InSights for European Audit Committees

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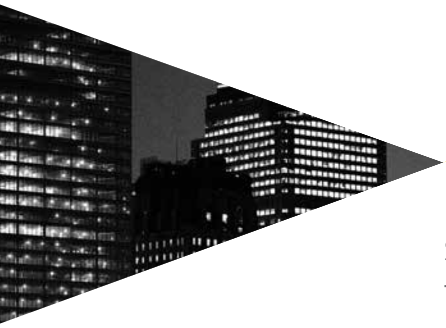
Ensuring social media is on the board's agenda



Social media makes many board directors uneasy: they worry about the potential for damage from unexpected sources in unexpected ways. Nevertheless, social media is a phenomenon that boards ignore at their peril, not simply because of the risks, but also the growing opportunities.

Executive summary

Social media is continuously gaining more users and with them greater impact, putting pressure on directors to give it attention. One social media board advisor remarked, "The technological changes we are living through represent the biggest changes and upheaval in the global economy since the industrial revolution. Merely having a policy on social media is insufficient."[1] More opportunities to listen to stakeholders, engage with them and even build new business exist in social media — and for far less cost — than in traditional media.

EY commissioned Tapestry Networks to explore the topic of social media from the board's perspective. Tapestry Networks spoke with leading audit committee chairs, social media experts, marketing and investor relations executives and EY professionals. There were three key findings:

Mitigating reputation risk requires agility

Most directors are concerned primarily with the increased reputational risks that social media can generate — for example, when an event or headline propagates via social media, creating a disproportionate impact. Experts say the best way to mitigate social media's impact on reputation risk is by monitoring social media chatter and enabling rapid responses, which can be a challenge when companies have time-consuming approval processes.

Opportunities are often underexploited

In order to realize the full extent of the opportunities that arise from social media, experts agree that an enterprise-wide approach to social media strategy is necessary. One social media executive noted, "Social media strategies are being implemented at the core of the organization in smart organizations." Another social media executive said simply that organizations need to "listen, engage and persuade — in that order." After listening to external stakeholders and employees, companies may

[1] *InSights* makes use of a modified version of the Chatham House Rule, whereby names of participants and their corporate or institutional affiliations are a matter of public record, but comments are not attributed to individuals, corporations or institutions. For a complete list of individuals interviewed for this issue of *InSights* please see Appendix A, on page 16

Building a better working world

Executive summary continued

effectively participate in social media conversations with the requisite level of understanding and context. In particular, although many audit committee chairs remain skeptical of the benefits of employees' use of social media, research indicates that employees who have been trained about the proper use of social media channels actually become highly effective ambassadors for their companies. In addition, as investors and analysts are increasingly drawn to social media for both communication and research purposes, investor relations (IR) departments are, in turn, using social media as a communications channel.

Boards need to take a more active oversight role

Although some board directors receive updates about policies regarding social media use by employees and management, they remain unaware of the full extent of how different areas are actually using social media. Many experts and a growing number of audit committee chairs suggest the significance of the reputation and strategic risks posed by social media mean board-level attention is appropriate. As part of increasing awareness, directors who use social media as a personal source of news and market intelligence are better able to ask management more pertinent questions.

Mitigating reputation risk requires agility

"If a company is perceived as unfair, unethical or against the zeitgeist, the speed of the public's reaction through social media is faster than we have seen before."

In 2013, one in four people worldwide used social networks.[2] That proportion is much higher in Western Europe, where more than half of adults in the United Kingdom and over a third of adults in France and Germany use social networks to communicate online.[3] Twitter reports 500 million global tweets per day.[4] LinkedIn reports more than 259 million members around the world.[5]

The ubiquity of social media explains how it can rapidly and negatively impact a company's reputation — the aspect of social media that often comes to directors' attention. One European audit committee chair said simply, "When I think about social media, the first thing I think about is corporate and individual reputational risk." This concern stretches across industries: whether consumer, industrial, utilities or business-to-business, the ability of negative or damaging information to "go viral" and harm the reputation of an organization is extremely high.

One expert who works with boards summarized the situation: "If a company is perceived as unfair, unethical or against the zeitgeist, the speed of the public's reaction through social media is faster than we have seen before."

