

ESG Spotlight

Fake news, social media and the value of credible content

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Themes:

Fake news, social media, editorial standards, media ethics

Sectors:

Media, Software and Services

Country:

Multiple

Key Insights

- Social media networks, which currently have an **estimated 2.3 billion users worldwide**, are facilitating a surge in the dissemination of fake news.
- Fake news can have **important financial and reputational effects** for both conventional and social media companies.
- **Only 16% of researched media firms**, including Sky, ITV, Vivendi, Thomson Reuters and RTL Group, are well-prepared to manage relevant content governance risks.

Addressing the material risks of fake news

This report explores a range of investment risks related to fake news; that is, the dissemination of disinformation and hoaxes under the guise of legitimate, factual reporting.¹ Such risks include regulatory scrutiny, reputational repercussions and real financial effects that may hit the bottom line of media companies. We evaluate 74 conventional and social media² firms based on their content governance (i.e. measures to ensure the integrity of information created or distributed by media companies). As shown in the figure below, we find a wide divergence in company practices. Only 16% of researched firms have either adequate or strong content governance measures in place, while 61% fail to disclose relevant policies or programmes. As the fake news phenomenon continues to develop, we expect the financial importance of advanced content governance practices to increase and investor interest in understanding how their media holdings are responding to fake news to escalate.

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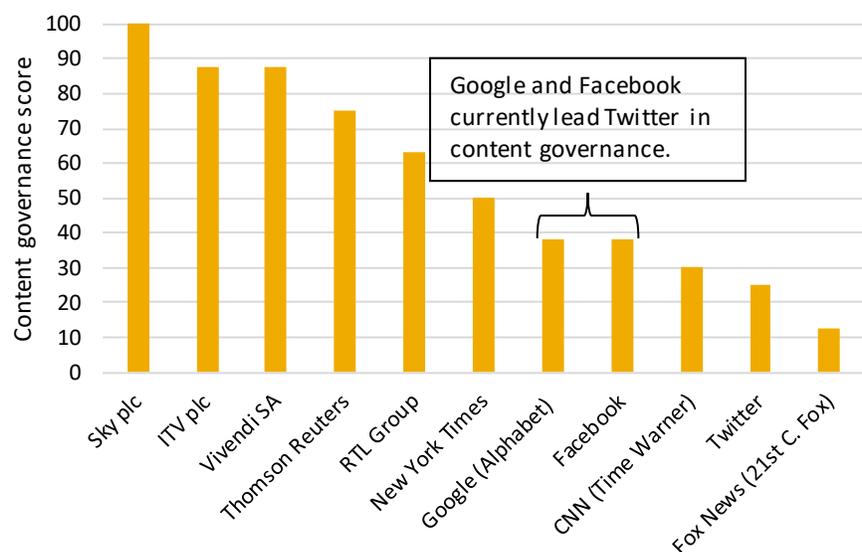
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Content governance scores of selected print, broadcasting and social media firms



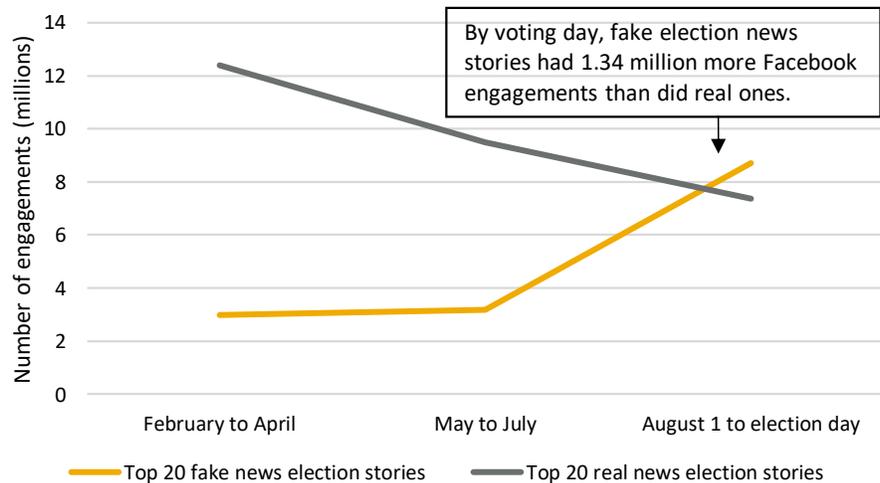
Source: Sustainalytics

The escalation of fake news in the 2016 US presidential campaign

Disinformation and the role of social media

The topic of fake news grabbed the public’s attention during the 2016 US presidential campaign when, as depicted in the figure below, in the days leading up to the vote, the top fabricated election stories generated more engagement (i.e. shares, reactions or comments) on Facebook than did the top election stories in mainstream outlets, including the New York Times, Washington Post, Huffington Post and NBC News.³

