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# Corporate Communication: Understanding and Managing Paradoxes

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## Corporate Communication: Understanding and Managing Paradoxes

Although communication has been studied from the very beginning of humanity, only in the last few years has scientific interest been focused on this topic, particularly at the business level. At this level, communication is continuously losing the typical form of a specialized discipline (in business terms, functionally oriented) and is taking on the characteristics of something which embodies the company as whole. This stems from a number of reasons. First of all, companies are far more dynamic and less hierarchical than in the past, and they use a process management approach. Moreover, they tend to externalize a variety of activities. From a theoretical point of view, the network approach[1] is becoming a good way for a company to grow and to manage complexity. In addition, intangible assets[2] are recognized as a real way of gaining and maintaining a competitive advantage.

All of these factors demand more communication because the company's boundaries are less clear and the interaction between the company and its environment is increasingly complex. Such complexity represents tricky terrain for companies facing the challenge of communicating successfully. Indeed, a number of paradoxes are seemingly inherent to communication and its management. This paper aims to describe some of

[1] In the marketing literature the so-called network approach synthesizes the research evidence which supports the idea that competitive advantage depends on the position of the company in the network of relationships a company has with buyers, sellers, and other stakeholders. Geographically this research is placed in Sweden, particularly in Uppsala University and the Stockholm School of Economics. See Johansonn, Mattson (1985); Hakansson, Snehota (1989). In other countries see Fiocca (1981) (1982); Turnbull, Valla (1986); Wilson (1975)

[2] Itami (1987); Vicari (1989), (1992); Guatri (1990) (1998)

these paradoxes and report the cases of how several European companies handled communication challenges.

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The role of communication in the company is to gain the social and economic consensus of its stakeholders. More specifically, consensus can be defined as "strategic and economic credibility," which seems to be the most important asset (obviously intangible) a company can have. Having strategic and economic credibility allows the company to attract more resources from the environment. Resources can come from the customers under the form of money in exchange for products or services, from the shareholders and the financial community (banks, insurance companies) in the form of shares and bank financing, from government institutions which can help a company in its economic and social development, from the personnel (an internal "market") under the form of commitment and loyalty, and so on.

These are only a few of the many stakeholders. It is in light of such a system of dispersed and varied stakeholders that a company must "decide" what kind of communication policy to implement and how to organize the communication process. The first step usually is to divide this "big world" of communication into more manageable units. Some companies tend to divide the process into two parts (internal vs. external communication); others prefer to use functional wording for their labels i.e. marketing communication, organizational communication, financial communication. Others, still, use units closely related to the individual communication instruments, such as advertising, sales promotion, Public Relations, and so on. We have observed in a number of European companies that one of the clearest ways to divide the "big world" is to take into consideration the degree to which three aspects differ: the communication target, the message and the goal.

Following this approach, four areas of company communication arise: (1) marketing communication, (2) institutional communication, (3) internal (or organizational) communication and (4) financial communication (See Figure 1).

The four areas have a very important factor in common: each of them creates *economic value*. However, "value" in each of these areas may take on a different name and substance. *Value* on the consumer markets takes the name "brand." *Value* for personnel is "culture" and "identity." *Value* in the eyes of the financial community is known as "strategic and financial credibility." *Value* for the institutional sector means "social consensus."[3]

In addition, each of the categories of stakeholders must receive a specific message, so communication must be *specialized*. But since the role of communication is to disseminate and create value, it must be *integrated*. In other words, communication must be specialized *and* integrated, which is probably the first paradox in corporate communication management.

There are a number of reasons which induce a company towards a higher level of integration. Communication is like glue[4] in any organization and is a carrier of the relationships which tie the company to its relevant environment[5]. Again, any communication is based on the deeper social and cultural value of the company. It is

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[3] The words brand, culture, identity, credibility and social consensus summarize the value of communication in a company. It's very clear indeed that a brand is not the only result of marketing communication; nor is the brand built up only by marketing communication. The same applies to the other terms used above.
[4] See Luhmann, De Giorgi (1992)
[5] See Corvi, Fiocca (1996)

through communication that the company makes clear its culture, competencies, capabilities, resources, mission and hopes. All of these elements support a unique view in deciding and managing communication.

