ACCOUNTING AND FINANCE

NOT EVERYONE USES SOCIAL MEDIA TO MAKE FRIENDS

Anyone with a smartphone has the capability to disclose information to a vast audience with the tap of a finger in today’s social media-laden world. In recent research published in the Journal of Financial Economics (one of the elite business journals in the world), Dr. Lijun “Gillian” Lei of the Bryan School explores just how powerful social media can be when corporations utilize platforms to give themselves an instant financial boost over competitors.

The phenomenon is called negative peer disclosure, says Lei, a professor of accounting and finance. This occurs when companies disclose negative information about competitors without mentioning themselves. For example, in 2014, a popular file sharing company tweeted an article on how their competitor recently experienced a security flaw that exposed users’ private data, which resulted in a short-term stock return increase for the company that tweeted.

Lei and her colleagues combed corporate Twitter accounts for tweets that negatively mentioned their competitors. They then tracked the stock return of those companies the following days after the messages were posted and found that, on average, corporate companies experienced a 1.6 to 1.7 percent increase in their stock return for a two-day period after utilizing negative peer disclosure.

“In the past, we thought companies only talked about themselves in regulatory filings such as annual reports,” Lei said. “Now, we find that companies use social media to put the focus on what other companies are doing wrong. It is difficult for regulators to trace or monitor such disclosure as we have learned some companies have set up intermediaries and used Twitter bots to post such posts.”

“This a fairly new phenomenon, and we want to help people understand what a company has to gain financially by utilizing negative peer disclosure,” she said. Lei hopes to continue her corporate disclosure research by delving into the potential impact of positive peer disclosure.

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Dr. Lijun (Gillian) Lei
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