Social Media and Financial Communications

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Financial Communications and Social Networks

Twitter, the fastest growing micro-blogging Web site, is connecting individuals and companies with an astonishing yearly growth rate of 1,382%.[1] Whether it's Facebook, MySpace, Twitter or LinkedIn, social networks have engulfed the Web and enabled millions of people who share common interests to interact. According to a recent study by comScore, a global leader in measuring the digital world, in May 2009, Facebook had over 307 million unique visitors worldwide and MySpace had 123 million.[2] Each site has a domestic average growth rate of 3% weekly. With such a wide audience, it's only natural that companies are recognizing this audience and using these portals as a means for building their brand awareness and investor support.

Some companies have embraced these social networks as the new communication forum, but others remain more reluctant and are taking a "wait and see" mode. There is good reason to be skeptical. With the additional regulations, message control concerns and additional monitoring necessary, there are definitely some risks. However, there are steps that companies can take to increase their visibility with investors while limiting risk.

Social networks are to 2009 as chatrooms are to the 1980s. It's a new medium and one that can provide benefits if tapped correctly. Social networks offer the world of financial communications many new opportunities for success, you just need to know how to navigate the landscape.

Problems and Challenges

Broadening a company's shareholder base may be a relevant objective for many companies. It's important to know your audience. The social network audience tends to be younger, although they have had large increases in their older audiences more recently as these networks become more mainstream. This younger audience includes the up-and-coming buy-side analysts, sell-side analysts, investment bankers, hedgefund managers and the retail, or "Milleniums"….in essence, all of the major future investment decision makers. This "Millenium" group is made up of 22 – 31 year olds[4] who are either just starting their careers in finance or who have grown up with the technology base and view these networks as essential. Of the 72 million U.S. citizens in this category, 67% say they rely on social media for news and product updates.[5] It's important that a company consider this level of audience and make the time to combat your company's concerns.

Social network adoption by corporate America is increasing, but its overall integration remains slow. About 77% of the nation's fastest-growing companies are now incorporating social media.[3] By fueling fears within the financial communications industry, other companies may be missing the opportunity to not only lead, but grow and succeed more than their competition. Companies should consider re-evaluating their current investor base and embracing the multiple mediums of communication with the social network audience.

The regulatory concerns may be overwhelming to some companies. The SEC and FDA have issued their regulations on what is proper social network etiquette. For example, the SEC says that companies cannot require investors to waive protections in order to participate in a blog or forum.[6] Also, the FDA upholds their rule of reporting known adverse events even in the digital space.[7] With that new issuance of rules, companies naturally believe their perceived risk is inflated by including the social networks in their communication plan. Additionally, there is a misperception that utilizing social networks means the company will lose control over its message. Other questions like "Who will monitor the blog?", "What policies should be in place prior to launching the blog?", and "What can we say and not say on the blog?", prevent some companies from communicating with the vast audience of social networks.

Some companies may not consider social networks to be their audience or customer medium. While there appears to be a natural fit for social networks and consumer products companies, what about other industries? Do they have anything to gain from tapping into these networks? The answer is "yes" and the degree of involvement depends on the company's goals and objectives.

The basic first step is for a company to evaluate their investor base, understand the opportunity and consider the multiple of mediums of communication to attract new shareholders with the social network audience.

Social Networks and Regulation

As discussed before, the SEC has developed regulations for public companies participating in electronic communications. The opportunities exist; a company just needs to know how to navigate the landscape to meet its objectives. Are these regulations really any different from the current rules in place for a public company? Not really. Per a discussion with Maryann Waryjas, partner at Katten Muchin Rosenman LLP in Chicago , here are some helpful hints to help you think about accessing and using the social networks as an additional medium for your message:

1. **Ensure your message is consistent with your current communications and start laying the groundwork in your other materials.** As with any message, you want to ensure accuracy and consistency. So your conference calls, presentations, press releases and now, postings, should all resonate the same statements that have been reviewed and approved by senior management for public disclosure. Let your stakeholders know that you will be launching a blog, or setting up a Facebook account, etc. Give them the heads up. You can do this by mentioning them in your other communications materials.

