# SOCIAL MEDIA MONITORING **IS CRITICAL FOR INVESTOR RELATIONS**

**SOURCE: CISION LTD.**

Investor Relations (IR) teams certainly have their hands full. Whether it's tracking fluctuating stock prices, coordinating shareholder meetings, releasing financial results or ensuring regulatory guidelines are met, there's a lot to be done each day before the markets close. And many IR teams feel that adding one more task – monitoring social media – is a job best left to the public relations teams.

But that's where they're wrong, say experts. "IR is not only a matter of corporate image, marketing strategy, or an ability to win over potential investors," wrote **Tomasz Gackowski**, a researcher at the University of Warsaw, in a 2017 paper published in the journal *Economic Research*. "IR, at its core, is engaged in an image-building process."

While knowing what others are saying about your company has always been important, it's far more crucial to pay attention today, where a single tweet or post can sink a stock in an instant. Who can forget when, in 2013, hackers took hold of the Associated Press's Twitter account and sent a note saying Barack Obama had been injured in an explosion at the White House? Almost immediately, the Dow Jones Industrial Average fell by 150 points, erasing $136 billion in market value.

That may be an extreme example, but it shows how fast news can travel. While PR professionals will be paying attention to social media to see what the broader customer community is saying about a business, IR teams need to be monitoring Twitter, LinkedIn, YouTube and Facebook to ensure that what's being said won't impact their business's stock price or its bottom line. "You're monitoring for financial and economic purposes," writes Gackowski. "IR activities are directly linked with the reduction of investment risk, by providing reliable information about the general state of a company and its environment."

Some recent headlines show just how damaging negative posts on social can be, and not just on reputation, but financials as well. In 2017, United Airlines faced a PR disaster when a Kentucky physician, Dr. David Dao, was physically assaulted and forcibly removed from a flight because it was overbooked. In less than 24 hours after the incident, as the story made the rounds on social media, United's stock fell by 2.5 per cent.

Worse, United CEO Oscar Munoz's response intensified the social media backlash. Because he minimized the impact of the incident and did not seem contrite that a passenger had been injured over what many felt was an improper removal from the plane, he inadvertently restarted the crisis. His actions led to millions of tweets and posts from outraged people over several weeks. United stock dropped 4.5 per cent over eight days, while skittish shareholders were left wondering about the firm's ability to manage crises.

The impact that social media can have on stock prices isn't just borne out in charts and financial documents – researchers have studied it, too. One 2012 report from New York's Pace University looked at a number of popular publicly held consumer brands on Facebook, such as Nike, Coke and Starbucks, over a period of a year. It found that consumer following, or fan counts, of these brands showed statistically significant correlations with their respective company stock prices.

The author, Arthur O'Connor, suggested that "brand following as expressed by fan counts on social media networks might serve as a predictor of increased revenues, earnings and (thus) stock prices of companies." While he studied a number of stocks, he zeroed in on Starbucks, Nike and Coke and was able to reliably predict daily stock price movements over a 10-month period by looking at their Facebook followings. Over that period, both Starbucks and Nike saw follower gains and their stock appreciated by 29 per cent and 14 per cent, respectively. Coke, which saw its Facebook follower count drop, declined by nearly six per cent.

Another study found that investor relations professionals in Canada believe that social media can impact stock prices and influence investor decisions. In 2015, the Canadian Investor Relations Institute (CIRI) polled 99 investor relations professionals, 57 per cent of whom said they use social media for business. It found that 71 per cent of the IROs who use social media for business agreed with the statement that social media activities and discussions influence investment, while 64 per cent said social media activity influences share prices.

# BE MORE AWARE OF SOCIAL MEDIA

While some IR executives appear to be making the connection between social media and stock prices, many feel that using social media isn't critical because the investment community is still using traditional channels to do business. The National Investor Relations Institute's 2016 Social Media for Investor Relations Survey found that 72 per cent of respondents do not use social media for IRO functions, noting the "lack of interest in the medium by the investment community."

But investors are changing. A recent Brunswick Group survey found that the importance of traditional media has declined by 13 per cent among investors, while Twitter usage with institutional investors increased by 19 per cent.

