

# **Social Risk and the Management of MNCs**

## **From Risk Society to International Business Management**

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## **11. Corporate Governance in IB - Competitive**

**SOCIAL RISK AND THE MANAGEMENT OF MNCS – FROM RISK SOCIETY TO INTERNATIONAL BUSINESS MANAGEMENT**

## Abstract

Multinational companies (MNCs) are increasingly being exposed to risk that originates from local communities in the business environment where they operate. The response has been to implement systems for stakeholder engagement by including social issues into their risk management systems. However, these seem to be ineffective in mitigating local community grievances. In this paper I argue that social risk is to be defined in terms of how local stakeholders construct reality through a sensemaking and framing process which constitute at risk by its combined capability to influence organisational value creating activities. By utilizing a cross-disciplinary approach founded in a sociological conceptualization of risk I show that there is an alternative to identification and mitigation of social risk. I propose that MNCs could improve their performance by organizing their efforts using “intelligent” systems, which are based on the capability to identify frames and sensemaking processes. This paper shows how social risk management can be conventionalised using distinct theoretical domains taking its outset in a sociological perspective on risk, linking International Business (IB) risk management practices, operationalised through Corporate Social Responsibility (CSR) systems, with communication theory and risk as frames of meaning constructed by community members and corporate decision makers.

Key words: Construct Development, Stakeholder Engagement, Risk Exposure, Corporate Governance, Social Issues, Business Systems

## Introduction

Social risk is a concept that has been used and to some degree misused without being too concerned about what the concept actually means other than it has to do with the sometime troublesome relationship business have with its stakeholders (Holzmann et al. 2003; Tamara et al. 2006). With the rise of globalisation organisations, companies and not least Multinationals companies (MNCs) come in contact with risks from local communities in the form of protests that can influence its reputation or activism that can have an effect on daily operations. In some cases these can affect the organisations ability to operate efficiently and/or ultimately close down operations entirely (Giddens, 1990; Beck, 1992; 2007; BSR, 2003; Luhmann, 2005). MNCs like Shell, Nike and Apple are on an continues basis confronted with these types of risk in the form of unresolved issues despite comprehensive systems to mitigate these by including social factors into their risk management approach (DeTienne and Lewis, 2005; Onouha, 2008; Gua et al, 2012). I argue that social risk is to be defined in terms of how local stakeholders construct reality through a sensemaking and framing process which constitute at risk by its combined capability to influence organisational value creating activities. And MNCs can by applying a cross-disciplinary approach that is founded in a sociological conceptualization of risk and utilizing tools from communication studies present an effective alternative approach to identification and mitigation of these types of complex risk. I proposed that companies could improve their social risk mitigation by organizing their efforts using “intelligent” CSR systems, which are based on the capability to identify sensemaking and framing processes in the local communities where the MNC is active. This approach does not exclude so-called objective measurements but supplements these tools by focusing on community sensemaking processes and creating an appropriate response utilizing communicative tools from scenario building and crisis management. This paper offers a conceptual understanding of social risk and the management hereof by answering the research question; how social risk management can be conventionalised or simplified using distinct theoretical domains taking its outset in a sociological perspective on risk. This is done by linking International business (IB) community risk management practices operationalized through Corporate Social Responsibility (CSR) systems with Communication theory.

## Conceptualising risk – From modernity to the post-modern

There is no uniform definition of risk within sociology but the concept takes its outset in the field of management and its roots in industrialisation and modernity. Originating from practice and the halls of the executive suite a conceptual form of risk had a hard time finding its ontological and epistemological platform. However, most agree that risk and not least risk management is an important part of how we understand society, organisations and businesses, and that a significant amount of organisational resources is devoted to measuring, analysing and mitigating risks (Parker, 2005:468ff; Renn, 2008:173ff). Risk was first defined in statistical terms focusing on probability of an adverse outcome and creating indicators for how an event could be quantified and thereby managed (Lupton, 1999; Arnoldi, 2009; Aven, 2013). The attention was and continues to be on the potential for loss of value tangible or intangible and how organisations could improve their structures and systems, in order to avoid that losses being realised.

With Modernity emerged an understanding of how the world works as one of a linear progression of events that could be turned into objects of measurement (Beck, 1992:26; Beck, 2007:213). By that suggesting that it is possible to comprehend risk much in the same way as one explains wealth distribution under the forces of production and consumption. This casual presumption about the world and how risk in it can be identified and analysed holds several contradictions and inherent problems of scale. Firstly, it is inductive in nature making assumption about the physical world based on very limited information in order to create the basis for decision-making (Arnoldi, 2009:20f). Subscribing to the rational claim that in order to investigate risk it should be measurable and some form of probability assigned to it. Secondly, that these demarcations of possible influencing factors only become more significant in terms of uncertainty as complexity rises, creating problems with validity. While the modernist or inductive perspective makes it possible to talk about future events as probability of occurrence it does this on a foundation, which seems more and more fragile as the complexity of the organisational environment continues to accelerate. This gives room for

alternative perspectives, which seek to remedy these characteristics and provide insights into the concept of risk that might turn out to be more durable.

