Chapter 2.5: Risk Communication in the 21st Century Extended Enterprise

Andy Bulgin

The Importance of Risk Communication

This chapter provides a definition of risk communication, and considers how best to avoid language and terminology which might impact on communication effectiveness. Through the chapter we will review the characteristics of 21st century extended enterprises which make effective communication challenging and consider ways to utilise recent social media channels as effectively as possible to create an effective risk communication strategy.

Communication has always been an imperfect science, reliant on a common appreciation of the meaning, implication and tone of language being used. Misinterpretation of messages will impact the performance of even the simplest of corporate entities. This impact is likely to be magnified in a complex, less formally structured 21st century enterprise.

Risk messaging is a vital sub-set of corporate communication, enabling enterprises to understand their risks and achieve at least a degree of risk resilience. To be effective, it needs to have exactly the same characteristics as other model communication – clarity, simplicity and unambiguity. It also needs to take into consideration differential risk perception and risk terminology, and common statistical misinterpretation.

As enterprises have become more complex and diverse, the ability to ensure common linguistic understanding and interpretation has become increasingly difficult to achieve. Yet, the need for clarity of communication has become ever more paramount; without it, there is unlikely to be uniform purpose, shared systemic beliefs and ethics, or a means to achieve assurance for all stakeholders.

The effectiveness of any communication policy relies on its ability to get its messages across to all relevant stakeholders in a consistent way. Stakeholder mapping should identify those who need to be communicated with but care must be taken to ensure key people who sit at the boundaries of an enterprise network are also considered.

The world is now swamped with information from both official and unofficial channels. This has made people both cynical and desensitised. Modern communication needs to take this into account and ensure that messaging is even more frequent, consistent and focuses on ethical, as well as financial, performance.

Communication in the 21st century has been further complicated by the arrival of a host of social media channels. These provide the capability for anyone to comment immediately, and indiscriminately, on any event. The inability of an organisation to control reporting on any given incident greatly reduces its capability to manage the incident effectively. This applies particularly in a risk context and means that enterprises must understand and embrace social media as part of their communications protocol to ensure resilience.
Context

“The single biggest problem with communication is the illusion that it has taken place.”

— George Bernard Shaw

The importance of clear, succinct and frequent communication remains as relevant in the 21st century as it always has. However, the complexity and diversity of modern business enterprises increases the chances of communication misinterpretation, and breakdown. In addition, enterprises are now faced with a bewildering variety of new communication channels, many of which are difficult or impossible to control. These issues must be reflected in enterprise communication protocols, particularly in the area of risk specific communication, which forms much of an enterprise’s ability to protect itself against potential disaster and subsequent reputational damage.

What is risk communication?

Risk communication is an essential sub-set of any corporate communication policy, but few recognised risk management standards attempt to define the process in detail.

The UK Risk Management Standard, issued by AIRMIC, ALARM and the IRM in 2002, offers no more than a simplistic description of the process, defining it as the “Exchange or sharing of information about risk”.

The ISO 31000 Risk Management standard 2009 does not even define risk communication separately but as part of the process of consultation:

“Continual and iterative processes that an organisation conducts to provide, share or obtain information, and to engage in dialogue with stakeholders regarding the management of risk.”

This definition, however, at least picks up on the need to talk to stakeholders and to make this process an iterative one, but still does not offer a guide as to how to do this, and what makes risk communication effective.

Certain entities have attempted to enhance the basic definitions of risk communication within Global risk standards. The World Health Organisation, for example, offers a concise, but arguably more complete, process summary in a single sentence:

“An interactive process of exchange of information and opinion on risk among risk assessors, risk managers and other interested parties”

This definition highlights a number of desirable elements in the risk communication process:

1. It should be an interactive, reciprocal activity, moving away from defined rules and moving towards trust, collaboration and shared values.
2. It needs to take into account that opinion, as well as factual information, shapes stakeholders’ risk views.
3. It should acknowledge that communication extends beyond risk experts to all other interested parties. This means that risk messaging needs to be clear, non-technical if at all possible, and unambiguous.
Factors affecting Risk Communication

Establishing a viable process for risk communication is important, but knowing what to say to each stakeholder group, and how to say it, is even more vital. The nature of your messages will depend on a number of key factors, such as:

Risk language
Despite many attempts to define risk terminology, there is no universally recognised lexicon of risk either within or outside of the risk management profession. Extreme care therefore needs to be taken when communicating on risk issues to ensure the language used is commonly understood and interpreted by all stakeholders.

