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MONITORING RISKS BEFORE THEY GO VIRAL: IS IT TIME FOR THE BOARD TO EMBRACE SOCIAL MEDIA?

INTRODUCTION

According to Nielsen, social networks and blogs account for 23 percent of the time that individuals spend online, more than email and reading the news.¹ While the vast majority of consumers (89 percent) use search engines to research products and services that they are interested in purchasing, it is perhaps surprising that 42 percent follow or “like” a brand on a social networking website.²

Given the pervasiveness of social media and the potential impact it can have on corporate activities, some experts recommend that boards of directors pay closer attention to the information exchanged on these sites. For example, consultant Fay Feeney argues that “boards need to adapt to a connected world where listening, disclosure, transparency and engaging is expected.”³ She advocates that boards embrace social media as a means of connecting with and engaging in dialogue with corporate stakeholders. Similarly, as consultant Lucy Marcus explains: “The reality is that social media exists. It’s not separate from everything we do.” She argues that if boards are not engaged in social media, then discussions will take place “that they are not a part of and they are not engaged in.”⁴ This can lead to the dissemination of factually erroneous information or rumors that a company will have difficulty correcting.

¹ Nielsen, State of the Media: The Social Media Report. Q3 2011.

² Sample consists of internet users and therefore might not be representative of general population. Source: Fleishman Hillard, 2012 Digital Influence Index Annual Global Study.

³ Fay Feeney, “Leading a Board at the ‘Speed of Instant,’” *The Corporate Board*, March/April 2011.

⁴ Interview with Lucy P. Marcus, “Why Boards Need to Adopt Social Media,” *Reuters*, March 22, 2012.

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There are several reasons why the board might find the information provided through social media to be valuable. First, directors are responsible for oversight of the corporation. This includes monitoring and advising the senior executive team as it develops and implements the corporate strategy. Information gleaned through social media might provide unique and relevant insights into the success of these efforts and supplement the traditional key performance indicators (KPIs) that directors use to evaluate management and award bonuses.⁵ Procter & Gamble has taken such an approach. The company has developed a dashboard that uses Bayesian analysis to scan blogs, tweets, and other social media to summarize consumer sentiment about its products and measure brand strength. Chairman and CEO Robert McDonald personally reviews all information that relates to the corporate brand.⁶ There are several “off-the-shelf” products that companies can purchase to collect similar data, although a company might want to customize these products to meet its specific needs (see **Exhibit 1**).⁷

Second, information gathered through social media might alert the board to risks facing the organization in a way that is not currently available. These risks might include:

- Operational risk: how exposed the company is to disruptions in its operations.
- Reputational risk: how protected are the company’s brands and corporate reputation.
- Compliance risk: how effectively the company complies with laws and regulations.

There is some evidence that social media provides effective early warning in these areas. For example, in online message boards anonymous Eli Lilly sales representatives discussed the practice of selling Zyprexa (an antipsychotic medicine) off-label for the treatment of dementia months before the news broke in the mainstream media. Similarly, Nestlé first came under criticism in online communities for sourcing palm oil (a main ingredient in many of its products, including Kit Kat and Nestlé Crunch candy bars) from an Indonesian supplier accused of destroying rainforests. The company was eventually forced to issue a public apology and restructure its supply chain to source from sustainable providers. Had the boards of these companies been monitoring the discussion online, both might have been alerted earlier to these risks and moved proactively to address them. In this way, information gathered through social media can supplement the data provided by management regarding key risk factors facing an organization (see **Exhibit 2**).

Survey evidence suggests that many management teams would welcome the participation of the board in a discussion about social media. According to a Deloitte study, 58 percent of executives believe that reputational risk associated with social media should be a board room issue. Only 17 percent of companies currently have a program in place to capture this data.⁸

⁵ This is particularly useful for nonfinancial performance measures—such as employee satisfaction, customer satisfaction, supplier reputation, product/service failure, and product innovation—that are difficult to measure.

⁶ Robert McDonald, “Inside P&G’s Digital Revolution,” *McKinsey Quarterly*, November 2011.

⁷ Examples include Sysomos, Converseon, ListenLogic, Scout Labs, NM Incite, Cymfony, Synthesio, Radian6, and Visible Technologies. In general, these companies or products provide metrics around company favorability, influencers, topics and themes about a company and its competitors, positive/negative sentiment, text analytics, geography, and demographics.

⁸ Deloitte, 2009 Ethics and Workplace Survey.

Still, there are reasons why the board of directors might not want to have access to this information. First, the responsibilities of the board of directors are separate from those of management. Directors are expected to advise on corporate strategy, the business model, and risk management, but they are not expected to handle these activities themselves. Reviewing detailed information from social media aggregation providers might encroach too closely on activities under management's purview. Second, in performing its monitoring obligations, the law explicitly provides that the board may rely on information furnished by management. Unless there are obvious "red flags" regarding the trustworthiness of management, the board of directors is not expected to develop alternative means of informing its decisions. To this end, the board of directors might not want to review information from social media unless it is provided by management. Third, the information captured through social media might not be accurate. Directors might feel compelled to act on negative information, even if it is not representative of the general sentiment of stakeholders, because failure to respond would expose them to legal liability. Finally, directors might be encouraged to engage directly with stakeholders. There are several examples of CEOs engaging in social media only to have their actions backfire.⁹ Directors might be wary of repeating these mistakes.