Social media missteps

While many social media controversies center on dissatisfied customers or customer service issues, corporate issues may cause broader reputational damage. The following examples highlight the scale and speed of global communication on social media platforms:

- Barilla faces global backlash after CEO comments spread via social media. In September of 2013, during an interview with a local radio station, Italian pasta company Barilla's CEO made a comment that their advertisements would not feature same-sex families. A casual comment made to a local audience soon traveled across the globe through social media. "When Barilla's remarks went viral, a wave of retaliation began its sweep through US and European media outlets."[6] Consumers and other groups called for boycotts of the products and posted satirical versions of the company's products and website. Competitors, such as Buitoni and Bertolli, quickly released their own advertisements online to capitalize on the backlash against Barilla. The company subsequently met with multiple advocacy groups and announced various initiatives to create more diversity in its culture and advertisements.
- Nestlé's supply chain damages its image. A few years ago, Nestlé was the target of a Greenpeace social media campaign for using palm oil that they claimed was harvested unsustainably, endangering several animal species in Indonesia. The group posted videos on YouTube and other channels that went viral before the company was able to get them removed. The removal then prompted further outcry: tweets and Facebook posts multiplied, and damage that in the past would have taken months of on-street petitions and letter campaigns accrued in mere days, with hundreds of thousands of conversations happening outside the company's reach and influence.[7]

Even more sobering for boards, a recent survey finds that four in five investors believe that shareholder activists will use social media channels such as Twitter more in the coming year,[8] which means that board directors' social media concerns will deepen.

Methods of mitigation

Mitigating reputation damage arising from social media requires the ability to monitor social media continuously and respond quickly when issues emerge.

[2] Q4 Research, Public Company Use of Social Media for IR — Part 1: Twitter and Stock Twits — Summary Slides (Toronto: Q4 Research, 2013), page 2.

[3] Office for National Statistics, "Social Networking: The UK as a Leader in Europe," 13 June 2013.

[4] Richard Holt, "Twitter in Numbers," *Telegraph*, 21 March 2013.

[5] LinkedIn, "About LinkedIn," 2013.

[6] Anna Helhoski, "Barilla's Competitors Take to Social Media Amidst Backlash," Social Media Strategies Summit, 1 October 2013.

[7] Aileen Ionescu-Somers and Albrecht Enders, "How Nestlé Dealt with a Social Media Campaign against It," *Financial Times*, 3 December 2012.

[8] Laurie Havelock, "Investors Expect 'Twitter Activism,'" *IR Magazine*, 11 November 2013.

Mitigating reputation risk requires agility continued

Monitoring conversations in social media

Monitoring conversations about your organization is the first step. One former digital activist counseled, "Whether you like it or not, people out there on social media are talking about you, reading about you and making up their minds about you ... If you are not part of those conversations, guess who's in charge of public perception and brand reputation? The consumers you have angered, your competitors and the activists that hate you."[9]

One executive described how the monitoring team "put screens up in a conference room and could watch in real time the use of four specific search terms on Twitter. It was a form of theater that made social media relevant to anyone in the business." Tracking social media conversations allows the company to understand what platforms are used as well as what topics are provoking discussion — product quality, the supply chain or customer service.

Responding to reputation issues

Although the focus of Nestlé's first efforts to contain its supply chain scandal was perhaps misplaced, its subsequent efforts were on target. The company chose both a short-term response and a longer-term solution. In the short term, it suspended purchases of palm oil from the problematic supplier and met with Greenpeace. For the longer term, it found a third party to verify the sustainability of the palm oil supply and eventually joined an industry group focused on sustainability. Perhaps just as significantly, Nestlé changed its approach to social media, implementing a 24/7 monitoring system with a "digital acceleration team" to respond to problems as they surfaced as quickly as possible.[10]

In the few years since Nestlé's experience, social media usage has continued to expand: in 2011, social media penetration in Western Europe was 34.5%; in 2013, it had risen to 41.9%.[11] As a result, an organization's response time is more critical than ever. One leading social media expert noted, "Agility and the ability to improvise are key ... An important question for any company is: 'How responsive can we be when we have to make quick decisions?'"

Questions for audit committees

- What are our most significant reputational risks arising from social media?
- What is our company's strategy for mitigating reputation risk from social media?
- How are we monitoring our organization's reputation in social media and how quickly can we respond to issues?