With the rise of the postmodern perspective the concept of risk no longer seen as an exclusive, objective or fixed entity with distinct social or technological features but instead regarded as a new way of imagining how society and decisions affect businesses and their surroundings (Giddens, 1990:46; Beck, 1992). This perspective does not exclude that real hazards and dangers are produced, which organisations need to deal with but rejects that mitigation can happen through so-called technology systems alone. With it comes the notion that different groups envision risks and interpret what is happening in their surroundings on a subjective basis grounded in the creation of meaning. Individuals perceive the character of risk as being an uncertain yet uncontrollable feature, which must be managed post hoc even as attempts to prevent are implemented through planning and organizing (Gephart et al. 2009; Green, 2009). The field of organisational risk is therefore regarded as having objective but also subjective and inter-subjective features, which are all based on the creation of meaning, and not as passively available outside of human activities as prescribed by modernity.

This opening of the risk paradigm unlocks a wide variety of possibilities on how individuals and organisations identify risk and how it should be understood when we believe it is there. While the modernist approach is accepted and in common use, especially within the practice field, it has become clear that there are key areas of risk, which are unsolvable by the use of quantitative measurements and modelling alone (Power, 1997; Arnoldi, 2009). Grounding the science of risk on cognition and the presumption that actor's act based on their ability to calculate a certain outcome, free of emotions and prone to maximising of own pleasure simply has its limits (Lupton, 1999:24). In practice it is often found that people and organisations are simply taking risks because they believe that it is the 'right thing' to do and not necessarily because that have calculated a likely outcome. The postmodern perspective attempts to bridge the gap between objective and subjectively perceived risk and how individuals act in a society made up of different risk alternatives. Fostering an understanding of organisational risk management as processes where organisations improve their ability to make sense of the risks and opportunities in their operating environment and subsequently take decisions.

### Risk and Society

Ulrich Beck presented the idea that our perception of risk might have changed as the world gets more globalised (Beck, 1992; 2005; 2007). He argued that first and foremost environmental challenges constitute a new form of societal risk where individuals no longer are in control or necessary have a say in the dangers that they are exposed to. It is no longer possible just to move physically from one location to the next and be safe from manmade dangers, they are everywhere and we essentially produce them. The change in risk perception constitute a break in risk management, as technology is now a driver for increased societal risk and uncertainty rather than the controlling and mitigating factor that we have come to believe (Bammer, 2008; Green, 2009; Burns and Slovic, 2012).

Emphasising that the nature of risk has become more global, less identifiable and unmanageable which in turn has formed the basis of greater anxieties, increasing social pressure on organisations (Beck, 1992, Gephart et al., 2009). Leaving individuals as risk managers of their own lives where "our life" becomes in principle a risky venture. "A normal life story becomes a (seemingly) elective life, a risk biography, in the sense that everything (or nearly everything) is a matter for decision." (Beck & Beck-Gernsheim, 2002:48). That public are left with an 'irrational' or 'deviant' perception of risks opposed to what some perceive as logical and rational analysis (Beck, 1992:57f). This development has been nurtured by the declining credibility of political parties, risk experts, academic disciplines in general, parents, teachers and so on, giving rise to a society where we are constantly bombarded with information and with appeals to take sides. But also a place where everyone must learn how to switch off and mentally distance himself or herself from uncertainty relying on trust or 'faith' and management systems in order to take decisions (Giddens, 1990:27). Hereby a situation arises of what Beck and Beck Gernsheim (2002:46) characterise as "All commitment is self-commitment — and is therefore unpredictable". The change in the role of first the state as a provider of security and subsequent the civil-society as facilitator and finally the individualisation of risk have meant that we rely much more on our own ability to navigate uncertainty than on the advice of experts. We no longer

evaluate but rather perceive risk, being our own risk manager drawing on Ewald's (1991:199) claims that "Nothing is a risk in itself; it all depends on how one analyses the danger, consider the event".

The "social" in social risk

Social risks follow from the beliefs, values and attitudes of the population that are not reflected in current government policy or business practices (Dunn, 1983). And social risk originates from the challenge that the MNC has when it comes to predicting the likelihood of collective action and the direction of such action might take when people are faced with discrepancies between their own values and those embodied in the institutions impacting their lives (Miller, 1992). In this sense social risk is regarded as a precursor to political risks but arises before formalised political behaviour. The actualisation of a social risk can take many forms like social unrest, demonstrations and blockades all the way to vandalism and smaller terrorist attacks. Events like these can in turn lead to political instability and government intervention outside the control of the company. The reason why the social and political aspects are separated is that they represent two different but distinct stakeholder groups one being government and those of activist groups and local communities. According to stakeholder theory it is possible for groups of people who have an interest in corporate activities to bypass existing government policy channels and appeal directly to business for changes in their practices (Freeman et al., 1983, Freeman et al. 2010:236). The potential for these kinds of actions demanding changing in the way business acts in relation to local stakeholders is most likely to occur when locally adopted social values provide a basis for questioning the legitimacy of existing business practices. In such cases, the business sector may choose to respond proactively to the social pressures prior to government policy pressure and thereby mitigating social rather than political risks.

