Integrating Utility Risk Management and Social Media Strategies

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Presented at the:

2013 Enterprise Risk Management Symposium
April 22-24, 2013

1. Introduction

Use of social media channels has exploded over the last several years. As an example of this growth, Facebook and Twitter now have more than one billion and 500 million users worldwide, respectively, and LinkedIn has more than 150 million users. Meanwhile, there are currently one billion posts on Facebook and 400 million Tweets made each day (Webbiquity 2013). This activity represents a significant amount of online user time dedicated to blogs, social communities, and professional networking—and, not surprisingly, an enormous marketing opportunity for organizations seeking to expand their global audience, build employee and brand loyalty, and engage in real-time conversations with customers (Crowe Horwath 2011[1]).

With 92 percent of companies now incorporating social media into their marketing efforts, the use of social media has extended to companies in nearly every industry, including utilities. Results from Exelon's 2009 Social Media Benchmark Survey reflect that 83 percent of polled utilities are pursuing the use of social media. More recently, officials from five utilities whose distribution systems were affected by Hurricane Sandy told state utility regulators that social media was an important communication tool during the extended outage. It is believed that the Sandy outages marked the first time a majority of utilities impacted by a storm used Twitter and Facebook to better communicate with customers (SmartGridToday 2013[2]).

Social media channels prove particularly useful to these organizations because timely and consistent communication with diverse stakeholders is a standard—and critical—requirement of all utilities. For example, utilities must routinely communicate with

- Customers/customer classes
- Regional/local business organizations
- Special interest groups
- Peer companies
- Financial community

Best-in-class utilities routinely seek new ways to engage stakeholders to generate interest in new business concepts, influence thinking on critical strategic plans, or gauge their reaction to events. To this end, utilities are increasingly adopting comprehensive corporate communication strategies that recognize social media tools as powerful two-way customer relationship management channels. These channels are useful as they offer a unique opportunity to push information to—and pull information from—all of the stakeholders to which a utility must be responsive.

However, in addition to extending brand and providing a means of introducing new and innovative programs, social media usage also introduces significant risk to utilities if mitigation processes and tools are not adopted. More specifically, utilities are increasingly vulnerable to reputation-related risks due to the instantaneous and uncensored nature of social media communication. And as utility operations continue to increase in complexity, the potential negative effects of social media (stemming from their nature as communication tools with widespread, seemingly limitless accessibility) may "catalyze" the impact of common sources of utility risk.

This paper examines the potential impact of increasing negative commentary by social media users in multiple forums, which can erode the “reputation capital” of a utility. It also offers an approach for successfully addressing that risk and integrating social media risk management practices into existing utility enterprise risk management (ERM) programs.

2. Utilities and Social Media

Utilities are increasingly using social media channels to disseminate information to customers and stakeholders on a variety of topics, including responsiveness to specific events (e.g., storm restoration), innovative products and services (e.g., adoption of Smart technologies and energy-efficiency programs), and progress on critical initiatives (e.g., meeting renewable portfolio standards).

The *2012 E Source Utility Social Media Survey* reflects this increased use of social media, with the following identified as the most important uses:

- To communicate information about outages or emergencies (80 percent considered this "very important")
- To deliver general corporate communication (62 percent considered this "very important")
- To offer direct customer service (42 percent considered this "very important")

In addition, a March 2012 infographic by Zpryme identified customer service and crisis management as the primary advantages of utilities’ use of Facebook and Twitter, respectively. To this end, social media channels can provide a convenient and effective means of stakeholder communication around critical and timely issues, unlock new opportunities for customer engagement, and provide a new method of extending brand identity.

