ABSTRACT

In the 1990’s the World Wide Web was created, drastically changing the way we do business, communicate, and live our lives. Ten years later in the early 2000’s the dot com boom happened, and several years later, new technology giants emerged—like Amazon, Google, and Facebook. From this, we now face “big data” that promises to solve world problems, but has the potential to create turmoil and mischief. My research examines the impact of the General Data Protection Regulation (GDPR) enacted in the EU in 2016 on firm value using Tobin’s Q and CARs. The implications of my analyses suggest that the GDPR enacted in the EU to ensure data privacy and protection increased consumer trust in business and positively impacted firm value.

INTRODUCTION

The GDPR is the strictest guideline to ever be placed on businesses regarding the collection and use of data, which poses interesting and unexplored questions:

• How does data policy affect the annual costs of business, if at all?
• How does data policy affect different industries?
• Does the stock market react to data policy announcements?

GDPR DESCRIPTION

The key principles of the GDPR are as follow:

- **Lawfulness, Fairness and Transparency**
- **Purpose Limitation**
- **Data Minimization**
- **Accuracy**
- **Storage Limitation**
- **Integrity and Confidentiality**

MARKET REACTION (CARs)

METHODOLOGY

To gauge how the market responds to the news of the GDPR, cumulative abnormal returns (CARs) were calculated for every firm in both the EU and US around a 5-day window (-2, 2) for 26 April 2016. The US firms serve as the control group, as the GDPR is currently only enacted in the EU.

RESULTS

The EU firms had an average CAR of positive 0.13 percent, which indicates that the stock market returns for the 5-day (-2,2) time period were more positive than expected.

CONCLUSION

The announcement and enforcement of the GDPR improves firm value.

For further implications of this study, it would be interesting to evaluate the why behind why the GDPR has increased consumer trust in business: Is the same true for other data policies? Does consumers’ trust change after an incident or breach in data policies? Would there be a different observed impact if a similar study was performed several years later?

REFERENCES

• The Cost of Big Data: Evaluating the Effects of the European Union’s General Data Protection Regulation. By: Kara White Advisor: Dr. Larry Fauver

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REFERENCES


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