Private Sector Opinion

# Corporate Governance and Social Media: A Brave New World for Board Directors

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**Santiago Chaher and James David Spellman**

What should board members know about social media as it relates to a company's ability to do business and safeguard its image? And what is the board's role in helping a company make the best use of social media—and defending against its misuse? Two corporate governance practitioners provide insights on the power of new social technologies to shape boards' decisions and bolster stakeholders' influence.

## Foreword

Publication of secret diplomatic cables through Wikileaks shocked governments and provided a sudden wake-up call to all who thought they were safe from the new power of social media. Consequences went well beyond mere embarrassment; they helped spark the first "Arab spring" uprising in Tunisia, and other forms of social media helped sustain popular dissent elsewhere in the Middle East and North Africa region. What quickly became obvious is that communications online had a demonstrated a new capacity to upend political agendas everywhere.

Widespread use of social media has equal potential to transform corporate agendas. Tools used at Tahrir Square are also available in the capital market for use by directors as much as by disgruntled employees, by consumers both satisfied and aggrieved, by competitors, and by shareowners both retail and institutional in confrontations with the board. Information that might once have been safely proprietary can now escape the confines of a corporation and gain viral public exposure. Corporate missteps that might once have been easily and quietly managed can get magnified into crises. Shareowners with the most insignificant stakes can now stir wide rebellion at negligible cost. Moreover, given the global nature of access to media, implications affect companies no matter where they call home, and whether they are controlled by families or are widely held.

Global Corporate Governance Forum

IFC International Finance Corporation World Bank Group

The Global Corporate Governance Forum is the leading knowledge and capacity-building platform dedicated to corporate governance reform in emerging markets and developing countries. The Forum offers a unique collection of expertise, experiences, and solutions to key corporate governance issues from developed and developing countries.

The Forum's mandate is to promote the private sector as an engine of growth, reduce the vulnerability of developing and emerging markets to financial crisis, and provide incentives for corporations to invest and perform efficiently in a transparent, sustainable, and socially responsible manner. In doing so, the Forum partners with international, regional, and local institutions, drawing on its network of global private sector leaders.

The Forum is a multi-donor trust fund facility located within IFC, co-founded in 1999 by the World Bank and the Organisation for Economic Co-operation and Development (OECD).

By the same token, though, corporations can use social media channels creatively to improve stakeholder loyalty, and improve performance. Corporations can develop new means of constructive dialogue with different constituencies. Benefits might include early warning of threats, identification of new ideas, and amplified means of responding. New communication channels can be a force multiplier and a risk management tool to advance the interests of the business.

Still, corporate governance and social media are trends newly met, and market participants are only at the very beginning of a learning curve. Santiago Chaher and James David Spellman do a powerful service by providing a forensic analysis of how social media work. The authors sketch out latest developments. Then they focus on what a forward-thinking board needs to know to ensure that the company is ready to manage the risks and take full advantage of the opportunities presented by social media. Part of the challenge is for individual directors to educate themselves about social media—from technology to terminology. They need to know the right questions to ask to test whether the firm is leading or being led. They need to investigate how all the various stakeholders the company affects are using social media. And, most importantly, they have to understand that this is an ongoing, not a one-off, learning process.

Chaher and Spellman are themselves pioneers in this field, and the Global Corporate Governance Forum, by tapping them to explore this fresh challenge to boards, is at the vanguard of governance thinking. The path ahead could involve more case studies of companies that open insights into techniques that work, and how and under what circumstances they work. Boards can benefit just as much by cases showing failures and the reasons lying behind such outcomes. There is also scope for analysis of how social media may be used (or misused) by shareowners, consumers, and other stakeholders. Business has always had to learn to thrive in the context of change—to respond to the imperative to adapt. As Chaher and Spellman show, the rampant growth of social media has pushed that imperative into hyperspeed.