Even if each of the four areas produces a specific value, as previously noted, in the longer run they tend to converge toward a common body. This is due to a sort of osmosis connecting the four major areas of communication and the related stakeholders. If a company wants to speak to the customer, at the same time it also speaks - willing or not - to the shareholders, the business community, employees, trade unions, general population. If the company sends messages whose content and style contrast with each other, the result is confusion and sometimes chaos, which is the opposite of the goal of good communication. If this happens, the net effect is that communication, instead of creating value, destroys it. Once again, we face a paradox.

In our opinion this is the result of a fragmented and specialized vision of corporate communication. Such communication, instead, should be decided and managed in a more general perspective, which springs from the mission, the goal and the objectives of the company. This means that in order to reach a good level of integration, communication should result from a process management approach instead of a specialized approach, focused on tools.

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One of the reasons corporate communication often lacks a sufficient level of integration can be found by looking at the organizational chart of companies. Communication management seems to be a roving position on the organizational chart, probably due to a misunderstanding about the role of communication. Any company in any industry assumes that communication has a business-specific role instead of a general value-oriented one. As a result, its formal place on the organizational chart can vary.

Empirical research concerning communication management in Italian-based companies started in 1993 and continues today[6]. Data for 1993 indicate that in 42.5% of companies involved in the study, communication decision-making was assigned to a CEO staff position responsible for communication management. Thirty per cent of companies placed it in the marketing department. In another 7.5%, communication decision-making was located in the human resources department, while in the remainder it was located "somewhere" in the company (see Figure 2). In 1998, instead, we observe an increased polarization: about half of communication managers report to the CEO and about half to the head of the marketing department. The "somewhere" in the company has almost disappeared.

Now we have to ask ourselves why the organizational solutions are so diverse. One of the possible interpretations of this phenomenon is that the formal position of communication management in the organization is basically related to two different points of reference.

1. The industry in which the company is competing and the role of communication in obtaining a competitive advantage, and, perhaps, the role not only of communication broadly defined but also of specific tools of communication i.e. advertising, Public Relations, and so on.

[6] The research being carried out at SDA Bocconi (The Graduate School of Business Administration, Bocconi University, Milan, Italy) started in 1991. Up to today, the research group has observed more than 250 Communication Managers working in Italian-based companies. See Fiocca, Ostillio (1993). For information about more recent results contact mariacarmela.ostillio@sda.uni-bocconi.it

It is quite common to find a strong marketing orientation in the management communication decision-making process in companies competing in FMCG (Fast Moving Consumer Goods) markets. In fact, in such markets there is an obvious correlation between advertising investment, market share and profitability.

On the other hand, in the service industry, particularly public utilities and financial services, where the tools of communication are more varied, communication management is usually located in senior staff. It's important to underline that in the service industry the need for strong integration between internal and external communication is commonly recognized. But since the concept regarding the role of communication in obtaining a competitive advantage is not objective but very subjective and depends on the individual orientation / judgement of the firm, a commonly agreed upon rule does not exist. In other words, in a Fast Moving Consumer Goods company we can also observe communication management located totally outside (or at least not completely in) the marketing department.

2. The characteristics of the company, not only in the structural meaning of the word (size, level of internationalization, and so on) but particularly from a knowledge-based approach. This means the kind of communication culture, the specific level of communication know-how (for example, experience in managing an advertising campaign), the history of communication in the company (success vs. failure) and the charisma of the person managing communication in the company.

These kinds of variables are so industry and company specific that it is obviously impossible to define a standard.

In our research and professional experience we observe cases in which communication is managed in two, three or more organizational cells. We would like to report the example of an Italian company: Aprilia.

