31st December 2022 and value 0 signifies that financial statements were disclosed in other periods
LVG	Leverage	Sum of short-term liabilities and long-term liabilities divided by total assets
PROF	Profitability	The return on assets ratio calculated as net profit divided by total assets
CF	Cash flows	Net cash flows from operating activities divided by total assets
SGW	Sales growth	Sales revenues in current financial year divided by sales revenues from the preceding year
LOSS	Loss	Dichotomous variable denoting if company made a loss (= 1) or not (= 0)
SIZE	Company size	Natural logarithm of total assets
E	Error term	Error term in the regression model

Source: Authors' creation

The value of total accruals is calculated as the difference between net income and cash flows from operations (Comiran et al., 2018). To estimate the value of earnings management, companies included in the research sample were classified into subsamples according to their respective industry and equation (2) was utilized to estimate regression coefficients (a_1, a_2 and a_3) for each subsample (Wang et al., 2021), which were incorporated in equation (3) to calculate nondiscretionary accruals (Lobo & Zhou, 2001):

$$NDACC_{it} = â_1(1/A_{it-1}) + â_2(\Delta REV_{it} - \Delta REC_{it}) + â_3 PPE_{it} \quad (3)$$

where:

- $NDACC_{it}$ = non-discretionary accruals for firm i in year t.

In the last phase, the difference between total accruals and non-discretionary accruals is utilized as estimation of discretionary accruals (Lobo & Zhou, 2001):

$$DACC_{it} = TACC_{it} - NDACC_{it} \quad (4)$$

Following the approach adopted by Qi et al. (2014) and Li, Zhang, Urquhart & Wang (2022), absolute discretionary accruals (aDACC) were used to measure earnings management. Their lower level suggests lower intensity of earnings management (Chen et al., 2021).

3.3.2. Media coverage

The media coverage data for a certain company was collected from the Poslovni Dnevnik (n.d.) online business news portal, as the most relevant source of business information in Croatia. According to the Gemius Audience (n.d.) which provides metrics for website analysis, in every year from 2018 to 2021, Poslovni Dnevnik had more page views than all other business websites put together (including the business sections of online news portals that were not specialized in topics related to business). Its dominance even increased during the two years of the COVID-19 pandemic included in the research sample (2020 and 2021).

The variable referring to the media coverage uses the number of news published following the approach implemented by Chahine et al. (2015), Peña-Martel et al. (2018), and Rahayu, Irianto & Prastiwi (2021). Three measures of media coverage used in this research are the total number of media articles published about a particular company, the number of media articles with a positive tone published about a particular company, and the number of media articles with a negative tone published about a particular company. The news was gathered from the source mentioned in the previous paragraph and their content was analysed to determine if certain news was positive, negative or neutral for a company. For instance, an article about record profits, recent business deals favourable for a company, increased share value etc. were designated as positive, while an article on opened bankruptcy proceedings, cancelled business arrangements, deterioration of financial results etc. were designated as negative. The minority of articles from the total number of media reports could not be classified after analysis of their content and, therefore, were not classified as positive media reports nor as negative media reports. All the news published before the date of disclosure of financial statements by a certain company for a certain business year and after the date of disclosure of financial statements in the previous business year were included. Since mentioned dates vary among the companies, this interval was specified for each company individually.

4. RESEARCH RESULTS

In this chapter, the results are presented, including descriptive statistics, correlation analysis, variance inflation factors (VIF), and regression analysis. As a descriptive statistic measure, mean values for research variables in the period from 2018 to 2021 are presented (Table 3).

The average values contained in Table 3 show a decline in business media coverage of listed companies during the COVID-19 pandemic, most likely due to the shift of focus to health topics as Akhtaruzzaman (2022) stated. Positive news dominated the structure of total news, which is similar to the research results obtained by Qi et

Relationship between earnings management and media coverage of a company: corporate opportunism...
EKONOMSKI PREGLED, 75 (5) 380-396 (2024)

389

Table 3. Variable means in the period from 2018 to 2021

	2018	2019	2020	2021
NWS_t	4,29	2,56	2,87	3,19
NWS_p	3,53	2,24	2,31	2,81
NWS_n	0,46	0,31	0,50	0,24
aDACC	0,0505	0,0544	0,0483	0,0509
LVG	0,59	0,67	0,57	0,43
PROF	-0,0295	0,0072	-0,0124	0,0271
CF	0,0446	0,0568	0,0391	0,0604
SGW	0,02	0,04	1,18	1,20
LOSS	0,30	0,28	0,61	0,29
SIZE	8,67	8,65	8,69	8,75