***Stephen Davis***

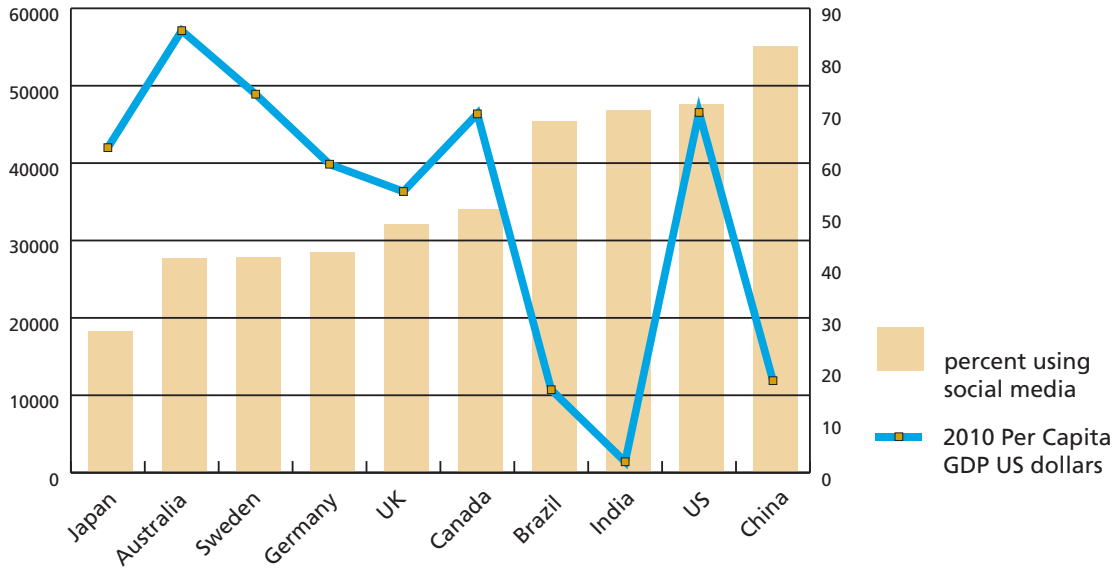
*Nonresident senior fellow in governance studies at the Brookings Institution, senior fellow at the Harvard Law School Program on Corporate Governance, and former Executive Director of Yale University School of Management's Millstein Center for Corporate Governance and Performance*

# Corporate Governance and Social Media: A Brave New World for Board Directors

Santiago Chaher[1] and James David Spellman[2]

Companies are increasingly using social media to communicate with and learn from stakeholders. This is particularly true in emerging markets, where companies are more likely to use social media than in many developed countries, as Figure 1 illustrates. (See also Box 1.)

**Figure 1:** Social Media Use by Country




*Sources:* KPMG, "Going Social: How Businesses are Making the Most of Social Media," 2011; and data.un.org.

Evidence is mounting that social media can increase awareness about a company and its products and services, provide opportunities for more targeted marketing, help gain ideas for new business opportunities, improve communications with partners in the supply chain, and help companies learn how existing and potential customers perceive the company's brand and reputation. According to PricewaterhouseCoopers, "Firms that embrace Web 2.0 (social technologies) and social media are more likely to be market leaders, have their market share increase, and use management practices that lead to higher margins."[3]

[1] **Santiago Chaher** is a managing partner at Cefeidas Group, which provides consulting services in corporate governance and regulatory and political risk. He is also the founder of the Corporate Governance Leaders Blog (corpgovleaders.net) and the Twitter account @corpgovleaders. He has consulted for the Global Corporate Governance Forum in Latin America since 2008. Part of this Private Sector Opinion is inspired by Santiago's presentation at the 2011 International Corporate Governance Network annual meeting in Paris. He would like to thank Juan Cruz Díaz and Luba Guzei for reviewing and editing this paper.

[2] **James David Spellman** is principal of Strategic Communications LLC, which provides consulting services in communications and government relations for financial services firms, a trade association, and the Global Corporate Governance Forum. In his work for the Forum, James helped write and edit two toolkits (***Corporate Governance Board Leadership Training Resources*** and ***Resolving Corporate Governance Disputes***) and conducted training. He is also an adjunct professor at George Washington University Graduate School of Political Management, where he teaches a course on public relations strategy.

[3] PricewaterhouseCoopers, "Social Media—The New Business Reality for Board Directors," Directors' Briefing Series (2012): ii. https://www.pwc.com/en_CA/ca/directorconnect/publications/pwc-social-media-new-reality-for-directors-2012-02-en.pdf.

*Box 1:* ***Emerging Markets Social Networking in Numbers***

**2.57 billion**
mobile phone subscribers by 2014
in BRIC* markets

**86%**
social media penetration in Brazil

**400 million**
Chinese use social networks

**=**

**32%**
of China's population

*BRIC = Brazil, Russia, India, and China.

*Sources:* http://www.socialsearchmobile.org/2011/11/tracking-the-growth-of-social-media-in-emerging-markets/; Economist, "Eat, Pray, Tweet: Social-networking Sites Have Taken off in Indonesia. Who Will profit?" January 6, 2011. http://www.economist.com/node/17853348; Pew Research Center, "Global Digital Communication: Texting, Social Networking Popular Worldwide," December 2011. http://www.pewglobal.org/2011/12/20/global-digital-communication-texting-social-networking-popular-worldwide/1/.

