# THE IMPACT OF TWITTER ON FIRM VALUE

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dx.doi.org/10.18374/JIFE-23-1.1

## ABSTRACT

*Twitter is a leading firm in social media information with important implications across various spheres ranging from politics to the capital markets. This study examines the impact of Twitter on firm value. We analyze the returns on publicly traded stocks of firms that start to use Twitter. We find that the Return on Twitter (ROT) initiation events are positive and statistically significant for latter initiations. We find evidence that the positive impact of using Twitter accrued to companies that adopted Twitter use more recently indicating that the value of using Twitter became more known to investors as Twitter developed. There are differing impacts on firm value from initiating a Twitter account for companies in different industries. Furthermore, we show that abnormal returns are far more significantly negative for smaller firms than larger firms when sorted by their size.*

***Keywords:*** *Twitter, Event Study, Cumulative Abnormal Return, Firm Value*

## 1. INTRODUCTION

Twitter was founded in March 2006 and launched in July 2006. Twitter usage has continued to increase ever since its founding and the firm reported revenues of over US$5 billion in fiscal year 2021 and had a market capitalization greater than US$30 billion at the end of 2021. Shaban (2019) reports that Twitter revealed that it has 126 million daily active users. Its importance with the frequent tweets from then-President Trump made its use very prominent nationally. On May 23, 2019 a panel of CNBC analysts proclaimed that the next tweet by then-President Trump had the capacity to drive the stock market to record highs, or it could drive it down 10%. In 2016, Twitter began partnering with multiple organizations to become a destination site for live video, featuring prominent sports leagues such as the NFL, NBA, NHL, and MLB Games, Presidential debates, and the Republican and Democratic National Conventions. Given its usage and growth, there are numerous studies that investigate the impact of Twitter use, but virtually no study has examined the impact on firm value to a company starting its own Twitter business account.

In this study we investigate whether firms' use of Twitter has an impact on firm value. The benefits of using Twitter are highlighted on its website. Twitter claims that "Our audience is influential, plugged-in and in a discovery mindset." It states that Twitter "is the #1 platform for discovery" and highlights that "[p]eople spend 26% more time viewing ads on Twitter than on other leading platforms." Another item directly related to this research is reported: "53% of people on Twitter are more likely to be the first to buy new products." Further, Azar and Lo (2016) show that the content of tweets about FOMC meetings can be used to predict future stock returns. There is some indication in popular press, on the firm's disclosures and in the academic literature that Twitter usage has the ability to affect security prices and impact firm value.

Recent academic literature has been interested in investigating how Twitter impacts the capital markets. Bartov, Faurel and Mohanram (2018) summarize three main strands of literature investigating Twitter's impact on markets: First, Twitter as a means of broadly disseminating information to market participants and reducing information asymmetry among investors. Second, Twitter as a source of information in predicting the overall stock market, and third, Twitter together with other social media platforms and