Sean Tufford, vice-president of corporate development with Halifax's Zephyr Minerals, says that more people are paying attention to social media, but many firms are simply unaware of how to utilize it to their advantage. Though his firm is currently exploring a social media program, Tufford does track what his competitors are doing online.

Among the handful of firms in his sector that have taken the social media plunge, none has paid enough attention to see an corresponding increase [in stock prices, he says. "It doesn't seem to equate to buying. I haven't seen it work – and I really want it to work," he says.

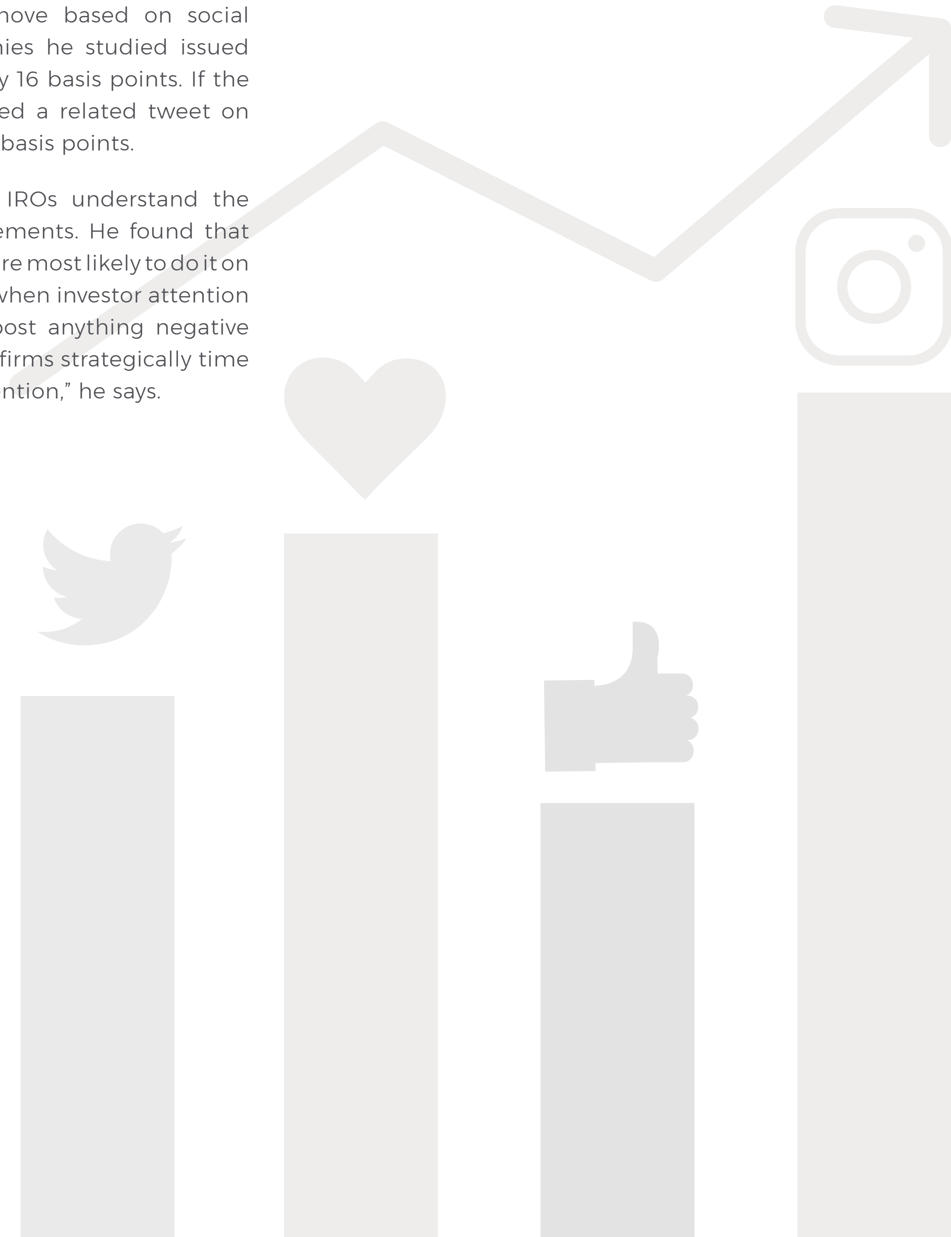
Gregory Miller, Ernst and Young professor of accounting at the University of Michigan, says these are still the early days for IR on social media. "Everyone is saying they want to get into it – but nobody has a strategy for it," he says. "There's a lot of smoke."