But there's another side to the relationship between businesses and social media—one that businesses ignore at their peril. Consider, for example, the experience of the Argentina Football Association (AFA). Football (soccer) is the most popular sport in Argentina, and its millions of fans want to know everything related to the sport. So, when the AFA board met in July 2011 to discuss a new format for the national tournament, the meeting immediately became a matter of public interest.

Before the advent of the social media, the AFA would have kept its deliberations under wraps until it was ready to publicize—on its own terms—the details of the new tournament format. This new format would have nearly doubled the size of the top league by adding 18 more teams, leading to a revenue increase of $320 million in television broadcasting rights for the AFA, paid by the Argentinean government (which holds TV rights), and would have been counted as a success for Julio Grondona, the AFA's chairman for 32 years.

Social media makes it more difficult for organizations to control information. After the AFA meeting, one board director tweeted (see Box 2) about the reforms, even though there had been no decision. This one tweet triggered a series of reactions from football fans, including those opposed to the new tournament, thereby jeopardizing the project.

Within several hours, opponents created enough Twitter hashtags asking for Grondona's resignation that it became a trending topic in Argentina. Facebook pages against Grondona and the tournament received more than 25,000 "likes," and many protest blogs sprang up. The next day, traditional media published and continually broadcast social media's response to the matter. Several days after the leak, some board directors who had been at the meeting started sending out their own tweets, saying they opposed the new tournament.

*Social media makes it more difficult for organizations to control information.*

So much social media attention had been drawn to this issue that an AFA spokesperson was forced to declare that the national Argentine government was not involved in the process of creating the new tournament—that it was only an idea. Unfortunately for the AFA, it relied solely on television as its communications pipeline, while the social media channels continued to lead the issue in a downward spiral, generating a live protest involving 500 people in front

of AFA headquarters. By the end of the week, the AFA announced its "indefinite" postponement of the new tournament project and Julio Grondona's decision not to run for reelection as chairman.[4]

This experience vividly illustrates that misunderstanding and underestimating social media can have a profound business impact. The AFA encountered a wide range of challenges, including: 1) dealing with a new group of stakeholders (fans in social media); 2) the undermining of leadership (Grondona's decision not to run for reelection) and consequent disruption of the balance of power (board directors publicly dissenting); 3) losing partners (detaching the government from the project); and 4) forcing a shift in business strategy (postponing the project).

The AFA experience underscores why directors and managers must understand social media technologies, the ethos of social media users, the dynamics of how "conversations" occur and people "engage" with one another, and the tools used to monitor and analyze social media activities. Paul Cantor, chairman of the ING Direct Risk and Investment Committee, advises, "Board oversight of social networking requires more than an understanding of the underlying technology. It also calls for an understanding of the sociology and the implications of the phenomenon."[5]

Yet, few board directors have experience as a chief technology officer or expertise in information technologies.[6] Very few, too, have led communications, public relations, and marketing

[4] As of May 2012, Julio Grondona is still the AFA chairman, and a new tournament involving 32 teams is under discussion.

[5] Paul Cantor, "Board Governance of Social Networking," Institute of Corporate Directors (March 2012): 20. http://www.bennettjones.com/uploadedFiles/Publications/Articles/PaulCantor_DirectorJournal.pdf.

[6] Deloitte, *2011 Board Practices Report: Design, Composition, and Function, Society of Corporate Secretaries and Governance Professionals (2011).* www.corpgov.deloitte.com/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/USEng/Documents/Board%20Governance/2011%20Board%20Pracices%20Report_Deloitte%20Society_Jan2012.pdf.

## *Box 2:* ***Social Media Terms***

**Blog**—n. a digital personal journal that provides commentary, analysis, and links to information; v. to post a blog.

**Buzz**—n. conversation that builds on itself, broadening and deepening interest, feeding on the need "to be in the know."

**Facebook**—n. a social networking website originally for college students but now open to anyone over 13 years old. Facebook users can create and customize their own profiles with photos, videos, and information about themselves. *Friends* can browse the profiles and write messages on each other's pages.

**Friend**—n. someone who is allowed to view another's *Facebook* profile.

**Go viral**—v. to spread wildly. Something *goes viral* when it is spread from one person's network to another's across various social media platforms. It usually generates traditional media coverage.

**Hashtag**—n. a word or phrase prefixed with the symbol #; v. to tag *tweets* or *posts* in other social media (by putting the symbol # before a word or phrase) to make the entry easily searchable and to connect with other users talking about the same or similar topics.

**Hit**—n. a visit to a website or a viewing of a video on YouTube.

**Influencer**—n. a social media participant who can affect the direction of conversation. Influencers are those who matter most because of the number of followers they have and their ability to define the social media *buzz*.

