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SOCIAL MEDIA FOR THE BENEFIT OF COMPANIES, INVESTORS AND STOCK PRICE INFORMATIVENESS

Yana Shigina
National Research University Higher School of Economics, Nizhny Novgorod, Russia

Alexander Kostrov
International Laboratory of Quantitative Finance, FMIM Center
National Research University Higher School of Economics, Moscow, Russia

Abstract. Nowadays social networks play a crucial rule in a company’s relationship with investors, requiring a stronger emphasis and more effort on the development of social media channels. We discuss a definition, classification and comparison for social media types. Then we consider the importance of social media for a company and investors, and provide evidence that social media use by firm can improve its stock price informativeness. A unique dataset was collected for an international analysis. Finally, an implementation plan is suggested for firms to maintain and manage social media.

Keywords: social media, stock price informativeness, investor relations, Twitter, Facebook, Youtube.

JEL Classification: M30, G17.

Introduction

Today, more than 1.8 billion people are present on social media websites.1 Gathering, analysing and using online user-data has become one of the most thrilling but also most controversial domains in business (Busby et al., 2012).

The growing importance of social media has attracted various scholars, researchers and financial analysts, who want to increase their understanding of the effects of social media on stock price.

Among companies, there is an increasing trend of awareness that they can use these opinions, statuses, links etc. to better serve customers and investors. Moreover, companies get 24% higher revenue when they systematically control and manage their social media activities (Hinchcliffe and Kim, 2012).

Social media creates opportunities for conversations between companies and shareholders. The most important one is that they help investors to form a community around niche topics of interest. They use online sources to discuss stocks, bonds and other financial products. These investors seek advice, discuss ideas, state opinions and even guide other investors.

More than half of all financial bloggers use Twitter as a news source and also StockTwits to follow others sharing “investment intelligence” and opinions about companies. 49% of investors

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SOCIAL MEDIA FOR THE BENEFIT OF COMPANIES, INVESTORS AND STOCK PRICE INFORMATIVENESS

Read financial blogs and 27% of professional investors use YouTube according to Rivel Research, September 2010, as mentioned in Joyce (2013).

According to The National Investor Relations Institute’s recent survey results agree: 52% of institutional investors use social media as part of their research process and “the vast majority of these respondents indicates that it has influenced their investment decisions at least occasionally” (NIRI, 2013).

Thus, with the increased usage of social media, companies should probably announce key investor-oriented information through social media, communicate and attract investors to follow a company via social media.

The rest of the paper is organized as follows. Section 2 provides an overview of social media classification and comparison. Section 3 discusses the relation between social media use by a firm and its stock price informativeness. Section 4 discusses the data and methods applied. Section 5 provides guidance to implement social media techniques in practice. The final section concludes.

Social Media Today

Web 2.0 has completely changed internet usage and the daily habits of its users. Whereas in the past the internet was used only for sending emails and checking news pages, current visitors combine a whole range of activities including watching videos, booking a hotel room, sharing knowledge, writing a reference on a product and in the meanwhile keep friends ‘posted’ on what’s currently happening. Web 2.0 created a framework for these social media, which is a keystone for today’s connected society.

Social media give people a means to interact with each other. The main difference between social media and the original media such as newspapers, television and radio, is that the conversation is occurring in multi-faceted dialogue instead of a one-way monologue in the first case. Over 20% of the world population is joined. It is impossible to neglect the fact that social media have crucially affected the society. In order to give more direction to what we are going to discuss in our paper, we would like to present some definitions of social media.

Kaplan and Haenlein (2010) describe social media as “a group of Internet-based applications that build on the ideological and technological foundations of Web 2.0, and allow the creation and exchange of user-generated content”. According to Mangold and Faulds (2009), social media contains “a wide range of online word-of-mouth forums including blogs, company sponsored discussion boards, consumer-to-consumer e-mail, consumer product or service ratings websites, Internet discussion boards and social networking sites”. Piller et al. (2012) illustrate social media as “a highly interactive platforms via which individuals and communities share, co-create, discuss, and modify user-generated content”.