# CAN'T AFFORD TO WAIT

Unfortunately, IROs can't afford to wait much longer. While many IR professionals may still be wary of social media, or think it's the PR person's job, their company's investors are going online. They're talking about the companies they own or have their eye on, and they're listening to what others are saying about those businesses, too. "Investors are paying attention to social," says Mohamed Al Guindy, assistant professor of finance at Carleton University in Ottawa, who has studied the relationship between tweets and market reactions.

He found that stock prices do indeed move based on social media activity. On days when the companies he studied issued a news release, their stock price climbed by 16 basis points. If the business released a news release and posted a related tweet on the same day, stock prices would rise by 45 basis points.

It also appears that savvier social media IROs understand the relationship between posts and price movements. He found that when firms tweet negative information, they are most likely to do it on a Friday afternoon or outside market hours, when investor attention is at its lowest. They're also less likely to post anything negative during earnings seasons. "This suggests that firms strategically time their negative tweets relative to investor attention," he says.



# START ON THE INSIDE

Clearly, IROs need to be paying attention to what's said on social media. But where to begin?

Most people think that social listening consists of monitoring social sites to see what others are saying about your company and your industry. While that is an important part of it, it's not the starting point, says Nancy Flynn, founder of the ePolicy Institute and author of *The Social Media Handbook*. IROs need to be paying attention to what their company's staff is saying online.

Someone could inadvertently post confidential information, or say something about the business that investors could take the wrong way. A disgruntled employee could also send out a note that the market may not like. IROs, along with PR, IT and C-suite executives, should develop a risk-management strategy that outlines what staff members can say about the firm.

Companies that have a formal policy are better equipped to mitigate the release of damaging information to the public – and control negative investor reactions, says Flynn. "You do want to have a strategic program in place," she says. "You need to manage your risks, you need to manage your content, you need to manage your record and you need to manage personal and business use of social media." Establish a formal, comprehensive social media policy that spells out exactly what content staff can post.

**"What are your employees allowed, and not allowed, to do?" she says.**

You also want to make it clear that all the social media accounts belong to the organization. All employees, even CEOs, should know that if they leave the firm, social media accounts are no longer theirs to use. A strong confidentiality agreement, which outlines what someone can say about the company after they leave, is important, too. Flynn points out that this needs to apply to everyone, from summer interns to senior IR executives to the CEO and board of directors.

Everyone should be educated about this policy. This includes reminding staff that anything that is released publicly can live on the Internet forever and become evidence in the event of a regulatory audit. "Tweets are business records, instant messages are business records, Facebook posts are business records – and nothing disappears," says Flynn.

Finally, the policy must be enforced. "Make it clear to employees that this policy is mandatory and that if you violate it, you will face disciplinary action up to and potentially including termination," she says. Monitoring what employees are allowed to say on their own personal social media accounts is tricky, and rules could be tough to implement, but it still needs to be watched.

# LOOK AT WHAT OTHERS ARE SAYING

Once companies can be sure that internal secrets won't be leaked, they should then focus on monitoring what others are saying, including tracking competitors' websites, Twitter feeds, LinkedIn accounts and YouTube videos. It's critical for organizations to understand what the competition is doing. How are investors reacting to their products? What business continuity issues have they articulated? What are their profits? Have they experienced a downturn in the market? And unlike with PR, IR teams should be synthesizing that data to see how it will affect their own company's bottom line. Will it face similar challenges to its competitors? What are its investors looking for?

You'll also want to be watching out for what others are saying about your firm. Think of it like an early-warning system. "You want to monitor what people are saying about your company, your stock price, your product, and what rumors are being spread," says Flynn.

