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Employee Communications Can Affect a CEO's Health

Informed Employees are Good for Business

By Ken Roberts

The business world is full of cautionary tales that often hinge on simple truisms and basic tenets. One that the CEO who communicates actively and honestly with employees will be rewarded with loyalty and support may seem glaringly obvious. But it is surprising how often this tenet is brushed aside in the executive suite. The fate of Ronald Allen, the former chairman

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and CEO of Delta AirLines, is a good example of how successful employee communications goes hand-in-glove with meeting business goals.

In 1994, Delta Air Lines embarked on a major cost-cutting program that involved laying off thousands of employees, closing sales offices and cutting travel agents commissions. By 1997, Mr. Allen was close to achieving his cost-cutting goals. But he shortchanged the human factor, vital to a service business like an airline. In those three years, Mr. Allen also had succeeded in damaging Atlanta-based Delta's 73-year heritage for having the friendliest employees in the industry. Delta employee morale plunged, in turn hurting the company's prized reputation for customer service.

"The kind of morale and support for management that once prompted the employees to buy the company a new Boeing 767, which they named The Spirit of Delta, was gone," noted The New York Times. Allen's successor, Leo F. Mullin, was appointed in part due to the drop in customer service during Mr. Allen's tenure and in part because of Mullin's reputation as an excellent communicator.

Mr. Allen, one of the most successful leaders ever in commercial aviation, needed to revise his approach during the crisis at Delta, maybe even study how an open dialogue with employees took the sting out of similar cutbacks at Northwest Airlines. In this case, Northwest CEO John Dasburg was upfront with employees about the need to reduce costs. His message to be fair, every department and each union would be asked to make cuts was communicated in several extra editions of the company newspaper. A comprehensive three-page letter from Mr. Dasburg outlining the cuts and the reasons for them, also helped gain employee support for the painful but necessary moves.

Honest communication enables trust

Because of communication style, two similar companies with similar problems and similar solutions realized two vastly different outcomes for their respective CEOs. Corporate strategies have a better chance at success when employees feel involved in the process. And employees feel involved when they sense an open exchange of information and their CEO encourages opinion.

At many of today's leading companies, an increased emphasis on internal communications is

taking root. No longer does a monthly newsletter listing retirements, anniversaries and births, punctuated with a platitude-filled "Message from the Chairman" cut it. After years of downsizing, cutbacks and plant closures, the working world has become far too cynical for that kind of distant paternalism. There is a reason Dilbert, that cubicle-dwelling cynic, is a multimedia phenomenon. The character, who puts up with a deluge of self-serving management edicts, strikes a chord with millions of Americans. A visit to the Dilbert Web site for the daily comic is as common as morning coffee in some offices.

CEOs of outstanding companies use internal communications to address the bad news head on, share the good news and continually communicate the goals, values and beliefs of the company. This gives jobs meaning, making people feel connected and accountable. The end result is higher productivity. These companies use a host of tools to communicate, ranging from newsletters, E-mail updates, town-hall style meetings, video conferencing and phone lines, where employees can pose questions and comments to the CEO. Honest and frequent communications from the CEO makes for a sense of community in the workplace, which as evidenced by the experiences at Delta and Northwest, can make all the difference in the world.

An internal study conducted by my firm, Lippincott, examined how world-class companies communicate with their employees. Through a series of in-depth interviews with internal communications executives at blue-chip companies, including IBM, Compaq and Federal Express, the study revealed an emerging emphasis on interactive employee communications.

A primary finding from our study is that without demonstrated support from the top ranks of an organization, particularly its leader, a progressive internal communications program has little chance of success. Each executive interviewed stressed how important it was that an employee communications program receive strong backing from the company's leader. Without top-level support, employees are less likely to take internal communications seriously, which can play out in diminished support for corporate goals. An observation made a few years ago by AlliedSignal CEO Lawrence A. Bossidy rings true today. "Often a CEO assumes everything he or she says is picked up by employees and digested with enormous enthusiasm. Unfortunately, employees are frequently not on the same wavelength or even tuned in at all."

Making the companys mission meld with employees

To these and other world-class companies, imparting and nurturing corporate values is also a task best led by the CEO. IBM, which has largely reinvented itself as an entrepreneurial, consumer-product marketer, and electronic commerce innovator, was able to make the necessary organizational changes due, in part, to the open, active communications of its CEO Lou Gerstner. "Lou Gerstner came in with a new set of principles and he introduced them to the employees," said an IBM executive quoted in the Lippincott study. "And since then he's shown that he is acting in strict accordance with those principles."

World-class companies have missions and goals that are religiously conveyed through internal communications. In the case of IBM, Mr. Gerstner spearheaded the goal of changing from a paternal culture to an entrepreneurial one. Federal Express drives home a "People-Service-Profit" philosophy that calls for management to take care of FedEx people, who then service customers, leading to profits.

In the 1980s General Motors workers had every reason to feel disappointed and unmotivated as the company faced huge problems. But somehow, a decades-grown faith in the company was still rooted among the people of GM. In 1982, when the companys financial situation was at its most serious, chairman Roger Smith commissioned a study on what hourly workers knew and understood of the situation. As it turned out, employees knew how bad things were, but still had faith that GM would prevail again. As GM stumbled through the 1980s, however, investors lost faith along with employees.

Internal communications echo externally

Clearly corporate values instilled through internal communications reverberate outside organizations, too. Low turnover rates go a long way toward allowing a company to establish a positive corporate culture. High turnover makes it almost impossible for a corporate culture to thrive. Besides the internal upheaval caused by high turnover, there's growing evidence that happy employees make happy investors. "A company's ability to attract and retain" employees was cited as the fifth most important non-financial criteria (out of 39) for investing in a company, according to an Ernst & Young's Center for Business Innovation study of 275 portfolio managers. The study revealed that a surprising 35 percent of investment decisions were guided by non-financial considerations like a company's reputation for content employees.