> Aprilia is an extraordinary company: despite its simple origins, it has risen to a prominent position world-wide. Aprilia started in the 1930s, producing bicycles, and then in the 1950s low-price scooters (little more than bicycles with a small motor). In the last 15 years it has been able, against all reasonable skepticism of the business community, to threaten the market leadership of companies such as Honda, Suzuki, Kawasaki in Europe and Piaggio in Italy (producer of the "Vespa"). Today, over one million Aprilia motorcycles are calculated to be in circulation. For the motorcycle World Championships in the last five years, Aprilia has accounted for numerous world champions in the 125 cc and 250 cc classes. From a manufacturing point of view Aprilia is almost a "non-company." In fact, its development has taken place through a network of relationships with suppliers, and it is quoted as one of the best examples of an "holonomic" or "virtual" company. Aprilia has three major core competencies: marketing and marketing communication, design, and ability to manage supplier relationships.
>
> Let's focus on the company's marketing communication competence. In 1995, after the company won a number of world championships, the marketing vice president wondered if it was possible to improve the image of the product on the market by shifting the image of excellence from the racing team to the common consumer market. Most of the problem was on the organizational side. In fact, communication in Aprilia was managed at three to four different levels which did not

"communicate" much with each other. Institutional communication was very close to the president (and owner) of the company, who at that time was also head of the Business Owners' Association of the Venice area. The person in charge of institutional communication was a journalist who also consulted – a consultant to the president more than to the company. Product market communication was managed by a young executive who reported to the Vice President of Marketing, while trade communication and sales promotion reported to the Vice President of Sales. Sports communication, part of the responsibility of the Racing Team Manager, constituted a separate area. Sports communication in particular was fundamental because all sponsorships, mainly involving major corporations, were managed in this office.

Clearly an organizational problem existed. It was partially solved when a new, very strong communication manager was hired with the goal of integrating the different communication subsystems into a whole and developing synergies among the different targets.

* * * * *

Now, do the many differences in the positioning of communication decision-making on the organizational chart represent a problem? Some people maintain it is better to have only one group of persons globally managing communication for a company because such an approach will help the process of integration. On the other hand, communication is based on diversity and on the ability to speak in a specific way to different audiences of stakeholders. A single unit or a single way of wording something could create a rigid "nomenklature" and disrupt internal democracy. However, having too many different organizational cells managing communication can contribute to organizational chaos. And, as we know, communication should manage or diminish chaos in a company and not vice versa. Once again, we face a paradox.

* * * * *

What's in a name? Normally in academic disciplines, great care is taken to define the meaning a certain word assumes in a specific context, whether reporting research or commenting on a discipline. Debates ensue as to what the use of a term should encompass (or what is worthy of being encompassed). Business - "getting things done" – developing strategies and meeting goals - might seem more down to earth. Wouldn't it be natural for names and terms to be clear? Especially the term "communication," whose very goals within business include clarity. Communication aims to be effective, and although its effectiveness might not always involve clarity, clarity is key. After all, numerous miscommunications can be traced to lack of clarity.

But names and terms, even those related to communication, are not always clear. Indeed, another point creating confusion is connected to the position of Communication Manager itself. The communication manager can be a ghost-writer for the president, a strategic thinker in charge of the tutorship of company image, or a task-oriented person focusing on organization. In addition, in some companies the management of communication is internalized while in others it is externalized.

Similar issues arise when considering the communication agencies to which a company can delegate its communication management process. This can be further complicated by the fact that when it is externalized, it can be externalized in an advertising agency, in Public Relations, in management consulting and so on.

This leads to another interesting finding of the above-mentioned research conducted in Italy. It is related to what communication managers think communication – their jobs – entail. Their responses:[7]

Relations with the media and institutional bodies
Public relations
Institutional advertising
Internal communication
Sponsorships
Definition of communication strategies
Organization of internal meetings
Trade fairs
Brochures
Institutional relations
Publishing
Organization of seminars
Surveys, external research
Relations with advertising agencies
Newsletters, house organs
Communication budget management

It is only natural that even the job description of a Communication Manager looks fragmented.