Total Facebook engagements for top fake and real news election stories



Source: Sustainalytics, BuzzFeed, BuzzSumo⁴

Social media networks play a prominent role in the dissemination of fake news

Although fake news stories can be, and for a long time have been, transmitted through conventional media outlets, such as print and radio broadcasting, social media is facilitating their dissemination and profitability like never before. Estimates suggest some fake news sites receive 50%-80% of their traffic via Facebook alone.⁵

The business of fake news and its transmission via social media

The motivations for publishing fake news range from systematically misinforming the public for political or other reasons to generating advertising revenues. Indeed, as social media users engage with fake news stories, fake news publishers and social media hosts collect revenues from advertisers who pay fees in proportion to website traffic. Social media networks are fertile grounds for fake news because their revenue models reward content engagement rather than content quality.⁶

The threat of fake news brings social media under scrutiny

Disinformation can cause harm

Fake news creates confusion, which can have pernicious effects. According to survey data from the Pew Research Center, nearly two-thirds of Americans say that fake news has caused them a great deal of confusion, and just under one-quarter have shared a made-up news story.⁷ The notorious “pizzagate” fake news story, which led a would-be vigilante to bring a gun into a Washington, DC pizza restaurant and open fire, is only one example of the danger fake news can pose to the public.⁸

Fake news as a means of political manipulation

Fake news may also have deleterious political consequences, as fabricated stories can be designed with the intent to influence elections and undermine democratic processes.⁹ Concerned about such issues, several governments are taking steps to prevent fake news from distorting their political landscapes.

Regulatory pressure is building

Regulators may soon clamp down on fake news producers and distributors

Regulators are trying to hold fake news publishers and social media companies to account by undercutting the profitability of fake news. A group of US House Democrats has introduced a bill opposing fake news.¹⁰ The German government has launched an official investigation into the publication and dissemination of fake news, and is considering legislation that would impose fines on social networks of up to EUR 500,000 (USD 538,000) for each fake news story they fail to remove within 24 hours.¹¹ The Italian Senate has proposed a similar bill involving fines and prison sentences.¹²

Although it is uncertain whether any of these propositions will become law – their opponents assert that such rules would impinge on free speech – the fact that governments are taking such actions signals that new regulations are in the works.

Brand reputation depends on public trust

Advertisers acknowledge the importance of quality control in social media

Fake news can have other important financial and reputational consequences for media companies and their investors. For social media firms to stay in good standing with the advertisers they do business with, it is important for them to foster a sufficient degree of public trust. As of May 2017, more than 250 companies, including AT&T, Verizon, Johnson & Johnson, Marks & Spencer and Toyota, have suspended advertising contracts with Google because their ads were being posted alongside offensive content on YouTube.¹³ These decisions could cost Google upwards of USD 750mn in its 2017 revenues.¹⁴ Addressing advertisers' concerns about content quality is sure to be a priority for social media firms: in 2016, the proportion of revenues tied to advertising on Google,¹⁵ Twitter¹⁶ and Facebook¹⁷ was, respectively, 88%, 89%, and 97%.

Investors are taking a stand

Fake news can disrupt financial markets

Fake news can artificially inflate or deflate the value of stocks and bonds – including the equity of social media firms¹⁸ – and some members of the investment community are attempting to curb the trend of social media networks serving as platforms for its distribution. Arjuna Capital and the Baldwin Brothers, which collectively manage USD 1.2bn in assets, filed shareholder proposals at Google (Alphabet, Inc.) and Facebook in late 2016 and early 2017, citing concerns about how fake news could undermine an informed electorate. The proposal calls for additional disclosure on their content review processes and management systems to address content governance and integrity.¹⁹

Social media reacts

Google, Facebook and Twitter take steps towards improving content credibility

Although social media companies have resisted being held to standards that would make them comparable to news media organizations,²⁰ they have begun to recognize the material risks of fake news and are taking steps to curate the content that spreads through their networks. In 2015, Google was an early supporter of the First Draft Coalition, a non-profit that seeks to “raise awareness and address challenges relating to

trust and truth in the digital age.”²¹ Facebook and Twitter also joined the group in 2016. By April 2017, Google and Facebook announced additional measures they would take to improve the quality of the content they disseminate: Google launched updates to its search engine to promote authoritative content, reduce the prominence of fake and offensive sites, and make it easier for users to flag such content.²² Facebook unveiled several new initiatives, including the allocation of USD 14mn to improve the integrity of online news, hiring additional staff to go through content on its platform, offering an educational tool to help users identify fake news, and partnering with third-party fact-checkers (such as Correctiv, Snopes and Politifact) and media organizations (such as the Associated Press and Le Monde).²³

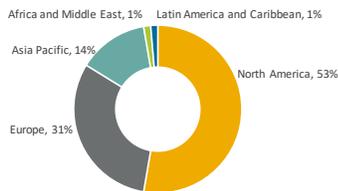
Indicator analysis – editorial guidelines and media ethics

While it is too early to determine the full extent of the financial, reputational and regulatory risks posed by fake news, this much is clear: investors, particularly those who overweight the media or social media industries, should have an informed understanding about how their portfolio companies are positioned on fake news.

