



ACCOUNTING MATTERS

Using social media to report financial results

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Abstract The growing influence of social media on financial performance reporting creates opportunities and challenges for both executives and corporate communications teams. This Accounting Matters feature provides background on current business reporting practices (including new SEC regulations) and insights from recent research on communication of financial results. The conclusion discusses future trends and provides recommendations for executives to consider when designing, implementing, and evaluating media and investor relations communication initiatives.

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1. Introduction

Social media use is growing in corporate America: 77% of Fortune 500 companies tweet, 70% have a Facebook presence, and 69% maintain a YouTube account (Barnes, Lescault, & Wright, 2013). Investor relations professionals recently became concerned about using social media for financial disclosures following two high-profile events: (1) the SEC notified Netflix that it intended to bring enforcement action against the company and its CEO after the CEO posted company metrics on his personal Facebook account, and (2) Francisco's CFO tweeted about a board meeting and was dismissed. The open question was: How could social media disclosures

comply with U.S. Securities and Exchange Commission (SEC) Regulation Fair Disclosure (Reg. FD), which requires companies to provide fair disclosure to all investors? In direct response to the Netflix investigation, the SEC confirmed that corporate social media sites may be a recognized channel of distribution of investor information but warned that personal social media sites of executives are unlikely to comply with Reg. FD (U.S. Securities & Exchange Commission, 2013).

With the SEC regulations reducing barriers to financial disclosures through social media, firms have good reasons to use these platforms to reach investors. Research shows that institutional investors use social media when analyzing and recommending investments. Firms ignoring social media will be disadvantaged within the investment community. Also, investor relations (IR) professionals must migrate to social media platforms to reach their target audiences as traditional journalism continues its slow

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decline. Recent research finds firms that use Twitter to disseminate company news have increased market liquidity, and the benefit is greatest for less visible firms (Blankespoor, Miller, & White, *in press*). Finally—and perhaps more importantly—social media is an opportunity for businesses to interact directly with investors, customers, suppliers, and other stakeholders.

But with opportunities to disseminate information in new ways come challenges. As most executives now know, the days of controlling the message are over; anyone with an Internet connection can affect a firm's reputation, good will, and brand strength. To take advantage of the opportunities and minimize the risks of social media, firms must first reconsider how information is shared *within* the firm. Through strategic convergence of investor relations, corporate communications, and marketing functions, firms can use social media for offense (to share good news) and defense (to handle bad news). Firm leadership then needs to consider where responsibility for social media lies and whether, how, and which executives will actively participate. An investment in social media is truly that, as firms will need to budget for increased personnel, IT support, training, and legal fees to ensure ongoing compliance with Reg. FD.

This article summarizes Reg. FD and then provides details regarding the recent SEC social media guidance on public disclosure of material information. We then discuss the opportunities and challenges that arise from using social media to disseminate financial information. We include best practices and recommendations for executives to consider when developing or enhancing a social media presence for financial reporting.

2. SEC governance of financial disclosures

2.1. Regulation Fair Disclosure

Enacted in 2000, Reg. FD requires that companies make a widespread public disclosure through a recognized channel of information distribution when they have disclosed nonpublic material information to a select group (e.g., shareholders). This regulation was adopted in response to reports that companies were sharing information, tips, or 'whispers' with analysts and institutional investors before releasing information to the public. The SEC was concerned that this practice was increasingly common and eroding shareholder trust.

Reg. FD governs both the company issuing stock and "any person acting on behalf of the issuer,"

which includes officers, their staff, agents, and employees of the firm who communicate with the public. Reg. FD is quite broad but it does not cover every type of disclosure, and exemptions for certain audiences and certain types of communications exist. Specifically, Reg. FD only requires public disclosure when nonpublic, material information is provided to an enumerated group that includes securities market professionals (e.g., brokers, institutional investment managers/analysts) or shareholders. However, communication in the regular course of business with customers, suppliers, legal counsel, auditors, and others would not be subject to Reg. FD.

2.2. 2008 SEC guidance on company websites

When drafting Reg. FD, the SEC took a skeptical view that webcasts and company websites would provide adequate public disclosure. Although Reg. FD names these outlets as possible vehicles of public disclosure, the SEC portrayed them as supplemental to other public disclosures and not as sufficient in themselves. As the amount and types of social media expanded, the SEC issued revised guidance in August 2008 that addressed how company websites might qualify as public disclosure (U.S. Securities & Exchange Commission, 2008).

For a website to qualify, the company must notify investors that company information is on the website. But notification is not sufficient as the company must also ensure the website is 'public' for Reg. FD purposes by meeting three criteria. First, the website must be considered a recognized channel of distribution by interested parties (i.e., the website regularly provides easy-to-find financial information). Second, the website is disseminated and available to the securities marketplace (i.e., evidence exists that the media and investors use the website). Third, issuers must demonstrate that a reasonable waiting period exists for the market to react to posted information before it is shared with an analyst or investor (U.S. Securities & Exchange Commission, 2008).

2.3. Netflix investigation report

In April 2013, the SEC issued guidance on Reg. FD specifically addressing social media. This guidance arose after an investigation into the following post to Netflix CEO Reed Hastings' personal Facebook page in July 2012:

Congrats to Ted Sarandos and his amazing content licensing team. Netflix monthly viewing exceeded 1 billion hours for the first time ever

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