**Like**—n. an indication (on the *Facebook* platform) of approval of a *post*, product, or whatever; v. to click the "like" button below any post to show approval. Facebook keeps a running tally of *likes* to indicate the popularity of each *post*, product, and so on.

**Post**—n. something published on the Internet; v. to publish something on the Internet.

**Trending topic/issue**—n. a word, phrase, or topic that is tagged at a greater rate than others. A topic *trends* on *Twitter* if enough users use a specific *hashtag* in their *posts*. On the *Twitter* platform is a sidebar identifying trending topics, both worldwide and by country.

**Tweet**—v. the act of *posting* on *Twitter*; n. a *post* on *Twitter*.

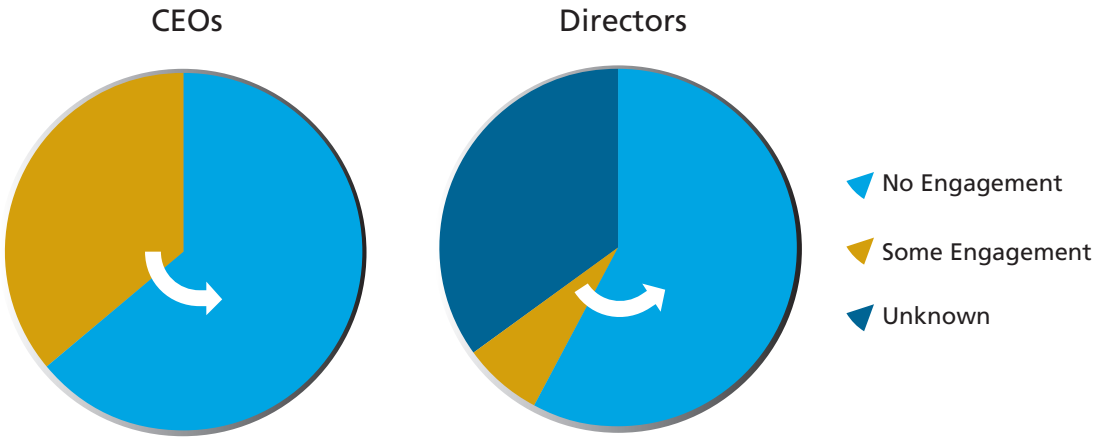
**Twitter**—n. a microblogging platform that allows users to write *posts* in no more than 140 characters. (Other platforms also offer similar microblogging functions. For example, Sina Weibo dominates in China, and Orkut is widely used in India and Brazil.)

*Directors and managers must understand social media technologies, the ethos of social media users, the dynamics of how "conversations" occur and people "engage" with one another, and the tools used to monitor and analyze social media activities.*

initiatives. Even the percentage of chief executive officers and directors who personally use social media is low overall (see Figure 2)—with the exception of those from the "X" and "Y" generations, who typically are well-versed and adept in tweeting or sharing news with "friends" on Facebook. According to Richard Branson, founder of Virgin Group, personal branding has become a powerful tool in social media relations, because people follow, like, or read only the users whom they trust.[7]

"In short, today's corporate directors have the 'necessary' skills in terms of compliance and financial performance, but not the 'sufficient' skills in terms of strategic or technological know how," says Barry Libert, chief executive officer of OpenMatters, a consultancy for boards. "Why? Because for years, astute corporate directors believed the tools that companies like Facebook and Twitter offered weren't essential. In their view, these new means of communications were for kids, had little, if any, business value, and created minimal strategic, operational or financial risks. Wow, were they wrong."[8] This circumstance will change as business and personal needs require more extensive use of social media.[9] For a 2011 Deloitte questionnaire, 79 percent of all public company respondents reported that their board's use of technology is increasing.[10]

**Figure 2:** Company-Related Social Media Engagement




*Source: 2011 Board Practices Report*

[7] Branson, who has long established himself as a public figure with a lot to say, engages with other business persons and the public via numerous channels (taking particular advantage of Twitter), where he writes about his personal life in addition to sharing Virgin-related information and events. He created a hashtag, #AskRichard, for users to ask questions, and he responds in videos he posts on his blog.

[8] Barry Libert, "Seven Steps for Board Success in the Facebook Age," *Knowledge@Wharton* (February 9, 2012). http://knowledge.wharton.upenn.edu/article.cfm?articleid=2940.

[9] See also "The Future, Social CEO," Mashable Infographic (December 2, 2011). http://www.mashable.com/2011/12/02/social-ceo-infographic/ and http://www.ceo.com/media_type/featured_content/infographic-the-future-social-ceo/.

[10] Deloitte, *2011 Board Practices Report*: 17. *Practices Report: Design, Composition, and Function; and Weber Shandwick*, "Socializing Your CEO: From (Un)Social to Social," 2010.