So a consensus of what "communication management" is all about it elusive even if we limit our considerations to day-to-day business or management. Even where an overriding goal is that of "clear communication," there doesn't seem to be a general agreement as to what "communication" refers to. And although communication should

[7] Fiocca (1992) p. 189

make things clear in the company, the word itself does not provide an immediately clear idea of what "communication" refers to within and among companies. The paradox remains.

* * * * *

It's widely recognized in theory and in practice that corporate communication has a strategic role in every moment in the life of a business enterprise, but particularly in crisis management and in managing discontinuity and corporate turnarounds. This statement has two aspects. The first is that the level and seriousness of a crisis, any crisis, is strictly related to the perception of stakeholders, particularly those who can help a company overcome the crisis situation (shareholders, key clients, banks and so on). This is so because perceptions are involved, and perceptions are built up by facts and communication.

The second aspect is driven from experience which confirms that very often companies build up an organizational structure to face crisis management, and one of the major points in a crisis management plan is the chapter devoted to the management of communication during company crises.

The major problem in managing communication in a crisis situation is that usually a company has no positive issues / messages to communicate. It might seem that "it's much better to be silent," but of course the media and journalists are very anxious to understand what is happening and why, who will manage, and so on. Apparently there are no escape routes: it's a typical case of compatibility and incompatibility or, again, another paradox. Companies must communicate, but they can not do it. How can a company cope with this paradoxical situation?

The Pirelli case illustrates this point.

In 1980, Pirelli was a very well-known multinational company operating in three different areas (tires, cables and diversified products); in each of the three business areas it had an important role in the market. In the tire industry in the 1980s the company alternated between number 4 or 5 in terms of market share, with Goodyear, Michelin, Firestone and Bridgestone the market leaders. In the cable industry, it was competing for market leadership with Alcatel, BICC, and Siemens. The diversified products division was a confused lot of products in which particularly strong brands included Superga (shoes), Bedding (mattresses), tennis balls, inflated boats and so on, all with the brand Pirelli. The market problem of Pirelli was that it was too small to compete worldwide and too big to be a market nicher. Mr. Leopoldo Pirelli, Chairman and majority shareholder, decided to increase Pirelli's market position in the tire industry by acquiring Continental in Germany and Armstrong in the United States. The Armstrong acquisition was positive, but not the Continental acquisition. For a number of reasons the goal was not reached and Pirelli in 1991 was facing a dramatic financial situation. In 1991 losses were close to half a billion U.S. dollars and total debt was close to 2 billion U.S. dollars. Sales were approximately 2.7 billion U.S. dollars.

Mr. Leopoldo Pirelli resigned on November 13, 1991: one of the best Italian companies, and one of the most historical (founded in 1872 in Milan, Italy), was close to bankruptcy. Business analysts, historians, economists, politicians were worried about the possible disappearance of one of the foundations of the company's European history.

On January 20, 1992, Mr. Marco Tronchetti Provera was appointed CEO. He was very young at the time – in his 40s – and he faced three emergencies: a huge crisis in the tire market worldwide due to the 1990 recession, the company's poor financial performance pointed out above, and poor morale at all levels of management and personnel. But on the other hand he knew that Pirelli had vast technological know-how, a very well recognized brand [8] and, despite poor morale, a very strong identification with company on the part of all levels of employees. Mr. Tronchetti made a number of decisions regarding the tangible assets of the company: he sold the diversified division, brought about a capital injection and managed to consolidate debt. He also changed top management in five months, having in mind their "incompatibility with the new age" since they had been involved in the Continental failure.

The company was in the midst of a dramatic turnaround and communication should contribute to the success of such an operation. Organizational communication had as a goal to communicate improvements in performance, even those seeming marginal. Creating a climate of credibility within the company was of utmost importance. On the cultural side of the company the buzzword was "sconfiggere": to overcome or defeat the so-called "Mandarin culture" (the nickname of Pirelli's old management) and impose a real managerial culture.

