

CORPORATE COMMUNICATION IN CORPORATE GOVERNANCE: WHY SHOULD IT BE MANAGED STRATEGICALLY? THE SPANISH CASE

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Abstract

Several events help to explain the evolution of the Spanish business environment over the past few decades, and the consequent importance of corporate communications: company reputation and contribution to strategic goals, evolution of the concept of corporate governance, the way corporations manage their relationships with stakeholders –including the social responsibility dimension-, and the regulation of information transparency. In this context, company managers are now facing a new situation that requires thorough communication relationships with individuals and entities in the environment, because of their impact on the company.

While these characteristics are common ones in several countries, the Spanish case is interesting to analyse. There are several reasons for this. Firstly, the changing political, economic and social context during the last three decades makes it interesting, in relation to the evolution of corporate communication. As will be shown, communication management has become steadily more important for organizations, especially since the nineties, as has also happened in the field of academic research. Secondly, corporate governance and information transparency in Spain has been regulated by norms which have come into law very recently. This has prompted corporations, especially listed companies, to be concerned about their public profile and the need to manage communication strategically, because of the possible consequences for their reputation. Thirdly, these and other circumstances point to an emerging field of research in corporate communication: the relationship between corporate governance, strategic management, transparency, and communication.

Therefore, this paper is intended to present an overview of the changing Spanish context, and to explain its consequences for the development of corporate communication. Some concerns in two academic fields are highlighted in the first section: management literature –with special attention to corporate governance-, and

corporate communication literature. Both disciplines tend to share similar ideas regarding the management of relationships between companies and stakeholders.

The second part of the paper focuses on several political and economic circumstances in the Spanish situation. These characteristics help to understand the evolution and the institutionalization of corporate communication as a profession within organisations: economic and financial development, privatization of state-owned corporations, legal requirements in information disclosure, or social and political debate about corporate social responsibility. In this respect, the paper centres its attention on the main events relating to the beginning of corporate communication in Spain, both as academic research and as a professional practice; the emergence of professional associations; and the conclusions of mainstream studies that show an implicit link between corporate communication and corporate governance.

Finally, future research perspectives are suggested, in order to show conceptual implications between corporate governance and corporate communication. As will be shown, corporate communication is a strategic factor for the governance of a company. This point has been emphasized from the public relations and corporate communication perspectives, but as will be pointed out, there is long way still to go in the Spanish professional arena, in order to make the idea that communication is a strategic tool in organizations understood by management and in professional practice.

Keywords: corporate governance, corporate communication, Spain.

Introduction

What is the contribution of communication to the management of a company? That is the key question in both scholarly and professional fields. Discussion tends to concentrate on structural dimension of communication –i.e the organisation of communication departments- as well as the influence communication managers have on the decision-making process. Similarly, analysis of communication begins from the perspective of other academic fields, such as management. This attention is given in order to find the best way to engage with stakeholders. Consequently, communication

management and corporate governance seem to come together in some ideas, to facilitate clear ideas about a good decision-making process in the company's relationships with publics or stakeholders¹.

There are some international circumstances that seem to be relevant. Firstly, great attention is paid to the influence of intangibles in business. Secondly, multinationals are being important agents in a globalized world, specifically in their influence on the economic and social development of countries. Thirdly, public institutions and financial markets are increasing their pressure on companies to comply with corporate social responsibilities policies and good corporate governance practices (OECD, 2004; Sparkes, 2003; European Commission, 2002).

Spain is also influenced by these market trends, and professionals try to institutionalise communication practice as a corporate strategic function, as well as an important aspect of good corporate governance.

In sum, this paper is intended to describe the Spanish situation within this context. There is a scarcity of literature and empirical research, but recently there has been a significant effort in both academic and professional fields to study of the configuration of the profession, and how is it organised. That is the reason why it is difficult to find specific references to the relationship between communication management and corporate governance. Therefore, this paper tries to further develop the body of knowledge concerning that conceptual relationship. In the first place, it presents the main ideas covering the topic in literature. This literature review will help in the identification of the main ideas regarding the contribution of communication to strategic management. Corporate governance has been brought into focus from a legal-framework point of view. In the first section of the paper there is a general emphasis on the concept of corporate governance as a system in which a company is managed from different dimensions. One of them is communication, which has a central role in managing relationships between company and stakeholders.

