Measuring the Value of Refining a Web Presence

Raquel Benbunan-Fich, Baruch College, CUNY, USA
Eliezer M. Fich, Drexel University, USA

EXECUTIVE SUMMARY

The redesign of a Web presence can be classified as both an IT investment and an e-commerce initiative. Although the empirical literature provides evidence that financial markets are sensitive to e-commerce announcements, it is still unknown what types of announcements affect the value of firms. We use the event study methodology on a sample of Web site redesigns from 1995 to 1999 to investigate the types of commercial organizations that announce changes to their Web presence, and to study whether such redesign initiatives affect the value of publicly traded firms. Our findings indicate that, on average, refining a Web presence does not produce significant firm valuation adjustments. However, cross-sectional analyses reveal that Web site redesign increases the value of service companies.

Keywords: electronic commerce; value creation; Web site design

INTRODUCTION

Anecdotal evidence suggests that Web site redesign can have a significant impact on the value of a firm. For example, in September 2000, shares of NBCi (NBC Internet) increased more than 20% after the company unveiled its redesigned site (USA Today, 2000). However, refining a Web presence has not always been a success. For instance, the online magazine Salon.com was forced to pull back a site redesign that generated numerous complaints from its users (New York Times, 2000). Despite these and other examples, we are unaware of any systematic study of the valuation impact of Web site changes in commercial organizations. Ideally, an updated Web presence should improve the firm’s ability to attract customers and to increase its online revenues, and hence augment firm value. However, a redesigned site may also hinder the firm’s online performance. This news may be met with unfavorable investor reactions and thus decrease the value of the firm.

As an organizational activity, the redesign of a Web presence can be classified as an information technology (IT) in-
vestment and an e-commerce project. Although recent studies provide empirical evidence indicating that financial markets may be sensitive to the announcement of these initiatives via press releases, it is not known which types of announcements affect the value of firms. This study contributes to this body of literature by examining a particular type of e-commerce announcement: Web presence redesign. Our main research question asks whether refining a Web presence affects the market value of firms. We also investigate whether the market response is different depending upon the type of firm making the announcement and whether the nature (content) of the announcement also affects the direction and magnitude of the reaction.

This article proceeds as follows: The next section reviews relevant literature in e-commerce and IT investments and develops our hypotheses. Then we describe the event study methodology. Next, we detail our research design, and present our results. Then we discuss the limitations and highlight the implications of this study. Finally, we offer our conclusions.

LITERATURE REVIEW AND HYPOTHESES

The emergence of the Internet as a commercial channel has opened new business possibilities for organizations. Traditional brick-and-mortar firms have taken advantage of the new medium and have extended their operations to cyberspace. At the same time, a new breed of pure-play Internet firms or “dot-coms,” which conduct most or all of their business activities through the Internet, have joined the economy. For both types of organizations, updating their Web sites can be a crucial activity for the viability of their online operations. However, the improvement of a Web presence is likely to be especially critical for pure-Internet firms, because the site is their only interface with customers.

Palmer and Griffith (1998) suggest that the design of a Web presence is the result of the interaction between technical choices and marketing/strategic decisions. Therefore, any change in the technological environment (i.e., evolution of Web technologies) or any shift in the e-commerce strategy of the firm requires a redesign in order to adapt the site to the new conditions. New technological possibilities or changes in the strategic direction of the firm’s online operations usually result in the incorporation of new e-commerce features (functionality).

Aside from these strategically or technologically motivated changes, the redesign of a Web presence is also necessary to improve the ease of use (usability) of the site. Usability-based redesigns are due to the need to expand content to accommodate an increasing user base, to include new features to facilitate navigation and access to information, or to change the appearance of the site in favor of a more pleasant and efficient layout (Guenther, 2000). The goal of a Web presence refinement is to produce a better fit between the firm’s objectives and its Web presence, or the site and its visitors, or to make better use of the technology that is available. Since changes in these three fronts are constant, Web site redesign is an ongoing task.

Companies often announce the redesign of a site via press release to encourage customers’ visits and to inform different audiences about changes in their Web presences. According to signaling theory (Eliashberg & Robertson, 1988; Heil & Robertson, 1991; Moore, 1992), firms send messages to their constituents (buyers, competitors, employees, investors, indus-
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