Risk and International Business

Within IB is systemic risk linked closely with globalisation and internationalisation nurtured by the rise in complexity that comes with the increase in individual organisational contact points (Haynes, 2000:60; Goldin, 2014). This is to an extent where some of the shareholder benefits of diversification are minimized or have disappeared altogether making investments potentially riskier. In parallel with this development are institutional systems for managing risks over multiple entities increasing in numbers and complexity (Kwok and Reeb, 2000, Desai, 2009). Market and economic risks together with factors like exchange rates, politics, culture, operational or technical issues, asymmetric information and own management competencies combined create such complex systems that produce increasingly quantities of risk, which need to be managed (Reeb et al., 1998; Lodh and Nandy, 2008). At the same time the institutional structure of MNCs are changing as different lines of communication and organisational ties emerge between financial, legal and managerial structures (Reich, 1990; Desai, 2009). This in turn creating organisations which reflect limited transparency and lines of accountability, to the outside world, nurturing the ground for social risks that can attract the negative attention of Non-governmental organisations (NGOs), Government officials or others who assert pressure on the MNC.

There is no doubt that globalisation and internationalisation of foreign markets have brought significant benefits in terms of business opportunities (Hymer, 1976; Dunning, 1981, Zaheer, 1995; Dunning, 1998; Feinberg and Gupta, 2009). But it has also presented new and complex challenges that MNCs have been struggling to overcome both internally and externally. One of the first to describe the risks associated with doing business abroad was Hymer (1976). His argument was that domestic firms have better access to relevant market information, are more deeply embedded in the national environment, and do not face foreign exchange risk. Under the term 'Liability of Foreignness' (LoF) there have been a multitude of studies, which have explored the risks of doing business internationally (Zaheer, 1995; Zaheer and Mosakowski, 1997; Nachum, 2003; Bernard, 2010). The claim being that local firms have distinct benefits over the MNC when it comes to identifying social risks. They know the local culture and social norms much better than any entering MNC and thereby in a better position to identify possible issues that could influence the local community sense making process. This has spurred MNCs to create management systems like stakeholder engagement programs (Rache and Esser, 2006). The goal being that the systems can equalize the local businesses advantage and thereby minimize LoF. The literature on risk management has stayed away from the term social risk instead

focusing on political, national and cultural as distinct risks that could guide this process and on which institutions for mitigation could be build (Lodh and Nandy, 2008; Feinberg and Gupta, 2009). Within this field is risk defined in terms of quantifiable measurements and the chance that an event might influence organisations value creation processes giving rise to the use of standards and systems. However, studies show that the benefits of internationalisation is lower (at least in the short run) when perusing localised strategies in unknown regions, which could be an indication that the institutionalised tools applied by MNCs are not as effective as previous assumed (Kronborg and Thomsen, 2009; Hutzschenreuter et al., 2011; Asmussen and Goerzen, 2013). Companies have created institutions with the purpose of increasing the ability of organisations to sense and influence what is happening in their business environment (North, 1990; Ghishal & Westney, 2005; Hodgson, 2006). These institutions are designed to regulate the behaviour of decision makers in an effort to pursue certain organisational goals based on the information they retrieve. In this way it should be possible, at least in theory, to utilize the knowledge that the organisation has gained through handling similar events in the past and subsequently evade reoccurrences in other parts of the organisation. This institutionalised knowledge on risk is accumulated through the implementation of management systems, which enables the MNC to handle uncertain issues in their operating environment, like the ones originating from local stakeholders (Stoffle and Minnis, 2010; Merckelsen, 2011; Hah and Freeman, 2013; Bruce, 2014). While there is significant benefits in having a uniform organisational approach to construct risk resilience there are also drawbacks in the form of rigidity to events that are uncommon or new, which could indicate why they seemingly continue to fall short of mitigation.

Further expanding on the institutional perspective and the utilization of rigid organisational systems can be witnessed when MNCs mimic what is regarded as successful strategy in an effort to lower the risks that they are exposed to (DiMaggio and Powell, 1983; Zaheer, 1995; Power, 2004a). This means that a MNC attempts to reduce risks by giving more or complete autonomy to a foreign subunit by allowing it to behave more like a local firm. And provided that local firms have reduced social risks, it would at least in theory, be the same as the subunit and constitute a viable LoF reduction strategy. This approach is consistent with an institutional perspective as the MNC looks for and accommodates to patterns, which are socially acceptable by its environment and thereby gain legitimacy (Westney, 1989; Ghishal and Westney, 2005:47). Adopting an isomorph approach as this mimicking strategy is also called can provide a common language between company and local stakeholders that the organisation gets in contact with in turn helping to mitigate social risks. One way MNCs has pursued this type of strategy has been to incorporate normative standards and systematic approaches to serve as instructional knowledge platforms for social risk mitigation. I will return to the role and impact of these systems later.

