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Do organizations use a formalized risk management process to address social media risk?

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ABSTRACT

Social media use within the workplace is widespread; however, little is known about how organizations actually manage social media risk. We use the Committee of Sponsoring Organization's *Enterprise Risk Management – Integrated Framework* (COSO, 2004) to develop a social media risk management model (SM-RMM) that includes four components: (i) social media use, (ii) perceived risk of use, (iii) policy implementation, and (iv) training and technical controls. We utilize the model to examine whether the manner in which organizations address social media risk is consistent with a formalized risk management process. Survey data from 98 risk management, audit, and finance professionals shows that the extent of organizations' social media use increases the perceived risk of social media use. In addition, the effect of the extent of use on the implementation of social media policies is greater for organizations with higher levels of perceived risk of use. Finally, organizations with more extensive social media policies have more extensive training and technical controls. The study's findings indicate that organizations are adopting social media policies and controls in a reactive fashion, as opposed to using a formalized risk management process. This may unduly expose organizations to social media risks. Our model provides a framework for future research on social media risk management.

1. Introduction

Social media is changing how organizations engage externally with customers and other stakeholders, as well as how they interact and collaborate internally with their employees (Kane et al., 2014). Proponents argue that social media use enhances relations with customers and employees and increases the effectiveness and efficiency of an organization's internal operations (Investis, 2015). Indeed, organizational social media use has grown exponentially in recent years (Culnan et al., 2010; Engen, 2012; Tysiac, 2012). Investis' (2015) survey of U.S. companies' corporate social media use reports that 100% of the S&P 100 have at least one corporate social media account, 97% of the largest 500 U.S. companies have LinkedIn accounts, 84% have Twitter accounts, 67% have Facebook accounts, 69% have YouTube video channels, and 39% have Google + pages. Thus, the organizational use of social media is widespread.

While social media use can be beneficial to an organization, it can pose increased risks due to its interactivity, spontaneity, and likelihood of unedited content (Scott and Jacka, 2011). Since social media is a communications tool that resides on an organization's information technology (IT) platform, it has the potential to increase IT security and information leakage risks. Social media use within organizations can also decrease employee productivity and increase reputational risks (Accenture, 2014; Brivot et al., 2017;

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Hildebrand et al., 2013; ISACA, 2011; Khansa et al., 2017; O'Leary, 2011a; Russell Herder and Ethos Business Law, 2009; Schaupp and Bélanger, 2014; Wilkin and Chenhall, 2010). Each of these risks comes with a potential cost. Indeed, the financial risk of social media mismanagement is a top concern for executives (Deloitte, 2012).

Management, internal auditors, and external assurance providers recognize the importance of addressing social media risk as part of an organization's risk management and internal control program (Brivot et al., 2017; Deloitte, 2009, 2012; Ernst and Young, 2012; ISACA, 2010; Scott and Jacka, 2011). A Protiviti (2015) survey of internal audit directors finds that 56% of respondents' organizations formally assess social media risk. Even so, a gap exists within many organizations between concerns about social media risk and the existence of formal social media risk management strategies that are applied throughout the organization (Deans, 2011; Geyer and Krumay, 2015; Larcker et al., 2012; Scott and Jacka, 2011). Illustrating this gap, a survey of senior level executives from U.S. companies reports that 84% of respondents have concerns about the implications of social media, yet only 18% are aware of their organizations performing risk assessments (Grant Thornton, 2013). This, in turn, suggests that only a minority of organizations take a *proactive* approach to social media risk management through a formalized risk assessment process. Other organizations may be following a *reactive* approach in which they adopt social media policies and controls without conducting formalized risk assessments. Consequently, it is important to understand the extent to which organizations are taking a reactive approach to managing social media risks, since the failure to adequately manage these risks can have a detrimental effect on organizational profitability and ultimately, on shareholder wealth (Accenture, 2014; IRM, 2002; Scott and Jacka, 2011). In order to address this concern, this paper addresses the question, "Are organizations taking a reactive approach to managing their social media risks?"