Social Media Segmentation

As there is an abundant number of social media websites, we included popular ways of segmentation analysis to organize this abundant offer of tools. Kaplan and Haenlein (2010) present the most cited method of classification. Social media are divided into six different segments as table 1 shows: blogs; collaborative projects; content communities; social networking sites; virtual social worlds; virtual game worlds.
Table 1. Segmentation matrix for social media types (Kaplan and Haenlein, 2010)

<table>
<thead>
<tr>
<th>Self-presentation/ Self-disclosure</th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Blogs</td>
<td>Social networking sites (e.g., Facebook)</td>
<td>Virtual social worlds (e.g., Second Life)</td>
</tr>
<tr>
<td>Low</td>
<td>Collaborative projects (e.g., Wikipedia)</td>
<td>Content communities (e.g., YouTube)</td>
<td>Virtual game worlds (e.g., World of Warcraft)</td>
</tr>
</tbody>
</table>

Mayfield (2008) also uses six blocks for describing the nature of social media: blogs; social networks; wikis; forums; podcasts; micro blogging; content communities.

Kietzmann et al. (2011) emphasize the importance of a connection between social media and a company’s strategy. The authors recognize the power of social media and underline that managers should pay attention to smart and creative users. Furthermore they prove Haenlein and Kaplan’s idea about a lack between “what social media are, and the various forms they can take” by creating the honeycomb framework. The authors seek advice from professional bloggers to build seven social media blocks that can help to understand both the environment of social media and customers with their needs. In Figure 1 there are seven social media blocks, which are identity, conversation, sharing, presence, relationships, reputation and groups, and their implementation for companies.

Figure 1. The honeycomb of social media (Kietzmann et al., 2011)
Due to the huge offer of social media, unifying and creating an overview is a good tool for shaping clarity in the mass. All three above-mentioned types of segmentation are valuable and even necessary for companies in order to define which social media website(s) (or type) is the most appealing and useful to reach the companies’ aims.

**Social Media Overview**

The number of social media is growing very fast, day after day. Because of this, it is very difficult to outline a complete and up-to-date overview of the social media landscape.

Nevertheless, we included a short overview of the most popular and relevant social media for investor relations, such as Facebook, LinkedIn, Twitter, YouTube and SlideShare.

Facebook is currently the most popular social network in the world. The website commenced in 2004 as a Harvard university network which was spread from a school to broad-spectrum community to help people all over the world to connect and stay in touch.

LinkedIn is a professional networking site which was created in 2002 by Reid Hoffman and serves as the leading hub for connecting business contacts, searching for jobs and find potential clients. The website gives members the ability to create their own professional profile. More than 2 million companies all over the world use LinkedIn as a business tool for looking for people and useful information.

Twitter is a social network, where users share their thoughts. The website was created by Biz Stone, Evan Williams and Jack Dorsey in March 2006 and combines messaging and social networking while focusing on micro blogging which makes Twitter the leading provider of real-time information.

YouTube is the most popular platform for hosting videos and was created in 2005 by Jawed Karim, Steve Chen and Chad Hurley. YouTube also makes a profit of 6 billion from video views per month globally through top advertisers running their campaigns on YouTube. The YouTube player is available across tens of millions of websites.

SlideShare represents the world's largest professional and educational community where users can upload, share, comment and find presentations. Moreover, users can share ideas and research, connect with others, and companies can generate leads for their businesses. According to the official website, SlideShare is the market leader in sharing presentations.

