

## **Herd Behavior in News Markets**

### **How Journalists Reduce Complexity and Drive Mediatized Scandals**

#### **1. Introduction**

Digitalization has changed conditions for journalistic decision-making in many ways. New competitors vie for audience attention. The amount of information has increased. However, bounded rational actors are not able to process all information available. Moreover, the disruption of news markets drives media managers to convergence newsrooms and to reduce newsroom resources. While journalists face increasingly complex environments, their capability to cope with these changing conditions decreases. We argue that this increases the propensity of journalists to engage in herd behavior to reduce complexity. This, in turn, drives the formation of mediatized scandals. We suggest a theory framework of scandal formation that draws on Economic Theory and incorporates concepts from journalism research.

#### **2. Theory Building Blocks**

We draw on the following lines of Economic Theory:

- Path Dependence Theory (e.g., Schreyögg & Sydow, 2011) describes how events trigger self-reinforcing processes that lead to lock-ins. We introduce herd behavior as a self-reinforcing mechanism, i.e., the more actors engage in a scandal the greater the incentive for others to join.
- Principal Agent Theory (e.g., Picot, Dietl & Franck, 2008) describes interactions between journalists and their sources who are involved in the self-reinforcing processes.
- Behavioral Economics discusses irrationalities of principals and agents (see Appendix, Table 1), which might drive herd behavior.
- Herd Behavior Theory discusses drivers of imitative behavior (see Appendix, Table 2) that drive the scandal formation as self-reinforcing mechanisms.

#### **3. Theory Framework: The Scandal Formation**

##### **Phase 1: Preformation**

First (see Figure 1), the scope for editorial action is broad but constrained by initial conditions such as the degree of competition, the editorial line and quality standards, newsroom resources, and structure (separated,

converged). The scandal formation is triggered by an event, such as a leak (e.g., by an altruistic, overconfident or reciprocal whistleblower). A journalist publishes the leak and triggers the self-reinforcing process.

### **Phase 2: Formation**

Self-reinforcing mechanisms will now lead to a dominant action pattern in the news market, i.e., a dominant amount of attention and a dominant news frame related to the scandal issue:

- Journalists A (who first published the leak) have already entered the unfolding dominant action pattern. They are constrained by sunk costs (irrational) and/or switching costs (rational).
- Journalists B may engage in rational or irrational herd behavior (see Appendix, Table 2) and enter the unfolding dominant action pattern. We argue that rational herd behavior is consistent while irrational herd behavior (e.g., driven by overconfidence, intrinsic motivation) is not consistent with the editorial line and/or with editorial quality standards.
- PR experts will fuel the process by providing journalists with information, i.e., PR experts of scandal victims (PR A), PR experts of opponents (PR B), and PR experts of bystanders (PR C).

