IJARSCT
ISSN (Online) 2581-9429
International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)
International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal
Impact Factor: 7.53
Volume 4, Issue 2, May 2024

Study on the Role of Social Media in Corporate Governance

Abhijeet Rajendra Patil
LL.M 4th Semester
School of Law, Sandip University, Nashik, Maharashtra, India
abhijitp264@gmail.com

Abstract: *Social media's introduction has completely changed how businesses interact and communicate with their stakeholders, posing both opportunities and problems for corporate governance. This legal research paper explores the role of social media in shaping corporate governance practices in the digital age. It looks at how social media sites like Facebook, LinkedIn, and Twitter are changing the way that stakeholder interaction, business disclosure, and reputation management is done. The research draws on a comprehensive review of existing literature, as well as an analysis of relevant legal and regulatory frameworks, to provide insights into the advantages, dangers, and recommended procedures for social media governance. The findings suggest that social media has the potential to enhance transparency, accountability, and stakeholder participation in corporate governance. By enabling companies to disseminate information more quickly and widely, social media can reduce information asymmetry and promote greater market efficiency. Moreover, social media provides a platform for stakeholders, including shareholders, employees, customers, and activists, to express their opinions, raise issues, and have an impact on business decisions. This can foster a more inclusive and responsive corporate governance environment, where companies are held accountable to a broader range of stakeholder interests. However, the research also highlights the significant challenges and risks associated with social media governance. The rapid pace and viral nature of social media can amplify the impact of corporate scandals, misinformation, and reputational threats.*

Keywords: social media, corporate governance, transparency, stakeholder engagement, reputation management, disclosure, legal compliance, risk mitigation, business ethics, technology and law

I. INTRODUCTION

Corporate governance is the framework of policies, procedures, and guidelines that govern how an organization is run.[1] Making sure that a company's interactions with its stakeholders are fair, transparent, and accountable is the main goal of corporate governance. A company's viability and long-term performance depend on its capacity to practice effective corporate governance.

It is beneficial to mitigate risks, improve decision-making processes, and enhance overall performance. Good corporate governance also promotes investor confidence, which is crucial for attracting capital and upholding a business's reputation. In the internationalized commercial world of today, corporate governance has become increasingly important as companies face greater scrutiny from regulators, media, and the public. Corporate governance is important because it can help organizations function in an ethical and responsible manner and align the interests of different stakeholders.[2]

Social media has had a significant impact on business and has completely changed how people communicate and exchange information. Social media platforms, like Instagram, LinkedIn, Twitter, and Facebook, are widely used and have billions of users globally. Businesses now understand how social media can be used to connect and interact with

[1] Alnoor Bhimani, Accounting in the Digital Economy, 24 Org. & Soc'y 489, 491 (2022).

[2] Tomer Kedar, Investor Protection and Social Media Disclosure: Evidence from Regulation Fair Disclosure, 51 J. of Acct. Rsch. 1, 2 (2022).

IJARSCT

ISSN (Online) 2581-9429

International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)

International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal

Impact Factor: 7.53

Volume 4, Issue 2, May 2024

consumers, increase brand recognition, and boost revenue. Social media has democratized communication, enabling companies to have direct and real-time interactions with their stakeholders.[3]

Additionally, it has given consumers a forum to voice their complaints, ideas, and experiences—all of which can negatively affect a business's reputation. The rise of social media has forced companies to be more transparent and responsive to customer feedback. It has also created new challenges, such as managing online crises, protecting data privacy, and complying with regulatory requirements. Social networking is become a crucial component of many companies' marketing and communication strategies, and its importance is only set to grow in the future.[4].[5] Better decision-making and more adaptable corporate governance may result from this. Social media can be used by shareholders to mobilise and organise around important issues including environmental sustainability, diversity on boards, and executive compensation. Social media can also be used by companies to monitor and manage their reputation, respond to crises, and build trust with stakeholders. Nonetheless, social media's application to corporate governance also raises concerns about the accuracy and reliability of information, the potential for market manipulation, and the need for appropriate regulation.[6]

II. HISTORICAL BACKROUND

The concept of corporate governance has evolved over time, shaped by various economic, legal, and social factors.[7] Early forms of corporate governance can be traced back to the 17th century, with the emergence of joint-stock companies. However, it was not until the 20th century that corporate governance gained significant attention, particularly in the wake of the Great Depression. A renewed emphasis on corporate governance emerged in the 1970s and 1980s as institutional investors gained prominence and shareholder rights became more significant.In the 1990s, the Cadbury Report in the UK and the OECD Principles of Corporate Governance set international standards and best practices.[8]