Table 2 briefly summarizes the key characteristics and key differentiators of these social media.
Table 2. Key characteristics and differentiators between the named social media (author composition)

<table>
<thead>
<tr>
<th></th>
<th>Facebook</th>
<th>SlideShare</th>
<th>YouTube</th>
<th>LinkedIn</th>
<th>Twitter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus</td>
<td>Social network</td>
<td>Content community</td>
<td>Content community</td>
<td>Professional network</td>
<td>Microblogging</td>
</tr>
<tr>
<td>Monthly active users (in millions)</td>
<td>1,2802</td>
<td>603</td>
<td>1,000</td>
<td>300</td>
<td>255</td>
</tr>
<tr>
<td>% Growth of users (2 years)</td>
<td>34%</td>
<td>N/D</td>
<td>20%</td>
<td>71%</td>
<td>69%</td>
</tr>
<tr>
<td>Average time spent (min) / day</td>
<td>29:28</td>
<td>3:16</td>
<td>18:60</td>
<td>7:29</td>
<td>9:134</td>
</tr>
<tr>
<td>Annual Revenue 2013 (in million U.S dollars)</td>
<td>7,872</td>
<td>N/D</td>
<td>3,5005</td>
<td>473</td>
<td>2506</td>
</tr>
<tr>
<td>Number of employees</td>
<td>6,337</td>
<td>N/D</td>
<td>N/D</td>
<td>10,0007</td>
<td>2,7008</td>
</tr>
<tr>
<td>Competitors</td>
<td>Google+, Hyves, Netlog, Vkontakte, Ozon, Orkut</td>
<td>Scribd.com, Issuu, Docstoc</td>
<td>Hulu, Dailymotion, Metacafe, Facebook and Netflix</td>
<td>BranchOut, Facebook, Ecademy, XING, Doostang</td>
<td>Tumblr, Jaiku, Plurk</td>
</tr>
</tbody>
</table>


3 SlideShare official website http://www.slideshare.net/about


5 YouTube official website http://www.youtube.com


7 LinkedIn official website http://www.linkedin.com/company/linkedin

Social Media and Stock Price Informativeness

Fair value determination is a core function of the stock market. Under the assumption that observed prices reflect news and information available, the Efficient Market Hypothesis (EMH) states that markets do provide proper prices without arbitrage opportunities for each stock.

At the same time, there is empirical evidence of comovement in stock prices. Comovement means that prices of individual stocks move together in the same direction. A classical way to measure the degree of comovement for a single stock is to estimate its correlation with a stock market index.

There are two frameworks to explain comovement: a traditional and an alternative one. In the traditional paradigm, a frictionless economy with rational investors exhibits comovement in prices due to comovements in fundamental value (Barberis et al., 2005). The fundamental value is obtained as a sum of expected cash flows for a particular firm discounted at an appropriate interest rate.

The alternative approach questions the market informational efficiency and explains comovement in a different fashion. First, the information is costly (Veldkamp, 2006). So using the purchased information about a particular stock an investor can manage the whole portfolio. Second, stock holdings are often classified by sector. In both cases, a single investment decision is applied to a group of stock without considering differences in individual cash flows. Third, a stock price can take different time to absorb new information. In this case stocks with similar speed of information incorporation show price synchronicity.

Obviously, there are other explanations. More and more researchers consider the aspects of comovement and promote “alternative views”. The problem is that high stock price comovement with a market trend means that it does not reflect performance and future opportunities of the company. It means that the stock price is not informationally efficient anymore. In other words, high stock price comovement is the same as low informational efficiency. Consequently, investors obtain misleading signal from the market, take wrong actions and often incur losses, especially during market slumps (Haggard et al., 2008). Here we should remark than there are different measures of price informational efficiency (Ferreira et al., 2011; Yu, 2011). Below we will consider the most popular one only.

The stock return volatility can be split into two components: one explained by the volatility of the market and the other, firm-specific one (often called as “idiosyncratic”). Formally, in the simplest case we run a regression:

$$r_{i,t} = \alpha_0 + \alpha_1 \cdot r_{m,t} + \epsilon_{i,t}$$

(1)

Where $r_{i,t}$ is a stock return for firm $i$ over $n$-day period $t$, $r_{m,t}$ is the stock market index return over $n$-day period $t$ and $\epsilon_{i,t}$ is an error term. $R^2$ estimation based on (1) reflects the fraction of stock $i$ return volatility explained by the market volatility. Then a natural measure of stock price informativeness is $\ln(\frac{1-R^2}{R^2})$.