2. **Post "new developments" with links to releases on social networks.** There is no issue with posting a blog that says, "New developments – Company opens additional distribution center in Asia," if you include a link to the press release with the same title. Again this is a way of increasing the number of eyes looking for information about your company. Remember that the press release should comply with applicable disclosure rules and should also include a "safe harbor" statement regarding forward-looking statements and refer readers to a comprehensive list of risk factors, if appropriate.

3. **View social networks as "informal" press releases that connect to the "real disclosure."** Remember that once your company decides to speak about a material matter, it must speak accurately and completely – and the disclosure must meet the SEC's criteria for public dissemination. That means you will likely want to include a link to, or otherwise incorporate the full text of, a press release or other public disclosure that complies with applicable disclosure rules and regulations. In order to stay ahead of any issues, consider all postings to be "informal" press releases that lead the reader (or listener) directly to the "full story" in the "real disclosure" document. This will ensure that you are on top of and in-line with applicable regulations – from the contents of the message to the "safe harbor" provision.

4. **Revise your "safe harbor" statement so it is even more plain English.** While the "safe harbor" statement on your current press releases likely complies with the legal regulation, social networks require and demand a more "investor friendly" explanation of the risks. You should consider working with your IR representative and legal counsel to develop a more "plain English" version of your safe harbor statement that is equally effective in protecting the company, but more in tune with the language used in social networks. You might want to consider using a statement along the following lines: "Here's the key point: Forward-looking statements are not guarantees of future performance, and our actual results could differ materially from those set forth in any forward-looking statements."

How to Follow the Rules

Social networks connect companies directly to their stakeholders. For an investor, social networks like Twitter and Facebook provide immediate access to need-to-know updates. Video content, whether hosted on YouTube or a corporate Web site, offers a face and voice for users to connect with the company on a personal level. These sites promote two-way dialogue between companies and investors through comments and direct messages.

There have been several companies that have taken the lead and incorporated social networks into their IR program. Companies like Sun Microsystems, Adecco NA, eBay, Best Buy, Dell, Johnson & Johnson, EMC, eBay and McDonald's, just to name a few have started to integrate various social networks. Adecco NA's CEO is on Facebook and twitters. eBay tweets updates on conferences, earnings calls and other topics. The blogger there is now required to tweet regulatory disclaimers to protect the company. The remainder all have corporate blogs that link to corporate Twitter accounts. Companies are exploring all avenues of social networks. In fact, Intel allowed shareholders to ask questions via the web during its annual meeting. All of these companies have used the social networks to successfully expand their visibility and investment messages to this new large audience. A few other examples include:

- BP, the global oil and gas company, releases audio updates via Podcasts that give users easy, on-the-go access to the content they want. Though Podcasts are primarily a one-way broadcast, the content can be crafted by the company and then immediately obtained by subscribers upon release.

- AMD, the technology company, takes communication to the next level as it links users to new content via Facebook, FriendFeed, YouTube, Twitter and Flickr. Their Web site boasts a blog and video section to keep investors updated in a cutting edge, digital environment. Social media tools combined with a personalized tone and plain English enables an organization to engage directly with its investors. By using the latest digital communication tools for real-time updates, companies can add to a forward-thinking image that success demands.

- Sun Microsystems created an "Official Investor Communications Portal" as a central source of material information. It allows investors to sign up to receive the CEO's blog postings and news on SEC filings. "The Displayground," a blog created by Microvision for non-material information, links to product demonstrations, customer testimonials and media articles. The blog enhances two-way engagement between the company and its investors because they are able to comment on the information released. Both are examples of success because Sun Microsystems and Microvision have been able to maintain these sites while complying with Reg FD which says that information presented must remain consistent in timing and language with standard press releases.