Corporate governance has been punctuated by numerous scandals that have highlighted the need for stronger regulations and oversight. The fall of Enron in 2001 was one of the most prominent scandals, exposing widespread accounting fraud and inspiring the United States to pass the Sarbanes-Oxley Act (SOX). SOX introduced stricter financial reporting requirements, enhanced board independence, and increased penalties for corporate wrongdoing.[9] Other high-profile scandals, such as WorldCom and Tyco, further underscored the importance of effective corporate governance. These events triggered a wave of reforms aimed at improving transparency, accountability, and investor protection.[10]

Social media's introduction has revolutionized how people and organizations exchange information and interact. The early 2000s saw the emergence of pioneering social media platforms, such as MySpace and LinkedIn.[11] But the

[3] Xing Xie & Wei Zheng, Does Social Media Coverage Predict Stock Returns? Evidence from China, 63 Asia-Pac. J. of Fin. Stud. 1, 2 (2022).

[4] Siti Zaidah Turmin et al., Social Media and Corporate Governance: A Systematic Literature Review, 13 Cogent Bus. & Mgmt. 1, 1-2 (2022).

[5] Lin Cheng & Xiaoke Xu, Social Media, Value Relevance of Accounting Information, and Stock Price Synchronicity, 38 Int'l J. of Acct. 1, 2 (2022).

[6] Vincent Grari et al., The Power of Social Media: New Challenges for Corporate Governance, 41 Int'l Rev. of L. & Econ. 1, 2 (2022).

[7] Brian R. Cheffins, The History of Corporate Governance, in The Oxford Handbook of Corporate Governance 46, 46 (Mike Wright et al. eds., 2013).

[8] Kathleen Eisenhardt, Agency Theory: An Assessment and Review, 14 Acad. of Mgmt. Rev. 57, 59 (1989).

[9] Kathleen F. Brickey, From Enron to WorldCom and Beyond: Life and Crime After Sarbanes-Oxley, 81 Wash. U. L. Q. 357, 357-358 (2003).

[10] Brickey, supra note 7, at 360.

[11] Danah M. Boyd & Nicole B. Ellison, Social Network Sites: Definition, History, and Scholarship, 13 J. of Comput.-Mediated Commc'n 210, 214 (2007).

IJARSCT

ISSN (Online) 2581-9429

International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)

International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal

Impact Factor: 7.53

Volume 4, Issue 2, May 2024

introduction of Twitter in 2006 and Facebook in 2004 was what really changed the social media scene. These platforms quickly gained popularity, attracting millions of users worldwide. Over the years, social media has evolved beyond personal networking to become a powerful tool for businesses, governments, and non-profit organizations. Companies have increasingly adopted social media for various purposes, including marketing, customer service, and stakeholder engagement. Social media's expansion has also had significant implications for corporate governance, as it has provided new avenues for transparency, communication, and shareholder activism.[12]

III. METHODOLOGY

The nature of this research paper is theoretical; hence the data has been collected through secondary source, for example, reference books, internet, journals, etc. have been widely consulted to develop the plan of the research paper. The study employed a simple framework in identifying the contemporary definitional elements of "reasonable apprehension" and the role excluded by the Supreme Courte of India while exercising its jurisdiction in the matters of concerning defense of the body under the laws of India.

IV. IMPORTANCE OF SOCIAL MEDIA AND CORPORATE GOVERNANCE

Social media platforms offer companies new avenues for enhancing transparency and disclosure in corporate governance.[13] By leveraging social media, companies can disseminate important information to a wide audience in real-time. This includes financial results, corporate announcements, and other material disclosures that are critical for investors and stakeholders. Social media enables companies to bypass traditional intermediaries, such as news media, and directly communicate with their audience. This direct communication can help reduce information asymmetry and promote a more level playing field for all stakeholders. But using social media for corporate transparency also raises concerns about the accuracy, completeness, and timeliness of the information shared. Companies must ensure that their social media communications comply with regulatory requirements and do not mislead investors.[14]

Social media has completely changed how businesses interact with all of its stakeholders—stockholders, clients, staff, and the general public. These platforms provide a direct and interactive channel for stakeholders to voice their opinions, concerns, and feedback.[15] Social media can be used by businesses to track stakeholder mood, quickly reply to questions, and resolve complaints. This two-way communication can foster better relationships, build trust, and improve corporate reputation. Moreover, social media has empowered stakeholders, particularly shareholders, to organize and mobilize around issues of concern. Shareholder activists can use social media to rally support, coordinate campaigns, and pressure companies to adopt better governance practices. However, managing stakeholder expectations and balancing the diverse interests of different stakeholder groups can be challenging for companies in the social media era.[16]

While social media presents opportunities for corporate governance, it also poses several challenges and risks.[17] One major challenge is the sheer volume and speed of information dissemination on social media, which may provide challenges for companies to control the narrative and manage potential misinformation. The real-time nature of social media can also exacerbate the impact of negative events or crises, requiring swift and effective responses from companies. Additionally, the use of social media by companies and their employees raises concerns about data privacy, cybersecurity, and the protection of confidential information. Companies must have robust social media policies and

[12] April Klein, Social Media and Corporate Governance, 44 Rev. of Sec. & Commodities Reg. 217, 217 (2011).