Recently, research remarked that stock price comovement is driven severely by the informational opacity of the firm (lack of firm specific information and transparency) (Dasgupta et al., 2010). In the light of our discussion above social media is a means to become more transparent and stakeholders-oriented. Almost no research on the causality between involvement in social media use and price informativeness has been done yet. We believe that there is another well-discussed issue: the relation between financial reporting standards in a company and price informativeness. Carrying the same responsibility, social media is close to voluntary financial reporting with a higher focus on non-financial items and direct feedback from investors available.

So Haggard et al. (2008) conclude that extended disclosure policies provide additional firm specific information, diminish stock price comovement and reduces the frequency of stock price
crashes. Fox et al., 2003 demonstrate that after the new mandatory disclosure requirement were imposed in the USA the price-accuracy in stock market has improved significantly and comovement declined. Using data for over 30 countries, Kim and Shi (2010) proved that that “IFRS adoption facilitates the incorporation of firm-specific information into stock prices”, which results in lower stock price synchronicity. Ferreira et al. (2010) confirm that mandatory adoption of IFRS reveals new firm-specific information and reduces stock return synchronicity at the time of implementing new requirements. High auditor quality reduces synchronicity as mentioned in Gul et al. (2010). The finding is confirmed by Yu (2011).

In addition, there are a number of factors we should control discussing stock price comovements and social media use. Stock price synchronicity and crash risk are both reduced with ownership by institutional investors rising. (Ana et al., 2013) The idea behind is that institutional investors monitor the company performance due their large share and investment horizon. In such a way, the problem of management misbehavior is smoothed. The reverse is true for businesses with a high share of short-term traders in equity. In addition, crashes happen when accumulated negative information about the company previously unknown becomes public. Gul et al. (2010) explore the influence of ownership concentration on the amount of firm-specific information in the share price and find an optimal level of 50% by the largest stockholder. The Chinese experience suggests that higher government participation in company equity reduces synchronicity in contrast to the foreign ownership.

Marhfor et al. (2013) report that deeper analyst coverage of a stock does not generate more firm-specific information both in the developed and developing world. This disputable result is partially disproved in Kim and Shi (2010).

Baele et al. (2010) state that liquidity parameters are even more important than macroeconomic ones to explain synchronicity since price for illiquid stocks is very sticky. Jin and Myers (2006) conclude that poor protection of investors decreases the role of firm-specific information due to overall uncertainty. Stock price informativeness is higher for companies with better corporate governance and gender-diverse boards as posited by Yu (2011) and Gul and Srinidhi (2011) respectively.

Next, we will discuss our preliminary attempts to check if the social media use by firm can improve its stock price informativeness as well.

**Data and methods**

**Data collected**

Shigina and Vanhee (2012) conducted a survey and initiated telephone conversations with company investor relations departments to find out the ways they use social media. They also tried to define the importance of social media in the company’s strategy and its influence on the relationship with investors.

To get data, the researchers sent the survey by email to over 300 European companies’ from 9 countries, which are represented on European stock markets. In total, they got 50 completed and 14 uncompleted observations (64 in total).

Firstly, researchers asked what kinds of social media companies use to inform their investors (Figure 2). Most of the companies chose Twitter (25%). Other answers were SlideShare, StockTwits, Flickr, Wordpress and Issuu. Moreover some companies said that they do not use social media directly and only monitor them. Other companies mention that they combine different social media using for example YouTube for company film and Facebook for company profile and LinkedIn to recruit future employees.
75% of respondents had been using social media for 1-3 years and 90% companies could employ social media without help of consultants. The most frequent answer for the question about how much money companies spend on social media was «Not disclosed», but still they had a proper one such as 1-2% in average.

To understand how these new services are useful to companies, researchers pursued the goal to measure company’s attitude to social media. You can see the results in percentages in Figure 3.
The next question was about target audience for social media. The most common answers were about customers and investors (69%). The companies also mentioned potential employees and the general public. They also asked if respondents share information about the stock market to investors via social media and see the connection between stock price and social media. For both question they got negative answers – 72% and 85% respondents said «no» accordingly.