WHY THIS MATTERS

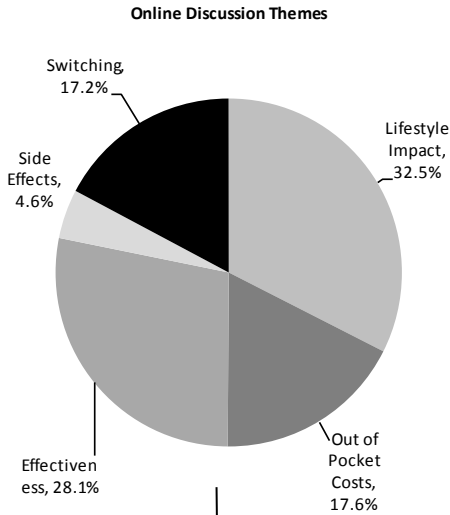
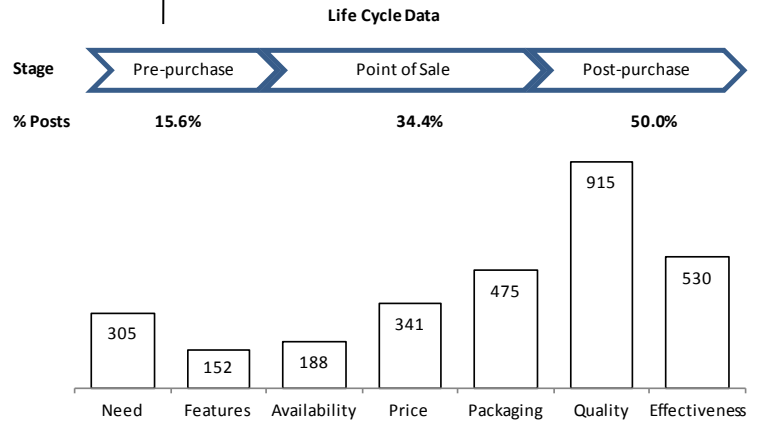
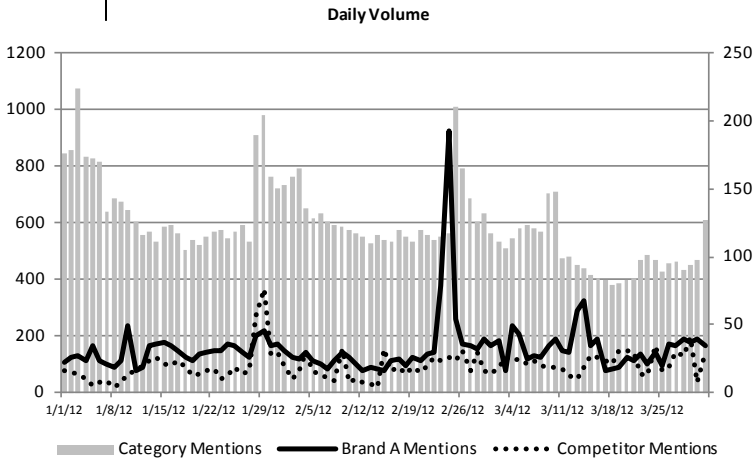
1. Social media introduces a new level of detail and complexity to information gathering regarding a company and its stakeholders. Why haven't more boards of directors made certain that management has a process in place for collecting, analyzing, and responding to this information? Do boards actually know what questions to ask? Can boards distinguish between a good system for monitoring social media and a bad one?
2. The examples above suggest that social media can provide early warning of risks facing an organization. Should the board formally review this information, or does this represent an encroachment on managerial prerogative? Which social media metrics should be presented to the board and which excluded? Where do the responsibilities of the board end and those of management begin?
3. One important task of the board is to monitor organizational reputation. How is this currently done? Should overall sentiment derived from social media sources be a primary input in this analysis?

⁹ For example, in 2007, John Mackey, CEO of Whole Foods, came under fire for regularly making anonymous posts on Yahoo! Finance message boards. While an SEC investigation cleared Mackey of wrongdoing because he did not profit from his actions, the board of directors modified the company's code of conduct to bar senior management and directors from making posts about the company, its competitors or vendors on unsponsored websites. See Andrew Martin, "Whole Foods Executive Used Alias," *The New York Times*, July 12, 2007; and David Kesmodel and Jonathan Eig, "Unraveling Rahodeb: A Grocer's Brash Style Takes Unhealthy Turn," *The Wall Street Journal*, July 20, 2007; and David Kesmodel, "Whole Foods Bars Executives from Web Forums," *The Wall Street Journal*, November 7, 2007.

