Anticipating Business Risk in the New Social Media Landscape

By Barie Carmichael and Brian Moriarty

Social media has moved the goalposts for corporate management. With negative publicity potentially just one viral customer post or video away, companies must become swifter and nimbler in anticipating and heading off business disruption and reputational risk to retain stakeholder trust. This Giving Thoughts article guides corporate leaders on how to identify the “inherent negatives” in their business models and mitigate the resulting social risks in ways that benefit both their business and society.

Business Risk in the Age of Social Media

From Starbucks to United Airlines and Facebook, viral images that capture corporate mishaps and trigger public outrage have become ubiquitous. These high-profile examples reflect a new normal for big business, in which social media provides an instant and highly visible platform for the public to demand business behavior that meets its expectations.
Despite the public’s chronically low trust in business—shown by, for example, Edelman’s 2018 Trust Barometer—today they have seriously high expectations. Globally, 94 percent of people believe that companies can shape a better society, while 93 percent of U.S. consumers agree that the best companies do good for their shareholders while also doing good for society. In this new social ecosystem, citizen journalists can instantly disrupt business by posting online images of corporate misconduct unbounded by time or geography. And a globally connected public continuously audits the companies behind the brands and the social impacts from how they make their money.

Given the unprecedented potential for near-instant business disruption, how do boards of directors and C-suites anticipate risks inherent in the social footprint of their businesses? How can companies avoid being the subject of the next viral moment or wake-up call for their industry? The roadmap below will help corporations to begin critically assessing and mapping the stakeholder impact of their social footprint to anticipate and head off social risk and, ultimately, thrive in this new business ecosystem.

1. Recognizing and addressing inherent negatives

The first step on this strategic roadmap for company leaders begins by looking inward. The biggest barrier to anticipating social risk is corporate complacency in the face of the new reality posed by ubiquitous social media, and how it is changing the relationship between corporations and consumers. While understanding social risk is easy in retrospect, viral moments that harm corporate reputations may seem to executives to be uncontrollable, even random incidents. In fact, the opposite is often true. Data clearly show that most such corporate stumbles are avoidable and self-inflicted, arising from slow-burning issues inherent in governance or policy decisions rather than sudden crises outside of a firm’s control. The Institute for Crisis Management’s 2017 annual report once again found the vast majority of crises originated from smoldering issues within management control. In fact, mismanagement accounted for more than 26 percent of all crises tracked in 2017.

The core of companies’ socially driven risks resides in the inherent negatives embedded in their business model: strategies and policies that cause negative stakeholder impact. If ignored, that negative impact magnifies as their business grows. To withstand the continuous scrutiny of today’s business ecosystem, companies must recognize and mitigate these inherent negatives or risk exposure and public outrage.

Inherent negatives have been present since before the advent of social media and viral videos. For example, Nike’s business model at inception in the 1960s was to source apparel through independent, low-cost, offshore factories. As Nike’s revenues grew, so did the inherent negative social impacts resulting from sub-standard working conditions in its suppliers’ factories, eventually sparking a global consumer boycott campaign in the 1990s. This is a classic example of an inherent negative. Similarly, as package delivery companies like UPS or FedEx expand, so do their carbon emissions negatively impacting the environment.
Once companies recognize the inherent negatives in their business model, the impact can be mitigated if C-suites are flexible and farsighted or strategic enough to adapt the company strategy. Nike, for example, continues to source apparel through offshore suppliers. However, the company’s strategic pivot to monitor and audit their suppliers’ working conditions and its transparency in reporting results have reset the standard for responsible supply management in the apparel industry. Package delivery companies such as UPS or FedEx have taken similar strategic actions to mitigate their inherent negatives of carbon emissions that grow with their business. For example, UPS’s On-Road Optimization and Navigation (ORION) technology, now fully deployed in the United States, has combined telematics with advance algorithms to cut 100 million miles annually from the company’s U.S. deliveries. This in turn has reduced annual fuel consumption by 10 million gallons and annual greenhouse gas emissions by approximately 100,000 metric tons.

As these examples and many others demonstrate, mitigating inherent negatives is not philanthropy. It is essential to successfully navigating today’s new social landscape through solutions that benefit both business and society.

2. Mapping inherent negatives throughout the business lifecycle

Isolating and addressing discrete inherent negatives, however, is not sufficient to thrive in the new social landscape. Today’s web-enabled, environmentally and socially conscious public is auditing all corporate behavior. As a result, the most effective roadmap for withstanding business disruption from social risk requires critically mapping a company’s inherent negatives across its entire product or service lifecycle, from sourcing through disposal.

Many large, traditional manufacturing and service companies have adopted this broader approach. They are addressing inherent negatives across the value chain as part of integrating sustainability and corporate social responsibility into their strategic management, operations and governance. Generally, however, this strategic line of sight has been limited to traditional manufacturing supply chain paradigms regarding risks related to sourcing upstream raw materials and to downstream product usage or disposal.