In addition there was a question about the expected percentage of investors who follow company via social media. They obtained a mean estimate of 5%.

Preliminary Results

A lot of companies still underestimate the value of social media within investor relationship departments. The survey showed that European companies have discovered some advantages of social media within investor relationship departments in recent years. Hence, we are convinced that in the current business environment, organizations should no longer underplay the importance of social media in the company strategies.

Further steps and limitation of our analysis

In our future empirical research we will try to provide significant evidence that active application of social media does improve the stock price informativeness for a particular firm and overall market efficiency. There is a number of useful quantitative methods to handle this issue. The idea is to employ the changes in stock price comovement to measure stock price informativeness as described in section 3; technical and econometric discussions are beyond the scope of this paper.

In 2014 we will reconduct a poll of traded European companies about their involvement into social media use in business and investor relation purposes. Next, using the answers already available and newly collected ones we will construct a measure of company’s participation in social media use practices.

We conjecture that smaller comovement and higher stock price informativeness will be observed for companies that use social media more actively. They are expected to be more transparent and investor-friendly, so stock prices should reflect more company specific information and less comovement.

At the same time, we observe some limitation of our research. First, companies are very reluctant to share information. They report that the social media niche is still attractive and undiscovered by businesses. So, a bias can appear in their answers. In addition, they prohibit disclosure of raw answers for any single company, only aggregated information (by region or sector) will be provided. Second, we cannot predict the number of answers obtain in a new poll. The number of newly obtained observations is very important to guarantee the model quality and robustness.
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The Guide of Social Media Implementation

As already discussed social media offer advantages for investor relations departments and stock price informativeness.

In this changing field, investors demand more and more “social” approach for which described further actions are required. A social media-friendly approach by investor relations has become a must instead of a nice to have.

We included an implementation guide of social media techniques for investor relations departments, which consists of four steps (Figure 4).

Figure 4. Four steps of social media implementation (author composition)

Preparation

Alike in implementation of any strategy, a thorough research is required before initiating major changes. This involves posing preliminary questions:
- What should be delivered via social media?
- How will the social media component fit in your investor relations department?
- Who will speak to the investment community?
- How much time will be invested in this online part?
- How will success be measured?

Control of what will be posted is very important, especially because the impact of a wrong post can be immense. The World Wide Web has an infinite memory and furthermore, the amplifying
effect of social media emphasizes mistakes by spreading them around swiftly in a viral way. So before making a first post or update, it is recommended that a company define dos and don’ts in a company policy.

Social media policy should set clearly who will be responsible for building and maintaining the social media communications effort, provides guidelines regarding acceptable conduct and establishes the nature and frequency of interaction over social media.

It is very important for a company to anticipate and plan for crisis of communication. Also the policy should refer to technology and intellectual property. This includes a clear statement that the accounts used are company-owned assets.

When clearly defined, the odds that a company’s effort will safely get implemented in the overall communications strategy will increase. Unfortunately, a certain risk will remain, but the goal of the policy is to reduce significantly the risk of wrong usage.

Finding out and defining clearly investor’s goals is a necessity.

To find out who the investors are which are following your information, there are several tools:

- Initiate a company’s closed community

  This is comparable with ‘old-fashioned’ focus groups, a permanent group online, where people are invited to interact with each other upon information. Potential partners include Communispace, Markettools and Passenger.

- Start with brand monitoring of the companies’ stock among investors

  Advised partners include MotiveQuest, Nielsen Buzz metrics, Communispace, Cymfony which have a solid track record in delivering this kind of report.

Once decided who is going to write the content, it is time for a company to understand its investors’ demands and wishes.

In short, investors are interested in all information, which applies to profitability, solvency and liquidity; as these are the three key parameters of a company’s actual financial status.

To find out what information is important, the company can cross check with other companies in its industry; organize a poll / survey among the known investors; test in practice which information is most watched.