However, while significant attention is paid to pushing information to social media users, less attention is paid to proactively pulling information from social media channels to evaluate the types of negative messages being communicated on strategic or operational challenges or aspects of performance that are perceived as lacking. Prominent examples include customer experiences and perceptions of the following:

- System reliability/storm restoration:
    - Concern and confusion regarding the speed and sequence of service restoration and the desire for timely information about the causes and natures of specific outages
- Overall customer service/“value for money”:
    - General frustration about large utility bills and more specific complaints about specific surcharges (which in turn, could contribute to complaints about quality of service)
- Strategic direction:

  - For instance, the trade-off between the cost and potential long-term benefit of energy efficiency and renewables, and how well the utility is acting as an environmental leader and job creator

Monitoring social media in a reactive manner undermines the ability to strategically assess the potentially damaging nature of social media on the company's reputation and create innovative countermeasures. The reach, speed, and permanence of social media communication—when combined with low cost of entry and ease of use—can create a "contagion" of ideas that can escalate negative perceptions and opinions, thereby exposing companies to significant risk, including potentially serious damage to reputation. In turn, an erosion of "reputation capital" can impact the ability of utilities to meet critical strategic objectives (e.g., secure advantageous rate case outcomes) and can also have lasting effects on relationships with key stakeholders.

3. Social Media and Reputation Risk

A company's reputation is routinely described as the single most important driver of value creation or value destruction. Recently corporate board members and risk management professionals identified risk to reputation as the number one risk facing companies (EisnerAmper 2011; Economist Intelligence Unit 2005[3]). In addition, scholarly interest in the concept of corporate reputation has led to a fivefold increase in the number of peer-reviewed articles over the last decade (Barnett et al. 2006[4]). Finally, over the last several years, reputation and reputation risk have emerged as significant issues in corporate studies. A search conducted by the Conference Board Business Information Service on business magazine articles and academic journals shows that the number of publications containing (in their title or abstract) the phrases "corporate reputation" and "reputation risk" has more than doubled since the year 2000 (Conference Board 2007[5]). These examples reflect the growing focus of executives and scholars alike on the role of reputation in the erosion of value and strategic advantage.

The reputation of a utility is built over time and determined, in large part, by how well several core commitments are met, including delivering reliable, safe, and least cost service to customers while meeting and exceeding the financial (cost and revenue) expectations of a variety of stakeholders. Today, stakeholder perceptions around emerging strategic factors of a significant public interest such as environmental stewardship are increasingly impacting utilities' reputations.

Utilities are particularly vulnerable to reputation-related risks in today's complex environment. Erosion of reputation capital can have long-term impacts on a monopolistic utility whose business is generally not impacted by competition, but is impacted by loss of customer and regulatory confidence, trust, or perceptions of poor management. This erosion can occur as a result of a single, large-scale event (e.g., a significant outage) or as a result of multiple perceived failures in managing what is seen as an increasingly complex environment. Consider the following factors:

- Unplanned and extended outage: Questions surrounding storm restoration and other asset outages, and the resulting public debate

- Renewable rate shock: Significant integration costs of a "green" portfolio, the pace of meeting renewable energy targets, and composition of the renewable portfolio

- Aging infrastructure: Risks of asset operation failure, and the associated cost of asset replacement and ongoing asset safety
- High rate revolt: Customer reaction to increasing bills due to multiple significant CapEx requirements
- Activist regulatory and political forces: Focused and engaged oversight groups that provide key approvals around utility operations
- Additional powerful stakeholders: The increasing number and strength of special interest stakeholders to which a utility must be attentive

These are a few of the factors that can individually and collectively introduce significant risk to utilities in today's environment. In general, because the changing nature of regulatory, political, commodity market, strategy, and capital market risks has increased the complexity of utility operations, the need to remain diligent with regard to the factors that can drive reputation risk has also increased. Left unmitigated, the impact of social media represents a potential catalyst and contributor to the risk profile of a utility.

