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# Strategic Implications of Corporate Disclosure via Twitter

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**Abbott**
@AbbottNews

ANNOUNCING: We've received FDA Emergency Use Authorization for our COVID-19 molecular test to be used on our new Alinity m System.

What does this mean? Labs can run more of our tests in less time.

Learn more: abbo.tt/2zrt52N


8:01 PM · May 12, 2020 · Twitter Web App

**67** Retweets **15** Quote Tweets **240** Likes

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McDonald's Corporation
@McDonaldsCorp

KO: "Adjusted earnings per share in Q1 was $1.92, up 27% in constant currencies.  And adjusted operating margin was 41.9%, reflecting improved sales performance, higher other operating income and lower G&A costs compared to last year." $MCD

7:50 PM · Apr 29, 2021 · Hootsuite Inc.

**2** Retweets **4** Likes

# Controversy and SEC Reaction

- In 2012, Netflix CEO Reed Hasting announced a corporate milestone on his personal social media page…this information was not disclosed elsewhere.
- Only those investors that followed his social media got access to the information leading to increased informational asymmetry (and implications against the EMH).
- In April 2013, the US SEC ruled that companies could share important information through social media, but only if investors have been alerted about which social media will be used to disseminate such information.[1]

1. https://www.sec.gov/news/press-release/2013-2013-51htm

# Theoretical Perspective

- The firm strategy may seem obvious…
- Given the nature of voluntary information disclosure via social media, firms would be facing incentives to only release positive news…but do they?
- Trueman (1997) proposes a model showing that rational managers also have an incentive to voluntarily disclose negative information.
- This is due to the potential disutility from litigation as a result of withholding bad news.

# The Paper

- The differing disclosure incentives is what motivates this paper.
- The paper is split into three components:
  1. Increased Firm Visibility
  2. Information Asymmetry Reduction
  3. Strategic Tweeting Behavior

# Data

- S&P 1500 Firms (1,121 firms with Twitter handles).
- July 1, 2013 to December 31, 2017.
- Total of 10,702,264 Tweets collected using Python Web Scraping.
- Excluded 7,908,337 reply tweets (old repeated information).
- Final Sample: 2,793,927 tweets.

# Increased Firm Visibility

- Tweeting on day $t$ results in an increase in the number of financial statement (SEC EDGAR) downloads for the firm on day $t + 1$.
  - Both total downloads (all IPs) and unique Ips.
- This increase is especially so for low-visibility firms as compared to high-visibility firms (as proxied by the *bid-ask spread*).

Interpretation

- When the firm has news to be disclosed, low-visibility firms may utilize tweeting as a cost effective way to bring awareness to this information.

# Information Asymmetry Reduction

- Tweeting results in a reduction in information asymmetry (proxied by *post earnings announcement drift* and *standard deviation of returns*).
  - This is especially true for low-visibility firms.
- This reduction in information asymmetry is the result of increased informational awareness from financial statement downloads (mediation model was used to show the indirect effect).

<u>Interpretation</u>

- When firms tweet, investors/analysts see this information and dig deeper to find out more information about the company.
- This information gathering has the added benefit of reduced information asymmetry in the market for the firm (making markets more efficient).

# Strategic Tweeting Behavior: Low-Visibility Firms

- Strategic behavior is proxied by *return skewness*.
- Reduction in return skewness is shown for low-visibility firms (consistent with reduction in standard deviation of return result in previous section).
- Increased symmetry in returns distribution as a result of tweeting.

<u>Interpretation</u>

- Low-visibility firms are withholding negative information and pushing out positive information on a more periodic basis so as to make the distribution of returns more symmetrical.

# Strategic Tweeting Behavior: Skin in the Game

- Increase in return skewness as a result of tweeting for firms with high executive ownership.
- This is especially true if the firm is in an industry with high risks of litigation.

Interpretation

- Firms with high executive ownership voluntarily publish negative news more periodically through twitter.
- Consistent with predictions of Trueman (1997).

# Strategic Tweeting Behavior: Industry Competition

- Increase in return skewness as a result of tweeting for firms within low competition industries.

<u>Interpretation</u>

- Firms that face low competition are more willing to periodically publish negative news related to the company.
- An alternative view is that if the firm competes in a highly competitive industry, there is more of an incentive for managers to push out positive news in order to remain competitive with their peers.

# Implications for SEC Thailand

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- Giving the cost effectiveness of social media based disclosure, there can be implications for policy makers.
- Unbounded by governmental disclosure regulation, the firm can strategically disclose any information that they deem optimal.
- Similar to the US SEC ruling in April 2013, SEC Thailand may want to consider regulating the requirements for social media disclosure or regulating the types of information that can be disclosed through this channel.