In order to let investors get acquainted to the new (more active) flow of information, it might be interesting to test this information internally / within a test panel. In this way, the employees whom post content can grow in their role and get used to an action-reaction model.

Once it is decided which content by whom and with whom will be shared, the last preparation part is purely technical. As discussed, there are a lot of social media. The choice of technology should not be too rigid, as social media are evolving rapidly.

Setting up social media profiles and accounts is fast and straightforward. However, the real challenge is ensuring that social media becomes integrated with the company’s overall communications effort without posing an unnecessary strain on resources.
SOCIAL MEDIA FOR THE BENEFIT OF COMPANIES, INVESTORS AND STOCK PRICE INFORMATIVENESS

Effective Implementation

When the preparations are sufficiently done, it is time for effective takeoff of the social media strategy implementation. It is highly recommended to make gradual steps, in order to see how people react and it will be easier for both the company and its investors to get used to the new way.

As more links helps increase the visibility of the company’s news in searches, it is recommended to connect information to leading industry experts and journalists whom are following the industry.

Measuring Return on Investment

Once the implementation is complete, we recommend closely measuring results (and return on investments - ROI) in order to spot opportunities to tailor more to the customers need.

The major goal of organizations is to increase its profitability and productivity in all the operations. As businesses engage in determining the amount of resources it will devote to the social media, it must be able to determine ROI accruing from the use of social media platform in its investor relations. Thus, after an online presence is implemented, a company needs to collect and analyze data in order to find out how its investor relations activities resonate with the investor community (Leake et al., 2012).

In determining ROI on the use of the social media, the organization will have to evaluate the success of the social media. Organizations need to analyze the impact of social media on influencing the purchasing and consumer behavior on shares and products / services of the organization, as sales increases are essential (Hoffman and Fodor, 2010).

In addition, the increase in sales used to measure return on investment due to use of social media has been instrumental improving performance of the company. High performance of the company is essential in improving the value of a company’s stocks.

Moreover, it is important to mention that costs for establishing a social media strategy for investor relations are negligible, when the company already implemented a social media strategy in other departments; as increasing channels are free of charge and profiles easy to set up.

In contrast, the potential benefits may be unlimited:

- Increased shareholder base with increased contact
- More transparent investor communications,
- Augmented sense of understanding investor need
- Additional relevant feedback from the investment community,
- Improved brand perception

In order to help the company to measure the above-mentioned, there are Web-based tools, which help to improve tracking of online investor relations’ efforts. These useful tools can be segmented in three groups: Table 3.
Table 3. Selection of tools to help companies quantify online presence (Joyce, 2012).

<table>
<thead>
<tr>
<th>Type</th>
<th>Examples</th>
<th>Key data</th>
</tr>
</thead>
</table>
| Traffic & search analytics | • Google Analytics
                                • Compete.com                  | Data on the geographic location, bounce rate, visiting frequency, visiting patterns, and utilized keywords of website visitors |
| Alerts                   | • Google Comprehensive Alerts
                                • Nielsen Buzzmetrics
                                • Stocktwits                    | These tools can be set up to alert each time certain content is registered by Google or another search engine or channel (such as Twitter) and may help the company monitor what is being said on the internet. |
| Social search engines    | • Socialmention.com
                                • Infegy Social Radar
                                • Search.twitter.com            | Like traditional search engines, these tools help companies search social networking sites in order to monitor buzz. |

Analysis

It is difficult to use one specific social strategy and implement, because there are very few examples and models to be followed. A company needs to be constantly concise about advantages and risks and carry out a meticulous analysis as follows (Figure 5).

![Figure 5. Analysis of social media implementation (author composition)](image-url)
Conclusion

In this paper we discussed the role of social media for investor relations in a company. We addressed the advantages of social media use such as higher transparency, meeting the investor needs and the ability to obtain feedback rapidly in response to the corporate events. Also we provided a detailed explanation that social media employment may probably improve stock price informativeness. We will continue the unique database collection started in 2012 to obtain a formal confirmation. Finally, we offered the guidance on social media implementation that can be potentially useful for business.
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