Source: Authors' creation

Table 4. Independent variables' correlation coefficients

	NWS_t	NWS_p	NWS_n	LVG	PROF	CF	SGW	LOSS	SIZE
NWS_t	1.00								
NWS_p	0.98***	1.00							
NWS_n	0.70***	0.55***	1.00						
LVG	-0.01	-0.03	0.06	1.00					
PROF	-0.38***	-0.27***	-0.56***	-0.11*	1.00				
CF	-0.03	0.02	-0.14**	0.01	0.46***	1.00			
SGW	-0.05	-0.05	-0.04	-0.04	0.02	0.03	1.00		
LOSS	-0.08	-0.12*	0.08	0.15**	-0.39***	-0.45***	0.05	1.00	
SIZE	0.46***	0.49***	0.21***	-0.40***	0.06	0.14***	-0.00003	-0.16***	1.00

Note: * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

Source: Authors' creation

al. (2014). Part of the news which was included in the total number of media articles could not be classified as positive or negative because their tone was neutral.

Earnings management had increased in 2019, which is understandable given that these financial statements were submitted during the first pandemic year when uncertainty was at its

Table 5. Variance inflation factors of independent variables

Variable	Model								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
NWS_t	2.06			2.08			2.23		
NWS_p		1.81			1.82			2.11	
NWS_n			2.09			3.66			1.81
COV_{20}	1.26	1.26	1.12						
COV_{21}				1.34	1.33	1.20			
COV_{22}							1.22	1.21	1.14
NWS_t*COV_{20}	1.41								
NWS_t*COV_{21}				1.48					
NWS_t*COV_{22}							1.54		
NWS_p*COV_{20}		1.40							
NWS_p*COV_{21}					1.43				
NWS_p*COV_{22}								1.59	
NWS_n*COV_{20}			1.33						
NWS_n*COV_{21}						2.34			
NWS_n*COV_{22}									1.22
LVG	1.30	1.30	1.27	1.30	1.29	1.28	1.30	1.30	1.28
PROF	1.97	1.70	2.34	1.96	1.69	3.08	1.99	1.73	2.21
CF	1.56	1.56	1.57	1.56	1.56	1.59	1.56	1.56	1.57
SGW	1.02	1.02	1.01	1.02	1.02	1.01	1.02	1.02	1.02
LOSS	1.44	1.42	1.40	1.55	1.53	1.53	1.42	1.42	1.37
SIZE	1.72	1.73	1.33	1.72	1.73	1.34	1.71	1.71	1.36

Source: Authors' creation

highest. In the following year, when relatively positive momentum was created due to the start of the vaccination process, the level of earnings management fell below the pre-crisis level.

The values of the control variables were strongly influenced by the economic crisis induced by the pandemic. This includes deleveraging, reduced profitability accompanied by a sharp increase of companies that made losses, as well as reduced value of cash flows from operations. The indicator of sales growth was volatile. Several outliers with extremely positive values additionally distorted its value in 2020 and 2021. After their removal, the value of sales growth was -0,24 in 2020 and 0,59 in 2021, which corresponds well to the time dynamics of the COVID-19 crisis.

Table 4 shows the correlation analysis of the most independent variables included in the re-

Relationship between earnings management and media coverage of a company: corporate opportunism...
EKONOMSKI PREGLED, 75 (5) 380-396 (2024)

