Firm communication and investor response: A framework and discussion integrating social media

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ABSTRACT

I provide a general framework of firms’ financial communication process and investor response to information, moving from disclosure through dissemination to investor response and management response. I then discuss the entrance of social media into firm communications, highlighting both classic and unique aspects of social media in the communication process. I place Cade (2018) in this literature and discuss areas ripe for future research. Finally, I encourage researchers interested in social media to acknowledge and embrace the unique opportunities and challenges in this area.

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1. Introduction

Firm disclosure is an important and growing area of research in accounting literature, with numerous studies examining how firms’ financial communication choices affect investor response and capital market outcomes.1 Recently, social media has transformed the scope of firm financial communications and created opportunities for unprecedented interactions. As a result, experimental, archival, and analytical research studies increasingly examine the implications of social media platforms for firm communications. In the next sections, I lay out a framework for firm communication and investor response to communications. I then discuss what social media could mean for each of these components, focusing on ways in which fundamental relations are more easily studied with social media and on ways in which social media changes the core interaction. Cade (2018) encompasses both of these approaches by using an experiment to examine public interactions of managers and investors on social media, and using newly observable measures of external validation to show that investor response varies based on the credibility of statements. I discuss Cade (2018) in the context of this literature, and I highlight areas ripe for future research.

2. Components of financial communications

Capital markets researchers are interested in understanding what and how information relevant for firm valuation is passed between firms and their investors, as well as factors that influence the receipt and use of the information.2 This process can be separated into four major components: (1) disclosure, (2) dissemination, (3) investor response, and (4) management response. See Fig. 1A for a visual representation.

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1 I received helpful comments from Ed deHaan, Brooke Elliott, Stephanie Grant, Bob Libby (editor), Patrick Witz, and participants at the 2017 Accounting, Organizations and Society Conference on New Corporate Disclosures and New Media. This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors.

2 Although investors may be the primary audience for a financial communication, firm disclosure can reach a broad set of stakeholders: employees, customers, suppliers, regulators, etc. For parsimony, I focus primarily in this discussion on the disclosure choices available to management and investor response to these disclosures.

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Please cite this article in press as: Blankespoor, E., Firm communication and investor response: A framework and discussion integrating social media, Accounting, Organizations and Society (2018), https://doi.org/10.1016/j.aos.2018.03.009
Fig. 1. A – framework of firm financial communication and investor response. B – social media (in red) in the framework of financial communication and investor response. (For interpretation of the references to colour in this figure legend, the reader is referred to the Web version of this article.)

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