Misunderstanding can arise at the most fundamental level, such as when people confuse the terms “risk” and “consequence”. It can also occur at a more technical level when communicating to a multinational stakeholder group; there is a real danger that commonly used technical expressions can have different meanings in different countries.

A major European manufacturer took the decision to sell off its own storage facilities in France and replace them with rented warehouses. Included within this decision was agreement that goods stored within these rented warehouses would be insured by the warehouse owners. Terms and conditions of the insurance were vetted by the manufacturer’s risk department and deemed to satisfy corporate requirements. Included within these terms and conditions was a general exclusion for Acts of God.

Several months later, significant amounts of stock were stolen from 3 warehouses by armed robbers. When the European manufacturer tried to claim for these losses, they were informed that armed robbery constituted an Act of God as interpreted by the French Insurer, and was therefore not covered.

Risk perception
Concepts of what constitutes an acceptable or unacceptable risk or consequence vary from country to country. For example, in many parts of the developing world death or injury are seen as a sad but unavoidable consequence of travel. This attitude can be further exacerbated by cultural belief which may imply a degree of fatalism to whether things happen or don’t happen.

This fatalistic attitude is unlikely to be tolerated in the developed world. Indeed, most companies will be under considerable pressure from stakeholders to demonstrate that injury or loss of life whilst travelling on business is unacceptable. Thus, when entities in the developed and developing world combine in an extended enterprise, there may well be a conflict of interest on what does and does not constitute an avoidable, or at least controllable risk.

If one element of the extended enterprise has management control, then it will be possible to enforce their approach to risk through mandate. However, if such control does not exist, then the communication will need to rely on a system of shared enterprise ethics and beliefs to be effective.
Statistical misinterpretation

A large proportion of the population, including the media, do not understand statistics and what they mean in terms of relative and absolute risk. This can cause misinterpretation of messages and produce unwanted side effects.

In 1995 general guidance was issued to doctors in the UK that use of the third generation combined oral contraceptive pill increased the risk of venous thrombosis by 100%. Alarmed by this seemingly huge risk increase, many women stopped taking this type of contraceptive pill. The following year an additional 10,000 abortions occurred, many of which were believed to be related to the reduction in use of the contraceptive.

The study on which the initial guidance was based found that taking the combined oral contraceptive pill increased the incidence of venous thrombosis from 1 woman in 7,000 to 2 in 7,000. The relative risk is indeed a 100% increase but the absolute, or underlying, risk is considerably lower.

This misinterpretation of relative and absolute risk is particularly common in medicine, but it certainly occurs in other risk issues. Particular care, therefore, needs to be taken to ensure that a risk message is sufficiently clear to allow all Stakeholders to interpret it correctly and to understand the absolute level of risk being faced.

Characteristics of 21st century organisations that change the way we need to communicate

The previous chapters in this study have highlighted the complexity faced by businesses in the 21st century and how best to manage it from a risk perspective. There are clearly a number of features of 21st century enterprises that influence how, how often and to whom we communicate:

Uncertainty renders many traditional management systems redundant
The introduction to this paper succinctly outlined the difference between simple and complex management systems. Much of this difference is contained in the concept of simple enterprises having rules and certainty and complex enterprises replacing these with uncertainty, controlled by principles, behaviours and ethics. Within the complex environment, communication can no longer be only mandatory and rules-bound; it frequently needs to be replaced by messaging which clarifies individual responsibilities arising from shared desired behaviours and ethical stances. Finding such common ethical ground is often a challenge in supply chains still dominated by cost issues.