[9] Tom Liacas, Social Surivival Manifesto, (Tom Liacas, 2013), page 8.

[10] Aileen Ionescu-Somers and Albrecht Enders, "How Nestlé Dealt with a Social Media Campaign against It," Financial Times, 3 December 2012.

[11] European Travel Commission, "Europe: Social Networking and UGC," 29 June 2013.

Opportunities are often underexploited

A recent Altimeter Group report stated, "Social media programs often exist in siloes within the organization, creating a form of 'social anarchy' when leadership, strategy and organization are not aligned … only 26% of companies approach social media holistically, operating against a common enterprise vision."[12] This ad hoc approach, which our interviews with experts and executives confirmed, means the opportunities created by social media are often not realized.

Gradually board directors are beginning to look beyond social media risks to consider positive outcomes. One audit committee chair described social media as "less about risk than optimizing the way in which you can identify who your demographic is and how to interact with them." This view is not confined to consumer companies. Another chair said, "Business-to-business companies ignore the opportunities in social media at their own peril … We could be communicating more effectively with distributors, for example."

Social media enables companies to participate in the conversations stakeholders are having about them, making it possible to shift the discourse in their favor. Experts identify three stages of interaction: listening to what is being said, engaging in the conversations and influencing the discussions.

Listening to what is being said

Listening is an essential step that many companies overlook in their eagerness to add their voices to social media. But an expert stressed that "in social media, you have to listen first to earn the right to speak and persuade."

What are others saying about you?

Several audit committee chairs see social media as a good supplement to feedback surveys. While feedback surveys often elicit low response, social media reveals, as one expert put it, "what people say when you leave the room."

[12] Brian Solis and Charlene Li, The State of Social Business 2013: The Maturing of Social Media into Social Business (San Mateo, CA: Altimeter Group, 2013), page 3.

"Social media is like the biggest market research group that you never commissioned because, undoubtedly, there are all sorts of conversations out there about you," one executive said. The volume of feedback and information collected while listening can be overwhelming for marketing and PR departments accustomed to the surveys, letters and emails of the past. In addition, the range of topics means that more parts of the organization will be interested in the feedback that is gathered. The volume and variety of information from social media channels suggests companies should consider a holistic approach to their listening efforts rather than focusing on particular areas.

Case study: Maker's Mark listens and responds

In early 2013, Maker's Mark announced that it would lower the alcohol content of its bourbon to meet increased global demand. In response to the resulting social media protest from customers, Maker's Mark decided to keep its original recipe and alcohol content.[13] As Bill Samuels, Maker's Mark's COO, put it, "We got the picture quickly and we are not quite as stupid as we were at this time last week."[14] Maker's Mark also posted an apology on Facebook, which was liked by nearly 28,000 people.[15]

What are employees saying?

Social media provides an opportunity for senior management and boards to understand employees' opinions and perspectives as well. One audit committee chair said, "As long as information is communicated with respect and in a constructive way, management should welcome hearing what employees think about the company and about management." Employees may welcome internal use of social media. At one director's company, an internal social media platform was created when executives realized that employees tend to tweet, and that an internal system would support communication.

Engaging in the conversations

Companies that understand what stakeholders are saying, and where to find the conversations, are better able to integrate their social media strategy into the broader corporate communications strategy. As a result, social media becomes another channel for conveying companies' core messages. Companies that are prepared to participate in social media conversations are leading the way with customers and employees — generating revenue growth through better targeting and cost reduction through eliminating less-effective advertising.

Engaging with the customer community

One UK-based social media executive described the opportunity to engage as "far more cost-effective than mainstream media. From a fan base of one million people, you could reach five million people a week. Every pound invested in that fan base is far more effective and longer lasting than the pound spent on an ad, which lasts for just a moment in time." The benefits are not limited to consumer-facing businesses. One consultant said that the business-to-business potential for social media may even be greater: "On the business-to-business side, companies can use social media to make people aware of what it is they are doing. Social media offers another route to market."

"Social media is like the biggest market research group that you never commissioned because, undoubtedly, there are all sorts of conversations out there about you,"
Executive

[13] David Gianatasio, "Maker's Mark Leaving Alcohol Content Alone after Social Media Flogging," *AdWeek*, 19 February 2013.