Regarding external communication, the strength of the brand had to be renewed. A clear example was the provocative advertising campaign with Sharon Stone and Carl Lewis as testimonials. By April 1994, in only three years, Pirelli

[8] See Salvemini (1996)

succeeded in its turnaround. The end of the turnaround can be seen in the words of the 1995 Annual Report (pp. 151-152):

> *Everywhere in the world, tires and cables represent irreplaceable products for transporting people and goods and for transmitting energy and information. These sectors represent the activity of Pirelli, one of the truly innovative world leaders. (...)*
>
> *Our competitive strength was and is founded on technological and research capabilities, in terms of professional and resource competencies. (...)*
>
> *Our management style pursues the optimal equilibrium between individual responsibility and group work, centrally provided direction and operational responsibilities decentralized to the local level.*
>
> *We will be able to finance our continuing growth by generating the necessary profit, in the interest of shareholders, customers and employees.*

Communication, then, contributed to the success of this turnaround, which was in turn communicated to stakeholders.

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Another example, more recent and related to the financial service industry, can contribute to the point: UBS – Union Bank of Switzerland.

> Very recently (October 1998) a huge crisis in one of the major banks in Switzerland caused a loss of 1 billion Swiss Francs (USD 700 millions) and dramatically diminished 1998

profits. This led to the forced resignation of the CEO and a few other top executives, which became a top news item across the country. Interestingly enough, the bank's spokesperson declared to Swiss T.V. that it was very clear that UBS was not facing a financial crisis; that it was a question of loyalty and strategic credibility towards financial markets, institutions, customers, and employees. And the bank's first reaction, continued the spokesperson, must be devoted to reestablishing loyalty and credibility.

Strangely enough, at the same time an advertising campaign promoted by Banque de Dépot et de Gestion asked: "In terms of trust, how's your bank?" (see Figures 3 and 4). We cannot say if the advertising idea and timing were due to good luck or to heavy competition. But the idea and timing seem appropriate.

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As previously stated, we know that strategic performance and financial credibility result from corporate communication. But picture yourself as a top manager of a company in crisis. Try to ask your banks for a long-term loan to finance a new communication plan focused on Public Relations, advertising and staff training. In most situations they will probably be too polite to laugh in your face. Yet such a communication plan is vital for overcoming a crisis. Customer satisfaction in particular plays an important role, but can a bank – or anyone – quantify how much customer satisfaction is worth?

Satisfied customers undoubtedly underlie the satisfactory performance, economic and financial, of any company. This has been shown by the research on the determinants of business performance carried out by consultants and management scholars over the last approximately twenty years. Practitioners also agree on this. Data such as those in Figure 5 are often used to support this claim. [9]

The explanations of the relationship between customer satisfaction and business performance seem plausible when the effects of customer satisfaction on the profit and growth potential of the company are considered. "Satisfied customers are likely to be less price sensitive, more loyal, buy more and this affects margins and profits positively; they also speak well of the company's products, may want different products from the same seller and seem to stimulate companies to innovate and develop products, and this appears to impact the growth performance of the company positively over time."[10] (see Figure 6)

Satisfied customers therefore represent an asset of the company, perhaps its main asset. It is possible to define satisfied customers as an invisible asset generating visible assets: profit and growth. In addition, they indicate that the company is more successful than others in producing value appreciated by the customer. Customer satisfaction is very complex. As a verdict, it boils down to how customers, to the best of their knowledge, judge the cost/benefits and the quality/price of a company's offering.

[9] Fiocca, Snehota 1995.

[10] Fiocca R. and Snehota I. 1995.