These considerations enable the focus of the second part of the paper: how the Spanish profession is developing. As it has been specified, however, there is little literature and specific empirical data. Nevertheless, those findings do allow for some

¹ In order to be more comprehensible, 'stakeholder' and 'public' are employed as interchangeable terms that refer to a similar reality: groups of people related to the company or organisation in various ways.

considerations to be made about corporate communication practitioners and their contribution to good corporate communication.

1. Literature review. Linking communication management to corporate governance

In recent years, good corporate governance has become a crucial issue in the agenda of executives, public institutions and communication practitioners. One question arises: which are the roots of this issue in different sectors? In both management and corporate communication fields, scholars seem to converge on one idea: how to manage mutually beneficial relationships between the company and its constituencies. This conception takes the notion of company as a social institution that generates value, not just in economic terms but also in a social sense, as its starting-point. In consequence, executives have to develop a management culture that focuses on a vocation of service to the public, or in more specific terms, to different stakeholders (Llano, 1992); that is, to decide how to respond to stakeholders' expectations and necessities in order to gain competitive advantage and to adapt to a demanding environment. In this sense, there are several issues and drivers in the evolution of the business environment: information society and the increasing information demanded of organisations, sophisticated customers, increased legal pressure, "*the economics of reputation*" (Sparkes, 2003: 3), the rise of empowered employees, globalization... (Fombrun y van Riel, 2007; Hall, 1993).

This situation helps to understand why there is a renewed discussion about what a company is and its contribution to society, particularly due to management trends and theories such as the stakeholder management and corporate social responsibility. Both disciplines stress a management leadership vision that underlines the significant role of learning from the environment and the reaching of trust in business (Bandsuch, Pate & Thies, 2008; Burchell & Cook, 2008; Ayuso, Rodríguez & Ricart, 2006; Goodman, 2005). Similar attention is being given to the notion of the company as a social institution (Mason, Kirkbride & Bryde, 2007). Ulrich draws attention to the concept of free enterprise, holding that a corporation may be private in a legal sense, but "*today's company or corporation has to be understood as a quasi-public institution which is*

expected to create values of different kinds according to a variety of societal needs” (Ulrich, 1995: 3). In sum, the neo-classical definition of companies has been superseded by a socio-economic vision with a more complex set of relationships, the search for being social legitimacy and the resulting increase in responsibilities. As Bowen stated in his seminal book, *“his –the businessman’s- decisions affect not only himself, his stockholders, his immediate workers, or his customers, they affect the lives and fortunes of us all”* (Bowen, 1953: 3). Bowen and several authors have stressed the essential role of organisations in the configuration of the public sphere (Jensen, 2001; Holmström, 1997).

In this sense, the company’s public dimension has to be managed, and specifically its relational nature. In consequence, executives ask themselves how to deal with specific and various stakeholder demands, and how to include them into the management decision process and the strategic formulation (Post et al., 2002). This topic, precisely, leads to an integrated governance system: *“Taken as a whole, this network of relationships constitutes a ‘governance system’ (de facto, if not de iure) for the modern corporation”* (Post & Carroll, 2006: 133). Several authors emphasize the emergence of a new corporate governance paradigm, from a shareholder-based approach to a stakeholder-based approach (Money & Schepers, 2007: 4). As the Organisation for Economic Cooperation and Development (OECD) states, *“corporate governance is one key element in improving economic efficiency and growth as well as enhancing investor confidence. Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders”* (OECD, 2004: 11). The OECD focuses on the principles of good corporate governance: transparency and the role of stakeholders. Beyond legal requirements in several countries, corporate governance refers to an engagement of managers with stakeholders groups (Barley, 2007).

As Preble points out, *“the term stakeholder was chosen as a literary device to call into question management sole emphasis on stockholders and instead suggested that the firm be responsible to a variety of stakeholders”* (Preble, 2005: 408). Hence, it can be stated that the management focus should be on dealing with stakeholders not as

enemies, nor in having conflictual interests in relation to corporation interests². In the first situation, the management of relationships could become the difficult task of looking for a continuous *equilibrium* between the corporation's interests and mixed stakeholders concerns. In contrast, several authors underline the importance of recognizing constituencies as partners that are the ultimate sources of the company's wealth-creation (Post & Carroll, 2006: 121; Ulrich, 1995: 5).