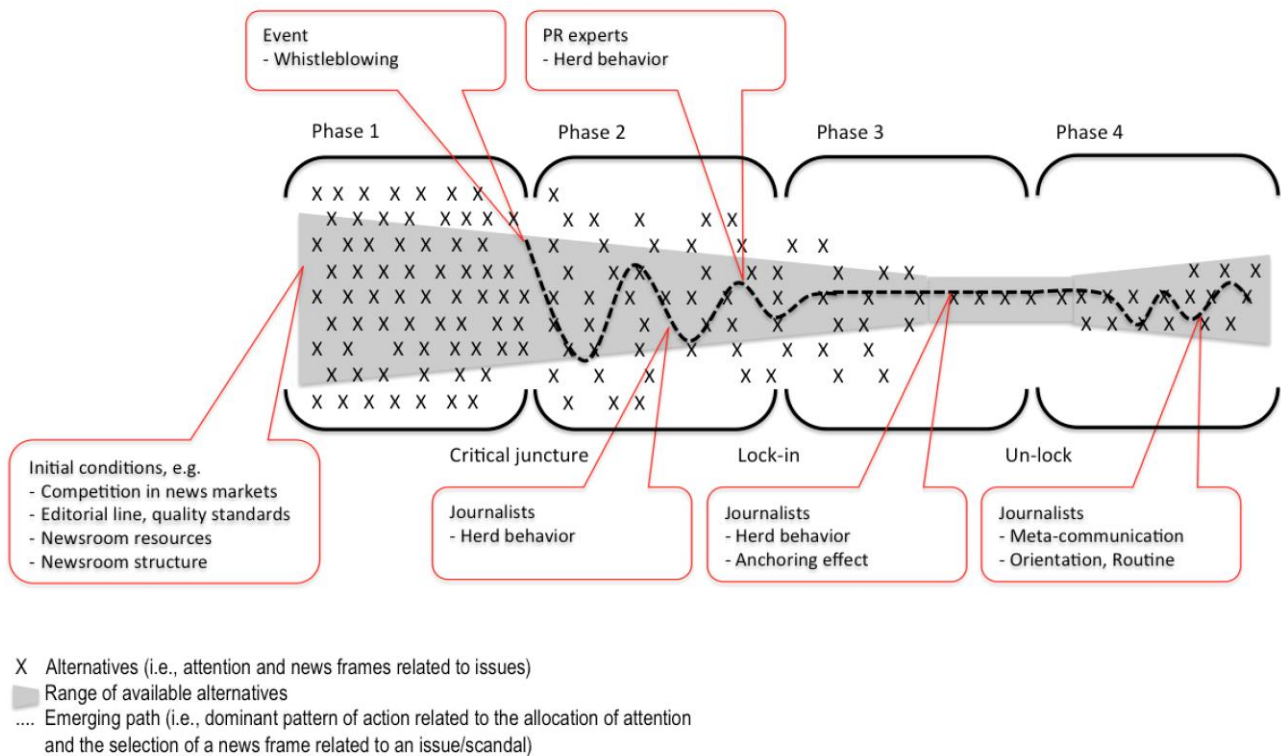
### **Phase 3: Lock-in**

At this point, the dominant pattern of action has been established, i.e., most journalists have engaged in herd behavior related to the allocation of attention and the selection of news frames. They stick to the path even if counterfactual evidence emerges (Kepplinger, 2012). The lock-in is maintained by a reputational cascade (II) and by the anchoring effect. Sunk costs and switching costs may play a role, too.

### **Phase 4: Un-Lock**

The path may still become un-locked: Opinion leading and/or overconfident journalists may engage in meta-communication (Burckhardt, 2006). This may be even more successful in phases of media routines than in phases of media orientation (e.g., Kepplinger, 2009). Eventually, the scandal will decline (Vesterman, 2005). However, once news frames are established, they may be re-used in the future if similar events occur (Brosius & Eps, 1993). These news frames will then constitute further initial conditions that will constrain journalists in their editorial decision-making.

**Figure 1: Four Phases of Scandal Formation**



Source: compiled by the authors and based on Schreyögg & Sydow (2011).

#### 4. Conclusions

This paper suggests a new theory framework for analyzing the emergence of scandals. It contributes to literature that investigates media phenomena coined as *issue cycles* (Luhmann, 1971; Downs, 1972; Russ-Mohl, 1993; Kolb, 2005), *spiral of silence* (Noelle-Neumann, 1980), *spill-over effects* (Mathes & Pfetsch, 1991), *mediatized scandals* (e.g., Burckhardt, 2006; Kepplinger, 2009), *frame phenomena* (Scheufele, 2003), and *media hypes* (Vesterman, 2005).

## Appendix

**Table 1: Irrational and Pro-social Decision Making in News Markets**

Behavioral economic effects	
<b>Altruism, pure and impure</b> (Meier, 2007)	Pure altruism is people's tendency to benefit from the well-being of others: Purely altruistic people thus behave pro-socially or contribute to a public good because they enjoy the well-being of others. Impure altruism is the preference of (some) people to benefit from a pro-social act itself.
<b>Anchoring effect</b> (Tversky/Kahneman 1974)	Anchoring effects occur when initial information that people process distorts people's assessment of new information.
<b>Availability heuristic</b> (Tversky/Kahneman 1974)	Availability heuristic describes people's tendency to assess the frequency or the probability of an event by the ease with which the instance of occurrences can be brought to mind.
<b>Intrinsic motivation</b> (Frey et al. 2013)	Intrinsic motivation is people's tendency to be motivated based on the satisfaction they derive from the involvement in an activity without external rewards such as money or power.
<b>Loss aversion</b> (Kahneman/Tversky 2003)	Loss aversion describes people's tendency to prefer avoiding losses than acquiring gains (of equal magnitude). In order to avoid a sure loss, typically risk-averse people become risk-taking.
<b>Neglect of probability</b> (Sunstein 2002)	Neglect of probability is people's tendency to misjudge probabilities while making decisions under uncertainty: They typically overestimate small risks while underestimating high risks.
<b>Overconfidence</b> (Kahneman/Lavallo 1993)	Overconfidence describes people's tendency to overestimate their skills and their competences and thus to become risk-taking.
<b>Reciprocity</b> (Fehr/Schmidt 2004)	Reciprocity is people's tendency to retaliate against someone else's behavior, thus to reward cooperators and to punish defectors.

**Table 2: Types of Herd Behavior in News Markets**

	Interactions	Driver	Rationality
<b>Availability cascade</b> (Kuran/Sunstein 1999)	Principals: journalists Agents: sources	Availability heuristic, i.e., once information is public other journalists and sources will jump on it because they take the simple availability of the information as an indicator of its reliability and relevance	Irrational
<b>Consumption capital</b> (Adler 1985)	Principals: audiences Agents: journalists	Journalists draw on the preference of their audiences to accumulate consumption capital, therefore, manufacturing of celebrities and scandal victims aims at increasing audience size	Only rational if consistent with editorial line and quality standards
<b>Informational cascades</b> (Bikchandani/Hirshleifer/Welch 1992)	Principals: journalists Agents: sources	Information asymmetries between journalists of newsrooms with different resources (e.g., staff, knowledge, competences) and their sources, reducing costs of "screening" (i.e., conducting own research)	Only rational if consistent with editorial line and quality standards
<b>Reputational cascades (I)</b> (Scharfstein/Stein 1974)	Principals: audiences Agents: journalists	Information asymmetries between journalists of newsrooms with different resources (e.g., staff, knowledge, competences) and their audiences, reducing costs incurred by losing reputation and sanctioning by audiences	Only rational if consistent with editorial line and quality standards
<b>Reputational cascades (II)</b> (Lemieux 2003)	Principals: audiences Agents: journalists	Asymmetries between private preferences and public preferences among journalists and between journalists and their audiences, reducing costs incurred by losing reputation and sanctioning by peers and audiences	Only rational if consistent with editorial line and quality standards

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