



On the board's agenda | US

Social media and the board

No one should be surprised that companies are extensive users of social media. A quick look at nearly any company website, marketing literature, or email signature reveals a group of icons showing the social media platforms on which the company has a presence. Members of those companies' boards of directors have likely noticed those icons many times, but it is not clear whether

those directors fully comprehend the pervasive, enormous influence of social media, how it is used by their companies and their stakeholders, and the benefits and risks associated with use of social media by both groups—and how to best exercise their oversight role with respect to social media. ➔

The social media revolution and its benefits

A recent study shows that 80 percent of the world's 40 billion internet users use social media.¹ While this does not leave a great deal of room for further saturation, it seems likely that the number of users will increase over time. Those users include customers, suppliers, employees, members of the communities in which the company operates, and others—in other words, all the constituencies that use social media to communicate with each other and the world at large about a company's strengths, weaknesses, achievements, and failures.

Social media affords companies many benefits, including "instant" marketing to and communication with customers, and the ability to promptly and easily respond to questions and give customer service and care. By 2020, 90 percent of companies are expected to use social media for these purposes.² The ability to use social media to provide "social customer service" makes sense from a financial point of view, as well: the cost of solving issues through social media is one-sixth the cost of addressing them in call centers, and customers spend more when companies interact and respond via social media.³ For their part, customers increasingly expect social media to enhance their shopping experiences—for example, allowing customers to virtually "try on" clothing or cosmetics and to link directly to a website or app to complete a purchase from a social media post or ad.

Other stakeholders can also benefit from social media. For example, employees use social media, both at and away from work, to build networks, learn more about their co-workers, and connect with and help customers, among other things. Many prospective employees use social media to research companies, executives, and workplace culture.

From the above, it seems clear that social media can bring great benefits, including marketing opportunities and better connections and relationships with customers and other stakeholders, and empowers employees to better address the needs of customers and colleagues.

Risks associated with social media

However, social media also comes with risks. It affords customers, employees and other stakeholders a convenient and effective platform to criticize a company, its products or services, its behavior, working conditions, or any other aspect of its operation. And critical postings can generate instant, viral negative publicity and cause serious reputational damage to a company.

Some examples of the risks of corporate social media include:

- **Offensive or inappropriate posts or behavior:** A social media post by a company or a spokesperson that is found to be offensive, or inappropriate behavior of a front-line employee posted online, can escalate quickly. Backlash can be swift, particularly if the item is picked up by the media, and can result in brand and reputational damage, financial loss, or both. There can also be regulatory backlash, such as when a social media post by a public company or one of its executives is viewed as misleading, or a company official makes false claims about a product or service. Executive communications through social media channels may require careful consideration for compliance with securities and other regulations. The SEC has confirmed that it is looking for tools that can help track social media postings by public companies and their officials,⁴ and it seems likely that others may use such tools in the future as well.
- **Platform activities:** Even when a company's social media activities are appropriate, the social media platforms themselves may contain offensive content or false information that can cause users to find the company's activities toxic. Risks can also arise when engaging in conversations on social media, because there is no way for a company to control or even predict what other parties to a conversation may post.
- **Data security and availability:** Given concerns about privacy, customers may expect greater anonymity and may adjust privacy settings and/or restrict profile access, which would reduce a company's ability to communicate with customers who use social media, putting brand investments in social media and customer relationships at risk. There is also talk of greater government regulation of social media, which could make social media communications more burdensome and traditionally less expensive social channels more expensive to reach consumers. ➔

1. <https://wearesocial.com/blog/2018/01/global-digital-report-2018>.

2. <https://www.socialmediatoday.com/social-business/social-media-customer-service-statistics-and-trends-infographic>

3. Ibid.

4. <https://www.law.com/legaltechnews/2018/12/13/sec-tool-could-test-executive-online-impulse-control/>





Certain risks may be greater for companies that operate globally. For example, a post that may seem appropriate in the United States may be offensive in another country. In addition, data security and privacy concerns are generally greater outside of the US.⁵

Where does the board fit in?

Strategy and risk are two key areas for board oversight. As social media is becoming an increasingly important component of strategy, and as its usage poses potentially serious reputational and other risks to the enterprise, it is appropriate for the board to oversee the company's social media usage and the policies that accompany such usage.

Boards of directors often deal with new challenges, and oversight of social media usage is no exception. Principal means of effective oversight include the following:

- **Learn how the company and its stakeholders use social media:** Different companies use social media in different ways. Directors should focus on how their companies use social media, not only for “traditional” marketing purposes, but also if and how it is used for other aspects of the company's operation. Directors should also understand the types of data that the company obtains through the use of social media and how the company uses the data. This aspect of oversight might also shed light on whether the company is making optimal use of social media or just getting the “bare minimum” out of it.