[14] Larry Olmsted, "Breaking Bourbon News: The Public Spoke, Maker's Mark Listened — Returning to Original Formula," *Forbes*, 17 February 2013.

[15] John Kell, "Short-Lived Fear of Weaker Maker's Mark Leads to Sales Jolt," *Wall Street Journal*, 2 May 2013.

Opportunities are often underexploited continued

Case studies: How RS Components and a leading financial advisory company engage with customers

RS Components, a global industrial component distributor, built a community of over 17,000 electronics design engineers from 139 countries within a three-month period. The community provides the engineers with free software tools, discussion groups and product reviews. The goal of the community, as described by Mike Bray, the electronics marketing manager at RS Components, is to "improve customer support, speed customers' time to market and make it easier for engineers to search, select and use the right components." The community's success led financial analysts to upgrade the target share price of RS's parent company Electrocomponents plc.[16]

A leading financial advisory company in Europe uses information from social media to personalize its relationships with financial advisors. The executive involved with social media shared, "We have a lot of financial advisors who follow us [on Twitter], so we filtered and found their individual information. We gave that information to the sales team to phone up and say, 'Hello, I see you follow us on Twitter. Can we get together?'" To date, their efforts to turn digital relationships into physical relationships have led to £60 million of new business.

Engaging with the employee community

An executive observed, "Organizations are realizing that employees are their biggest advocates because everyone has conversations about where they work. There is an opportunity for organizations to harness that."

IBM's experience supports this observation. When the company studied social media interactions, they found that experts who engaged online were more likely to get a positive response from clients and prospects — and responses were more likely to turn into sales leads.[17]

When it comes to who in the company has the most authentic voice, the Edelman Trust Barometer, a trust and credibility survey of 30,000 participants, found that rank-and-file employees have more credibility in social media channels than executives.[18] And yet, as *Forbes Magazine* notes, "most companies do not encourage their employees to be their external ambassadors."[19]

Fear seems to be holding companies back. Audit committees in particular tend to focus on the potential risks of purposeful or inadvertent negative postings or disclosures. Employees' use of social media — whether for personal or professional purposes — raises questions about judgment, trust, training and empowerment, but mostly about trust. To deal with these risks, many companies have implemented social media policies — 65% of respondents to an Altimeter Group survey indicated that they had social media risk management policies in place.[20]

Companies that empower their employees to advocate for the company online do much more than manage risks. IBM's "Select Social Eminence Program," for example, provides employees with training and tools to make their online forays successful from the company's perspective.[21]

[16] Martin Thomas, "Managing the Community," *Crowdsurfing.net*, 6 October 2010.

[17] Chris Boudreaux and Susan Emerick, *The Most Powerful Brand on Earth* (New York: Prentice-Hall, 2013), chapter 7.

[18] Ekaterina Walter, "Want to Find Brand Ambassadors? Start with Your Employees," *Forbes*, 15 October 2013.

[19] Ibid.

[20] Brian Solis and Charlene Li, *The State of Social Business 2013: The Maturing of Social Media into Social Business*, page 9.

[21] Chris Boudreaux and Susan Emerick, *The Most Powerful Brand on Earth*, chapter 7.

Influencing the discussions

Once companies have gone through the listening and engaging phases, they are well-positioned to have an impact on the social media conversation. As an EY executive suggested, "companies can seek brand champions who have a natural interest, those who mention the company on social media … and ask if they are willing to use the company's messages and adapt them to their own use." While the company may be interested in influencing many different stakeholders, investors and analysts are of particular interest to boards and audit committees.

According to a 2012 survey, 32% of Western European companies use at least one form of social media to communicate with investment professionals.[22] For their part, investors are also using social media. A 2013 survey of German investment professionals found that nearly half viewed social media as partly to very important for following company or business information.[23] Experts suggest these figures are likely to become much higher in 2014 and 2015, as both companies and the investment community look for more interaction.