As described earlier there are two main conceptual understandings of risk; one founded in modernity and one prescribing to a post-modern approach. Modernity regards culture as the collective programming of the mind that distinguishes members of one group or organisation from others (Gesteland, 2005; Hofstede et al., 2010). Here risks arise from the misinterpretation of this programming by managers and subsequent decisions that harm or hinder the value creation processes of the company. While the post-modern perspective regards culture as complex and organic constantly changing its structure through a processes of meaning creation (Giddens, 1990; Douglas, 1992). Understanding national culture is an important aspect of IB as it can increase performance by learning about domestic markets and thereby reduce some of the risks associated with LoF (Halkos and Tzeremes, 2008). The focus has been on building organisational capabilities in line with a resource based view of the firm in an effort to explain and learn why some companies perform better than others (Penrose, 1959; Teece et al., 1997). However, for the MNC who needs to manage several cultures and environmental complexities it can exhaust the managerial capabilities to span several global contexts and multiple stakeholders (Siddharthan and Lall, 1982; Kogut and Singh, 1988; Hutzschenreuter et al., 2011). Risk is then witnessed when the organisation fail to correctly analyse the specific social context they are part of and subsequently take the necessary steps in-order to align organisational capabilities and the local business environment. Mitigation becomes effective when managers know how stakeholders make sense of the world around them and what tools to apply, in order to satisfy local stakeholder grievances while maintaining corporate goals.

## The Risk of everything

The complexity of risk as systems of representation presented to organisation and individuals carries with it several implications (Power, 1997; Power, 2004). Firstly, that the management of risk can be described as instruments for framing objects with the purpose of action and intervention by decision makers provides a new and much more social perspective. Secondly, that this form of risk 'management' thinking has carried with it that we no longer exclusively regard risks as something which organisations and individuals are exposed to from its external environment. As organisations are co-producing risk within themselves and with the different stakeholders they are in contact with, risk production is as much an internal as an external event. One of the major drivers in this development is coming from risk professionals themselves who are increasingly focused on their own risks with a view to avoiding responsibility, blame and financial penalty (Power, 2004). In this way, mitigation becomes the task of dispersing responsibility and actions to individuals whom might have other perceptions of a risk event and the actions needed to mitigate. This highlights the underlying idea that organisations are increasingly tasked with the challenge of dealing with the risk management of everything. Primary risks are conceptualised within our traditional understanding of risk, originating from the external environment and being objective and measurable in nature. And the secondary risks, produced by the risk managers themselves, as members of the organisations they are part of and the systems that they implement. This has spurred risk as a practice field to move in two distinct directions: one where organisations develop more and more complex internal controls creating ever more comprehensive systems of management (Nadesan, 2011). And another, which Power (2004a:64) calls "'intelligent" risk management that is not control obsessed and which has a second order capacity to observe and challenge the effects of the internal control system itself". Where he draws on Luhmanns (1993) notion that risk management in essence is a human activity of decision making about the future which has the purpose of transforming danger (or uncertainty) into a the domain of responsibility.

From this constructionist perspective where risk essentially is a social event made up of different stakeholders contribution to the formulation of shared meaning on what constitutes a risk. This does not mean that there is consensus on how to handle or what part of the event should be prioritised but rather that there is agreement that a certain event constitutes some kind of risk. By subscribing to this perspective it is possible to elaborate on how organisations navigate in a business environment that is increasingly becoming more and more global, opaque and presents a multitude of risk generating stakeholders. This includes communities that frame and make sense of MNC actions in the light of what is believed to constitute risk to them under the influence or control by the company. Social risk is then defined in terms of how local stakeholders construct reality through a sensemaking and framing process which constitute at risk by its combined capability to influence organisational value creating activities. And the management of social risk is the subsequent organisational appreciation of these realities in order to create the basis of qualified decision-making and thereby successful risk mitigation. However, it remains unclear how this reality is constructed and subsequently how the MNC is to approach and manage social risk.