Nonetheless, the legal framework in operation in countries stresses good corporate governance as a "*mechanism of rules designed to align the interest of the owners or capital and the managers*" (Young & Thyil, 2008: 95), and issues around the control and composition of the board of directors, as well as shareholders' rights, in a "*profit-centered model*" (Shahin y Zairi, 2007: 756). However, as has been previously pointed out, the realm of relationships that a corporation has to deal with requires a more complex form of governance. In this sense, as some studies reveal, managers are concerned with "*reputational risks and opportunities that corporate responsibility brings, and for these companies aligning corporate behaviour with stakeholder expectations is an ongoing business priority*" (Dawkins, 2004: 108).

This standpoint leads to several issues that may affect the way managers and corporations cope with these strategic relationships. Communication activity becomes a critical issue in gaining engagement with stakeholders, social support and trust in business (Bandsuch, Pate & Thies, 2008; Rahbek, 2006). Public relations and corporate communication literature has traditionally stressed the impact of communication relationships on the achieving of strategic goals (Toth, 2007; Morsing & Schultz, 2006; Fombrun y van Riel, 2007; Argenti, Howell & Beck, 2005; Hallahan, Holtzhausen, van Ruler, Verčic & Sriramesh, 2007; DeSanto & Moss, 2004; Moss, Warnaby & Newman, 2000; Dolphin & Ying, 2000; Caywood, 1997; Lauzen & Dozier, 1992)³.

² In this sense, public relations literature, and specially the excellence theory study how to deal with different interests in the relationship between organisations and publics. See Grunig, 2000; Murphy, 1991.

³ Some authors include this consideration into their definitions. See, for example: "*Corporate communications is a management function that offers a framework and vocabulary for the effective coordination of all means of communications with the overall purpose of establishing and maintaining favourable reputations with stakeholder groups upon which the organization is dependent*" (Cornelissen, 2004: 23). "*Corporate communication is concerned with the process of identifying, establishing and maintaining long-term relations with those audiences perceived by an organization as being ones that help to produce successful outcomes for corporate strategy*" (Dolphin, 2003: 5). "*Corporate communication is the professional practice of developing and implementing communication rules and tools in order to enhance the dissemination, comprehension, acceptance, and application of information in ways that will help to achieve organizations' goals*" (Gayeski, 1993: 2).

Communication management acquires new meaning in organisations. Public relations literature underlines the public relations manager's role in the dominant coalition or the 'executive suite', and his/her power and influence inside organisations (Berger & Reber, 2006; van Ruler & de Lange, 2003; Dolphin, 2003; Tixier, 1998). Certainly this is a crucial issue in the institutionalization of the practice. But it is not the only one. The real contribution of communication practice as a management strategic tool must also be taken into account. This contribution has two main consequences for the governance of companies:

- a) Learning from the environment: prompts listening to stakeholders' concerns, and stimulates managers to take the right decisions (Ulrich, 1995: 5) in response to public's demands.
- b) Facilitating innovation: companies are encouraged to innovate in response to market challenges, thus facilitating a competitive advantage and undoubtedly adding value in the management process.

As has been noted, dialogue is the essence of corporate communication, and as Llano remarks, "*the nature of companies is a dialogic one*" (Llano, 1992: 25). Furthermore, dialogue with stakeholders has other consequences: it reduces conflict situations, avoids risks and increases confidence (Burchell & Cook, 2006: 163-166). As a result, authentic dialogue leads to engagement and, in the end, could bring about changes in organisational behaviour⁴. This professional perspective necessarily requires company's managers and executives to be conscious of the authentic nature of communication. What is the authentic nature of corporate communication in corporate governance? It means to focus on bidirectional communication that leads to a genuine dialogic process in which both company and publics share their views and the company tries to handle the latter's expectations and demands (Stoker & Tusinski, 2006; Baum, 2004; Cortina, 2003; Steinmann & Zerfa, 1993). This approach denotes a proposed form of company management in which executives accept that their decisions may include public perspectives in the governance of the company.