Case study: Alcoa's integrated IR strategy includes social media

Aluminum producer Alcoa has used social media to influence conversations in the financial community. Initially, it had no idea how involved or interested its institutional investors, shareholders and analysts were in terms of social media. "We decided to just start listening to all types of conversations, looking on Twitter, LinkedIn [and] Stocktwits for mentions in the context of earnings, strategy announcements, stock price," reported Mark Kasperowicz, Head of Digital Communications, in a conversation with Tapestry. "By listening, we were able to determine analysts were having conversations about us in social media, not just analysts but institutional and retail investors. This formed the foundation of our business case for engaging in social media."

Today, the company's integrated IR strategy is considered a best practice. Its carefully planned, content-focused tweets include not just company financials and information, but sector research and articles on economics. In this way, Alcoa has established itself as a reliable source of information that analysts and investors can turn to should a question or issue arise. To enable this approach, Alcoa has a board-approved social media policy, and its IR team works proactively with the company's compliance and legal functions to allow for timely responses and to get necessary approvals. To communicate the impact of its strategy and efforts, the Alcoa team also produces a regular report of key social media metrics for the board. Recently, it initiated a "reverse-mentoring" program that paired 30 company leaders with high-potential staff who are trained in social media. The staff members were able to educate the executives on social media basics and on how the company is using social media to its benefit.

[22] Bank of New York Mellon Corporation, *Global Trends in Investor Rlations: A Survey Analysis of IR Practices in Western Europe* (New York: Bank of New York Mellon Corportation, 2013), page 10.

[23] Deutsche Vereinigung für Finanzanalyse und Asset Management, *The Use of Social Media by European Investment Professionals* (Frankfurt am Main: Deutsche Vereinigung für Finanzanalyse und Asset Management, 2013), page 4.

Opportunities are often underexploited continued

Leveraging social media for investor relations

Increasing numbers of IR teams are recognizing the benefits of more active involvement with social media, while remaining mindful of local regulatory restrictions. Seeing examples such as Alcoa, IR executives are discovering that the information they are trying to distribute can be disseminated more effectively through social media at a much lower cost than in the past. Perhaps even more importantly, being active in social media channels can allow them to address issues as they begin to emerge and influence the conversations. One researcher shared the example of a rumor that was beginning to affect a company's stock price. Seeing what was happening, the IR team was able to post a clarification via Twitter that resulted in the stock price returning to normal levels. As the head of IR told Tapestry, in the past, they would have had to file paperwork with the stock exchange and issue press releases. What could have taken days — at a cost to the company's value — was resolved within minutes with a few tweets.

Beyond investors, analysts are also beginning to track information via social media as part of their due diligence. With regulation increasingly restricting the interaction between the financial community and management, analysts are turning to financial blogs, such as Seeking Alpha, and other social media sources for insight. As younger analysts, whose generation naturally turns to social media for information, become more tenured, they are likely to train others to use these tools as well.

Audit committee chairs have taken a cautious approach when management suggests using social media for financial and company performance information. However, the examples of success are causing them to consider how their companies might communicate and perhaps even influence the investment community via social media. Leaders in IR have shown they are able to comply with local regulations, particularly in terms of disclosures, with the right policies and procedures in place.

To be clear, a social media approach needs to be part of an overarching strategic communications framework. The head of IR at one European company stated, "You cannot be on all channels, but you pick the ones that fit your communications strategy, such as Twitter." The IR head added that there are clear benefits to developing competency in the chosen medium well in advance of any attempts to use it to influence discussions, especially in a crisis: "Consider the fact that if you are not already on the channel and engaged with users, when you have a problem and need to use it, you will be starting from nothing."

"You cannot be on all channels, but you pick the ones that fit your communications strategy, such as Twitter." IR head

The benefits of social media

Case study: Charles Stanley learns to lead in social media

Charles Stanley & Co. is one of the United Kingdom's leading independently owned, full-service stockbroking, corporate finance and institutional advisory groups. At one point close to abandoning social media as a tool, the company has instead become a pioneer, with leading-edge practices.

"When we first started, it was the Wild West in social media. We dove into a strategy without really thinking through what we were doing, and we nearly got shut down by regulators," said Magnus Wheatley, Head of Press and Public Relations.