Communication channels are not fixed, or controlled

The rapidly evolving structure of enterprises in recent years has changed the accepted rules and routes of communication. In a vertically integrated enterprise, rules were typically used to ensure common purpose. Some of these rules would apply to who was allowed to communicate corporately, what they were allowed to say and when such communication could be made. It was not uncommon for all corporate level communication to be subject to edit by an overall corporate communication function.
As businesses moved from vertically integrated enterprises to partnerships, the ability to control activities, including communication, became more of a challenge. There, therefore, needs to be a reappraisal of:

- Who is allowed to communicate and through what medium
- Who, if anyone, has right of veto for any given communication in an enterprise
- What are the key messages that should be given in any communication. This applies to content, tone and language as all of these will impact your stakeholders.

Such considerations apply for all forms of communication. They are, however, likely to be critical for risk communication, particularly in crisis response and management situations.

**Geographical distance between network partners is significant**

It is a function of most modern companies to continually move their global resources networks to achieve the most cost-effective production or service. Whilst this frequently improves upfront costs, it will almost certainly create underlying risk issues:

- Offshore services are often located in places where those providing them speak the corporate language (European, Scandinavian etc) as either their second or third language. This inevitably increases the risk of misinterpretation of discussions and/or agreements with the commissioning company.
- Partners operating in different time zones will often introduce a communications timing issue that can be critical when dealing with incidents.
- It is hard to know real time what is going on in a geographically disparate supply chain.

**Outsourcing is the norm**

Most modern businesses have a mixture of formal and informal agreements within their business activities, arising from the variety of partners they deal with. Much of this has been driven by the desire to save money through outsourcing of all activities that are not deemed core to a company.

Outsourcing is ostensibly cheaper but carries with it a substantial risk of loss of control; there is frequently a confusion of role sorts:
Traditional supply chain models had a clear, hierarchical structure with larger entities buying components or services from subsidiary organisations that were usually not direct competitors. Control of the supply chain usually rested with the entity buying the components or services.

Modern day arrangements frequently lack this kind of hierarchical approach.

Samsung first supplied Apple in 2005. What began as a deal for delivery of flash memory was subsequently extended to include supply of application processors for a variety of devices. By 2011, Samsung was providing 26% of the components for the Apple iPhone, as well as a significant proportion of other components for the iPod and iPad.

When the relationship first developed, Samsung were not seen as competitors to Apple in the mobile phone market. This perceived non-competition, and Samsung’s willingness to invest more than $10bn in capital investment and R&D made them the ideal trading partner for Apple.

Samsung, however, clearly gained from the relationship, not only from Apple’s $8bn plus purchase of parts per annum but also from insight gained into Apple’s marketing strategy. The relationship also allowed Samsung to support their own business strategy by giving them sufficient manufacturing scale to ensure efficiency of their own production.

Samsung has now become the global leader in mobile phone supply, partly through the creation and sale of handsets similar to Apple’s iPhone. This change in the supply chain hierarchy has inevitably led to competitive tensions and ultimately legal action by both parties. However, the relationship remains intact in 2013 and it is unlikely to change whilst Samsung remains the global leader in supply of key components for Apple.

Defining and communicating risk in such a complex supply chain structure is clearly extremely difficult, as risk to either partner is likely to change frequently.

**Public perception and priorities**

**Ethics has become a key concern in consumer purchase decisions**

The Edelman Trust Barometer measures attitudes about the state of trust in business, government, NGOs and media across more than 30,000 participants in 25 countries. The results of the 2012 survey show, amongst other things where companies are not meeting public expectations on key business performance issues:
Key perceived weaknesses are identified as poor customer feedback response, failure to adopt an open and ethical stance to business and failing to treat employees fairly. Maintenance of quality of product/ services is still key but its importance is seen as only equal to these other ethical issues.