A question remains, however. What makes customers satisfied and how can value for customers be produced? There is not a single answer. This explains why it is difficult for managers to put into practice the advice to become market-oriented. Each customer, especially the industrial customer, has a distinctive personality. As a group they only appear to represent a market. The problems and needs of each customer differ, as do the way they do business and how they conceive of relationships with suppliers. Thus industrial markets in particular are not made up of masses of anonymous buyers but, rather, of a limited number of buyers who tend to be very different in terms of the situations they face, the way they use products in their operations, and how they handle relationships with suppliers.[11]

* * * *

Perhaps the most paradoxical paradox, which encompasses all the paradoxes described so far, can be observed at the corporate level more than the corporate communication level.

Let's start with a question, the last one: what is the primary document providing an understanding of whether the company is in good shape or not? The reply: the financial statements, or more precisely the income statement and the balance sheet. The figures on these documents are used by Wall Street, London, Tokyo, Zurich Stock Exchange and business analysts to decide whether to buy or sell company shares. These documents, however, show no evidence of the most important asset of a company: credibility. It's very difficult to find the efforts and results of corporate communication even in the annual report. There are no indexes like ROI (Return On Investment), ROE

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[11] Fiocca R. and Snehota I. 1995.

(Return On Equity), or EVA (Economic Value Added) which stand for the company's "ability" to communicate, how many customers are satisfied, product brand equity and company brand equity, and so on.

If this is the case, it seems clear to us that paradoxes such as those described above relate not only to communication but also, and more in general, to companies themselves.

## LIST OF FIGURES

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Figure 1 – The Four Areas of Communication