Consider, for example, the recent case of Sunbeam and its CEO, Albert Dunlap, nicknamed "Chain Saw Al" for his propensity to move quickly through companies, furiously hacking away at the number of workers. In the 1980s at both Lily-Tulip and Crown-Zellerbach, "Chain Saw Al" slashed the workforce by about 20 percent. In 1993, at Scott Paper, he laid off nearly 11,000 employees.

When Dunlap took over as Chairman and CEO at Sunbeam in July of 1996, the company's stock was trading around \$15 per share. In March of 1998, after laying off more than 6,000 employees, the price of Sunbeam shares peaked at over \$50. But by then the joyride was just about over. In May the company announced a \$44.6 million quarterly loss. Within weeks the stock price was back down around \$15. And by mid-June this year, Sunbeam's board had relieved Mr. Dunlap of his responsibilities. While the rapid decline of the stock price and Mr. Dunlap cannot be attributed solely to a deterioration in employee attitude, the sad state of worker morale at Sunbeam was certainly well known to the investment community.

Increased scrutiny by large investors, such as pension funds consider the strict investment philosophy pursued by the socially conscious Calpers (the California Public Employees Retirement System) will continue to place emphasis on the so-called people factors that influence a company's performance.

Honest and frequent communications certainly helped ease Tenneco through a critical phase in its recent history. When Michael C. Walsh, the former CEO, learned he had brain cancer, he did not conceal the bad news. With his handpicked successor Dana Mead at his side, Mr. Walsh conducted numerous press interviews and meetings with stock analysts. Mr. Walsh's message was, despite his illness, he was solidly steering Tenneco. And when he could no longer manage the company, Dana Mead would be more than capable of taking the lead.

Through Mr. Walsh's illness and Mr. Mead's transition, employee confidence remained high and Tenneco's stock retained its value. Rewarded by this experience, Tenneco is continuing to emphasize enlightened internal and external communications policies.

Lippincott found that the most effective internal communications involved employees in the business goals of the company. In an environment where cost cutting or layoffs occur, it is essential that the company's strategy and direction be clearly communicated. Otherwise, if no plausible explanation is offered, employees will feel hit with a double whammy: they lose their jobs and they feel patronized. "The bottom line for internal communications is the bottom line of the company," said a participant in the Lippincott study. "You cannot win if your employees do not know where the company is going."

Good communications involve two participants

Effective communications have always gone both ways. The study revealed that some of the country's biggest corporations are adopting a "commutual communications" model, which allows for fluid feedback up and down reporting channels. While the CEO should set the tone and outline the big picture, departmental managers are also becoming more involved in communicating with employees. Communications departments are training managers for this role by initiating cascading-communication systems, where senior management and communications executives interact with departmental managers, who then meet with

employees. But the boundaries are open. Senior management also communicates directly with front-line employees and vice versa.

Communicating on many fronts can help speed the dissemination of important messages and drive cultural change. For instance, when Whirlpool adopted a "Quality Forum" to instill a new spirit of team building, employee training and motivation, it took more than a year for the policy to take root, longer than the CEO anticipated. "We spent the first year changing the mindset of 400 senior managers," admitted Whirlpool chairman and CEO David Whitwam.

Another trend in corporate America is merging the internal and external communications departments. This movement may have initially begun due to downsizing, but it makes sense to communicate the same message to employees as to investors and the business press. This strategy was tested when Empire Blue Cross/Blue Shield's chairman resigned under fire a few years ago. The company's chief communicators not only worked the press and investors, but aimed a communications blitz at Empire Blue Cross/Blue Shield employees. A highlight of the program included a series of open forums, where employees could air their views. "You can't just send out a press release and think you've communicated," said Empire Blue Cross/Blue Shield spokesperson Sue Kelly at the time.

So how do world-class companies communicate with their employees? As Delta's former CEO Ronald Allen might now acknowledge, some advice bears repeating. The strategies and tactics of the organizations studied by Lippincott reveal:

- Executive involvement is the most critical factor. When the CEO is on board, it assures messages are on target and employees take them seriously.
- Just as important is that the CEO is responsive to employee communications. Most employees note their companies are better at top-down communication rather than bottom-up. Remember the old saying communication is a two-way street.
- Incorporate a cascading communication system that involves all management levels, training managers to become communicators.
- Give internal communications in effect, employees the respect it deserves and make it a core function of management. Assure employee communications are direct, relevant and consistent.
- Formulate a mission statement and focus internal communications to support the company's purpose and goals.
- Dovetail internal and external communications programs so they support the same set of goals.
- Remember, the medium is not the message. The most essential ingredient is the content of the communication itself. A confusing message delivered at the speed of light (or the speed of E-mail) is still a confusing message.
- Consider and use the full scope of communications methods to drive home messages. Among the arsenal: town-hall meetings, videotaped sessions, close-circuit TV, Intranets, magazines, newspapers, newsletters and call-in lines. Some companies, particularly in the high-tech field, keep their employees up-to-date through proprietary Pointcast channels that "push" information over the Internet to their employees' desktops.

While many companies cling to antiquated modes and models of employee communications, there are a rare few that succeed in committing themselves to the worthy goal of communicative reciprocity within their organizations. You can be sure, however, that behind every success story, there will likely be a leader who embraces the self-evident truths others might neglect. And their employees will no doubt thank them with genuine respect and optimum performance. Sometimes simple truisms and basic tenets bear repeating.