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How executives use social media to build trust with investors

By Richard Crowley

AN EARLY study out of Singapore Management University sheds light on the role executives' social media posts play in informing investors.

Social media is a frequent source of information about companies for both investors and consumers. The majority of S&P 1500 companies maintain accounts on Twitter (along with other platforms). Over the past decade, these companies have collectively posted over 25 million times on Twitter. Their posts span many issues, from financial discussions about earnings and expenses, to discussions about business strategy and innovation, to consumer-oriented discussion on customer service, product advertising, outreach, and social responsibility.

However, it is not just companies that interact with investors and consumers on social media. Over the past decade, at least 600 chief executive officers (CEOs) and chief financial officers (CFOs) of S&P 1500 companies have had publicly visible Twitter accounts. These executives have discussed not just personal matters, but corporate matters as well. Discussion of corporate matters by executives can provide investors with additional insight into the workings of companies through the eyes of those in charge, either in the form of new insights that the company has not provided already, or by highlighting or verifying insights that the company has already made public.

INVESTOR INFORMATION

Since April 2, 2013, publicly-traded companies in the US have been explicitly allowed to post important updates for their investors on social media platforms (including Twitter and Facebook). The same Securities and Exchange Commission (SEC) report that approved companies' social media usage also gave the green light to companies' executives to post important updates for investors. As such, there has been exponential growth in the number of executives who actively post on social media.

The catalyst for this SEC report was a Facebook post by Reed Hastings on July 3, 2012. Mr Hastings, in his post, congratulated a team member at Netflix for reaching a milestone in terms of hours of Netflix watched. While this may seem innocuous, the number of hours watched was an important consideration for investors looking to gauge Netflix's financial performance.

In response to the Facebook post, Netflix stock price rose 6.2 per cent on the day of the post. This caught the attention of regulators in the US, who decided to investigate whether the use of social media by companies and executives was in compliance with Regulation FD (Fair Disclosure), an SEC rule in place since 2000.

The SEC determined that social media was an allowable channel under a previous SEC guidance from 2008, titled "Guidance on the Use of Company Web Sites". However, the SEC recommends companies to inform investors of all channels they plan to disclose through, including their own social media accounts and those of their executives, where applicable.

WHAT DRIVES EXECUTIVES' TWITTER ACTIVITY?

The study finds a mix of executive characteristics and company characteristics are associated with Twitter usage by CEOs and CFOs. Among executive characteristics, the primary drivers appear to be age, gender, and personality. In particular, the study finds that younger, female and more extroverted executives are more likely to have a Twitter account that is publicly identifiable. The study also notes that a significantly higher proportion of executives in high-tech industries are on Twitter.

When it comes to the drivers behind an executive's posts on Twitter, company events are a big factor. Executives are much more likely to post about financial information in time with their company's earnings announcements, earnings calls and regulatory filings, including annual and quarterly reports. Executives also appear to respond to news about their company, tweeting more broadly about business-related topics when the company appears in the news.

STOCK MARKETS REACT

What executives tweet matters to markets. Across all S&P 1500 companies with an executive on Twitter from 2011 till 2018, more stock return is attributable to executives' tweets than to companies' tweets.

For both executives and companies, this stock-price reaction is primarily driven by posts about financial information. On average, an executive's company's stock price changes by 0.3 per cent for every tweet the executive posts about financial information. In contrast, response to companies' tweets about financial information is around 0.04 per cent. The stock market's reaction to posts on Twitter is very quick, generally occurring within one trading day of a tweet being posted.

In some anecdotal cases, such as a tweet by Elon Musk (for example: "Tesla stock price is too high imo", posted by Twitter user @elonmusk; May 1, 2020) or Reed Hastings' well known July 2012 Facebook post about Netflix viewership, there is clearly new information in those posts. Yet, many executives opt to discuss issues that are already publicly known. Using a sophisticated machine learning approach to determine the amount of new information in executives' tweets beyond that of their companies' tweets, the study shows that investors appear to react more, on average, to tweets that contain less new information.

This finding is consistent with a multitude of studies that show how individuals exhibit stronger reactions to information from individuals. This is largely driven by trust, as social media participants trust posts by individuals more than those by organisations.

Consequently, the result shows that even though the information posted by many executives is not new, what is important is that the managers are posting the information. This may provide extra assurance to investors about the importance or accuracy of information that the company has already provided.

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