To support this process, we assessed the extent to which 74 conventional and social media firms are prepared for user, advertiser, regulator and investor scrutiny related to content governance by applying our editorial guidelines indicator (S.3.1.6), which gauges how companies govern their content production and distribution, and our media ethics programmes indicator (S.3.1.6.1), which evaluates how various initiatives may support overarching principles of content integrity. We combined these indicators to create a content governance composite.²⁴ The chart to the left shows the geographic distribution of the firms, and the one below displays the results of our analysis.

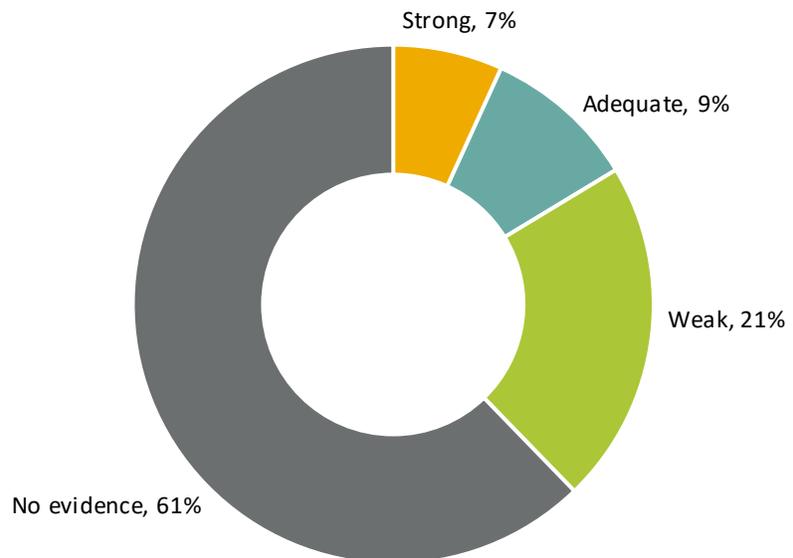
Examining media companies with material indicators

Regional distribution of 74 media firms



Source: Sustainalytics

Assessing content governance in the global media industry



Source: Sustainalytics

Google is already ahead of the majority of new media firms in content governance

Our analysis finds that only 7% of researched firms take strong content governance measures, and only 9% have adequate measures in place. Due to their recent initiatives,

Google, Facebook and Twitter have advanced their positions to be among the 21% of media firms that have weak content governance, putting them ahead of the 61% of firms that show no evidence of having content governance policies or programmes in place.

Content governance for online platforms and content generators

To achieve a strong ranking on this composite metric, a firm must disclose an editorial policy and ethics programme explicitly designed to ensure the integrity of the content it distributes. While such practices are more common among conventional media firms, social media firms, such as Google and Facebook, are moving in this direction by strengthening their community guidelines – a form of content governance that reflects their positions as online platforms rather than content generators.

Social media firms may have to start functioning more like conventional media

Although, as noted above, Google, Facebook and Twitter have taken steps to curb the trend of fake news being disseminated on their platforms, our analysis indicates that such initiatives fall short of the adequacy standards set by the companies leading the media market in content governance. The table below provides an overview of five leading public media companies according to our content governance metric. In order to address the material risks of fake news, social media companies may soon have to follow the lead of such companies with respect to their content governance practices.

Media companies leading the industry in content governance

Company Name	Content governance score	Editorial guidelines score	Media ethics programmes score	Overall ESG score	Market cap, (USD, bn)*	Country
Sky plc	100	100	100	73	22	UK
ITV plc	88	100	75	64	10	UK
Vivendi SA	88	100	75	72	28	France
Thomson Reuters	75	100	50	65	31	US
RTL Group SA	63	100	25	59	12	Luxembourg

*As of 24 May 2017

Source: Sustainalytics

Conclusion – increasing social media responsibility

Social media market considerations

Fake news is unlikely to disappear anytime soon because the Internet traffic it generates can be highly lucrative²⁵ and the growing number of social media users – currently estimated at 2.3 billion²⁶ – represent an increasing supply of potential clicks.

Comparing social media and news outlets to address the material risks of fake news

Social media firms will likely continue to resist being compared with mainstream news outlets, partly due to the regulatory, legal and financial implications that could be triggered by such a change of status. In the US, for example, media firms are responsible for truth in advertising and must dedicate a portion of their budget to public service advertisements.²⁷

Despite social media pushback, the expectation of consumers, advertisers, regulators and investors is that social media networks will improve their content governance to promote public and private interests that depend on credible sources of information. Our comparison of social media and news organizations may, therefore, be an appropriate starting point for investors who would like to assess the capacity of social media organizations to manage the material risks associated with fake news.

Endnotes

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