For companies—those well-engaged with social media and those on the sidelines—the concern is real that using social media is difficult and not necessarily rewarding. "Harnessing the real power of the internet without getting tripped up by poor use of social networking technology has added a number of new risks that corporate boards have to deal with," writes Aarti Maharaj, deputy editor of *Corporate Secretary*.[11]

*For companies—those well-engaged with social media and those that practice abstinence—the concern is real that using social media is difficult and not necessarily rewarding.*

Unfortunately, boards are likely to approach social media risks in the same way that they examine operational, financial, strategic, and compliance risks. That is a problem because "traditional risk management techniques aren't adequate for countering today's killer risks," according to the accounting firm Deloitte. "They focus almost exclusively on risk avoidance and an inside-out perspective on threats."[12]

Boards pursuing social media strategies and policies based on perceptions that are out of sync with their company's target audience will invariably fail. For instance, a report from IBM Institute for Business Value tells us, "More than half of consumers don't even consider engaging with businesses via social sites. For them, social media and social networking are about personal connections with friends and family." The report also observes a perception gap between consumers and companies on why consumers interact with companies on social sites: "discounts" and "purchases" are the two top reasons for consumers—and the two bottom reasons as perceived by companies.[13]

Companies should take a proactive approach toward social media, since experience shows that those companies that leverage social media to their advantage can offset potential liabilities and enhance the company's value. In sum the board should be aware of the risks and liabilities involved in using social media but should also see the potential opportunities and advantages:

*Experience shows that those companies that leverage social media to their advantage can offset potential liabilities and enhance the company's value.*

- **New level of transparency.** Watchdog organizations and individuals monitor companies' actions and practices and demand a response on a wider range of issues than companies are used to. These organizations disseminate their opinions via social media and engage other stakeholder groups, thus initiating a dialogue about a company, whether that company participates in the discussion or not.

[11] Aarti Maharaj, "5 steps to help manage your online reputation risk," *Corporate Secretary* (June 9, 2011). http://www.corporatesecretary.com/articles/technology-social-media/11922/5-steps-help-manage-your-online-reputation-risk/.

[12] Deloitte, "A Risk Intelligent view of reputation: An outside-in perspective," Risk Intelligence Series Issue No. 22 (2011): 2. http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/IMOs/Governance%20and%20Risk%20Management/us_grm_risk%20intelligentviewofreputation_091511.pdf.

[13] Carolyn Heller Baird and Gautam Parasnis, "From social media to Social CRM," IBM Global Business Services Executive Report, Customer Relationship Management: IBM Institute for Business Value (2011):2. ftp://public.dhe.ibm.com/common/ssi/ecm/en/gbe03391usen/GBE03391USEN.PDF.

Companies should be proactive in this dialogue. The constant flow of information generated by the end-users and stakeholders could serve as a guide to understanding market trends and stakeholder concerns, and it could help mitigate business risks. It also allows the board to assess how the company's vision, actions, and values are being fulfilled in the public eye—and take corrective actions when necessary.

For example, poor labor practices at Foxconn (leading, among other consequences, to worker suicides) had been discussed on China's Sina Weibo and social media worldwide for quite some time before the topic spilled over into a mainstream conversation in the United States and forced the company's largest client, Apple, to take action. Had Apple listened much earlier and more closely to the social media buzz, the company could have avoided damage to its reputation and enhanced its brand even more while gaining stakeholders' support. Apple could have built up a reserve of goodwill to counter any future attacks for other violations of corporate social responsibility.

- **Empowered stakeholders.** Use of social media encourages formerly passive stakeholders to unite quickly under common objectives and to be outspoken about them to achieve their goals. More importantly, in social media, stakeholders have the same communications channels and technologies that the companies have, thus reducing the disparity of power that companies wield through traditional media. Moreover, traditional and social media no longer function in two separate spheres; traditional media outlets rely increasingly on information from social media, because it is a contemporary, quantifiable, and easily accessible expression of the end-user's interest.[14]

  One example of this is the Motrin advertisement targeting new mothers. The ad explained how carrying children in slings could result in pain, which Motrin could help alleviate. Many mothers were outraged that a company would dare suggest that their children were the cause of pain or unhappiness, and began to say so en masse online. Many tweeters used the *#Motrinmoms* hashtag and the phrase "say no to Motrin." Motrin ultimately took down—and apologized for—the ad. Conversely, the availability of social media allows companies to easily identify new stakeholders and better target those groups with products and services. And, if well managed, these Internet communities could be an important resource for advocacy and marketing on the company's behalf. Increasingly, companies use the symbiotic relationship between social and "old" media by creating inexpensive social media marketing campaigns that are echoed in traditional media at no additional cost.

