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Social Media and Firm Equity Value

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Abstract

Companies have increasingly advocated social media technologies to transform businesses and improve organizational performance. This study scrutinizes the predictive relationships between social media and firm equity value, the relative effects of social media metrics compared with conventional online behavioral metrics, and the dynamics of these relationships. The results derived from vector autoregressive models suggest that social media-based metrics (Web blogs and consumer ratings) are significant leading indicators of firm equity value. Interestingly, conventional online behavioral metrics (Google searches and Web traffic) are found to have a significant yet substantially weaker predictive relationship with firm equity value than social media metrics. We also find that social media has a faster predictive value, i.e., shorter “wear-in” time, than conventional online media. These findings are robust to a consistent set of volume-based measures (total blog posts, rating volume, total page views, and search intensity). Collectively, this study proffers new insights for senior executives with respect to firm equity valuations and the transformative power of social media.

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