## Social risk and the sociological approach to risk management

Risk management research is and continues to be dominated by inductive economic logic, which makes it unable to produce the predictions on which the paradigm promises (Bammer & Smithson, 2008:147; Zachmann, 2014). Within the field there is a well-established literature on different categories of risk management such as economic, technical, operational or legal that makes the promise that these types of risks can be identified and mitigated (Daniel, 2000; Olsson, 2002; Bremmer, 2005; Crouhy et al., 2006). The development towards a distinct form of social risk analyses based on co-construction of risk between stakeholders and organisations can be traced back to two developments within the sociological approach to risk. First of all, even though it is possible to objectively assess a wide range of factors related to one specific risk-event, it has proven to be very hard to convince individuals and communities who are subjected to the risk that it is within what experts deem 'acceptable limits' (Slovic, 1993; Giddens, 1999; Conchie and Burns, 2008). This illustrates the constraints of objective risk analysis and communication, as stakeholders need to relate

the objective risk to their subjective creation of meaning. And even with this insight, into the distinction between perceived and objective risk, it has been an area which has been impossible to bridge using dominant forms of risk management research, despite several attempts (Holzmann et al., 2003, Kytte and Ruggie, 2005).

Another development that has contributed to our understanding of risk, relates to the concept of Black swans (Unknown Unknowns) or Known Unknown (What you think you know but really do not) (Kerwin, 1993; Taleb, 2007; Mikes, 2011; Aven, 2013). This approach is based in three assumptions about human behaviour and about the world we live in. Firstly, that we maintain an illusion of understanding, or how everyone think he knows what is going on in a world that is more complicated (or random) than is realized. Secondly there is the retrospective distortion, or how we assess matters only after the fact, as we are only making sense of the world around us when events have occurred and not before they are actually happening and third that we tend to overvaluation factual information based on numbers as more reliable than other forms of information (Taleb, 2007:50). Black swans or known unknowns are events that are deemed highly improperly by any objective measure and are seen as extreme events relative to the present knowledge/beliefs (Taleb, 2007; Brown, 2013; Aven, 2013). An organisational strategy for handling type of events is seen through the utilization and playing out risk scenarios. During a session, experts and managers are tested on their risk management skills using role-play and imaginative ways to create stress during the course of an event in order to follow the decision making process and learn from new ways of solving difficult issues along the way (Vecchiato & Roveda, 2009; Zalik, 2010). Scenario planning is a tool that organisations can use in order to translate their organisational capabilities into appropriate operational responses by learning and re-enactment of exogenous events (Worthington et al, 2009; Buytendijk et al., 2010). Social risks, as presented by community stakeholders can in this context be regarded as factors which needs to be evaluated and mitigated on the same terms as all the other variables included in the scenario. The aim is that specialists and managers learn from their experiences and thereby improve their decisions making capabilities when confronted with a similar situation.

#### Social risk and Communication

The definition of risk communication offered by the National Research Council (1989) is one of the most used and talks of “Risk communication as an interactive process of exchange of information and opinion among individuals, groups, and institutions. It involves multiple messages about the nature of risk and other messages, not strictly about risk, that express concerns, opinions, or reactions to risk messages or to legal and institutional arrangements for risk management.” (p. 21). Other risk communication definitions have elaborated on this emphasizing the importance of a more problem centred approach like the need for dialogue between communicators and stakeholders (Mitchel, 1997; Palenchar, 2005), and the necessity of ongoing risk monitoring (Coombs, 2012).

In the wake of several international scandals, which almost brought some of the biggest international companies to their knees we witnessed a rise in communication research that centred on the organisation in crisis (Grolin, 1998; Baron, 2008; Ma, 2010). Initially organisational crisis communication focused on formulating normative how-to strategies that the organisations could use to minimize the risks that they are confronted with and maintain or restore their image (Benoit, 1997; Benoit and Cerwinski, 1997, Morgan, et al, 2002; Coombs, 2012). These strategies ranged from preparing and planning communicative responses to a potential crisis, to different strategies that could be utilized when the crisis finally materialised, much in-line with the scenario approach described earlier. Within crisis communication there is a focus on formulating the most optimal response strategy in order to minimize the adverse organisational impact and maintain the image of the organization as events unfolds (Benoit 1997; Coombs and Holladay, 2002; Coombs, 2007). There are four main theoretical themes active within the field of risk communication. Each one takes a distinct perspective on individual and organisational behaviour. First, Coombs and Benoit looked at how organisations could cope with a crisis that has the potential to risk threatening the value creation process. Second perspective is presented by Mary Douglas (1985; 1992) who argues for a cultural or symbolic view focused on how risks can be regarded as boundaries between the individual or self and its environment. Thirdly, the creation of frames of understanding, from which we make sense of the

world around us is presented by Goffman (1986) and Karl Weick (2001) and finally the stakeholder approach put forward by Freeman (1984) and Mitchel, Agle and Wood (1997) who looks at stakeholder identification and salience that could influence decision making.