[14] In 2011, Lucy Marcus, chief executive officer of Marcus Venture Consulting, received an e-mail from Groupon (a daily-deal coupon site) advertising FatBoy beanbags. When she clicked through, she realized that the deal was for knockoff beanbags and decided to tweet publically about her displeasure at this news. She also tweeted at various consumer protection organizations, and by the end of the same business day several consumer protection organizations with social media presence were questioning Groupon about the deal, and this news was later picked up by *The Wall Street Journal*. Groupon pulled the deal, and all the customers who bought the fake beanbags eventually received refunds.

- **Rise of e-lobbying and e-advocacy.** The existence of social media allows groups opposing a company's strategy or values to lobby the government or nongovernmental organizations more effectively than ever before. Calls for action can be broadcast to targeted individuals or the public "at no cost, with no special equipment, and with no oversight or filters."[15]

*Increasingly, companies use the symbiotic relationship between social and "old" media by creating inexpensive social media marketing campaigns that are echoed in traditional media at no additional cost.*

The speed and ease of organization made possible by social media increase the ability of unions, nongovernmental organizations, and other groups to organize strikes, product boycotts, and rallies that could affect a company, or entities in its supply or distribution chain, and thus its operations and results. For example, in Peru in 2010 and 2011, a local government official and farmers led protests over environmental concerns with multibillion dollar mining projects. Their campaign stalled construction.[16] In Nigeria in January 2012, national trade unions used texting to orchestrate protests to overturn the decision to terminate a two-decades-old fuel subsidy.[17] These examples demonstrate how social media can create a domino effect that leads to an "accepted truth" endorsed and acted upon by the public. A message spread by social media is seen to reflect the opinion of the general public, regardless of whether it actually does so, affecting the decision making of people in power. Companies need to monitor e-advocacy campaigns and make sure their own voices are being heard and their views and actions are not being misinterpreted.

- **Immediacy of social media.** Any opinions or information (true or otherwise) related to the company or its leaders could "go viral" in a matter of hours; it would require an immediate, accurate, and equally strong response to avoid harmful effects on the company's reputation, operations, or strategy. Unfortunately, social media can give as much exposure to lies as to truths. Privacy considerations also carry little weight. Social media content does not necessarily distinguish between personal views of employees and official company positions, occasionally creating confusion between the two. Complex issues are compressed into compact information bursts that tend to be overly emotional and unconventional (for example, "shock value") for easy and efficient digital dissemination and immediate impact. Every second worldwide, more than 2,200 tweets are posted (of which 700 are sharing YouTube videos) and 500-plus updates are added to Facebook.

*A message spread by social media is seen to reflect the opinion of the general public, regardless of whether it actually does so, affecting the decision making of people in power.*

[15] Raj Chaudhary, Jill Frisby-Czerwinski, and Erika L. Del Giudice, "Social Media Uncovered: Mitigating Risks in an Era of Social Networking," White Paper, Crowe Horwath (July 2011): 3. http://www.crowehorwath.com/folio-pdf/TR11908_SocialMediaWhitePaper.pdf.

[16] Alex Emery, "Peru Protesters Won't Accept Newmont Environmental Review," Bloomberg (January 20, 2012). http://www.bloomberg.com/news/2012-01-20/peru-protesters-won-t-accept-newmont-environmental-review.html.

[17] Daniel Tovrov, "Nigeria on Strike: Fuel Subsidy Protests Paralyze Country," *International Business Times* (January 9, 2012). http://www.ibtimes.com/articles/278921/20120109/nigeria-strike-fuel-subsidy-protests-occupy.htm.

A company could use social media as an effective and rapid response channel should a conflict or problem arise. This channel could also provide immediate feedback, allowing the company to reassess its strategy if necessary. If the message is conveyed effectively, social media users could become allies in defending the company's image or product.

In 2009, two Domino's employees filmed a video of themselves preparing food at the restaurant while violating numerous health code standards. They then uploaded it on YouTube. Although the employees claimed they never delivered the tainted food, the video quickly received over 1 million hits and resulted in a marketing disaster for the company. Domino's first response was through traditional media, but this did not have any impact on the viral spread of the video. "What we missed was the perpetual mushroom effect of viral sensations," said Tim McIntyre, Domino's spokesman. Later, Domino's worked on a social media campaign through Twitter and YouTube to reach out to customers and engage in a dialogue with those who had concerns. This response was largely considered a success.

- **A level playing field for businesses.** Big companies still have an advantage of more resources when it comes to promoting their products, services, and views. But, the availability of social media, in theory anyway, gives every competing company—even small and medium enterprises—the possibility of reaching a clientele or interest group that would otherwise be unreachable. Marketing costs are lowered and homogenized for everybody. The social media phenomenon presents a multichannel platform where the end-user actively chooses the information he or she wants to read, respond to, and share, hence breaking the one-way, structured media approach in which the company communicated and the user listened.