These considerations lead to a necessarily more integrated and consistent communication management function. Governance, particularly communication

⁴ Companies should be opened to dialogue "*as a channel through which to transcend traditional conflictual processes of communication between organisations and develop a more progressive form of engagement and understanding*" (Burchell & Cook, 2008: 37).

activity, would require, in this context, a well founded and coordinated management of communication relationships with various publics. This is one of the most significant challenges facing corporations; how to be authentic and project a strong identity to all of their stakeholder groups (Cornelissen, 2004: 24; Fombrun & van Riel, 2004: 165).

2. Spanish practitioners' point of view: corporate communication and its contribution to good corporate governance

It has been highlighted previously that communication practices contributes to the corporate governance of companies. This contribution generally focuses on the potential of communication activity and practitioners to help their companies to adapt to a changing environment. Practitioners and scholars underline the fact that only if the communication manager is in the first tier of management in organisations is he/she enabled to add value to good governance. And that is, precisely, how the communication function is gaining institutionalization within organisations. Such a view is reflected in the Spanish context, where professionals are coping with this issue: how their activity might be recognized as a valuable strategic tool for management (Panadero, 2006).

Public relations and corporate communication is still consolidating its position in Spain. The relatively little academic research that has been carried out, due to several circumstances⁵, means that there is limited data and theoretical research in the academic arena. However, in the last two decades there has been an increasing professional growth, and this situation has been followed by the consolidation of professional organisations and their contribution to the body of knowledge in public relations and communication management. The limited academic and professional research, nevertheless, does still allow some reflection on the relationship between communication management and corporate governance. Although there is no empirical data that directly refer to the contribution of communication to corporate governance, the results contain some indicative evidence. In other words, the way communication is

⁵ Public relations and communication management is still a young professional practice, and related to this situation, the beginning of specialized undergraduate studies in Advertising and Public Relations in Spain began in 1992, with the approval of the government Department of Education. Naturally, the new undergraduate studies were followed by the rise of academic research. See Rodríguez Salcedo, 2008; Rodríguez Salcedo & Gutiérrez García, 2007; Arceo, 2006; Tilson & Saura Pérez, 2003.

organised, its presence at management level, and the responsibility it assumes are some of the facts with a direct relation to the link between communication and governance.

As it will be shown, this empirical research has been conducted chiefly by professional associations⁶. In this sense, it seems that professional associations, as it will be analysed, are leading research and debate about the state of the art in corporate communications. Both empirical evidence and the official documents of professional associations will help in the analysis of the main topics the profession is discussing with regard to the influence of corporate communication on corporate governance. But firstly in the next section some features of the business environment that will help to understand professional trends and the way profession is developing are briefly described.

Business environment and professional development

Several drivers in the economic and political environment have prompted companies to create communication structures. 1975 was a landmark year in recent Spanish history. That was the year General Franco died and what has since been referred to as the Transition to Democracy began. After more than 40 years of a dictatorship regime, Spain began to live into a free political, economic, and communication system (Barrera, 1995; Barrera & Ruiz, 2000), although even despite the lack of freedom, the first steps towards public relations were taken during 1950s (Rodríguez Salcedo, 2004; Moreno Fernández, 2004; Noguero y Grau, 1995).

Nonetheless, it was the democratic period initiated at the end of the seventies that caused important changes in communication, particularly in the media market system. The increasing number of mass media since the eighties and the appearance of new technologies in the nineties have forced organisations to respond to a growing demand for information⁷. This situation explains why corporate communication began focusing on media relations as a primary responsibility of communication departments (García Orosa, 2005; Almansa, 2005).

Other relevant circumstances have influenced the rise in companies' communication activities. Firstly, deregularization of the economy over the last three

⁶ Dircom (Association of Communication Directors) and Adecec (Association of Consultancies in Public Relations and Communication) are the representative professional associations in Spain that have conducted empirical research since 2000.

⁷ Miller & Dinan found similar evidence of the public relations growth in United Kingdom during the end of the 20th century. See Miller & Dinan, 2000.

decades has entailed more competition in several economic sectors – telecommunications, the banking industry, the energy sector and service sectors... Such a situation motivated a development of commercial communication –in particular an advertising boom since the eighties (Etayo, 2002). This context has obliged companies to give attention to their corporate reputation. As the former president of the Spanish Association of Communication Directors asserted, “*management of intangibles is one of the main activities of practitioners in their companies (...) Reputation management is in fact an outstanding reality in the brief history of communicators*” (López, 2006: 175).