The first theoretical theme that deals with risk communication focuses on the event itself and the organisational response to a risk being realised. Both Image Restoration Theory (Benoit, 1995) and Situational Crisis Communication Theory (SCCT) (Coombs, 2007) were developed in order to equip managers with a set of tools to confront stakeholder grievances. Image restoration theory focuses on strategies for organisational image repair after a risk event, pointing out two important components in an attack. First, that the accused is believed to be responsible for an event or action, and second that the event or action is considered to be offensive. While SCCT suggests that people judge situations by making attributions to three dimensions: locus (the cause is located internal vs. external), stability (if the cause changes during a period of time), and controllability (the level of control of the cause). Both Image restoration theory and SCCT have a significant focus on the attribution of blame and the identification of important/salient stakeholders prescribing different strategies that organisation can implement. Here Benoit describes five categories of image restoration strategies - Denial, Evasion of Responsibility, Reducing the offensiveness of the event, Corrective action, and Mortification (Benoit, 1997). These are in turn organized into 14 rhetorical strategies that organisations can pursue; Denial is either refusing responsibility for an event or deflecting the blame for its realisation away from the organisation to other individuals or agencies; Evasion of responsibility refers to claims that the crisis was an accident, the lack of sufficient information, that the intentions were actually good, or that the organisation was provoked. Reducing the perceived offensiveness entails mitigating the negative effects of the crisis by strengthening the positive side of the organization and suggesting a different frame of understanding for the crisis, attacking the accuser, and compensating the victims; Corrective action involves efforts which will help restore the situation by making changes to prevent the recurrence of the undesirable event and Mortification where the organisation accepts responsibility and asks to be forgiven by the public. All of these strategies are aimed at reducing the adverse effect of an event that are presented by stakeholders and whom the organisation perceive as a threat to the value (tangible or intangible) it has accumulated. The central issue, which SCCT tries to solve, is the protection of organizational reputation through the correct assessment of the crisis situation and selecting an appropriate crisis response strategy. Coombs (2007) suggests that there are four dimensions in crisis situation, which can affect the attributions that the public makes about the crisis namely the Crisis type, Severity, Crisis history, and Prior reputation. The SCCT divides crisis types into three clusters (Coombs 2007; Coombs and Holladay 2002). First, the victim cluster is defined as crises with very weak attributions of organizational responsibility, and the organisation can be viewed as a victim of the event. Second, the accidental cluster involves crises in which a certain, but low, level of responsibility are attributed to the organisation, and if the event could be considered to be unintentional or uncontrollable by the organisation. Third, the preventable cluster includes crises for which organizations intentionally place stakeholders at risk, knowingly violating laws or regulations, or not doing enough to prevent an accident, and the organization is perceived as being responsible. Severity may include deaths, injuries, property destruction, and environmental harm. Crisis history refers to whether or not an organization has had a similar crisis in the past. A high consistency of crisis history suggests an organisation has an on-going problem that needs to be addressed or have a lot of experience dealing with being a victim. Prior reputation examines the credibility of the organisation. As with image restoration theory (Benoit, 1997) the aim is to create situations where stakeholder grievances are identified and mitigated. However, with SCCT it is also taken into account that the organisation historical performance could provide resilience against attacks on its image and ability to operate efficiently.

Both of Image restoration theory and SCCT entails that decision makers have information that enables them to pick the correct communication strategy, which will alleviate a given crisis situation. Because of their reactive nature, they do little for managers in terms of understanding risks, but focuses almost exclusively on the effect of realised risk being communicative in nature. However, using a social risk perspective, it is possible to take advantage of these communicative tools for stakeholder grievance identification and mitigation. As social risk and the management of it rely on the ability of

organisations to identify salient stakeholders, who could influence its decision-making processes, crisis communication becomes a resource for possible risk identification. Turning the Image restoration and SCCT around and asking what stakeholders could possibly provoke a communicative crisis response and by that empowering organisations to inductively identify social risks.

The second theoretical theme is presented by Mary Douglas (1985) and the notion that risk should be understood as it is perceived by the layperson or 'the public'. She criticised the mainstream (eg. the modern) discourse of risk theory, which she saw as a perverse form of forensics and development within a clean scientific subject (Douglas, 1992:11). Claiming that "risk is not only the probability of an event but also the probable magnitude of its outcome, and everything depends on the value that is set on the outcome. The evaluation of a possible risk event is a political, aesthetic, and moral matter, which in practical life means that private decisions about risk are taken by comparing many risk alternatives, and their probable good and bad outcomes. No risk item will normally be considered in isolation and nor does intellectual activity happen in isolation" (Douglas, 1992:31). When regarding risk events, that are not only objective and measurable entities, this constitutes a major turn towards identifying and conceptualising social risk. It is now regarded as it looks to the community and the reality that they perceive rather than purely subjective or objective in nature and that this is the focus of effective social risk management.

