Journal of Financial Stability 28 (2017) 115–124

Contents lists available at ScienceDirect

Journal of Financial Stability

journal homepage: www.elsevier.com/locate/jfstabil

The attenuation effect of social media: Evidence from acquisitions by large firms☆

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ARTICLE INFO

Article history:
Received 25 April 2016
Received in revised form 1 September 2016
Accepted 29 November 2016
Available online 10 December 2016

JEL Classifications:
G14
G34

Keywords:
Acquisitions
Social media
Twitter
Information asymmetry
Disclosure
Stock price stability

ABSTRACT

We examine the role of social media in firm acquisitions. Twitter utilizes the "push" technology that allows firms to reduce information asymmetry by disseminating news to a broader set of investors in a timely manner. Using hand collected acquisition announcements from Twitter covering the period from 2009 to 2012, we find that the acquirer size is a main determinant of disclosing acquisition announcements on Twitter. Large acquirers announce their acquisitions on Twitter and, as a result, are able to attenuate the anticipated negative market reaction at acquisition announcement. We find no evidence that the attenuation effect of announcing acquisitions on Twitter subsequently reverses or that announcing acquisitions on Twitter is positively associated with pre-announcement earnings management. Overall, our results suggest that Twitter has become an important investor relation channel for major corporate events such as acquisition announcements and that large acquirers can use this new channel to enhance stability in their stock prices.

1. Introduction

This paper examines the role of social media in firm acquisitions. More specifically, we investigate whether firms use social media to more broadly disseminate news and reduce the information asymmetry with investors in the context of firm acquisitions.[1] Our paper responds to the recent call by Miller and Skinner (2015) for more research on the role of social media in financial markets. Our paper also addresses how firms can use social media as a new investor relation channel for major corporate events such as acquisition announcements.[2]

We focus in our paper on social media site Twitter because it utilizes the "push" technology which allows the sender (e.g., firm) to immediately and directly transmit information globally to users (e.g., investors) rather than requiring users to request the information from the sender or from an information intermediary. With traditional media, management sends a formal press release to a newswire service, such as Business Wire, which in turn distributes the news to information intermediaries, such as the press, via the newswire (Blankespoor et al., 2014). After that, information intermediaries select subsets of the press releases to send to the public, either unchanged or adapted by the intermediary (Miller, 2006). Accordingly, compared to traditional media, social media and Twitter in particular, can reduce the time and energy investors spend on sorting through various information intermediaries to search and gather (i.e., pull) the desired information as well as any price paid by investors to access information.

☆ We wish to thank Michael Brennan, Salim Chahine, Sattar Mansi, David Reeb, and the two anonymous referees for the helpful comments and suggestions. All remaining errors or omissions are ours.

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[1] For example, on November 15, 2010, Caterpillar Inc. posted the following message on its official Twitter account: "Caterpillar to Acquire Bucyrus Creating Mining Equipment Company With Unmatched Product Range, Unrivaled Customer... http://fb.me/HAxt2rEV." On June 29, 2012, Bristol-Myers Squibb Co. posted the following message: "BMS and AstraZeneca Expand Diabetes Alliance Through Bristol-Myers Squibb's Acquisition of Amylin Pharmaceuticals http://ow.ly/bVy6J." See Appendix B for a sample of other Twitter posts related to acquisitions.

[2] In fact, the U.S. Securities and Exchange Commission issued a statement in 2013 permitting firms to use social media outlets to communicate announcements (SEC, 2013).

http://dx.doi.org/10.1016/j.jfs.2016.11.010
1572-3089/

We motivate our paper using two key findings in prior research. First, social media research finds that firm-initiated Twitter posts help firms reduce the information asymmetry with investors by more broadly disseminating news in a timely manner (Blankespoor et al., 2014). Furthermore, Lee et al. (2015) show that using Twitter to disclose 'bad' news to a large network of investors could be an effective way for firms to attenuate the initial negative market reaction through quickly reducing the information asymmetry with investors.[3]

Second, research on firm acquisitions finds that investors generally consider acquisitions by large firms as 'bad' news and, thus, react negatively to acquisition announcements by large firms. In their seminal paper, Moeller et al. (2004) document a size effect in acquisition returns upon announcement. In particular, they find that abnormal returns around acquisition announcements are negative and significant for large acquirers irrespective of the form of financing and whether the acquired firm is public or private.

Therefore, we integrate those two streams of research to examine whether managers of large firms use Twitter to announce their acquisitions. By doing so, we argue that managers of large firms can reduce the information asymmetry with a broader set of investors in a timely manner and, as a result, attenuate the anticipated negative market reaction.