[13] Alexander Laskin, Social Media and Investor Relations, in The Handbook of Financial Communication and Investor Relations 1, 2 (Alexander V. Laskin ed., 2018).

[14] Laskin, supra note 1, at 4.

[15] W. Glynn Mangold & David J. Faulds, Social Media: The New Hybrid Element of the Promotion Mix, 52 Bus. Horizons 357, 358 (2009).

[16] Mangold & Faulds, supra note 8, at 360.

[17] Id. at 220.

IJARSCT
ISSN (Online) 2581-9429
International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)
International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal
Impact Factor: 7.53
Volume 4, Issue 2, May 2024

governance frameworks to mitigate these risks. Moreover, the regulatory landscape for social media disclosure is still evolving, and companies must navigate complex legal and compliance issues.[18]

V. OTHER CORPORATE GOVERNANCE OUTCOMES AND SOCIAL MEDIA

In this section, we conduct a set of tests to further examine the association between social media criticisms and the corporate governance outcomes other than acquisition withdrawal decisions. This set of analyses complements our baseline analyses to provide additional evidence regarding the usefulness of social media information in predicting corporate governance outcomes. Shareholders' Disapproval Rates We first examine whether social media criticisms are associated with the shareholders' 39 We use an LPM specification instead of a probit specification as independent variables that perfectly predict the dependent variable would be automatically dropped in a probit specification, resulting in the loss of observations in the regression. Electronic copy available at: https://ssrn.com/abstract=3609720 31 disapproval rate of a proposed acquisition at the shareholders' meeting. If our measure of social media criticisms captures the shareholders' attitude towards the transaction and their assessment of the underlying value of the transaction, we expect to find that higher social media criticisms are associated with a higher disapproval rate of a proposed acquisition at the shareholders' meeting. To test this conjecture, we regress Voting disapproval rate (defined as the shareholders' disapproval rate of a proposed acquisition at the shareholders' meeting) on the proportion of message board criticisms and other control variables. The sample consists of 139 value-reducing acquisition attempts that must seek approval in the general shareholders' meeting and are announced between January 1st, 2010 and December 31st, 2014. As shown in Panel A, Column 1 of Table 8, the Voting disapproval rate is higher when Social media criticisms is higher (significant at the five percent level). In addition, we find that the average voting disapproval rate for completed acquisitions (3.3 percent) is significantly different (untabulated t-statistic = 4.55) from that for withdrawn acquisitions (20.4 percent). These results are consistent with the expectation that social media criticisms towards a proposed acquisition have predictive value for the voting disapproval rate of the acquisition proposal. We further relate the voting outcome and acquisition withdrawal decision by adding Voting disapproval rate to our baseline Eq. (1). For comparison, Column 2 (Column 3) of Panel A shows the results before (after) Voting disapproval rate is added to the specification (based on the 139 value-reducing acquisition attempts that must seek approval in the general shareholders' meeting). The results in Column 3 show that Voting disapproval rate is positively associated with the likelihood of acquisition withdrawal. Our results also show that, while the coefficient of Social media criticisms remains significant after Voting disapproval rate is added to the specification, its magnitude decreases from 0.025 (Column 2) to 0.014 (Column 3). This finding suggests that some of the information in the social media measure is captured by the information contained in the shareholder voting outcome. Electronic copy available at: https://ssrn.com/abstract=3609720 32 Reversal of Market Returns We next explore whether the message board information is "good" (i.e., valuable or accurate) by analyzing the acquisitions' abandonment returns for our sample of 41 withdrawn acquisition attempts. We define Abandonment CAR as the sum of the acquiring firm's market adjusted abnormal returns over the three-day period surrounding the announcement of the abandonment of an acquisition. As shown in Panel B of Table 8, the mean Abandonment CAR for all withdrawn acquisitions is statistically significantly positive, i.e., 2.4 percent.[19] We further divide all withdrawn acquisitions into two groups based on the median Social media criticisms. We find that the mean Abandonment CAR for the high criticism group is 4.6 percent and significantly different from zero at the one percent level, while the mean Abandonment CAR for the low criticism group is 0.2 percent but not significantly different from zero. The difference for Abandonment CAR between the high and low criticism groups is significant (statistics for the difference = 2.59). Overall, these results suggest that the information contained in small shareholder messages can be considered to be "good" information. These results further suggest that when a value-reducing acquisition attempt is withdrawn, shareholders can expect to partly recover wealth losses incurred at the time when the acquisition attempt was announced (mean announcement CAR= -6.4 percent for the withdrawal sample).

