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Companies Not Sweet on Tweets

By **SUBRINA HUDSON** Monday, April 28, 2014

An anonymous trader wanted to short-sell a major consumer company with a $10 billion market cap. To secure his position, he posted on Twitter that the company's offices were being raided by the FBI, sending the company's shares tumbling.

PondelWilkinson Inc., the company's outside investor relations and strategic public relations firm, discovered the news and quickly took to Twitter to dispel the false rumor about its client, which it declined to name.

Though an extreme example, social media do pose challenges for public companies. Not only do the companies need to be able to respond quickly and nimbly to outside events, they must also closely monitor the flow of information they generate in order to stay in line with regulations.

Online Connections: Roger, left, and Evan Pondel at PondelWilkinson's office in Century City.

The Securities and Exchange Commission last week announced new guidance regarding the use of social media, and Century City's PondelWilkinson is among the IR firms leading its clients into the new world of using social media to disclose key information.

"Some companies are very receptive to the idea of incorporating social media into their investor relations or public relations strategy," said Evan Pondel, the firm's president. "For other companies, they're not quite ready to go there."

They might not have an option. New SEC guidance allows shareholders to use social media platforms – Twitter, Facebook and others – to voice their opposition, for example, to a board member before filing or mailing a formal proxy statement.

It also gives companies greater flexibility as required statements or disclosures can now be hyperlinked, giving more room to fit announcements into Twitter's 140-character limit.

Moira Conlon, founder and president of investor relations firm Financial Profiles Inc. in West Los Angeles, said most of her clients have been slow to adopt social media as a way to release financial information.

"There's still a lot of hurdles and companies are trying to figure out what's the payback," said Conlon. "Our clients are interested in getting in front of investors and analysts, and it's done the old-fashioned way: through face-to-face meetings and real communications."

Conlon said companies most willing to embrace tweeting out a highlight from an earnings report have been tech and consumer companies. But she predicted that over time it will become more popular.

Educating clients

"There's a challenge with it really, an educational challenge, in terms of CEOs and senior management," said Roger Pondel, CEO at PondelWilkinson. "I think senior management teams are getting it now, but in the beginning, when they thought about video they thought about sales. They said, 'Let's make it marketing. Do we put makeup on the people?'"

Social media platforms became an acceptable form of communication after an SEC investigation last year into a personal Facebook post made by Reed Hastings, chief executive of Netflix Inc., about the company's monthly online views.

The controversy arose when Netflix did not disclose the information Hastings mentioned to its investors by filing the appropriate form with the SEC or a formal press release. Those methods, at least in theory, assure all investors would have access at the same time.

Now, the SEC has concluded that companies can disclose key information through social media as long as investors are made aware that those sites will be used.

Mick Swartz, associate professor of clinical finance and business economics at USC's Marshall School of Business, said social media give companies a way to get information out quickly, but it needs to be interesting.

"If it was something timely, then that would be useful," said Swartz. "You sign a new contract, and you want to use Twitter as a forum for the release of information. But restating earnings? I'm not so sure people are going to be that thrilled to get those kinds of tweets."

While PondelWilkinson has been increasing its clients' use of social media, Evan Pondel said the transition has not always gone smoothly.

"The challenge is explaining yourself in a cohesive way in 140 characters or less," he said. "How do you do that when you've got a very complicated crisis brewing?"

In the case of the client's false rumor posted on Twitter, the company was able to send out one tweet to stem the damage. Other events could require additional outreach such as emails or a press release.

To mitigate risk, PondelWilkinson monitors tweets or Facebook posts made by or about its 30 clients. To manage that flood of information, the company splits its staff into teams to focus on different clients. Depending on the scope of the work, the teams can consist of two to six people.

In addition, PondelWilkinson encourages clients to make their employees aware of how social media can affect a company's compliance with the SEC's Regulation Fair Disclosure requirement, which ensures information is broadly disseminated in a fair way.

The company said it uses social media in conjunction with traditional outreach such as press releases and wire services. Pondel said the key is to help create a story.

New model

The firm's strategy varies with each client, depending on what channel they traditionally use to disclose information. The usual practice would be sending out a news release, followed by a tweet of highlights from the release or posting it on the company's Facebook page. The firm will also create a 90-second video featuring a client discussing key highlights and then embed the video's hyperlink within a press release.

Pondel predicts expensive wire services, which can charge up to several thousand dollars to blast corporate press releases to appropriate media outlets, might face challenges as companies learn how to use social media to reach investors.

“We foresee a time where wire services are less relevant because companies can now control their own disclosure channels,” he said. “If you’re a company that’s been around for a while and you’ve got a following … there’s no reason why you couldn’t use your website; you couldn’t use Twitter; you couldn’t use YouTube exclusively.”

Financial Profile’s Conlon agreed, but said the transition would take time as small- and midcap companies still need the reach that wire services provide.

“Emerging practices are usually first adopted by big corporate leaders,” she said. “And yesterday’s best practices become tomorrow’s requirements. So, that could be the case, very long term, with social media.”

Still, Roger Pondel said there is comfort with the traditional ways of managing information.

“The first channel of information dissemination is still today via one of the paid wire services,” he said. “That assures compliance with Regulation FD, and I think it makes the legal community the most comfortable and it still makes us the most comfortable.”

Tom Becktold, senior vice president of marketing at Business Wire’s West L.A. office, said business hasn’t declined since the SEC’s ruling.

He said social media is a great channel to amplify a company’s message, field questions on Twitter during an earnings call or posting key bits of information. But he doesn’t see it becoming a replacement.

“As an investor or someone reasonably interested in the stock, I need to have an account on Facebook,” said Becktold. “I have to become a fan of that page and every other company and then I have to hope that Facebook’s algorithm shows me your content. If I’m looking to invest rapidly, I might not see that content for a couple hours after it’s posted.”