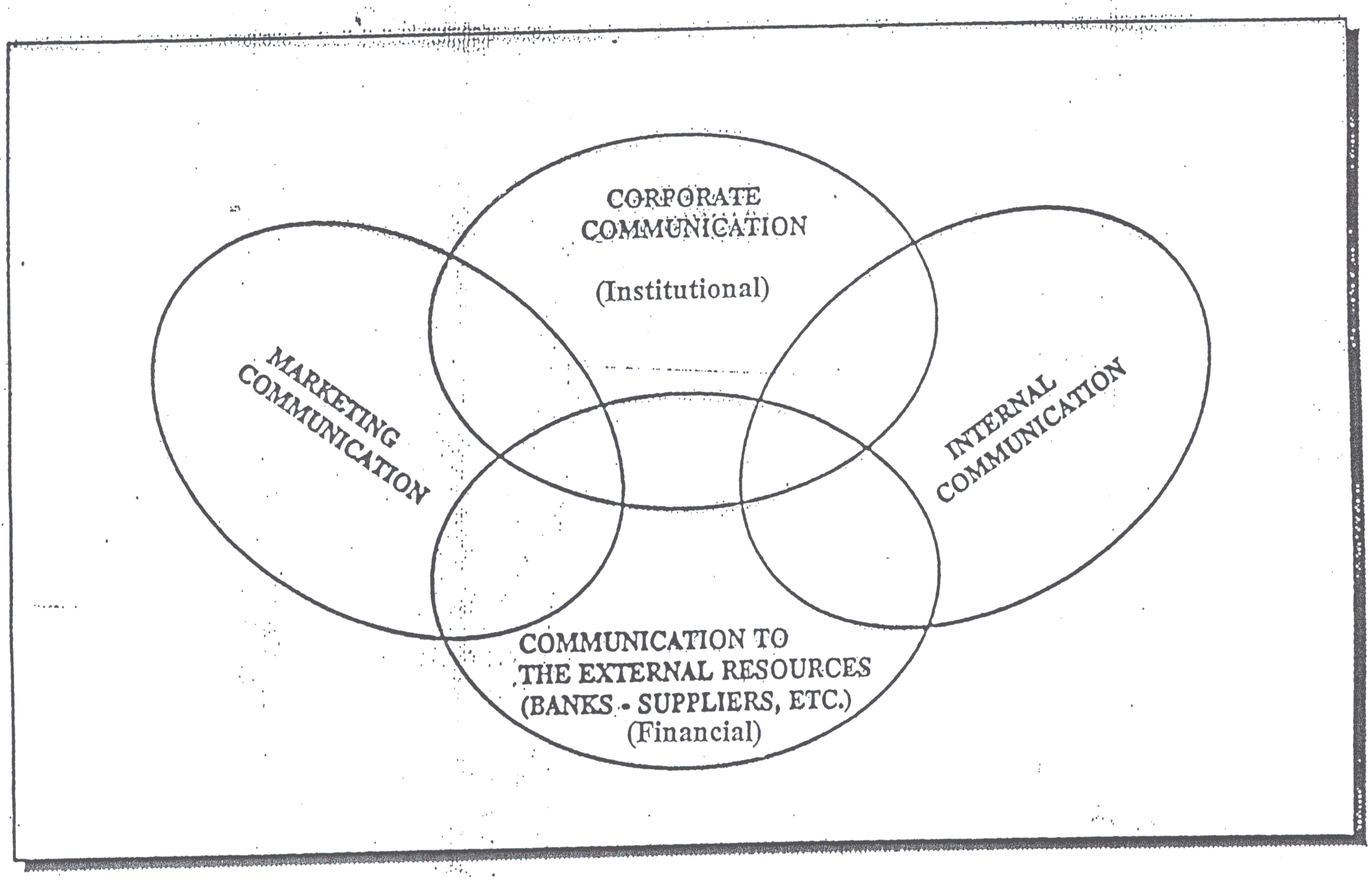

Figure 2 – Communication Decision-making in the Organizational Chart

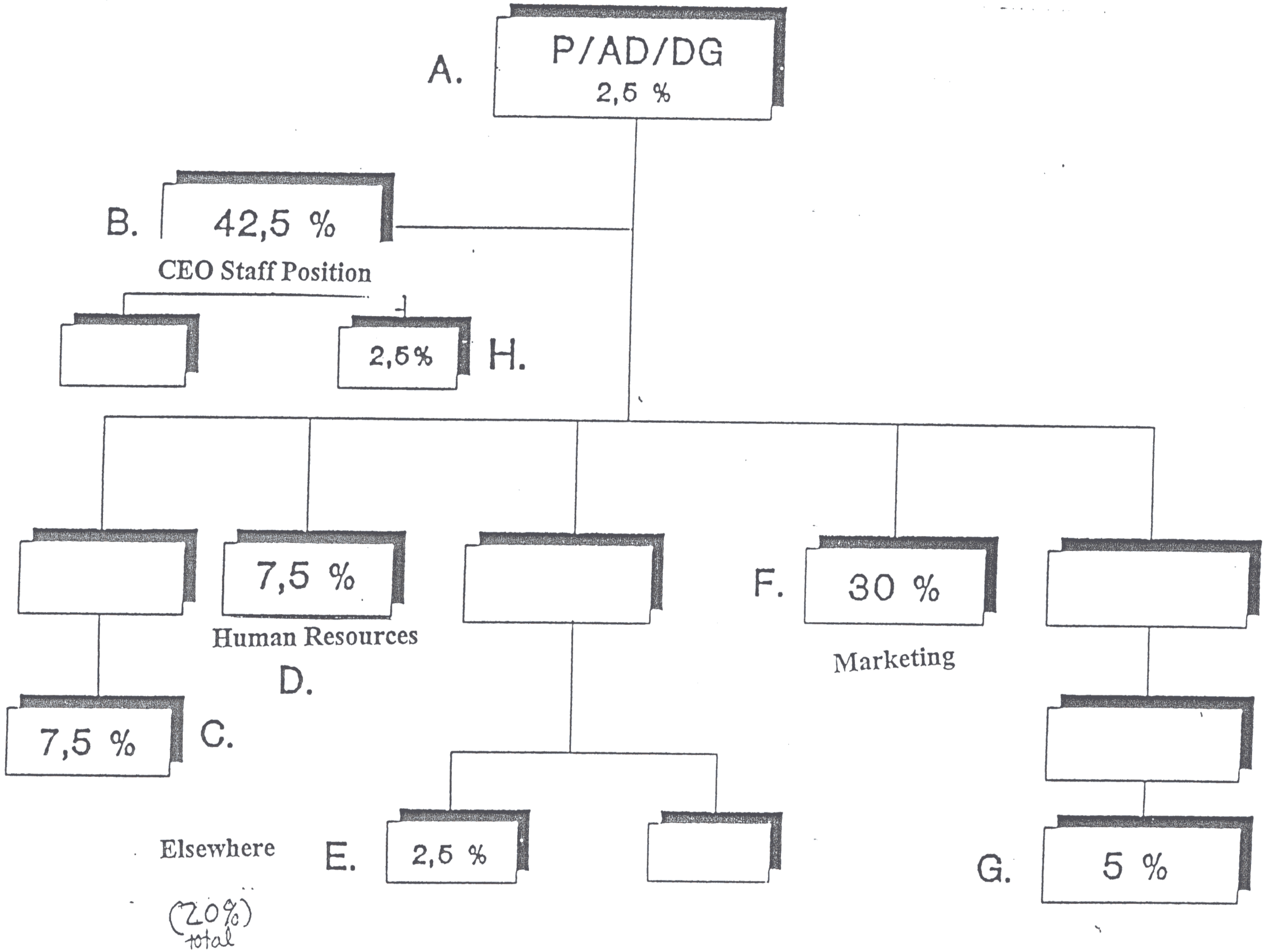

Figure 3 – Banque de Depots et de Gestion Advertisement

In terms of trust, how's your bank?

The more I think about it, the more I appreciate BDG.

# In fatto di relazioni di fiducia, la sua banca com'è?

Più ci penso,
più apprezzo la BDG

BDG

Banque de Dépôts et de Gestion

UNA BANCA A MISURA D'UOMO

6901 Lugano Piazza Riforma 3 Telefono 091-911 38 11