Directors need to understand how its stakeholders use social media, including which platforms they use, what and how they communicate via social media, and what trends the company sees in the uses of social media by the company and its stakeholders alike. Listening tools are typically a key component of a company's approach to social media. Companies can use these tools to

monitor what is said about the company and the sentiment of those comments, gain insight into how competitors use and are perceived in social media, identify key consumer and industry trends, and enable risk sensing programs. Directors should know what types of monitoring programs are in place, and what information they provide.

- **Consider governance, resources, and investments aligned to social media:** While there is no one model governing where social media responsibility lies within the company, directors should understand who is responsible for social media usage and for managing the related risks. Directors should also be satisfied that, regardless of where social media responsibility lies, the company has adequate staffing, infrastructure, and tools to deal with social media and the attendant challenges.
- **Understand the company's policies on social media:** Companies should have policies surrounding the use of social media. These policies address topics such as who is authorized to post on social media on the company's behalf; whether employees—including executives—are authorized to say anything about the company on their personal social media accounts; and how the company should address criticisms of the company that appear on social media platforms. In addition, companies should consider what processes are appropriate to review information about the company before it is posted on a company account.
- **Understand how social media policies are disseminated, monitored, and enforced:** It is important that companies disseminate social media policies and conduct training to assure that employees are aware of them. According to recent studies,⁶ 80 percent of the companies surveyed said they had such policies,⁶ but 45 percent of the employees said their companies had no such policies,⁷ suggesting that the companies may not be effectively disseminating the policies and/or educating their employees about them. Companies also need to monitor compliance with social media policies and take appropriate disciplinary action when those policies are not followed. For example, if a policy prohibits employees from posting information about the company on their social media accounts, but employees see that executives do so with impunity, the policy may be viewed as meaningless.
- **Be aware of the risks associated with the use of social media and how they are managed:** Directors should be aware of the risks associated with the use of social media, including those discussed above and other risks unique to the company and its business. Directors should be satisfied that management has engaged in risk planning i.e., whether there are plans in place to deal with any risks that materialize, such as how the company might deal with a criticism of the company that goes viral and generates instant, hostile publicity. ➤

5. <https://www.wsj.com/articles/should-the-u-s-follow-europe-in-imposing-stricter-data-privacy-regulations-1529332491>

6. <https://www.shrm.org/resourcesandtools/tools-and-samples/toolkits/pages/managingsocialmedia.aspx>

7. <http://www.pewinternet.org/2016/06/22/social-media-and-the-workplace/>

In other words, directors should treat social media usage like any other aspect of the company that affords the company benefits but also poses risk. And, just as directors are accustomed to challenging management's assumptions and plans generally, they can ask probing questions about the uses and risks associated with the company's use of social media. (See "Questions for board members to consider.") In addition, if directors do not feel comfortable with their level of knowledge and understanding of social media and its benefits and risks, companies should be prepared to provide education or access to consultants or other advisors to help directors get "up to speed" on social media.

Conclusion

Social media has become a strategic business tool for companies, with opportunities beyond marketing and inherent benefits and risks. By understanding social media and conducting periodic reviews of their companies' social media usage and policies, directors can bring greater value to their ongoing oversight of corporate strategy and risk. ➔



Questions for board members to consider:

1. Does the company's strategy account for social media use? Has it been shared with or approved by the board?
2. How does the company use social media? Do we use it just for marketing, or does it have uses in other aspects of our operations? Are we making optimal use of our social media capabilities?
3. What types of data are we collecting from our social media activities, and how are we using the data? Do we have adequate policies and protections in place to keep social media data secure?
4. How are our customers, employees and other stakeholders using social media? Have we modified our approach to social media usage based upon how we see these stakeholders use it?
5. How do we monitor what is posted about the company on social media? How do we determine whether and how to respond to criticisms or other negative postings about the company? What other listening, monitoring, or risk sensing programs are in place?
6. Who is responsible for overseeing the company's social media usage? Do we have adequate staffing and other infrastructure and resources to handle that responsibility?
7. What policies do we have concerning the use of social media? For example, who is authorized to post on behalf of the company? Are employees permitted to post information about the company on their personal social media accounts? Are executives subject to the same policies?
8. How do we disseminate these policies to satisfy ourselves that employees are aware of them? Do we conduct training?
9. Have we enforced these policies? Have our enforcement activities been even-handed. For example, have executives been allowed to get away with things that the average employee has not?
10. Are we prepared to deal with a reputational crisis arising out of the use of social media? Have we considered "war-gaming" a social media crisis to make sure we have our team and a crisis response plan in place?

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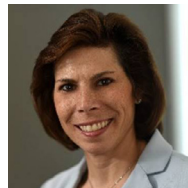
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