The company's research analysts produce highly sensitive and potentially market-moving commentary, which is kept on the company's website. Initially, under the assumption that Charles Stanley had only a few followers, most of whom were journalists, the company used Twitter to broadcast analysts' recommendations to what it thought was a defined, private network in regulatory terms (under UK financial services regulations, advice can only be offered on the basis of knowledge of the individual with whom the party is communicating). "We got a bloody nose quickly," said Mr. Wheatley, as Charles Stanley was served with a notice to cease and desist its social media practices.

What could have been a firm halt to any further efforts instead became a moment of reflection as the company reassessed the potential of social media to support its strategy. Concluding that the new medium was too important to abandon, Charles Stanley reached out to regulators and began discussions about what compliant social media use would look like and how the company could implement changes.

In order to get the board's approval for a second — successful — attempt at social media, the team had an open conversation. Mr. Wheatley characterized it as "sitting with the board of directors and saying, 'We made a mistake. We have learned from it and this is how we would like to proceed — working with compliance and legal to define the boundaries going forward.'" In addition, the team highlighted the opportunity and potential for growth that would come from engaging new clients through these channels.

Today, Charles Stanley is an acknowledged leader in its use of social media. They focus their efforts on using social media as a signposting resource, announcing a good article, providing a link to the company's website and bringing followers into Charles Stanley's environment. To enable their efforts, the team has brought in social media-savvy journalists who work within clearly defined compliance parameters. According to the company, the revenue impact of engaging with prospective clients via social media has been substantial.

Questions for audit committees

- Is your company listening to what is being said about it — particularly where customers or the investment community can be influenced?
- How is your company's social media strategy integrated with the company's corporate communications strategy?
- What are your current social media policies? How are employees trained to use social media as ambassadors?
- How is your IR department using social media for financial communication?

Boards need to take a more active oversight role

One social media expert said bluntly, "Directors risk their own relevance if they don't catch social media issues ... Social media is transforming businesses." A social media consultant said, "There are three things that any director (or potential director) needs to be red hot on: finance, comfort with and ability to take a wider look at risk and third, the ability to keep up with changes in technology, including social media and its implications for corporate reputation and reaction time."

Because of their pressured schedules, the audit committee chairs interviewed for this article want to understand the most effective ways to provide oversight of social media. They discussed who on the board should be responsible, how best to stay informed, what areas to focus on in discussions with management, and the benefits that personal experience offers.

Is social media oversight a full-board issue?

Forward-thinking audit committee chairs and advisors suggest that, given the gravity of the reputational risks involved, social media oversight should be a full-board issue, rather than limited to an audit or risk committee issue. In looking at strategic risks to a company and its growth plans, it is becoming clear that social media can quickly multiply the effects of any issues from customer service to supply chain to product launches to a level of strategic impact. As one advisor put it, "Given the ability of social media to disseminate information globally, I wouldn't be surprised if we see a company affected by a ground-up revolution. We have not seen a company taken down by a social media firestorm yet, but I would not be shocked to see it happen in the next few years."

A social media consultant observed, "The fundamentals have not changed. Social media platforms require judgment, which comes from experience. While directors may feel exposed from a technological standpoint, they do have the experience to exercise good judgment ... They are precisely the people who should be overseeing social media because it is actually all about understanding people and behavior."

To enhance the board's ability to oversee both social media and digital risks and opportunities (including cybersecurity), some boards may wish to consider adding directors with expertise in these areas — though they may be hard to come by. According to a recent Korn/Ferry report, "Among the FTSE 100 … just 1.7% of non-executive directors (NEDs) would qualify as 'digital' — that is, executives that have spent the bulk of their careers either in companies where the internet is central to the business model, or in strategic roles focused on leveraging the internet."[24]

One audit committee chair emphasized the benefits of having a "digital" director on the board: "It is critically important to have someone who is technologically proficient on the board, someone who knows how to think about this and move it forward to help inform the board's deliberation, including why it is we should be thinking about this stuff." Naturally, company and industry knowledge remains critical, and any director needs to be able to contribute more broadly, beyond just social media.

How should boards stay informed?

Given the fast pace of change in social media, regular updates are helpful — but they must have the right content. A common pitfall is to focus on the number of mentions of the company, or the number of interactions. One social media consultant said that such a limited view does not allow for adequate oversight. This consultant suggested that "an appropriate dashboard to keep the board informed would include information about customer satisfaction, employee satisfaction and engagement. For example, each business unit leader could put together three qualitative or quantitative metrics for the board to understand what activity is happening online."