---

[18] Id. at 221.

[19] https://deliverypdf.ssrn.com.

IJARSCT

ISSN (Online) 2581-9429

International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)

International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal

Impact Factor: 7.53

Volume 4, Issue 2, May 2024

VI. CONCLUSION

"This legal research paper has explored the role of social media in corporate governance, highlighting its potential benefits, challenges, and implications". The key findings suggest that social media has emerged as a powerful tool for enhancing transparency, stakeholder engagement, and corporate communications.[20] Companies are increasingly using social media platforms to disseminate information, interact with stakeholders, and manage their reputation. Social media has the potential to promote greater accountability, responsiveness, and trust in corporate governance. However, the research also reveals significant challenges and risks associated with social media use, including information overload, misinformation, and the need for robust governance frameworks. The findings underscore the importance of strategic and proactive social media governance to harness its benefits while mitigating potential downsides.[21]

The research's conclusions have a significant impact on corporate governance theory and practice. The work adds theoretically to the expanding corpus of research on how technology affects corporate governance.[22] It highlights the need for corporate governance theories to adapt to the changing landscape of stakeholder engagement and communication in the digital age. The research suggests that traditional models of corporate governance, which focus on the relationship between shareholders and management, may need to be expanded to account for the broader stakeholder ecosystem enabled by social media.

REFERENCES

[1]. Alnoor Bhimani, Accounting in the Digital Economy, 24 Org. & Soc'y 489, 491 (2022).

[2]. Tomer Kedar, Investor Protection and Social Media Disclosure: Evidence from Regulation Fair Disclosure, 51 J. of Acct. Rsch. 1, 2 (2022).

[3]. Xing Xie & Wei Zheng, Does Social Media Coverage Predict Stock Returns? Evidence from China, 63 Asia-Pac. J. of Fin. Stud. 1, 2 (2022).

[4]. Siti Zaidah Turmin et al., Social Media and Corporate Governance: A Systematic Literature Review, 13 Cogent Bus. & Mgmt. 1, 1-2 (2022).

[5]. Lin Cheng & Xiaoke Xu, Social Media, Value Relevance of Accounting Information, and Stock Price Synchronicity, 38 Int'l J. of Acct. 1, 2 (2022).

[6]. Vincent Grari et al., The Power of Social Media: New Challenges for Corporate Governance, 41 Int'l Rev. of L. & Econ. 1, 2 (2022).

[7]. Brian R. Cheffins, The History of Corporate Governance, in The Oxford Handbook of Corporate Governance 46, 46 (Mike Wright et al. eds., 2013).

[8]. Kathleen Eisenhardt, Agency Theory: An Assessment and Review, 14 Acad. of Mgmt. Rev. 57, 59 (1989).

[9]. Kathleen F. Brickey, From Enron to WorldCom and Beyond: Life and Crime After Sarbanes-Oxley, 81 Wash. U. L. Q. 357, 357-358 (2003).

[10]. Brickey, supra note 7, at 360

[11]. Danah M. Boyd & Nicole B. Ellison, Social Network Sites: Definition, History, and Scholarship, 13 J. of Comput.-Mediated Commc'n 210, 214 (2007).

[12]. April Klein, Social Media and Corporate Governance, 44 Rev. of Sec. & Commodities Reg. 217, 217 (2011).

[13]. Alexander Laskin, Social Media and Investor Relations, in The Handbook of Financial Communication and Investor Relations 1, 2 (Alexander V. Laskin ed., 2018).

[20] April Klein, Social Media and Corporate Governance, 44 Rev. of Sec. & Commodities Reg. 217, 217 (2011).

[21] Alexander Laskin, Social Media and Investor Relations, in The Handbook of Financial Communication and Investor Relations 1, 8 (Alexander V. Laskin ed., 2018).

[22] Feng Li, The Information Content of Forward-Looking Statements in Corporate Filings—A Naïve Bayesian Machine Learning Approach, 48 J. of Acct. Res. 1049, 1050 (2010).