391

Table 6. Regression models

Variable	Dependent variable: aDACC								
	Model								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
NWS_t	-0.001* (0.001)			-0.001 (0.001)			-0.001** (0.001)		
NWS_p		-0.001 (0.001)			-0.001 (0.001)			-0.001* (0.001)	
NWS_n			-0.006* (0.003)			-0.002 (0.004)			-0.005 (0.003)
COV_{20}	0.0003 (0.008)	0.002 (0.008)	0.001 (0.008)						
COV_{21}				-0.004 (0.009)	-0.004 (0.009)	-0.006 (0.008)			
COV_{22}							-0.002 (0.009)	-0.002 (0.009)	-0.004 (0.008)
NWS_t*COV_{20}	0.002 (0.001)								
NWS_t*COV_{21}				-0.001 (0.001)					
NWS_t*COV_{22}							0.001 (0.001)		
NWS_p*COV_{20}		0.001 (0.001)							
NWS_p*COV_{21}					-0.001 (0.001)				
NWS_p*COV_{22}								0.001 (0.001)	
NWS_n*COV_{20}			0.01** (0.007)						
NWS_n*COV_{21}						-0.002 (0.005)			
NWS_n*COV_{22}									0.02** (0.01)
LVG	-0.003 (0.005)	-0.003 (0.005)	-0.003 (0.005)	-0.002 (0.005)	-0.003 (0.005)	-0.003 (0.005)	-0.003 (0.005)	-0.003 (0.005)	-0.004 (0.005)
PROF	-0.07*** (0.03)	-0.06*** (0.02)	-0.08*** (0.03)	-0.06** (0.03)	-0.06** (0.02)	-0.06* (0.03)	-0.08*** (0.03)	-0.07*** (0.02)	-0.07*** (0.03)
CF	0.14*** (0.05)	0.13*** (0.05)	0.13*** (0.05)	0.13*** (0.05)	0.13*** (0.05)	0.13*** (0.05)	0.13*** (0.05)	0.13*** (0.05)	0.13*** (0.05)
SGW	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)
LOSS	0.01 (0.009)	0.02* (0.009)	0.01* (0.009)	0.02* (0.009)	0.02* (0.009)	0.02** (0.009)	0.01 (0.009)	0.01 (0.009)	0.02* (0.008)
SIZE	0.01 (0.008)	0.008 (0.008)	0.006 (0.007)	0.01 (0.008)	0.01 (0.008)	0.007 (0.007)	0.01 (0.008)	0.01 (0.008)	0.004 (0.007)
Cons.	-0.04 (0.07)	-0.03 (0.07)	-0.01 (0.06)	-0.06 (0.07)	-0.05 (0.07)	-0.02 (0.07)	-0.05 (0.07)	-0.04 (0.07)	0.005 (0.06)

Note: * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$; Cons. = Constant. Standard errors are provided in the parentheses.

Source: Authors' creation

search, which was conducted to rule out the presence of a multicollinearity problem. The threshold of 0.6 (Huang, Wang, Han & Laker, 2022) was used to determine that there is no multicollinearity problem. The coefficients between the three media coverage measures were not taken into consideration, since a high correlation was expected.

The correlation coefficients between profitability ratio and media coverage are negative for all three news indicators, meaning that business journalists are more interested in companies with lower financial performance. On the contrary, the correlation coefficients between company size and media coverage are positive for all three news indicators, indicating a higher number of business news published regarding larger companies.

Also, comparing the threshold VIF value of five (Studenmund, 1997, in Peña-Martel et al., 2018) and the highest VIF value of 3.66, there is no multicollinearity problem (Table 5).

Table 6 presents the results regarding the effects of the COVID-19 pandemic on the relationship between media coverage and earnings management. Nine regression models mentioned in Section 3.2. were created. In doing so, R language and environment for statistical computing (R Core Team, 2022) was used, including its packages the stargazer (Hlavac, 2022), the plm (Croissant & Millo, 2008; Croissant & Millo, 2018) and the car (Fox & Weisberg, 2019). For some other analyses (e.g. correlation), PAST 4.03 (Hammer, Harper & Ryan, 2001) was used. The decision between using the regression model with fixed effects or random effects was based on the results of the Hausman test (Chansarn & Chansarn, 2016; Draief & Chouaya, 2022). The results of the Hausman tests indicated regression model with random effects as more suitable for all the models included in the paper.

As evident from Table 6, all the coefficients representing the relationship between earnings management and news coverage had a negative sign. Among them, statistically significant were those for total news coverage in Models 1 and 7, positive news coverage in Model 8, and negative news coverage in Model 3.

Furthermore, the coefficient representing the moderating effect of the COVID-19 pandemic on the relationship between earnings management and negative media coverage in the first year of the COVID-19 pandemic and the coefficient representing the moderating effect of the COVID-19 pandemic on the relationship between earnings management and negative media coverage in the third year of the COVID-19 pandemic were positive.

Among the other determinants of earnings management included in the models with statistically significant regression coefficients, the relationship between earnings management and profitability was negative in all models, while the relationship between earnings management and loss was positive in the majority of models, and the relationship between earnings management and cash flows was positive in all models.

As a part of regression models' diagnostics, the Pesaran CD tests for cross-sectional dependence in panels and the Breusch-Godfrey/Wooldridge test for serial correlation in panel models showed the absence of cross-sectional dependence and serial correlation in all regression models. On the other hand, the Breusch-Pagan test, which was utilized "to test the null hypothesis of homoscedasticity that all coefficients of the regression of squared residuals are equal to zero" (Draief & Chouaya, 2022, p. 993), indicated the potential presence of heteroskedasticity in all regression models, and the need for generating robust standard errors. After doing so, the regression coefficients of variables representing the moderating effect of the COVID-19 pandemic on the relationship between earnings management and media coverage relevant for hypothesis testing remained almost the same, leaving the conclusions unaffected.