Audit committee chairs described several methods of receiving updates on social media strategy and practices:

- Ad hoc, infrequent presentations: one audit committee chair said, "Even at companies that are technology driven, our social media strategies are pretty nascent. At one of my companies, we've had one social media presentation in 10 years, and it was 2 years ago. At two other companies, we've had no formal presentations."
- Curated, regular updates: one audit committee chair said, "The first step is to get an inventory of what is already out there — how many web pages, how many Twitter feeds. Then, I have asked to receive a weekly summary of what is in the news — both with respect to the industry and company-specific news. I process it all, but I want it curated."
- Regular updates about social media within and outside of the company: one audit committee chair said, "We receive statistics about how many users and websites there are within the company. We also have a dashboard that gives us information about our brand — how many times we are mentioned on Twitter or Facebook or other analytics. The whole board reviews this information."

"An appropriate dashboard to keep the board informed would include information about customer satisfaction, employee satisfaction and engagement. For example, each business unit leader could put together three qualitative or quantitative metrics for the board to understand what activity is happening online." Consultant

[24] Mina Gouran and Doug McAllister, *The Digital Board: Appointing Non-Executive Directors For The Internet Economy* (London: Korn/Ferry Institute, 2013), page 1.

Boards need to take a more active oversight role continued

Where should boards focus discussions with management?

Audit committee chairs and social media executives, consultants and experts suggested the following areas of focus for discussions with management:

- **Strategy**: one social media consultant said that the first question should be "What is the strategy?" followed by "Have legal and compliance been involved in identifying the risks associated with the strategy?" There may also be implications for management, such as a need for a chief marketing officer type of executive to oversee a multichannel communications strategy.
- **Content**: although social media presents several unique concerns and opportunities, it remains a channel for communications. Therefore, several experts suggest asking whether and how the social media strategy is integrated into the corporate communications strategy, as well as what are the core messages to be communicated.
- **Monitoring**: an audit committee chair said, "Questions for management include: Who is tracking? How are they tracking? And how does all of that relate to relative historical trends?" Another audit committee chair said, "Given the phenomenon of social media, what infrastructures are you putting in place to monitor what people are saying? With that monitoring, with whom are you sharing feedback in the company? And what are you doing about it?" A third audit committee chair said, "Are we paying attention to what is happening with social media? Are there employee blogs or websites that are providing the temperature or pulse of the company – especially for new products or brands?"
- **Agility**: one social media consultant said, "Boards could really start challenging the processes that their organizations take for granted. Ask, how responsive can we be when we have to make quick decisions? What barriers get in our way – including any processes? How are employees trained and educated? How should they be?"
- **Policies**: one audit committee chair said, "Try to up the level of the conversation about social media in terms of brand, legal responsibility and regulatory issues. Ask if we have done an appropriate job in crafting the right policies – including updating all communications policies so that they take into account social media."

How can directors use social media personally?

Many audit committee chairs are reluctant to be personally active on social media. The primary concern is about providing information and the fear of being contacted by parties that would result in compliance issues. However, board members can use social media without broadcasting personal information. For example, social media can be used for intelligence gathering, as a few audit committee chairs we spoke with have done. The possibility of listening in on conversations about the company does potentially bypass management's filters and perhaps supplies a more accurate picture of perceptions of the company.

Directors who are on social media mostly mention Twitter, with some using LinkedIn but limiting their visibility. One audit committee chair described the value of social media: "I use Twitter as a news-clipping service, and I follow speakers who will be coming in. It is so easy to spin through … I also regularly follow the postings related to my company a few times a week. And sometimes, I will also do #[company] search and discover what conversations are going on."

Questions for audit committees

- Does the board have "digital" members or executives with the skills and experience necessary to coordinate social media programs?
- Is the board receiving the appropriate briefings on social media issues and status?
- How can directors harness social media as an information-gathering tool?

Conclusion

Simply put, many board directors have reservations about the importance and the role of social media. However, the strategic risks and opportunities it presents have not only become highly significant, they are continuing to grow through the very nature of social networks, which are adding and linking customers, employees and other stakeholders around the world every second of every day.