Secondly, due to the privatisation phenomenon in the eighties, companies began to be listed on stock markets. From a communication perspective, this prompted companies to manage *new* relationships with different publics, taking into account the need for specialized information and communication: investors, shareholders, analysts, and the financial community (Gutiérrez García, 2006; López Lita, 2003).

Thirdly, during the last decade, regulators have pressed companies to become more transparent. Several pieces of legislation have come into law⁸, and this new legal framework affects listed companies. As a result, there is a trend towards transparency in the corporate sector; not only with regard to the fulfillment of regulation, but for the accomplishment of a minimum of transparency in overall relationships with publics.

The factors detailed above show how companies have had to face new communication requirements in very recent times. All in all, this context explains why communication is becoming more institutionalized in Spain. That companies have begun to organise communication departments since the end of the twentieth century is no mere coincidence. These changes in communication practice were followed by the launching of both representative Spanish professional associations: Adecec –Asociación de Empresas Consultoras en Relaciones Públicas y Comunicación, the Association of Public Relations and Communication Consultancies- was founded in 1991, and Dircom⁹ –the Association of Communication Directors- in 1992.

⁸ Regulation of transparency has been motivated by the European Union. Due to this new legal framework, Spain has regulated financial markets and information transparency, particularly during the last decade. See Ley 26/2003, 17th June, con el fin de Reforzar la Transparencia de las Sociedades Anónimas Cotizadas (BOE, 18 de junio de 2003) (This act is also known as the *Law of Transparency*). Special attention has been given to corporate governance regulation. See Orden Ministerial 3722/2003, 26th December, regarding annual reports on corporate governance and other information tools in listed companies and other institutions.

⁹ Dircom began its activity in 1993 with 49 members. In 2007 the association had more than 500 members See Annual Report, 2006. Dircom is a member of the *Global Alliance of Public Relations and Communication*

Dircom is the professional association that represents communication managers in organisations –mainly in the business sector. Empirical research conducted by this professional association provides comprehensive data on the corporate sector in Spain. Special focus is given to the position communication managers hold in the company, and how such activity helps their companies to achieve strategic goals¹⁰. This is reflected in one of the aims which the professional association promotes: “*to foster communication management as a strategic tool in managing organisations*”¹¹.

As it has been mentioned, there is little empirical research on the Spanish market is available. Studies conducted by Dircom in 1999 and 2004¹² point to several conclusions. The latest study shows that the majority (78%) of companies have a communication department. But communication departments of companies are rather young. In 1999, empirical data showed that in 63.5% of cases, the role of communication manager had been in existence for less than ten years. In second place, it can be stated that communication structures are still not institutionalized. There are two main reasons: as has been indicated, the recent emergence of the function, and, secondly, the fact that only 58% of corporations have a communication manager to coordinate different communication activities. This means that communication relationships with different publics are still not coordinated by the communication director and that different communication professionals in charge of them. Financial communication, commercial communication and internal communication are the main areas in which fragmented communication management persists.

In third place, only half of the communication managers (50%) is part of the management dominant coalition or the ‘executive team’, and just 36% of them participate in the executive team decision-making process. On the contrary, 31% confirm that they had never taken part in it. These figures are relevant if it is considered that one of the attributes of the institutionalization of communication function inside organisations is the communication directors’ active role in strategic decisions is taken

Management, and the European branch of the *International Association of Business Communicators* –IABC-. See <http://www.dircom.org>.

¹⁰ The strategic role of communication is a common issue discussed in the European context. See Cornelissen, 2004: 21; van Ruler & de Lange, 2003: 156.

¹¹ Another aim of the association is: “*To promote professional recognition of the communication director inside organisations*”. See <http://www.dircom.org>.

¹² Since 2000, Dircom has published two wide-ranging empirical studies about communication management in Spain. Both studies were conducted among company communication directors. The sample comprises more than 200 professionals in companies with the highest invoicing figures. See Dircom, 2000 & 2005.

into account. The data seems to reflect the interest of company executives in promoting communication activities as a relevant area of management. Nonetheless, the figures suggest that it is not consolidated.