However, organizations using new business models can equally benefit from the same product lifecycle mapping of inherent negatives to anticipate social risk. Social media companies, for example, would benefit greatly from comprehensively mapping social risk—from upstream raw materials (online content and engagement), through business operations to downstream usage (such as apps and games). From the widespread sharing of private data, to serving as a platform for viral hate speech that can incite racism or violence, to unwittingly providing trending news based on false information, social media companies are in the spotlight. Indeed, the increasing public scrutiny of Facebook and others provides an ongoing, real-world case study that is highly relevant for leaders across sectors. Much can be learned by observing the impact from inherent negatives embedded in social media’s business model and product lifecycle.
Business leaders across multiple sectors had better be paying attention. As the Internet of Things integrates Wi-Fi and social engagement capabilities into a vast array of products and services, today’s social risks related to use of social media will soon become part of their own product and service lifecycles. Given social media’s dominance of public discourse, and growing role in how companies engage with its stakeholders, especially consumers, C-Suites and boards of directors have a fiduciary duty to understand the social risks from inherent negatives emerging in these new business models. Doing so will help corporate leaders anticipate the strategies and governance policies they will need to adopt to address the boundaries of their own responsibilities.

Building this strategic understanding begins with mapping social media’s product lifecycle. The case study below provides a high-level snapshot of how to conduct such an exercise, and the key issues and questions it raises.

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**Mapping social media’s product lifecycle**

**Upstream raw materials** Social media’s upstream raw materials are their users’ posted content, profile data and online engagement activity. In addition, upstream raw material can include data from nonusers (people who have not signed up with their social media site). For example, when non-users visit a web site having “like” or “share” buttons, Facebook can install cookies on their browsers, capturing their online activity without their knowledge.

**Revenue generation** Social media companies offer their platforms free to users, earning revenue by innovating algorithms that convert users’ raw materials (personal data and online activity) into valuable intelligence for advertisers to micro target their advertisements. This “programmable advertising” pinpoints audiences not simply by traditional demographics but also by interests, preferences, relationships or affinities derived from users’ online behavior. Advertisers use this intelligence for precisely targeting product advertising, fundraising efforts or political campaigns, or for attracting “tribes” of aligned interests. The content that users post on social media also augments social media revenue. In this business model, viral content attracts more “eyeballs” which, in turn, yields more engagement metrics and more advertising revenue.

For social media, therefore, more is better for business—more users, more time spent online and more viral content. Feedback loops of “like” and “share” keep users online longer, generating more data to attract advertisers. By featuring trending or viral content, companies catalyze more online engagement, which in turn generates more data to feed into micro-targeted advertising. This applies to not only social media platforms such as Facebook, Twitter, LinkedIn, Instagram, and YouTube, but also to search engines like Google, Bing, and Yahoo. The two online giants—Facebook and Google—control an estimated 60 percent of the online advertising market.

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Mapping social media’s product lifecycle (continued)

**Downstream uses** Having built robust systems for gathering data and intelligence on its users, social media companies have created a fertile ecosystem to partner with third-party developers deploying their own platforms that reside downstream. Such platforms, including applications (for example, a dating app like Tinder) and online games (such as FarmVille) can use a programming interface to share data with a social media company, enabling them to collect even more user intelligence. Cambridge Analytica has grabbed recent headlines for mining data from up to 87 million Facebook users to craft messaging to support Donald Trump’s 2016 presidential election bid. As far back as 2012, however, the “Obama for America” app gathered data not only from Facebook users who downloaded it but also from their Facebook friends, garnering robust intelligence for political candidates seeking votes.

**Key social risks** Mapping social media’s product lifecycle in this way highlights fundamental questions about the social risks inherent in these business strategies, foremost among them:

- If social media makes money from users’ data and viral content, can they also be honest stewards of that data and content in ways that protect user privacy?
- If social media companies are merely platforms, not content publishers and, therefore, not responsible for posted content, how can their algorithms act as new age content editors? Like newspaper editors deciding what content is placed above-the-fold on page one, algorithms are programmed to prioritize what content leads newsfeeds.
- If viral content maximizes user time on site through provocative negative news, misinformation or hate speech, what are the implications for social media growth markets in developing countries with weak institutions, like Sri Lanka where social media rumors have played a part in killings?

Just as Nike recognized over a decade ago that its responsibility extends through the entire product lifecycle, so have social media executives begun to publicly acknowledge the broader scope of their responsibility. In the wake of revelations that exposed the inherent negatives in Facebook’s business model, CEO Mark Zuckerberg acknowledged in recent Congressional testimony, “We didn’t take a broad enough view of our responsibility.” Likewise, LinkedIn CEO Jeff Weiner recently recognized that “when you amass the kind of scale and influence that current technology companies are capable of, those audiences that they are capable of reaching, it carries enormous responsibilities.” Had social media companies pre-emptively anticipated and enacted policies to mitigate their social risks, the global movement for regulations to restrict their operations would likely not have grown so quickly.