Risk management, particularly reputational risk management, is top of mind for many boards. The proven mitigation approach requires monitoring and responding. Companies must be willing to dedicate the necessary resources and create the processes for responding at the speed of social media. One executive observed, "You have to make mistakes along the way; it is how you move forward."

For those who choose to go beyond risk mitigation, there appears to be a great deal of opportunity to do what so many companies claim to want — be able to understand and interact with stakeholders, including employees and customers. With the appropriate processes in place to ensure compliance, companies can communicate in ways and with content that would have been unimaginable just a few years ago.

Ultimately, a strategic approach to communications that incorporates social media across various areas can ensure companies take full advantage of the opportunities. Today, a company can listen to key stakeholders and the market to learn what matters. With that knowledge and the tools, product and marketing teams have the ability to engage in conversations happening in the market and react swiftly to changes. Perhaps even more importantly, using social media, companies can communicate their organization's strategy and position, ultimately influencing the conversations their stakeholders are having.

Very soon, ignoring social media will no longer be an option. One social media advisor suggested that directors could either "go there willingly now, or be dragged there kicking and screaming later."

About this document

InSights is produced by Tapestry Networks to provide assessments of key issues of interest to audit committee members in Europe. It will be distributed by EY and Tapestry Networks. Anyone who receives *InSights* may share it with those in their own network. The ultimate value of *InSights* lies in its power to help all constituencies develop their own informed points of view.

The views expressed in this document represent those of the individuals who participated in the research. They do not reflect the views nor constitute the advice of network members, their companies, EY or Tapestry Networks.

About Tapestry Networks

Tapestry Networks is a privately held professional services firm whose mission is to advance society's ability to govern and lead. Since 2002, networks convened by Tapestry Networks have tackled some of the most significant strategic challenges facing institutions and society, including raising standards in corporate governance in the United States, Canada and Europe, developing strategies for a more sustainable healthcare environment in Europe, and enhancing national security in the United States through public-private collaboration. Tapestry Networks organizes and leads nine audit committee networks with the active support and engagement of EY. The networks collectively consist of chairs of about 255 audit committees who sit on over 450 boards at some of the world's leading companies. For more information, please visit tapestrynetworks.com.

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Appendix A: Research participants

In addition to seeking the views of audit chairs on the various networks run by Tapestry Networks, the following directors and subject-matter experts were interviewed specifically for this issue of *InSights*:

- Les Brun, *Audit Committee Chair, Merck*
- Dominic Burch, *Head of Social Media, Asda (Walmart UK)*
- Rodney Chase, *Audit Committee Chair, Tesoro*
- Ángel Durández, *Audit Committee Chair, Repsol*
- Jean-Louis Erneux, *Vice President, Press Relations and New Media, Vivendi*
- Fay Feeney, *Founder and CEO, Risk for Good*
- Simon Gillham, *EVP Communications and Public Affairs, Vivendi*
- Adlai Goldberg, *Partner, Advisory Services, EY Switzerland*
- Michele Hooper, *Audit Committee Chair, PPG Industries*
- Lou Hughes, *Audit Committee Chair, ABB*
- Mark Kasperowicz, *Head of Digital Communications, Alcoa*
- Dave King, *CEO, Digitalis Reputation*
- Doug McAllister, *Client Partner, Korn/Ferry*
- Blythe McGarvie, *Audit Committee Chair, Viacom*
- Pierre Rodocanachi, *Audit Committee Chair, Vivendi*
- Guylaine Saucier, *Audit Committee Chair, Areva*
- Dominic Schofield, *Senior Client Partner, Board and CEO Services, Korn/Ferry*
- David Seeley, *Consultant, Russell Reynolds Associates*
- Martin Thomas, *Founder and CEO, Crowd Surfing*
- Molly Tipps, *Product Manager, CEB Investor Relations Leadership Council*
- Claire Vivyan, *Global Head of Social Media Relations, EY*
- Bernd Voss, *Audit Committee Chair, Continental*
- Stephen Waddington, *European Digital and Social Media Director, Ketchum*
- Steve West, *Audit Committee Chair, Cisco*
- Magnus Wheatley, *Head of Press and Public Relations, Charles Stanley*
- Donna Zarcone, *Audit Committee Chair, Cigna*

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