5. CONCLUSION

The results showed that, generally, media coverage restrained earnings management, which is in line with the majority of previous studies. However, the main scientific contributions of this paper lie in examining the moderating impact of the pandemic on the relationship between negative media coverage and earnings

Relationship between earnings management and media coverage of a company: corporate opportunism...
EKONOMSKI PREGLED, 75 (5) 380-396 (2024)

393

management, which proved to be positive in the first and third year of the pandemic. This indicates that negative media coverage did not restrain earnings management, which was even higher in those periods. In the first year, the coronavirus outbreak occurred and the future course of the pandemic was unpredictable, raising the existential fear in the public on the highest level. In the third year, the debates about the mandatory COVID-19 vaccination caused deep social tensions and divisions in Croatian society. In the latter period, the positive impact of the pandemic on the main relationship was even stronger than at the time of the COVID-19 outbreak. The companies with negative media publicity perceived the most challenging periods in modern history as an opportunity to obtain a more favourable financial position. This indicated that management boards perceived business media strength in the times of the COVID-19 crisis as reduced and the impact of negative publicity on public perception as weaker.

This research also has practical implications for forensic accountants, auditors, and other experts responsible for the examination of financial statements, including business journalists. During extreme crises such as COVID-19, professionals should not rely on the oversight role of media and should increase their professional scepticism. Media journalists should devise modalities for increasing the impact of their articles on the targeted audience.

There are also several research limitations that need to be acknowledged. The research was carried out on a sample of companies that operated in Croatia, which makes results less generalizable. Future research should be conducted in other countries whose media and business environment, as well as the public reaction to the COVID-19 pandemic events, differ from Croatian. The number of listed companies in Croatia is not relatively large, so the research could be carried out in a country with a more developed stock market. To the authors' knowledge, research on the relationship between media coverage and earnings management is focused exclusively on the listed companies, thus examining the sample of small or medium enterprises could add valuable insights to the field.

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Relationship between earnings management and media coverage of a company: corporate opportunism...
EKONOMSKI PREGLED, 75 (5) 380-396 (2024)

395

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Odnos upravljanja financijskim rezultatom i medijske zastupljenosti trgovačkog društva: korporacijski oportunizam tijekom Covid-19 pandemije

Sažetak

Nadzorni potencijal poslovnih medija prepoznat je u literaturi o upravljanju financijskim rezultatom tijekom posljednjeg desetljeća. Međutim, COVID-19 pandemija je značajno promijenila okruženje poslovnih medija. Primarni cilj ovog istraživanja podrazumijevao je istraživanje utjecaja COVID-19 pandemije na odnos između medijske zastupljenosti trgovačkog društva i upravljanja financijskim rezultatom u različitim fazama pandemije. Za procjenu panel regresijskih modela korišten je uzorak istraživanja hrvatskih nefinancijskih društava uvrštenih na tržište kapitala u razdoblju od 2018. do 2021. Modificirani Jones model korišten je za procjenu razine upravljanja financijskim rezultatom. U razdobljima najveće neizvjesnosti, poput onih nakon izbijanja koronavirusa i tijekom rasprave o obveznom cijepljenju, moderatorski utjecaj pandemije na odnos između negativne medijske zastupljenosti i upravljanja financijskim rezultatom bio je pozitivan, što upućuje na to da negativna medijska zastupljenost trgovačkog društva nije bila učinkovita glede obuzdavanja upravljanja financijskim rezultatom tijekom pandemije. Rezultati pokazuju da trgovačka društva procjenjuju utjecaj negativnog medijskog izvještavanja na javnost prilikom primjene tehnika upravljanja financijskim rezultatom. Preciznije, trgovačka društva s negativnim publicitetom iskoristila su promijenjeno poslovno medijsko okruženje tijekom pandemije. Osim znanstvenih implikacija, navedeni rezultati imaju i praktične implikacije za forenzičke računovođe, revizore i druge stručnjake odgovorne za ispitivanje financijskih izvještaja, uključujući poslovne novinare. Buduća istraživanja trebala bi se provoditi u državama s drukčijim medijskim okruženjem i razvijenijim tržištima kapitala, kao i uzeti u obzir mala i srednja trgovačka društva koja, prema saznanjima autora, nisu istraživana u kontekstu odnosa medijske zastupljenosti i upravljanja financijskim rezultatom.

Ključne riječi: COVID-19, kriza, upravljanje financijskim rezultatom, manipulacije, mediji