**Consumer conviction will only come from extensive messaging**
The Trust Barometer also looks at how often an entity needs to communicate a particular message to overcome public scepticism arising from information overload:
Companies require consumer trust to remain successful. This will only happen with provision of evidence of focus on these key ethical/soft issues. This has implications from a risk communication angle:

1. Both internal and external proactive communication needs to focus on satisfying the public’s ethical demands, as well as continued financial success.
2. The scope of communication needs to be expanded to include all Stakeholders which, by definition, extends well beyond shareholders.
3. The frequency of communication needs to be greater to overcome the public’s natural scepticism for corporate messaging.

**Stakeholders’ corporate interest goes well beyond financial performance**

Traditionally, a company’s external communication was primarily aimed at shareholders and analysts, and focused on financial performance. The complexity of the 21st century enterprise makes such communication too one-dimensional; there is a need to address the concerns of all stakeholders, both internal and external, on a variety of topics linked not only to financial performance, but also to environmental, social and community impacts.
The rise of social media: “Anytime, anyplace, anywhere”

Martini’s iconic advertising line from the 1970s is an apposite description of the 21st century communication landscape. A recent survey showed that Facebook now has more than 1 billion registered users, an increase in membership of more than 80% since 2011. Twitter has more than half a billion users with around 130,000 new users signing up each month. Tumblr, the blogging site, has an estimated 300 million users and LinkedIn, Pinterest and MySpace all have between 70-110 million registered users. It is estimated that social networking now reaches 1 in 4 of everyone on the earth and this is likely to continue to increase.

Despite this global saturation, there is a tendency to dismiss Social Media as irreverent and irrelevant; as one commentator recently described it “a virtual mirror for narcissists and a meeting point for the terminally vacuous.”

Although much of social media content may be rumour and gossip, it is having an increasing influence in the modern world. What does this growth of social media mean for the 21st century entity?

Speed of reporting

News stories now break within minutes of an event occurring. Video footage of a disaster was first posted on Twitter in 2009 when a ferry passenger tweeted a picture of a stricken US Airlines plane making an emergency landing in the Hudson river. Since then, Twitter has been responsible for a number of notable news coups, perhaps most famously breaking the story of the raid to kill Osama Bin Laden.

Twitter, and other social media vehicles, now allow everyone with an internet connection to report real time on issues as they occur. This presents companies with the challenge of monitoring all news stories 24/7, speedily assessing the validity of them and responding appropriately should the story affect the entity or its network.

Reliability of reporting

![Image]
This is one of a number of pictures tweeted during the 2011 London riots, allegedly showing the London Eye on fire. The fact that the Eye is made of steel and is unlikely to burn didn’t prevent this image from being accepted at face value and retweeted many thousand times. Such images and messaging are symptomatic of the indiscriminate nature of social media. This has significant implications for the communication approach of the modern enterprise. It is almost impossible to prevent inaccuracies and scurrilous rumours from being spread electronically at an extremely fast pace; the communications policy in place needs to know how to track these, and respond appropriately.

Positive and negative influencing power
Despite the unreliability of much reported on the web, there is still quite clearly the power to mobilise many into swift action, as seen in the London riots of 2011. The Metropolitan Police (MPS) recognised this power but admitted that they did not have the capability to control or influence it. In their Strategic Review into the disorders, they stated: “The ability of gangs to co-ordinate widespread crime during the riots by using the Internet and other means of digital communication was a new phenomenon. However the MPS had not encountered an incident with such fast-moving coverage and its system to co-ordinate and prioritise the collection of relevant intelligence was tested to the limit. The MPS could not comprehensively monitor social media in real-time and was therefore not in a position to be moving ahead of events”

Lack of knowledge and understanding of the power of social media means it is often only seen as a negative force. However, the London riots provided a perfect further example of the positive power of the internet. Immediately after the riots a Twitter campaign was organised by artist Dan Thompson to ask residents to help with necessary clean-up operations. Within hours, many thousands of people turned up with brooms, dust pans and cleaning equipment to speed the return to normality.