Exhibit 1 Example of a Social Media Dashboard

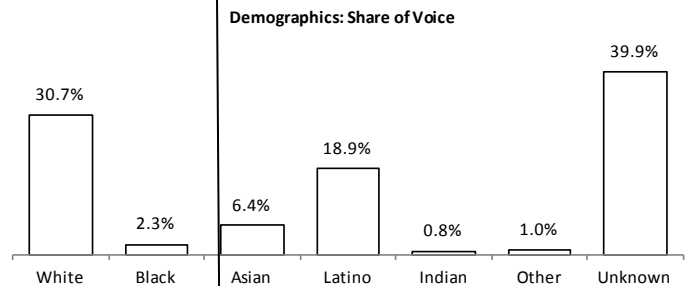
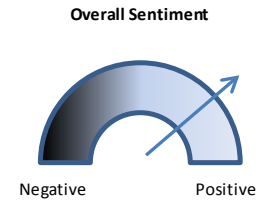
Data provider can “listen” for company or product name. Changes in discussion volume and sentiment can be monitored around key events, both those planned by the company (such as product launch or marketing event) and those that are unexpected (such as news story or crisis).

Online discussion is bucketed around topic groups through linguistic modeling, looking at verbal cues to estimate who the speaker is. Data provider will mine discussion for main topic categories.



Description of Themes

- Lifestyle Impact**
Opinion posts regarding impact on quality of life or ability to perform tasks
- Out of Pocket Costs**
Direct mention of costs associated with product
- Effectiveness**
Opinions about effectiveness of product
- Side Effects**
Posts about the unintended consequences of product use
- Switching**
Mentions of past or present switching between brands or the desire to switch



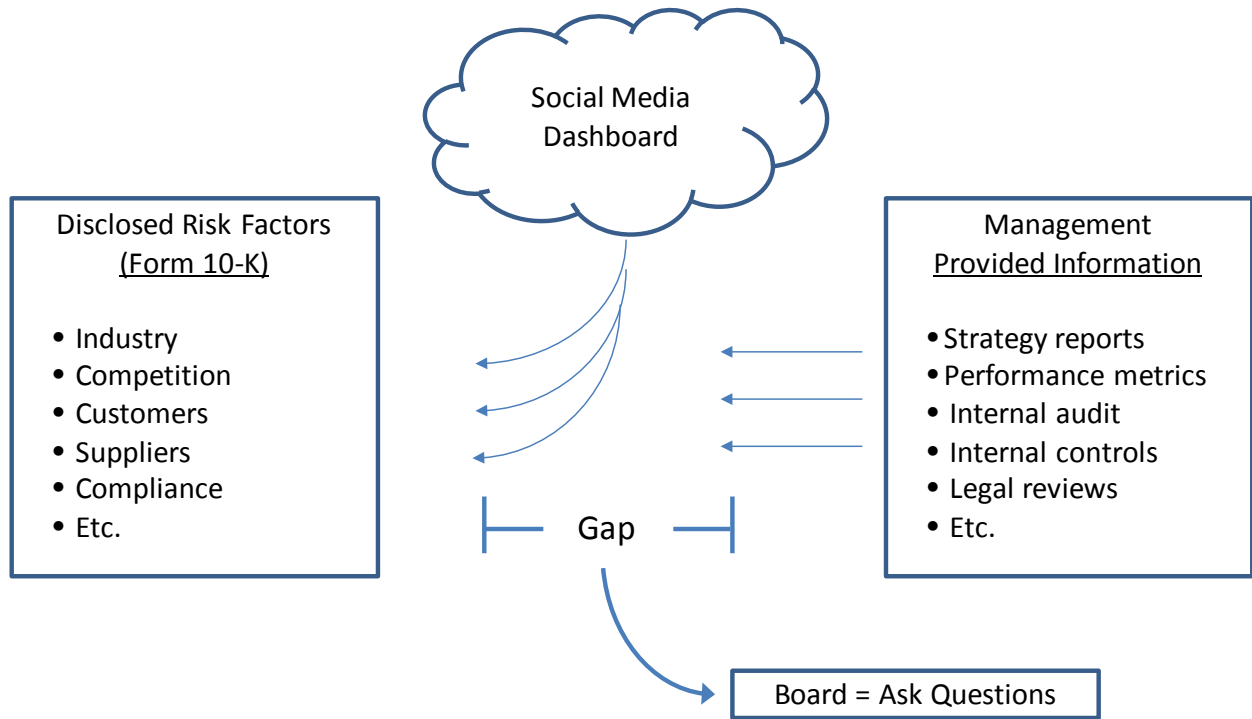
Discussions can also be bucketed around themes. It is equally important for a company to have the capability to drill down into the data and get an explanation for “why” certain themes are emerging. The company can intervene upon the emergence of negative themes.

Sentiment meters can be devised for each stakeholder group: customers, suppliers, employees, investors, etc – based on forum in which discussions take place or comment themes. Sentiment can also be tracked over time.

Source: The authors.

Demographic data is estimated based on verbal cues and references, although sometimes demographic data can be supplied, such as through Facebook.

Exhibit 2 Potential for Social Media to Supplement Board Information



Source: The authors.