SNS Effect of the negative event on the Firm Performance:
Comparison between Pre and Post SNS media appearance

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When the negative event is published, the company tends to go through the negative impact on the firm performance. Especially, with the SNS, the negative event is instantly spread on indefinite region so the impact seems bigger than the period before the SNS media appearance. It seems that everyone considers the SNS media impact on the firm performance quite big. However, there has been no empirical study on the impact comparison on the firm performance between pre and post SNS media occurrence periods. This study tries to empirically compare the impact of the negative event on the firm performance between pre and post SNS media appearance. Our study starts from the basic but not verified question: Does really the negative event have more negative impact in the post-SNS-occurrence period than in the pre-SNS-occurrence period?

In order to examine the impact of the negative publicity on firm performance in two eras, pre and post SNS media appearance, we used CAR (Cumulative Abnormal Returns) model. By using this model, we could verify the statistical significance of cumulative abnormal returns in market between before and after the events. For event samples, we focused on food manufacturers and collected the negative events from 1991 to 2003 for pre-SNS occurrence period, and from 2010 to 2013 for post-SNS occurrence period. Based on the listed food companies at KOSPI, we researched Naver News Library (newslibrary.naver.com) and Naver News (news.naver.com) for all the individual negative events published for both periods. Firm returns data were collected from TS 2000 (KOCO Info) and market portfolio data were collected from KRX Exchange.

Through our empirical analysis, our finding is interesting to note that the type of events differently influences on the firm performance. With the SNS, the health-related events have influence on the firm performance ‘after the event day’ whereas the company behavior trust events have influence ‘before the event day’. Our findings have implications for management. When a negative event directly related to or threatening customers or their life such as health, it is crucial to fix up the

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I. Introduction

The top position of noodle business in Korea went through the position switch to Nongshim from Samyang after the negative event that Samyang ramen had used beef tallow was published in the newspapers. Even though the event was later judged innocent in 1995, it still affects the today’s ramen business since Samyang could not have returned to the top1 place in the ramen business.

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The negative contents have powerful role in customers’ decision in many industries (Austin 1983; Cameron 1995; Vogel 2001; Walker 1995). As addressed in previous studies, people tend to believe more in the negative contents than in the positive contents (Chevalier and Mazlin 2003). With this tendency, SNS is considered as a crucial issue with risks for marketing (Stenger and Coutant 2009). In the post-SNS-occurrence period, such negative contents seem to proliferate faster in bigger volume.

Previous studies on relation between WOM and the firm performance have not considered the negative impact comparing the two periods, pre and post SNS occurrence periods. And researchers examined the relation between WOM and the firm performance regardless of the direction of WOM either positive or negative. For example, when Kim (2008) showed that the amount of published articles have relation with the stock price, he did not consider the negative event and its impact on stock price. Another previous study (Lee 2012) on SNS