The third theme focuses on the process in which these community realities are created and how they can be understood through two communicative perspectives namely framing and sensemaking. Goffman (1975; 1986) promoted the concept of framing as an organisational premise that constitutes a schema for interpretation of a given event and sensemaking that was conventionalised by Karl Weick (Weick et al., 2005) created a framework for how these frames of meaning were constructed. In order to understand the world around us we make use of frames or 'reference maps' from which we can understand the context we are placed in. Their purpose is two-fold. First, they help us organise experience and enable people to recognize what is happening and provide barriers (eg. Frame) so that we are able to distinguish between uncertainty (Unknown) and risk (Known). Second, they offer a historic set of past decisions that we can draw upon when making new decisions or an appropriate behavioural response to new information. One should not see frames as fixed institutions but rather as a socially constructed map of how to best function in society and people make sense of the world around them based on these maps. However, they also set limits to our perception of reality, as they constitute a level of analysis where individuals try to understand what is real and what is not. That the frames enable us to know important things about reality but also that our sense of its realness stands in contrast to our feeling that some things lack this quality (Goffman, 1975). We can then ask under what conditions these feelings are generated and the factors included in this process or how we sense-make. Frames are constructed, moulded and eventually destroyed through a sensemaking process (Weick et al. 2005). We simply cannot make sense of the world without mentally organising it and there is a distinct pattern to how the process unfolds and the way we construct patterns of significant meaning (Morgan et al., 1983). According to Weick there are seven themes to this pattern, which enables us to evaluate the process of meaning construction (Weick, 2001:11). First, reality is an on-going accomplishment that continually changes the way we think about the past and make assumptions about the future. Second, people attempt to create order and continuously create comparisons, expectations and actions based on perceived patterns of meaning in our surroundings. Third, sensemaking is a retrospective process as we are remembering and considering past events. And fourth, through this process people attempt to make situations rational and accountable by applying socially acceptable reasons as justification for their actions. Fifth, we make presumptions about patterns in social life as they contain a certain interpretation making symbolic processes central. Sixth, people create images of a wider reality through the creation of mental maps that can guide decision-making and action and finally that these images rationalize what people are doing. By creating the groundwork for a sensemaking process individuals introduce stability into an ambiguous flow of events through justification by decreasing complexity and increasing social order.

As frames and sensemaking are individual undertakings it also entails an individual response in-line with the thinking that risk is subjectively perceived rather than an objectively identifiable event. When

applying this to social risk the organisational challenge can be massive when a multitude of stakeholders, who with their own frames of understanding and sensemaking processes, are evaluating their surroundings and possibly identify the organisations actions as counterproductive to their own aims. It then becomes the task of organisations through their own sensemaking and framing process, to identify and understand the possible impact that these stakeholders can inflict on the value creating process and the subsequent possible need to mitigate risk. This also means that organisations will have many more stakeholders claiming that they are exposed to risk, than will actually be the case, in terms of what can affect the creation of value by a given organisation.

Identifying how different stakeholders create meaning does little in terms of knowing which ones the organisation should engage with first. Therefore organisations need to be able to identify community stakeholders who represent the biggest impact on its decision-making processes (Freeman, 1984; Donaldson and Preston, 1995; Mitchel, 1997; Ulmer, 2001). Stakeholders are in this context individuals or groups of people, who through a sensemaking and framing process, can affect or who are affected by the activities of the company. Mitchel, Agle and Wood (1997) presented a model for how organisations might not only identify stakeholders but also be able to understand the possible risk salience that they represented. They used three categories of typification - Power, Legitimacy and Urgency. Where powerful stakeholders poses the ability to coerce and impose their will in a relationship, legitimate stakeholders gain salience through a desirable common good that all can agree upon and that urgency can be roughly defined as some event which calls for the urgent or pressing attention of the organisation. It is in this context possible to think that the most powerful stakeholder would automatically also represent the most salient as they can make an actor do something that they normally would not have done and in theory make their claim both urgent and legitimate. However, this might not necessarily be true as power has no authority without being legitimate and the recognition that stakeholders can have a legitimate claim in relation to specific events (Donaldson and Preston, 1995; Mitchel et al. 1997). For organisations that need to take decisions it is equally important to understand how urgent stakeholder claims as it is to know how powerful or legitimate their claim is before attributing salience. As with both power and legitimacy, is urgency a socially constructed phenomenon and might be perceived differently by stakeholders, managers and others in the organisations environment. An urgent event can simply be characterised as the degree to which stakeholder claims call for the immediate attention of the organisation and that the organisation respond to this claim.

Decision makers who are faced with social risk are continuously being confronted with a multitude of different stakeholder claims. Knowing that these are rarely objectively verifiable, managers need to ascribe a level of salience or priority to each one, depending on their own sensemaking and framing process. At the same time being aware that stakeholders themselves have gone through a similar process of deductive reasoning. As we explore social risk through the eyes of communication theory it becomes evident that the ability of organisations to navigate and take quality decisions by reducing risk and/or optimising opportunity depends on the individual decision maker competences to understand and analyse the world around him or her. And that organisational resilience depends not on the fine masked systems which they are able to implement but on the individual abilities to sense how different individual or groups perceive the world around them and based on that take decisions.