Another sign of the institutionalization and influence of the communication function on governance is the ability of the communication manager to be helpful as a coordinator that takes care of several, complex company relationships. That means to take into consideration in a coordinated way different communication demands and respond to them with consistency. As several authors have highlighted, consistency is inherent in coherent messages through different actions and activities (Schultz et al., 2000). The trend in Spanish professional practice, however, has been to focus on media relations activity as the primary responsibility of communication departments. That has been a priority function of communication departments, with the aim of garnering greater publicity and presence in public opinion¹³. “*The common functions of communication departments are media relations, corporate image and internal communication*” (Dircom, 2005: 44).

80% of practitioners align the communication strategy with corporate strategy; but 40% recognise that they do not have a formal document (Dircom, 2005: 45). At the same time, 34% of practitioners have a formal document in their companies that comprises an integral communication plan aligned to corporate strategy. This integral communication plan includes several areas of communication activity (Dircom, 2005: 48).

Final comments

At the beginning of the paper some reflections about the contribution of corporate communication to good corporate governance were outlined. An overview of the main ideas in the literature review, as well as the main findings in the Spanish context, provides the framework for some final remarks.

¹³ It should be noted that since the transition to Democracy in Spain in 1977, the number of media has been increasing exponentially, and specifically, the economic and financial press, which is one of the specialized media with the highest increase in readership and circulation over the last two decades. See Arrese, 2007, pp. 16-18.

If corporate communication practitioners intend to gain influence in the strategic management of companies and, in consequence, contribute to good corporate governance, the following issues should first be taken into consideration:

1. Corporate communication: an integral management vision. Certainly, communication is very important in regard to its role in assessing executives in their decision-making process. As Mintzberg stated, executives spend lot of time considering the situation in the environment. They gather information about what is happening in the market, what are the main trends and challenges. That is an important part of the decision-making process. They also spend time communicating their vision, gaining influence and leadership inside and outside their companies. But this is just one part of the nature of corporate communication. Corporate communication comprises a structure and professionals whose function is to organise communication relationships throughout the company and outside it. The structural dimension is, in this respect, an important feature. It helps to hold communication relationships together, giving coherence and consistency.

2. Concerning the existence of various stakeholders and relationships that the company has to deal with, there is some evidence, from both theoretical and empirical points of view, that the profession tends to coordinate diverse stakeholder communication relationships. However, a significant question arises in this regard: how are such different information demands to be managed? The structural dimension appears again as an important topic. Empirical evidence in the Spanish market, in line with literature and the international state of affairs, seems to draw attention to the need to coordinate different stakeholder relationships. This situation requires that diversity be a factor in the management of communication, but that the management approach should also be a consistent one. Only if there is a professional in charge of the coordination of different communication programs can a company's various communication activities be coherent.

3. Aligning strategic goals with communication goals. Communication goes with business, it manages the corporate story (Holten Larse, 2000). Practitioners help to shape the reality of the company. Company and stakeholders share a common public sphere. The company's success depends, as a result, on adjustment to the expectation and demands of publics, not only in commercial sense, but in a general one.

4. Relating to previous comments, good corporate governance requires the management of complex elements and, in the end, exact knowledge about what is taking place in the environment. Communication managers become a catalyst that enables company executives to take stakeholder demands into account and adapt company service to its publics. That situation cannot be addressed without coordinated communication relationships.

5. Corporate communication in Spain is still becoming consolidated. As has been described, communication functions and professionals still do not have enough influence within the management team. The profession's immaturity is illustrated by the relative youth of communication structures in companies, as well as their limited influence on company structures. The corporate communication function is still not institutionalized, and it can be stated that its contribution to corporate governance is limited. There are some significant reasons why this contribution is regarded as limited: firstly, if communication managers do not usually participate in the executive team, it is difficult to participate in corporate governance. Secondly, which follows from the previous one, communication practitioners still do not have influence on the strategic decision-making process. For this reason, it would seem to be very difficult to translate stakeholder demands and influence executive decisions.

6. Notwithstanding the considerations above, it may be concluded that the profession in Spain is conceiving what its strategic function for organisations and company may be. The increasing role of communication managers within companies suggests that company executives tend to regard communication as an important function.

Further research is necessary: in theoretical terms because a deeper understanding of the value communication may have for good corporate governance is required. Empirical research must also be carried out to know if the trend in the profession is to gain influence on executive teams and, especially, whether communication practitioners influence the way companies are managed.

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