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a David Ingram, “Facebook Fuels Broad Privacy Debate by Tracking Non-Users,” Reuters, April 15, 2018.
b Whitelaw Reid, “Q&A: Media Professor says Facebook’s Business Model is Perfectly Predatory,” UVA Today, April 11, 2018.
g Mike Allen, “LinkedIn CEO on Tech’s Unintended Consequences,” Axios, April 24, 2018.
3. Mitigating social risk

In an era marked by rapid technological advancements and the explosive proliferation of communication channels, mitigating social risk can no doubt seem like an overwhelming challenge for companies. However, while the environment in which business leaders operate is becoming increasingly complex, the steps for mitigating social risk are strikingly familiar for executives used to navigating other types of reputational risk:

1. Anticipate social risks inherent to the business
2. Identify the best steps to mitigate the risk (e.g., new strategies, governance remedies, regulation)
3. Take action based on that assessment.

Anticipating inherent risks Anticipating inherent risks is the most challenging step. Mitigating social risk begins with seeing issues coming before they get delivered to the boardroom door in the form of viral public outrage. This requires critically reassessing inherent negatives in the company’s business model, strategies and policies. Each new trending corporate video provides a real time case study. Retail companies, for example, should analyze Starbucks’ viral moment—when a manager called the police to remove two African-Americans customers who had not ordered coffee while waiting for a colleague—to anticipate embedded inherent negatives in their own point-of-sale customer service policies and training. Unconscious bias clearly extends far beyond Starbucks, as a recent study of customer service in the hospitality industry has demonstrated. Similarly, airline C-suites likely recognized that the series of viral passenger videos exposing callous treatment of United Airlines passengers were rooted in corporate policies and procedures that are common to many carriers. Without corporate intervention to correct course, the sheer volume of airline passenger interactions poses huge inherent social risks and makes more viral moments inevitable.

Identifying mitigation steps Much like anticipating the social risk inherent in a business model or business strategy, identifying the best steps to mitigate any given social risk requires a diverse outside-in perspective. This helps overcome corporate complacency and can break through the insulating power of the corporate bubble, while providing corporate leaders with valuable insights on how their stakeholders think and what issues matter most to them. In the new environment—where the amount of response time afforded to companies before a situation swells into a full-blown crisis is constantly shrinking—maintaining strong relationships with diverse groups of stakeholders is fundamental. Key questions should be: “Who haven’t we asked about this issue?” and “Whose perspective has not been heard?”

A growing number of large corporations are already moving in this direction, appointing advisory stakeholder panels and/or conducting materiality analyses focused on CSR risks and opportunities. An additional approach, where entire sectors are under scrutiny, is for peer companies to craft an industry-wide response. Examples include the electronic industry’s Responsible Business Alliance (formerly the EICC) or the Accord on Fire and Building Safety in Bangladesh, initiated after the deadly Rana Plaza garment factory fire, whose signatories include H&M, Adidas, Marks & Spencer and many other global brands.
Taking swift and decisive mitigation action Speed is a critical factor, not only for identifying the best approach to mitigating social risk, but also for taking substantive actions that assure stakeholders that the company is serious about fixing the problem. What a company does is the authentic content for what it says. As the recent Starbucks example demonstrates, even a company widely recognized for its progressive policies will not get a pass.

Companies must also prepare for ongoing incidents in a range of areas where they have social risks. Nike, which set an industry standard for addressing its upstream (supply chain) inherent negatives, recently saw negative headlines again when an employee survey highlighted troublesome sexual harassment and discrimination concerns. Again, the company responded robustly, with a swift investigation by CEO Mark Parker of workplace culture and behavior and the subsequent departure of key executives. Key questions remain, however, for Nike’s management team to address. Why did exposure of these workplace issues require extraordinary intervention? Given Nike’s thorough monitoring and auditing of policies governing its upstream third-party suppliers, shouldn’t the company apply the same rigor in monitoring and auditing its own employee policies on gender equality in the workplace?

Conclusion

In this new business ecosystem, where business disruption can be just one customer video away, a forward-leaning corporate perspective has never been more urgent. It requires ongoing vigilance as a way of doing business and the embrace of diverse perspectives from a wide range of stakeholders. Within companies, leaders will also benefit from improved social risk mitigation by making it politically safe for employees to ask uncomfortable questions and raise troublesome concerns. Executive leaders role modeling that behavior themselves is critical to catalyzing that same behavior in the organizational culture. Once issues are raised, leaders must then be clearly seen as listening and taking substantive action when warranted.

Making all this happen must start at the top with the CEO and C-Suite. Done properly, addressing inherent negatives offers companies the opportunity not only to build trust with stakeholders but also to identify sustainable, long-term solutions that can benefit both their business and society.
Endnotes

6. “Orion Backgrounder,” UPS.
9. “About the Accord,” Accord on Fire and Building Safety in Bangladesh.
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