In order to examine whether organizations are taking a proactive or reactive approach to managing social media risks, we use the Committee of Sponsoring Organization's *Enterprise Risk Management – Integrated Framework* (ERM-IF) (COSO, 2004) to develop a social media risk management model (SM-RMM henceforth). We identify four components of social media risk management: (i) social media use, (ii) perceived risk of use, (iii) policy implementation, and (iv) training and technical controls. Social media use addresses how organizations employ social media both externally and internally. Given that the SM-RMM focuses on the use of social media by an organization and its employees, it specifically addresses social media use that an organization can control. The perceived risk of use involves how organizations view IT security, information leakage, employee productivity, and reputational risks that may arise because of social media use. Policy implementation refers to the existence of policies designed to manage social media risks. Finally, training and technical controls refer to the development and implementation of social media training programs and to procedures designed to support social media risk management policies.

While the SM-RMM flows from the ERM-IF and provides a *prescriptive*, proactive model for how organizations *should* manage social media risk, the model also allows for the examination of social media risk management from a *descriptive*, reactive viewpoint. From a proactive standpoint, the SM-RMM indicates that organizations should first formally assess the risks associated with social media use, then implement social media policies and controls based on these risk assessments. This sequence is consistent with the ERM-IF and suggests that the implementation of social media policies and controls flows from a formalized risk assessment process. Alternatively, organizations may follow a reactive approach in which they adopt social media policies and controls, without first conducting a formalized risk assessment of social media use (Larcker et al., 2012; Scott and Jacka, 2011). This may occur since social media use is pervasive across many areas of an organization, social media technologies are easy to adopt, and social media applications often are adopted without a formalized implementation plan (Aggarwal and Singh, 2013; Baird and Parasnis, 2011; Brivot et al., 2017; Heinrichs et al., 2011; Leonardi, 2014). Further, research suggests that organizations have insufficient risk management procedures at the individual systems level (Arena et al., 2010; Hayne and Free, 2014; Power, 2007, 2009). These factors indicate that organizations may be taking a reactive approach to social media risk management and adopting social media policies on an ad hoc basis. Under such an approach, the extent to which organizations implement social media policies and controls is likely to be a function of both the extent of social media use and the perceived risk of use. While the extent of social media use will primarily drive the extent of policy implementation, the perceived risk of use will have a moderating effect on policy and control implementation. Specifically, a reactive approach to social media risk management suggests that the extent of social media use on the adoption of social media policies and controls is likely to be greater for organizations with higher levels of perceived risk of use.

To examine our research question, we develop a set of hypotheses which tests whether organizations are taking a reactive approach to managing their social media risks. We test these hypotheses using responses from 98 corporate risk management, audit, and finance professionals. Consistent with our predictions, we find that the extent of social media use increases the perceived risk of use. Next, we find that the perceived risk of use moderates the effect of social media use on policy implementation, such that the effect of social media use on policy implementation is greater for organizations with higher levels of perceived risk of use. Finally, we find that social media policy implementation increases the extent to which organizations implement training and technical controls related to social media.

In contrast to the reactive view reflected by our hypotheses, the proactive view of the SM-RMM suggests that if organizations are following a formal risk assessment process, the perceived risk of use should mediate the relation between social media use and policy implementation, as opposed to the moderating effect indicated by the reactive view. Supplemental analysis shows that the perceived risk of use does *not* mediate the relation between social media use and policy implementation. Therefore, our hypotheses testing and supplemental analysis support the conjecture that organizations are following a reactive approach to social media risk management. These results are consistent with observations from the practitioner literature (Scott and Jacka, 2011), and with prior research which documents instances where organizations have insufficiently adopted risk management strategies across all their systems (Arena et al., 2010; Hayne and Free, 2014; Power, 2007, 2009).

This paper contributes to both academic research and to practice. The academic literature has only begun to address organizational risks associated with social media use (Arnaboldi et al., 2017; Geyer and Krumay, 2015; He, 2012; O'Leary, 2011a, 2011b;

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