The Effects of Influencer Advertising Disclosure Regulations: Evidence from Instagram

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This Project

• Research Question: What are the effects of mandatory advertising disclosure regulations?
  • On amount of advertising/sponsored content and user engagement in online platforms
  • An open empirical question with conflicting theoretical predictions (Mitchell 2020)

• We collect data on 100 most popular local Instagram influencers from Germany and Spain
  • Germany had mandatory disclosure regulations in late 2016
  • Regulation focused on including words that indicate sponsored posts (“#ad,” “#werbung”)

• For each influencer, observe full history of posts (# likes, # comments, # followers, post text)

• Difference-in-differences identification strategy, controlling for influencer and country characteristics
Defining Sponsored Posts

• Key empirical challenge is identifying **sponsored** posts
  • We know what **sponsored** and **disclosed** posts look like (#ad, #werbung)
  • Less sure about what **sponsored** and **non-disclosed** posts look like

• Two ways of uncovering these:
  1. Manual definition using keywords
     • i.e., “code,” links to websites, brand refs, “buy this!” etc.
     • Drawbacks - have to pick keywords ourselves
  2. Supervised ML definition
     • Train an algorithm (Naive Bayes) to look for words associated with disclosure
     • Training data - Germany after regulation
     • Project on pre-regulation Germany and Spain
     • Drawbacks - overfitting, imperfect disclosure and translation

• Comparison: Both catch around 70% of disclosed posts but ML is more “conservative"
Main Results

- DiD estimates show that sponsored content increases in Germany after regulation
  - Sponsored post share increases by 7% (relative to a 19% baseline)
- Disclosure of sponsored content also increases but is far from perfect
- The number of followers per influencer falls in Germany
- Engagement with posts in Germany falls, suggesting growing dislike of non-disclosed sponsored content