

Social Media and Firm Equity Value

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Published Online: 20 Dec 2012 | <https://doi.org/10.1287/isre.1120.0462>

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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Volume 24, Issue 1

March 2013

Pages 1-vi

Article Information

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Information

Received: January 15, 2012

Published Online: December 20, 2012

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Cite as

Xueming Luo, Jie Zhang, Wenjing Duan, (2012) Social Media and Firm Equity Value. Information Systems Research 24(1):146-163.

<https://doi.org/10.1287/isre.1120.0462>

Keywords

social media

word of mouth

online reviews

Web blogs

vector autoregression

firm equity value

stock market performance

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