4. Managing Social Media Risk

As with all sources of risk, utilities must understand the unique nature of social media risk to properly manage it. Utilities must therefore understand the connection between the risk factors that make up the corporate risk profile (comprising Market, Credit, Business, and Operative Risks) and the potential escalation effect of social media on those risk factors. For instance, the following characteristics must be considered when discerning the catalyzing impact of social media on the risk profile of a utility:

- Duration: *How long* a risk event is experienced
    - The contagion effect where multiple users rapidly post similar messages can prolong the duration of a risk event that impacts reputation
- Velocity: *How quickly* a risk is incurred and becomes critical
    - The immediate, interconnected, and entirely public nature of social media communication can hasten the criticality of an identified risk
- Correlation: *How risks combine* and increase in complexity
    - How instantaneous and unchecked communication can exacerbate the impact of a risk event or events, and link public relations, regulatory, and other sources of risk

An example of these characteristics can be found in a common challenge faced by all utilities: storm restoration. In today's world, social media strengthens the links between storm restoration, public and community relations, and stakeholder management—and inevitably can result in the erosion of a company's reputation. Consider the following stylized example:

- A large-scale weather event initiates a utility's storm restoration program, including public relations and communications protocols.

- The utility communicates discrete aspects of the restoration program to customers and other stakeholders through traditional and social media channels. *However, while the utility pushes update and restoration information to customers, it does have a process for evaluating social media communications in a comprehensive way, and does not have a risk mitigation plan to address the growing number of significantly negative social media comments.*

- As a result of unaddressed negative comments, perception grows among social media users that the utility is ill-prepared to address the restoration challenge, that restoration efforts are inadequate, and that communication on restoration progress is lacking or unclear.

- These perceptions become the focus of individuals—then many customers—in tweets, Facebook posts, etc.

- This continued—and rapidly spreading—negative reaction in a public setting becomes a focus of other media outlets, various stakeholders, and governance bodies.

- The storm response risk rapidly leads to public relations risk, which then increases regulatory, political, and other forms of risk due to the erosion of trust, confidence, and other "soft" but critical forms of capital.

Consider also an example of the important role of social media monitoring when conducted on an ongoing and proactive basis (absent a significant risk event and in the "normal course of business"):

- A utility has identified and kicked off actions to prepare for a general rate case, including a series of early-stage stakeholder communications.

- Prominent in the public's mind is the knowledge that the utility needs to address a variety of potentially costly initiatives, including renewables and aging infrastructure.

- User posts in a number of social media forums focus on the likely significant impact of these large CapEx initiatives on rates.

- As one aspect of a holistic communications and outreach program, the utility begins to routinely evaluate the nature of posts on a variety of relevant sites. *Recognizing the gap between public perception and reality of the rate case and revenue requirements, the utility takes action*.

- Further recognizing the potential impact of these "trending" posts, the utility begins a coordinated social media and Town Hall Meeting campaign aimed at dispelling specific rate case myths.

- Social media environments are then routinely monitored, as milestones related to the rate case are met.

These simplified but relevant case studies reflect the potential value of actively monitoring social media in the context of an overall risk management program. However, as with any risk, specific steps are required to move from simply monitoring social media to understanding and mitigating the risks of social media. This requires the integration of social media risk into existing ERM programs.

Utilities are increasingly adopting principles of ERM to identify, assess, and monitor the impact and probability of the variety of risks to the enterprise. Like many risk factors that require the special attention of risk practitioners, social media risk requires specific changes to traditional ERM programs in "governance, people, process, and technology" areas to ensure effective ongoing identification, mitigation, and monitoring. Specifically, utilities must consider:

- Governance: Who "owns" social media risk at the executive level? Through what operating and/or Board committees are social media risks reported and with what frequency?
  - Steps to ensure that social media–related risks are incorporated into existing governance protocols, that senior leadership team members in key roles are working closely on social media matters, and that executive ownership for social media risks is clearly defined
- People: Who leads "front line" social media risk identification and assessment efforts? What groups are involved in social media strategic planning and mitigation decision making?
  - Roles to create social media strategy and proactively collect and decipher the potential impact of evolving sentiments reflected in the social media environments that represent the views of multiple utility stakeholders
- Process: What is the overall business process for social media risk assessment? What is the frequency of assessment, and how are risks incorporated into existing ERM protocols?
  - Clearly defined tasks and activities around the collection and interpretation of trending social media messages, which are then integrated with existing company strategy, marketing, and risk-management processes
- Technology: How are trends across multiple social media environments identified and evaluated in an efficient and effective manner?
  - Advanced tools that allow for the collection and evaluation of themes, sentiments, meaning, and intent from social conversations and the Web—and, inevitably, advanced warning of changing sentiment and the development of actionable intelligence