Understanding how Social Media works is therefore key to using it to your best advantage.

Components of a risk communication plan

Proactive, or planned, communication obviously offers the enterprise the chance to say what the want to say and to direct it to a chosen audience. To maximise the chance of success and protection of corporate position/ enhancement of reputation, there are several key elements of a plan:

1. Cross-enterprise communications approach
   All enterprise communications need to be consistent in tone, language and messaging. There therefore needs to be agreement with all key stakeholders as to who can communicate and what they can and can’t say. Guidance on this is likely to come from the entities within the enterprise that have real, or perceived power. However, it is unlikely that autocratic guidance from such entities will work; there needs to be a collective sympathy, or belief, in the nature of communications in order for everyone to follow such guidance.

2. Stakeholder identification
Stakeholders can be identified from a number of potential viewpoints; the example above looks at things from a Corporate Social Responsibility perspective but other models can be adopted, as described in earlier chapters of this study. Whichever identification approach is used, the important thing to ensure is that all potential stakeholders are included.

3. **Communications plans tailored to individual stakeholders**

Once the groups of stakeholders have been identified, an individual communication plan needs to be devised for each one, specifying:

1. The nature of your relationship with each Stakeholder
2. The relative powers of each Stakeholder
3. Each group’s concern/ risk appetite
4. How aligned/ unaligned are you currently with each stakeholder
5. How to ensure maximum alignment (nature of communication, format, frequency etc.)
6. What communication media you use to engage with each stakeholder

The objective of such stakeholder engagement is to enhance corporate perception, credibility, image and, ultimately, reputation. The complexity of modern business may well make the stakeholders’ positions unclear. Clarification of position, common understanding and trust will therefore be the purpose of communication.

**Control of communication within the business network**

The complexity of modern business and the myriad opportunities for instant, unofficial communication from everywhere make control extremely difficult.

Social media control is perhaps the single biggest issue in communications control. In theory, it should be simple to conceive a strategy to ensure all stakeholders only use social media in a controlled way. In practice, this ignores the fact that personal and business social communications have become almost inseparable. Most organisations now use social media for corporate purposes. They therefore provide employees with communications devices to achieve this and expect it to be part of normal business activity. In an ideal world, people should have separate accounts for work
and leisure. In reality, this separation is difficult to achieve and attempts to restrict social media activity could be interpreted as interference with personal freedom of speech.

The confusion of personal and business messaging also opens up a further risk issue for companies. If an employee is sending messages on a company device, is the company vicariously liable for any legally damaging comments contained within such messages? To date, no such legal action has been pursued, but it is possible that it will happen sometime in the future.

Ideally, we should agree with all stakeholders:

- Who owns the risk at any stage in the business network
- Who is allowed to comment on risk issues
- Which media channels are acceptable for such comments

Such agreement is unlikely to come from a rules-based approach; it will rely on creation of trust, and agreement of common goals and ethics.

**Incident response specific communication**

21st century communications channels provide a constant stream of corporate information, both positive and negative. The need for effective incident response has therefore become even more paramount. The basic incident response messages to the general public when an issue arises are not fundamentally different in the 21st century. However, the speed with which stories break, and the lifecycle of a story are much changed, and these factors influence how, and with whom a company or network must communicate.

In March 2010, Nestle were targeted by Greenpeace via a social media campaign. Greenpeace had found that Nestle were sourcing palm oil from Sinar Mas, an Indonesian supplier, who, it claimed, were acting unsustainably in clearance of forest.

Greenpeace created a gory video on YouTube, parodying the companies’ advertising slogan, “have a break, have a Kit Kat”. In the video, an office worker opens a Kit Kat and is seen biting a finger which turns out to be the severed digit of an orang-utan.