*Companies that understand how the introduction of social media has changed communications will benefit, regardless of size and marketing budgets.*

Companies that understand how the introduction of social media has changed communications will benefit, regardless of size and marketing budgets. They now have a two-way dialogue with the client, where the story of the product, the company's social commitment, or the answers they can give to the client's questions matter as much as the colorful logos they can present in an expensive advertisement.

In short, social media cannot be avoided. The very existence of social media generates unavoidable risks for companies—even when they choose not to be engaged in social media. Wanted or not, companies' representatives—their employees—have the potential to generate legal and other liabilities. For instance, if they discuss products or services, they might unintentionally reveal trade secrets, blow the whistle on their employer or fellow employees, reveal business strategy, or provide insider information. If a company wants to regulate its employees' use of social media, it will find itself able to handle or block only the

content generated during working hours—not that generated at home by each employee or through a noncorporate device such as a personal cell phone. If a company imposes strict rules on employees' communications, it could be breaking the law by infringing on their freedom of speech and freedom to organize.

At the same time, an employee's views of its employer are as much a part of the company's reputation as are the marketing and public relations campaigns. Increasingly, companies are seeing how employees are acting as their ambassadors—authorized and unauthorized—by using company logos on their profile pictures, sharing work experiences, and opining on the company's product, business, values, and so on. These actions compound the company's reputational risks and could undercut the bottom line, if the employees' activities turn out to be negative. On the plus side, this employee chatter can raise the company's profile. Companies must develop social media policies for all employees, and include training on those policies.

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## Where does the board fit in?

It is the board's responsibility to ensure that its company has a comprehensive social media strategy and policies. The board's role is to ask the right questions concerning the company's approach to the issue, test management's assumptions, and ensure that management creates and implements an effective strategy, policies, and practices (including monitoring and evaluation programs).

### Reputational Issues:

The board needs to raise questions about the effect of social media on the company's reputation, including the following:

- What is the right social media communications policy for board members?
- What is the right social media communications policy for employees?
- Is the company listening to what is being said about it and its management in social media platforms?
- Is it systematically gathering and analyzing social media information to assess reputational risks (current and future, direct and indirect, from vendors and other affiliated businesses) and to both develop and implement responses?
- Is the company training its directors, management, and employees on this issue?
- What are the social media strategies of the company's vendors and distributors, and how do those strategies affect the company?

The board should understand how the company is perceived in social media. If the company has an online reputation that does not fit with its profile, the board should acknowledge the situation and make sure the company has the resources to work with social media tools to reshape that perception.

The board should also promote efforts to benefit from the useful information social media may provide and how that intelligence could fuel growth. However, the board should be aware that there is much "noise" generated by multiple channels and sources, which could lead to misinformation and the misuse of the company's resources.

## Information Transparency and Disclosure:

Again, it is the board's role to ask questions:

- Is the company ready to use social media as a tool for transparency and disclosure of information?
- Does the company have a culture that can support the use of social media?
- Does the company have a structure (budget, technology, and so on) to provide support over several years?

The board must distinguish between those social media practices that are beneficial for the company's transparency and information-disclosure requirements and those that could damage the company's image or even raise legal risks. The board needs to discuss the impact that the use of inadequate social media vehicles could have, and, more important, the type, frequency, timing, and language that social media output should have?

## Crisis Policy:

The question the board needs to ask is this: Do we have the right crisis plan in place that integrates social media interaction?

Crises generated in the social media sphere greatly differ from those generated by other communication vehicles. In 2010, British Petroleum confronted the clout and tenaciousness of social media when a parody account—@BPGlobalPR—on Twitter dominated online conversations with its satiric thrashings of the oil behemoth's blunders to stop oil from leaking into the Gulf of Mexico. At its peak, the unofficial site had 10 times more followers than the official one. BP responded with paid advertising, but its campaign failed to quell the attacks, demonstrating traditional media's limits.

BP's fumbled public relations and social media's nascent power became news stories in and of themselves, too, which contributed to the public's anger and pushed down BP's share price, forcing the board to install new leadership and institute reforms in hopes of rebuilding investors' confidence.

In social media, news spreads with near lightning speed as people replicate items almost as soon as they're generated. Ordinary citizens have become "journalists" who can take a picture or write something—sometimes giving biased personal opinions or perpetrating falsehoods—and easily communicate it to a large audience worldwide. People often neither distinguish official sources from unofficial ones nor discriminate between information given "on the record" and that given "off the record." Moreover, whatever is said or written is kept on the Web *ad eternum,* available 24/7, with no geographical barriers, building a company "history" that is immediately searchable.