Fortunately, monitoring isn't as tricky as one might think. It can be done through a variety of digital social media monitoring tools that, using certain parameters and keywords, can track what's being said across all websites and social media networks. Reports can then be sent directly to IROs. Certain tools can also estimate the size of a company's social media audience, track its growth and offer comparisons with competitors. Some listening tools can identify influential social media users – like a famous short-seller who can sink a company's stock in a tweet – and measure the implications of social media discussions.

**Once a firm has these metrics, it can use the insights to position itself more accurately within its market and troubleshoot issues that may arise.**

Social media sites can also help firms follow their industry and keep abreast of important, and potentially business-changing, trends. For example, other companies' social media activity could reveal an uptick or decline in demand for products, which could foreshadow performance, as well as indicate what industry factors, such as changing demographics or decreased consumer spending, may be at play. That kind of analysis is key, says Yvette Lokker, president and CEO of the Canadian Investor Relations Institute (CIRI). "Are you doing better or worse?" she says. "It's gathering intelligence on other businesses."

Listening to social media can also "inform your messaging," she says. If an industry insider is tweeting about supply issues, for instance, your company, which perhaps switched suppliers earlier or is planning on doing something to mitigate potential production slowdowns, can start highlighting those plans. Maybe it's time to let people know about that new supplier relationship, or at least let investors know that your firm won't experience the same issues faced by your competitors. The more certainty you can give investors, the better it is for your stock price.

# IN THE EVENT OF A CRISIS

Most public companies will, at some point, encounter something they don't like on social media. What you don't want is to wait and see how it might impact your company's stock. That's why Flynn suggests creating a response plan that can be enacted if any potential stock-moving mentions arise. It should be included as part of the comprehensive social media policy. "You're going to want to have rules around how to respond to a disaster," she says. "How is information posted when a rumor starts?"

These policies would provide contacts to key segments of the organization, ensuring that the issues raised on social media are handled as a team. Key media relations contacts, for instance, should be included within the social media policy to allow IR teams to collaborate instantly with other groups in the event of an emergency – and to ensure all information coming from the firm is the same. Flynn also suggests including policies from other departments in the social media documents given to staff, including the media relations and crisis communications policies.

The guidelines should be clear and precise. "There should be nothing open to individual interpretation," says Flynn. Why? Because should an emergency occur, everyone, including the CEO, should know what to do. Research from the University of Illinois shows that a CEO who tweets positive messages in the face of damaging information can protect the company's stock price from taking a hit. That helps build trust and credibility between the company and its followers and investors.

The opposite is true, too. If there's no social media policy in place, it's easy to add fuel to the fire by responding with something that makes the situation worse. In the Lululemon yoga pants debacle, for instance, where people were complaining about how they looked in the company's new pants, CEO Chip Wilson responded online to complaints about the quality of his yoga pants by saying "some women's bodies just actually don't work" for Lululemon pants. The Twitter firestorm that followed was made worse by Wilson's videotaped apology, which wasn't directed at the women he had offended. Shares plummeted 11 per cent following the news.

Firms should also consider policing what online commenters are saying about a company, especially on a site like Facebook, where people can write their thoughts directly on a post. While some companies may want that dialogue, a social media policy governing how to respond to commenters is a must. "Are you going to screen posts from third parties before you allow them to go online? How are you going to handle that?" she asks.

**"Anything that might impact your investor-relations message – you want to take a look at."**

# A MORE IMMEDIATE REACTION

Whether IR teams start using social media in a bigger way remains to be seen, but they should at least be aware that tweets can move markets just like news releases can. With news releases, there's no longer a time gap between the release of that information and market reaction. It's the same situation with always-on social media.

As well, investors want and expect information faster than they have in the past, which could complicate the way the market reacts to news. In the past, companies had to wait to amass a significant amount of financial information before issuing news releases. Now, they can tweet out small pieces of information immediately – informing investors more frequently and providing them with up-to-the-minute data on which to make decisions.

Faster and better information should be a positive for companies and their investors, but things can go south if rules governing these sites aren't in place before information gets disseminated. Says Flynn: "With electronic communications, whether it's social media, a website or email, we don't play it fast and loose. We play by the rules."