#### Social risk and Corporate Social Responsibility systems

The institutionalisation of social risk management has happened through the standardisation of CSR into management systems that can form the basis for corporate decision making (De Bakker et al, 2005). These systems represents a crossover from cultural and communication studies into the field of corporate risk management linking standards or checklists with the idea of corporations as global citizens (Bebbington et al., 2007; ISO, 2010; Palenchar et al, 2011; IFC, 2012). The use of CSR standards means, at least in theory, that organisations learn and document how they systematically engage with their stakeholders (Nadesan, 2011). The standards are designed to enable organisations to comply and report on their ability to conform to certain universally recognised norms and thereby meet salient stakeholder expectations stakeholders (Bebbington et al, 2007: Palenchar et al, 2011:189). The main arguments for adopting a CSR approach to risk management are the following. First, the use

of CSR standards provides the organisation with a stamp of approval through accreditation from a recognised institution. Second, it enables the organisation to be in accordance with investor expectations in terms of a diverse risk management through the use of a recognised approach and thereby communicating that environmental and social risks are identified and mitigated systematically. And finally it helps create an image of the organisation as a social responsible member of the community and thereby lower the social risks that it might be exposed to. All of which are believed to reduce risks and build resilience (through a favourable crisis history and isomorphic mimicking strategies) against stakeholder grievances that the organisation could be exposed to. There are two distinct types of standards in use. The first type of standard primarily focuses on organisational compliance to objective measurements, such as legislation or safety standards which can also be characterised as the risk of non-compliance (Perrini, 2006). These types of standards is a continuation of the ones described within what Beck (1992) calls the modern understanding of risk and originates from the effort to objectively assess possible social risks the organisation is being exposed to. The second set of standards can be characterised as, what Michael Power (2004a) called “intelligent” systems, which has the aim of building organisational capacity and learning processes in line with a sociological and communicative perspective on risk management. Systems that can fits Michael Powers description are promoted by both norm formulating and private organisations in the hope that they will influence stakeholders through engagement in their sensemaking (Carroll, 2004; 2004; UNEP Finance Initiatives, 2005; UN PRI, 2006; UN Global Compact, 2008; Barkemeyer, 2009; ISO 26000, 2010; IFC, 2012). In this way adopting a strategy of CSR standardisation and stakeholder engagement can be seen as assurance or at least give some forewarning of upcoming risk events that companies can use to manage their exposure from stakeholders. The major driver for adopting these types of systems are the potential exposure from local and global communities forcing companies to conform to prevailing social and/or environmental norms (BSR, 2003; Morsing & Schultz, 2006; Vogel, 2008). In-line with the notion that standards constitute a library of past frames or the framing experiences of others that the organisation have deemed relevant. An increasing number of companies are taking on CSR standards as a way to identify and assess social risks in their operating environment drawing on all of the above perspectives.

#### Towards the conceptual framework of Social risk

MNCs and IB has been struggling with how to get to grips with increased and complex risks in a globalised world. By being subjected to Liability of Foreignness cross-border companies have a distinct disadvantage to local companies in the operating environment. The response from MNCs to overcome these has been to create ever more comprehensive and complex management systems including systems related to risk in order to deal with these challenges. However, when confronted with social risks these tools are ineffective and do little in terms of mitigation of the dangers that influence the value creation process of the company. Social risk being defined in terms of how local stakeholders construct reality through a sensemaking and framing process which constitute at risk by its combined capability to influence organisational value creating activities and thereby influence organisational decision-making processes. The management of social risk is then the processes and systems which the organisation can set in motion in order to influence stakeholder sensemaking and framing processes.

My argument is that by using a cross-disciplinary approach taking its outset in a sociological conceptualization of risk and applying tools from communication studies an alternative approach to identification and mitigation of social risk can be utilized. It is proposed that MNCs can improve their social risk management abilities by organizing their efforts using “intelligent” CSR systems, which are based on capabilities to identify frames and sensemaking processes in the local communities where they are active. This does not exclude so-called objective measurements but supplements these tools by focusing on community sensemaking processes and creating an appropriate response utilizing communicative tools from scenario building and crisis management.

Sensemaking processes and frames of meaning can be identified when individuals act alone or form groups in order to influence the value creation process of the MNC. If stakeholders are able to congregate enough salience through a combination of the legitimacy of the claim, power to influence

the value creation process and its urgency, it will be possible to influence decision makers. This influence can be either positive (in the sense that it can offer an opportunity) or perceived as negative in the form of risk. However, it is also possible for the MNC to create the conditions for the reverse process where organisations influence the sensemaking process of stakeholders through reporting and use of standards. The efficiency would then be dependent on the “intelligence” of the system to make sense of the individual framing process and come up with an appropriate response. And because of the retrospective nature of the sensemaking the reporting and other communication of the MNC would become a natural part of this process provided that it has the capabilities to communicate effectively using tools from scenario building and crisis communication.

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