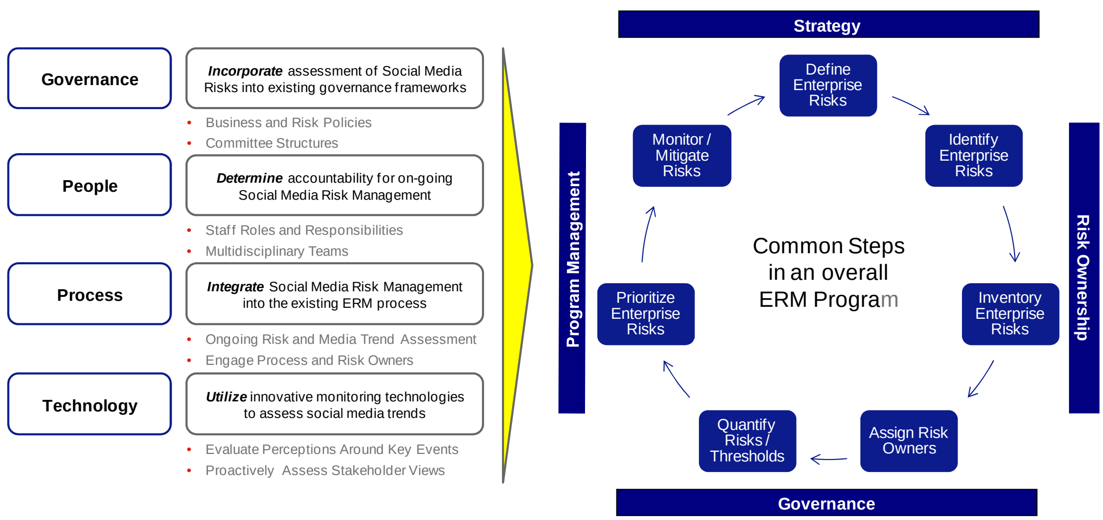
Successfully answering these questions and implementing enhancements to existing ERM programs can enable proactive evaluation of communications that are trending in social media, which could contribute to the erosion of reputation and increase the company risk profile.

5. Conclusion

When designing social media strategies, many utilities focus significant attention on two components: The potential marketing opportunities associated with social media, and the risks associated with use of social media by employees. However, a utility's reputation can be damaged significantly—and rapidly—if it does not take proactive measures to understand the most significant areas of social media risk caused by the unmitigated communications of external stakeholders, and the resulting impact of social media on reputation.

Companies that understand the nature of social media communication can design strategies in advance of a rapidly deteriorating negative social media trend, leveraging detailed insight into the nature of the stakeholders and relationships that have the potential to influence reputation capital. Importantly, social media risk management does not include engaging in "tit for tat" online battles with users. Rather, leading organizations work to (1) understand the stakeholders to which the company must be responsive (e.g., build a stakeholder map); (2) understand the reputation capital held by those stakeholders, and the reputation risks that can impact company performance; (3) continuously evaluate social media outlets to assess the risks that are emerging or "trending"; and (4) integrate all of that insight into existing ERM risk assessment tools and processes (see Fig. 1).

Figure 1: ERM Risk Assessment Processes



Through an integrated set of enhancements in core governance, people, process, and technology areas, utilities can develop and continually enhance social intelligence—the ability to expertly analyze and predict customer behavior based on social conversations and online activity. And by gathering and evaluating social intelligence, utilities can understand what they should be listening to, how it should be interpreted, and how they can use it to protect their most critical assets—their reputations.

Reference

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