Figure 4 – Banque de Depots et de Gestion Advertisement

Do you have any doubts?

The more I think about it, the more I appreciate BD

# Ha qualche incertezza?

Più ci penso,
più apprezzo la BDG

BDG

Banque de Dépôts et de Gestion

UNA BANCA A MISURA D'UOMO

6901 Lugano    Piazza Riforma 3    Telefono 091-911 38 11

**Figure 5 – Customer Satisfaction and Business Performance**

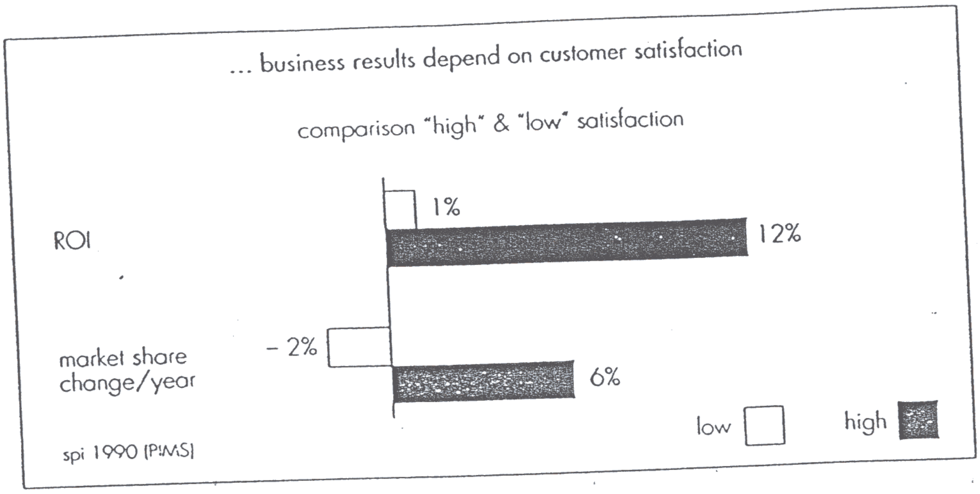

**Figure 6 – The Impact of Customer Satisfaction on Business Performance**