- In an effort to show greater transparency, Dell has created an IR blog for investors to learn about technology, products, and corporate activity. Johnson & Johnson and EMC Corp use Twitter to publish annual meeting minutes to generate greater buzz and conversation about their companies.

While some companies have no problem embracing social networks, there are obstacles preventing others from engaging these networks. Regulatory compliance with federal securities laws and a company's internal policies may be the main barriers to corporations adopting social networks into their IR programs. There are boundaries; companies and employees are liable for the information they post. The SEC began to recognize corporate blogs as a public disclosure medium back in July 2008. But, to qualify as a "public" (i.e. meet Reg FD guidelines) Web site, the company's site must meet all three of the following criteria:

1. A company Web site is a recognized channel of distribution
2. Posting of information on a company Web site disseminates the information in a manner making it available to the securities marketplace in general, and
3. There has been a reasonable waiting period for investors and the market to react to the posted information.

It is a company's responsibility to distribute accurate information through a variety of channels. Companies have a better chance of being covered under Reg FD if they release information to a variety of news sources. Proper notice must be made when creating new channels. In order for a company's site to qualify as a public notice source, it must meet the following criteria outlined by the SEC:

- The site is a recognized channel of distribution.
- Information posted on the site is released in a manner that makes it available to the securities marketplace in general.
- There has been a reasonable waiting period for the market to react to the information posted.[9]

Additionally, companies should make available a list of all public mediums through which it releases information. The list should include press release services used, digital newsrooms, blogs, social media site profiles, podcast links, and online locations of electronic documents.

A strong, positive company reputation is vital because public opinion can sway stock prices. Monitoring blogs and social media sites is an effective way to stay up-to-date on customer and investor opinions. To ensure consistency of distributed information and compliance with disclosure laws, an electronic communications policy should be put in place for employees and strictly enforced. The policy should extend to all electronic communication in and outside of the workplace.

Companies choosing to post information on their Web sites, online communities and social networks must ensure the information is "reasonably designed to provide broad, non-exclusionary distribution of the information to the public." This limitation includes internal blogs by executives who may be in danger of violating Reg FD.

Even if your company has decided not to include social networks into your IR strategy today, the SEC states, "it's the responsibility of any community-focused organization to use all tools and channels in a way that extends and supplements each other." Meaning, eventually, as these networks become even more mainstream, you will likely be incorporating them into your IR plan.

Summary

Social networks are here to stay. A company can choose to embrace them now or wait until they are even more mainstream; we recommend the former. While the rules are still fuzzy and will continue to be flushed out, the main take away is that the same objectives your company may have today in terms of messaging to appropriate audiences, just got a whole lot easier via social networks.

Your competitors have the same fears and reluctances as you. This is an opportunity for you to get ahead of the curve and embrace social networks in a systematic and careful way. By working with your IR team and legal counsel, your internal electronic communications policy can be created/updated, your PR and IR objective evaluated, the options and limitations for achieving your goals discussed and a plan outlined. What works for one company may not work for another. But, by working in a systematic way, you can manage the company's risk, while providing a roadmap for success. With social networks becoming used by all age groups, we can't afford not to communicate with this audience.

The three things to always remember for social media and IR include:

1. Transparency. Both investors and consumers are more apt to trust a company that engages with the public to communicate its activities.

2. Personal voice. Crafting a voice clearly reflecting the tone of a company's brand will boost appeal and widen the audience by making it more approachable.

3. Following regulations. Staying updated on communications regulations protects a company's integrity and prevents unnecessary legal disputes.

Footnotes

1. Ostrow, A (03/16/2009). Twitter Now Growing at a Staggering 1,382 Percent. Mashable, Retrieved 06/17/09, from http://mashable.com/2009/03/16/twitter-growth-rate-versus-facebook/

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