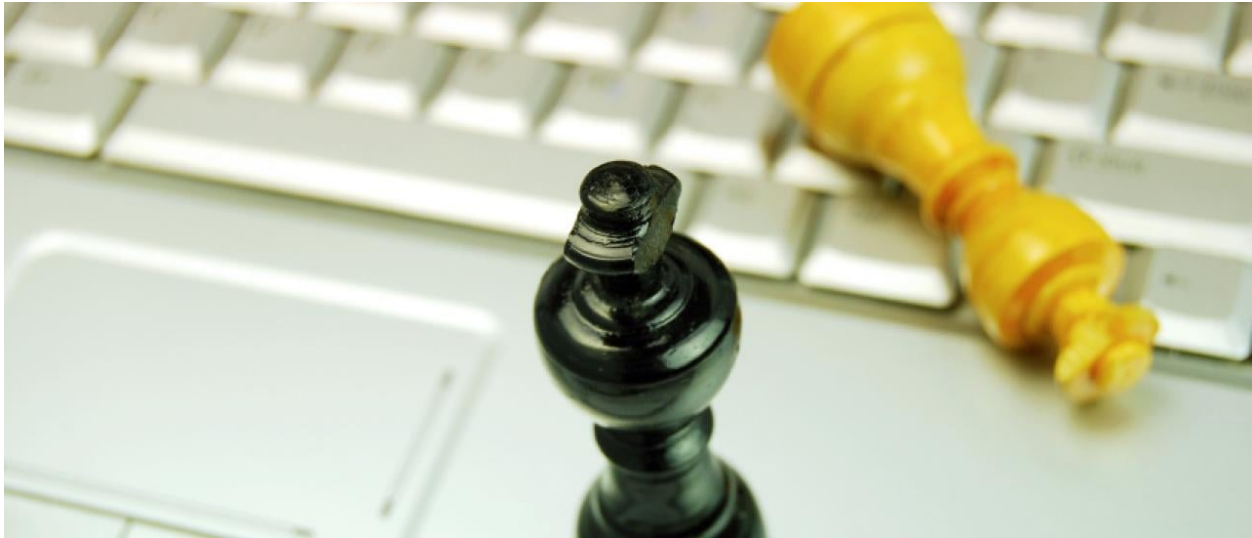

Competition Makes Bloggers Reckless



By Massimo Massa , The Rothschild Chaired Professor of Banking and Professor of Finance at INSEAD

As bloggers strive to be heard are we missing out on the truth?

Over the last decade social media has become all pervasive allowing almost anyone who can use web-based technology to express their opinion on anything from stock valuation and politics to fashion, culture or business. Blogging gives individuals the opportunity to become salient in a way that was unachievable via traditional media. But with over 300 million blog-sites cramming cyberspace what impact does this extreme competition have on the quality of information they deliver?

Standard competition theory dictates that the greater the competition the better and more precise the information released. This applies to analysts and traditional media where long-term reputations are based on accurate reporting and fact-based presumptions. One would think the effect would be the same in the blogosphere. Unfortunately, in this revolutionary new world the normal laws of economics don't apply.

Fighting to be heard

Unlike traditional media, blogs are characterised by a low barrier to entry and very high potential for speedy public diffusion. Blogs can be created at nearly zero-cost while the vast body of internet users ostensibly provides bloggers with a profusion of potential followers. The possibility of monopolising this public attention (and monetising their sites) however, is limited to a small, elite group and competition for entry is high.

Thus the initial aim for any serious blogger is to become known - even revered - as the person that differentiates themselves from the pack.

Empirical evidence suggests that in their pursuit of this guru status, with so much to gain and so little to lose, many bloggers are less concerned with the precision of the information they are processing and more concerned with making a splash.

Consolidated psychology literature agrees negative information tends to influence evaluations more than positive information. Hence bloggers have an incentive to take an extreme, negative tone when they want to win attention in the war against their competing peers.

People also assign much prestige to the unique blogger who forewarns a crisis or major event as opposed to those who can forecast correctly over an extended period. In other words, it seems accuracy matters much less than being very good at one point in time.

Guru dreams

The question of whether competition intensifies the incentive for information discovery or distorts information was the subject of my recent paper **Guru Dream and Competition: An Anatomy of the Economics of Blogs**, co-authored with Yi Dong, Assistant Professor at the University of International Business and Economics and Hong Zhang, JD Capital Chair Associate Professor of Finance at Tsinghua University.

The research looked at this relatively new form of social media through the prism of the finance blogger, examining data on all blogs covering the S&P Composite 1500 stocks between 2006 and 2011. Competition increased massively during this period with the number of finance blog spots rising from 3,304 in 2006 to 233,040 in 2011 as three new platforms emerged on the scene – Tumblr in February 2007, Moveable Type in December 2007 and Posterous in May 2008. The data taken from the blogs was then compared

with analyst information and newspaper articles published during the same period.

The study focused on the linguistic content and tone of each blog and found that while bloggers were informed and able to supply information above and beyond that released in the public media, competition generally led to more exaggerated negative tone, distorting the information that was released. The impact of competition on positive tone, however, was negligible.

By examining the relationship between blog-tone and competition in different sub-samples we found that the impact of competition was higher in blogs on highly scrutinised companies, confirming the theory that as competition increases, bloggers are more likely to distort information and sensationalise events with highly extreme opinions.

Nothing to lose and so much to gain

There is a very big non-linear pay-off for bloggers; they won't lose if they say something wrong (a failed blogger can simply close their site and start a new one), but they will gain a lot if they get it right, particularly if they are able to predict a major crisis or other high-profile event. For ambitious bloggers - those looking to make a career (or money) out of their site - online accurate information is not necessarily relevant on its own. What they aim for is sensational information that will bring in the followers and the eventual pay-off.

This creates an impact that is dramatically different from the traditional notion that competition is good, ensuring the release of not just more, but better information. While prior [research](#) has shown that competition may actually reduce the positive bias shown by finance analysts influenced by conflict of interests, with bloggers the incentive is completely upside down, and competition can actually create a negative bias because of the incentive to be sensationalist.

All of which sheds new light not only on the economics of social media but the effect of competition on information dissemination in our economy.



Massimo Massa is a Professor of Finance and The Rothschild Chaired Professor of Banking at INSEAD. He is Co-Director of the Hoffmann Research Fund and a faculty member of the [**INSEAD Corporate Governance Initiative \(ICGI\)**](#).

Follow INSEAD Knowledge on [**Twitter**](#) and [**Facebook**](#)

Find article at

<https://knowledge.insead.edu/economics-finance/competition-makes-bloggers-reckless>

About the author(s)

Massimo Massa is the Rothschild Chaired Professor of Banking and a Professor of Finance at INSEAD, as well as the co-director of the Hoffmann Research Fund.