Signals from the Echoverse: The Informational Value of Brand Buzz Dispersion

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Description: This research examines whether and how the informational value of brand buzz metrics to investors depends on brand buzz dispersion in terms of the distribution of online brand communications across the social media landscape and the polarization of online brand communications.

EXTENDED ABSTRACT

Research Questions

Defined as online communications pertaining to a brand that are transmitted via a variety of social media venue formats such as (micro-)blogs, forums and social networking sites, brand buzz is recognized as a leading indicator of firm value (Hewett, Rand, Rust, and van Heerde 2016; Luo, Zhang, and Duan 2013). Despite soaring firm investments in social media monitoring and considerable research on the informational value of brand buzz metrics such as volume (i.e., the quantity of brand buzz) and valence (i.e., the positivity of brand buzz), brand managers still have little understanding of whether and how investors base their decisions on brand buzz. Drawing on signaling theory, this research offers a conceptual framework that elucidates the impact of brand buzz volume and valence on firm value while considering the moderating role of dispersion in brand buzz volume (i.e., the distribution of online brand communications across social media sites) and dispersion in brand buzz valence (i.e., the polarization of online brand communications) (Luo, Raithel, and Wiles 2013; Godes and Mayzlin 2004).

Methods and Data

The authors empirically test their conceptual framework by matching daily-level financial data with first moment information on brand buzz (i.e. volume and valence of brand buzz) and second moment information on brand buzz (i.e. distribution and polarization of brand buzz) for six major corporate brands over 12 months. Our social media data set was provided by uberMetrics, the German leading online social media listening platform that monitors and records brand-related content from a multitude of the most important online social media venues (e.g., blogs, product reviews, forums, video and photo sharing sites, social network comments, and microblog posts) and traditional offline media venues (e.g. Radio and TV). For text-based online brand buzz uberMetrics monitors an unparalleled large sample of different website domains and identifies comments pertaining to clients' brands. A powerful and manually trainable text mining algorithm runs through the entire content of the identified brand related comments in order to code its sentiment, such that each single comment is identified as either positive, negative or neutral. In line with current research on the marketing-finance interface, the authors rely on abnormal stock return and firm-idiosyncratic risk to capture the impact of text-based online brand buzz metrics on firm value (Luo and Bhattacharya 2009). In order to analyze the resulting system of equations, namely risk and return, a pooled seemingly unrelated regression approach is deployed (Mishra and Modi 2016).

Summary of Findings

Results show that brand buzz metrics may indeed signal firm value to investors. Specifically, volume is related to lower firm value in terms of lower stock return and higher idiosyncratic risk, while valence is related to higher firm value (i.e. higher return and lower risk). In line with signaling theory, the findings further suggest that the firm value impact of volume and valence is moderated by brand buzz dispersion: brand buzz dispersion weakens the negative relationship between volume and firm value, yet it strengthens the positive relationship between valence and firm value. Thus, value-oriented brand managers are well advised to monitor and manage brand buzz not only using first moments of brand buzz (i.e., volume and valence of online brand communications) but should rather enrich them informationally by considering the second moments of brand buzz (i.e., distribution and polarization of online brand communications).

Key Contribution

First, the authors pioneer in providing a fine-grained testing of the informational value of brand buzz by simultaneously examining the impact of brand buzz volume and valence on arguably the most important firm value metrics—abnormal stock return and firm-idiosyncratic risk. Second, prior research is based mainly on selected social media sites limiting their generalizability and practicability. Thus, in this research the authors account for a variety of important social media venue formats (Hewett et al. 2016; Schweidel and Moe 2014). Third, the authors theoretically conceptualize and empirically demonstrate the moderating role of brand buzz dispersion in the relationship between brand buzz and firm value. They show that information on brand buzz dispersion enhances the signaling power of brand buzz and thus helps managers to establish a more unambiguous link between brand buzz and firm value. This is imperative to steer social media monitoring and management efforts.

References are available on request