*Anyone with access to the Internet will have the same social media tools as the company and be able to influence opinions with person-to-person communications.*

A social media crisis could arise without warning—on a weekend or even on the other side of the globe while it is nighttime at the company's headquarters. Furthermore, stakeholders would be able to demand transparency and dialogue, becoming ad hoc raters (with "like" versus "dislike" as the only options) of the company's actions to solve the problem. What is more, anyone with Internet access will have the same social media tools as the company and be able to influence opinions with person-to-person communications.

On the other hand, social media can be a very powerful tool to communicate how the company will solve a crisis. It can be used to keep stakeholders informed, taking advantage of speed and reach of the reaction, company loyalty, around-the-clock availability, and person-to-person influence.

## Strategy:

A company can leverage current client information and trends provided through social media, using that intelligence to strategize and predict future scenarios. Questions the board should ask include the following:

- Is the company taking advantage of the information that social intelligence provides?
- Has the company realized that there is a shift from "brand" to "product history"?
- Is the company listening to shareholders and identifying future agenda or voting trends?
- Is the company effectively using search engine optimization to affect social media?
- Does the company know who its social media stakeholders are? Likewise, what are stakeholders doing, and what opportunities exist to mutually benefit from each others' engagement with social media?

*Start with a baseline assessment of your company's relations with stakeholders and the extent to which the quality of those relations is a hindrance or source of strength in meeting strategic objectives.*

The immediacy of social media also makes it possible to compare client information with the company's approach and to gauge community responses to current and proposed products or programs—to test and evaluate them in real time with more insights than traditional survey approaches provide.

Another new necessity is stakeholder mapping. Start with a baseline assessment of your company's relations with stakeholders and the extent to which the quality of those relations is a hindrance or source of strength in meeting strategic objectives. Typically, this process involves ranking stakeholders based on their influence on issues critical to a company; importance to the company's ability to perform; who supports them; what legitimacy they have; how they convey the message; and, urgency to create potential damage or value.

This mapping is critical in developing a social media strategy, because it helps define who will be targeted, the messages that need to be conveyed, and choices of social and traditional pipelines that will be used for communications.[18]

## Company Culture and Leadership:

The *internal* effects of social media on a company also need to be addressed. For example, the board should ask the following:

- Is the company using social media to communicate with employees and align interest and corporate culture?
- Does the company listen to customers or stakeholders who are using social media?
- Is the company benefiting from employees' use of social media to build its brand?
- Is the company using social media proactively, such as to give good customer service, rather than only reacting to negative opinions?
- Is the company considering social media as a way to identify where real power lies among employees (drivers and hidden stars)?
- Is the company structure and culture being affected by the culture of collaboration and co-creation driven by social media?
- How will Internet exposure affect leadership credibility of future directors and executives?

[18] For example, see R. K. Mitchell, B. R. Agle, and D. J. Wood, "Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts," *Academy of Management Review* 22, vol. 4 (1997): 853–886.

## Conclusion

Many companies are already leveraging social media as a powerful tool for connecting with stakeholders and building a trusted, reputable brand. Yes, there are risks, but avoiding social media is no longer an option.

The days of one-sided communication are long gone. Instead, we now have a continuing two-way conversation with traditional stakeholders and the community at large, including technology-savvy people who know how to shape and dominate public discourse. This means that all stakeholders can demand accountability. Ethics, working conditions, and company culture take on new importance as employees become de facto examiners and raters of the company, putting the company in the public spotlight. Under these circumstances, it is key that boards guarantee the necessary resources for management to address social media opportunities and challenges. Boards also need to challenge management's assumptions, test the accuracy of the information the company is relying on, ask the right questions, and help establish the proper strategy.

For boards, the first and most important social media question is one they need to ask themselves: do they have the knowledge necessary to understand these changes and new technologies? Does the board need a change in composition to deal with the complexities of social media? Does the board need external support and training to do so?

*The first and most important social media question board directors need to ask themselves is whether they have the knowledge necessary to understand these changes and new technologies.*

Intel cofounder Gordon Moore famously predicted that the number of transistors on a chip will double approximately every two years. His prediction—popularly known as Moore's Law—is a way to illustrate exponential growth. And it certainly applies to the dizzying rate of advances in social media. To keep up, boards will have to change their practices, policies, and capacities. This is the new requirement for company leadership.

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2121 Pennsylvania Avenue, NW
Washington, DC 20433 U.S.A.

Telephone: +1 (202) 458 8097
Fax: +1 (202) 974 4800

cgsecretariat@ifc.org
www.gcgf.org