

Chapter II

Firm Value Effects of Web Site Redesign

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Abstract

The redesign of a Web site can be classified as both an information technology (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 firm value in service companies.

Introduction

Web sites are essential business tools to communicate information to the public (Benbunan-Fich & Altschuller, 2005; Lohse & Spiller, 1998) and to provide an “electronic storefront” to support business transactions (Winter, Saunders, & Hart 2003, p. 309). Due to the evolving nature of Internet technologies and changes in the e-commerce strategies of the firms, an organizational Web presence undergoes frequent transformations where the Web site is redesigned to take advantage of new technological possibilities or to reflect new strategic objectives (Palmer & Griffith, 1998).

Articles in the press suggest that Web site redesign can have a significant impact on the firm. For example, in September 2000, shares of NBCi (NBC Internet) increased more than 20% after the company unveiled its redesigned site (“NBC Internet,” 2000). However, refining a Web presence is not always successful. For instance, the online magazine Salon.com was forced to pull back a site redesign that generated numerous complaints from its users (“Salon relents,” 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 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 IT investment 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 type 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.

We begin by reviewing the relevant literature in e-commerce and IT investments and developing our hypotheses. Next, we describe the event study methodology and detail our research design. We follow with the presentation of our results and a discussion of the limitations and implications of this study. Concluding remarks are presented in the last section.

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