Nestle initially demanded the video be withdrawn from YouTube. It also removed negative commentary and reposts of the video from its own FaceBook page. Despite these attempts to
control the issue, the video was re-posted on both YouTube and Vimeo, and more than 250,000 people viewed it in the space of four days.

Nestle’s attempt to control the comments on their Facebook page was very badly received, with numerous public comments alleging censorship to hide the issue. This exacerbated the situation still further and forced Nestle to:

1. Suspend sourcing of oil from Sinar Mas
2. Join the Roundtable for Sustainable Palm Oil
3. Create a new social media strategy through the appointment of a global head of digital and social media.
4. Set up a “digital acceleration” team to monitor social media 24/7 and train executives in the management of social media communications and digital marketing.

The lesson learned from this issue are relevant for all 21st century organisations:

- Recognise that your critics are your stakeholders and engage with them
- Do not attempt to shut down social media; it will not work and will, almost certainly, lead to further negative exposure
- Ensure effective communication training throughout the organisation
- Monitor communication 24/7

**Social media as a tool for effective disaster management**

The upside of the speed of social media is that it can greatly assist with disaster management. In September 2011, around 5m Americans on the West Coast were temporarily without power. San Diego Gas & Electric used twitter to respond immediately: “We understand power is out, we are working on the cause and solution. We do not have a restoration time yet”. Over the next 12 hours the company used #outage to provide updates and tips on both safety and protection of house and home, and the company’s efforts to restore power. This communication process was backed by website information, radio and TV broadcasts and press conferences. This co-ordinated, blanket communication approach greatly reduced collateral damage arising from the outage and enhanced San Diego’s Gas and Electric’s reputation substantially.

Whilst Governments and international relief agencies have clearly bought into this social media based approach to disaster management, commercial enterprises appear more hesitant to proceed down this route. Perhaps their reticence is related to social media issues encountered by companies such as Nestle and an intrinsic mistrust of something which is not completely understood.

What is clear is Facebook, Twitter and other media communication sites are viable disaster response mechanisms; appropriate tone of messaging, and a willingness to engage with stakeholders are probably the keys to ensure lack of negative response from the general public.

**Conclusions**

This chapter has considered the characteristics of modern business and the global communications landscape. In conclusion the Board and Risk Practitioner should be comfortable they can answer the following:
1. Do you understand the risk communications within your supply chain/network?
   - The inherent complexity of both business and communication renders a traditional, rules-based risk communication approach redundant; what is needed is a softer approach, based on understanding your network partners, to create agreement and trust in management of risk.
   - Risk communication has always been hampered by differential risk perception and risk terminology, and common statistical misinterpretation. The impact of these issues has been magnified by the increase in complexity and uncertainty in the 21st century enterprise.
   - The geographical and cultural disparity of network partners makes clarity of communication critical; ensure any risk agreements are clear and unambiguous.
   - If there is any doubt as to who manages a key risk, it might be better to try to avoid it rather than to outsource it.
   - Whilst an ethics-led risk communication route is likely to work well, there is still the possibility of certain supply chain partners refusing to accept risk responsibility through lack of financial reward.

2. Do you understand the risk communications to your stakeholders/ the general public?
   - Identification of all stakeholders is essential.
   - All corporate communication, including risk communication, needs to be repeated more frequently to overcome modern day cynicism.
   - Social media is now an integral part of modern communications and needs to be embraced by businesses as such.

3. Do you have an effective communication response capability?
   - The indiscriminate, uncensored nature of much on the internet is potentially damaging, but it can be harnessed to provide immediate response in crisis situations.
   - The key is to understand the characteristics of each media platform and ensure that your messaging uses appropriate language and behaviour to engage with the majority of your stakeholders.

And finally, communication of any description has always, and will always, depend on accuracy of language for effect. James Thurber, a citizen of the 19th and 20th centuries, said this:

"Precision of communication is important, more important than ever, in our era of hair trigger balances, when a false or misunderstood word may create as much disaster as a sudden thoughtless act."

There is no doubt that his words still remain relevant in the 21st century.