Using hand collected data from Twitter accounts covering the period from 2009 to 2012, we find that the acquirer size is a main determinant of announcing acquisitions on Twitter. The larger the acquirer, the more likely it will announce its acquisition on Twitter. We also find that acquirers in high-technology industries are more likely to be early adopters and use technology-based information channels, such as Twitter, to announce their acquisitions. Furthermore, we find that large acquirers that announce (do not announce) their acquisitions on Twitter exhibit positive (negative) abnormal returns around acquisition announcements.

Additional analysis fails to document that the positive abnormal returns associated with large firms announcing their acquisitions on Twitter subsequently reverse. This finding suggests that the initial market reaction to acquisition announcements on Twitter does not appear to be temporary. Moreover, we find no evidence that announcing acquisitions on Twitter by large firms is positively associated with pre-announcement earnings management, suggesting that large firms are not using Twitter to hype their stock prices around acquisition announcements.

Hence, our results show that large firms can attenuate the negative market reaction around acquisition announcements by using Twitter as an investor relation channel to more broadly disseminate news and quickly reduce the information asymmetry with investors. Overall, our results suggest that using Twitter in the context of firm acquisitions can allow large firms to avoid significant drops in their stock prices and, thus, can lead to greater stock price stability.

Our paper makes three main contributions to the extant literature. First, our paper contributes to the mergers and acquisitions literature. We provide evidence that large firms can attenuate the anticipated negative market reaction around acquisition announcements by immediately announcing their acquisitions on social media sites such as Twitter. To our knowledge, our study is the first to examine the role of social media in the context of firm acquisitions.

Second, despite the tremendous growth and penetration of social media, so far, limited research has investigated the role of social media in disclosing information to investors. Miller and Skinner (2015) argue that recent changes in technology and media are causing significant changes in the way firms disclose information and investors assimilate and respond to information. They add that these recent changes offer further opportunities for research on corporate disclosure in financial markets. Hence, our study fills this gap in the corporate disclosure literature by examining firms that disclose their acquisition announcements on social media and the investors' reaction to such disclosure. In this regard, our study contributes to the emerging literature (e.g., Blankespoor et al., 2014; Lee et al., 2015) which suggests that social media, Twitter in particular, is becoming an important investor relation channel that firms can use to disclose information and enhance liquidity and transparency in financial markets.

Third, the U.S. Securities and Exchange Commission (SEC) has strongly encouraged managers to use the "push" technology in an effort to make financial markets more liquid and transparent (SEC, 2008). However, it is not clear whether this technology has a significant impact on financial markets in the case of acquisition announcements given both the traditional press coverage and the nature of this corporate event. Acquisition announcements are, on average, much more important events than ordinary announcements, such as earnings announcements, and could then attract sufficient investor attention to render the use of this new technology for the announcement to be irrelevant. Our study provides initial evidence that using Twitter, which utilizes the "push" technology, to announce acquisitions has indeed a significant impact on financial markets.

The rest of the paper is organized as follows. Section 2 reviews the related literature on the role of Twitter in financial markets and Section 3 presents the sample selection and descriptive statistics. Section 4 provides our main results while Section 5 provides our additional analysis. Section 6 concludes.

2. The role of twitter in financial markets

Twitter is a microblogging site, which was created in October 2006 as a free service allowing users to post short messages with up to 140 characters, so-called "tweets". These tweets are visible on a public message board of the website (Twitter.com) or through various third-party applications. They (the tweets) have witnessed increased recognition by financial market participants. For instance, some investors attribute their trading success to the information they find on social media websites including Twitter. Furthermore, Twitter-based trading systems have been developed by financial professionals to alert users of sentiment-based investment opportunities (Sprenger et al., 2013). In fact, Bloomberg has integrated Twitter messages into their terminals (Roberts, 2014). Moreover, anecdotal evidence suggests that Twitter has evolved to become professionals' new technology of choice for breaking firm news (Blankespoor et al., 2014).

Given the increasing importance of social media, Twitter in particular, an emerging stream of literature started to examine whether the tweets posted by firms are relevant to investors.[4] Blankespoor et al. (2014), using a sample of technology firms, find that firm-initiated news via Twitter is associated with lower abnormal bid-ask spreads and greater abnormal depths, consistent with a reduction in information asymmetry between the firm and investors. Lee et al. (2015) examine how corporate social media affects the stock market consequences of firms' disclosure in the context of consumer product recalls. Using a sample of 405 con-

[3] Prior research shows that public disclosure reduces information asymmetry. See Beyer et al. (2010) for a review of the disclosure literature.

[4] Another stream of literature has examined the role of traditional media including press coverage in financial markets and the overall results suggest that media affects stock returns and firm performance (see e.g., Tetlock, 2007; Fang and Peress, 2009; Bushee et al., 2010; Engelberg and Parsons, 2011; Dougal et al., 2012; Ahern and Sosyura, 2014; Solomon et al., 2014; Ho et al., 2016).