



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/>



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