Internal Communication Effectiveness Enhances Bottom-Line Results

Watson Wyatt's latest research has found convincing evidence that companies with highly effective internal communication practices produce superior financial results and enjoy greater organizational stability. Nine communication best practices drive higher market premiums, larger shareholder returns, greater employee engagement, and lower turnover. The author shares the study's highlights, provides insights into why these practices work, and explains the steps any company can take to improve its internal communication effectiveness and position itself to reap substantial financial rewards in the future.

Kathryn Yates

First-rate companies consistently deliver superior financial performance. Like their competitors, they focus on strategies designed to help contain costs, increase market share, leverage new technologies, enter new markets, strengthen customer relationships, and hire and retain top talent. What distinguishes them from their lower performing peers, however, is a "secret weapon" that can deliver impressive financial and organizational gains—effective internal communication. Extensive research, conducted by Watson Wyatt Worldwide in 2003 and again in 2005 to identify which communication practices deliver the best return, found that companies that excel in internal communication also have a higher market premium, higher shareholder returns over five years, higher levels of employee engagement, and lower employee turnover than companies less effective at communication. This article shares the key findings of the most recent study and explores the communication best practices that highly effective companies are using to help them excel year after year.

COMMUNICATION AND PERFORMANCE: MAKING THE CONNECTION

In 2003 Watson Wyatt Worldwide set out to prove what many business people intuitively know is true: Effective internal communication enhances business performance. The goal of the groundbreaking 2003/2004 Watson Wyatt Communication ROI Study™ was to identify which internal communication practices deliver the highest re-

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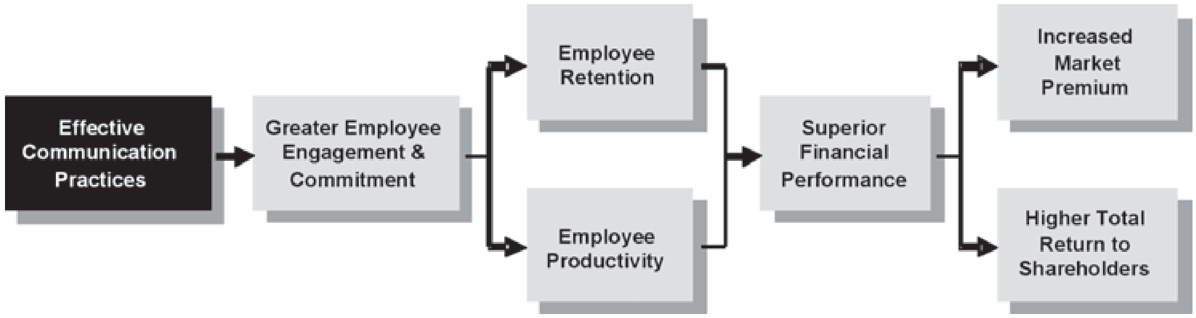
Exhibit 1. Communication Effectiveness Drives Superior Financial Performance



turn. This study provided proof of the strong correlation between communication effectiveness, organizational turnover, and financial performance. Watson Wyatt recently completed a similar study in 2005, and analysis of responses from 335 participants—260 U.S. and 75 Canadian companies[1]—not only confirmed the findings of the initial study but went on to show that effective communication is a leading indicator of an organization's financial performance.

Methodology. Watson Wyatt defines an effective communication organization as one that excels in the following eight areas:

- Educating employees about organizational culture and values
- Helping employees understand the business
- Aligning employees' actions with customer needs
- Providing employees with financial information and objectives
- Providing employees with information on the value of their total rewards programs
- Explaining and promoting new programs and policies
- Integrating new employees into the organization
- Exhibiting strong leadership by management during organizational change

These eight areas are critical for providing employees the information, perspectives, and motivation they need to take the actions that will ultimately lead to desired business outcomes. They are, in other words, the communication components of organizational effectiveness.

Based on participants' responses to a series of questions about their company's effectiveness in each of these areas, the researchers assigned each company an overall effectiveness score and then divided the companies into three groups based on these scores:

- *High Communication Effectiveness* (the top-scoring one-third of participants)
- *Medium Communication Effectiveness* (the middle third)
- *Low Communication Effectiveness* (the lowest-scoring one-third)

Key Performance Findings. The researchers then analyzed and compared selected financial and organizational measures for all three groups of companies and found statistically significant differences that strongly suggest high communication effectiveness is linked to better financial performance and organizational stability. These relationships are reflected in **Exhibit 1**, which illustrates how effective communication practices drive employee engagement, commitment, retention, and productivity, which, in turn, translate into enhanced business performance that generates superior financial returns. Specific key findings of the study further demonstrate this connection.

Increased Shareholder Value. Total return to shareholders (TRS) is the total change in a company's share price over a period of time, plus dividends, and is expressed as a plus-or-minus percentage of the share's opening value. The 2005/2006 study found that companies with high communication effectiveness produced a 57 percent higher TRS during the five-year period of

2000–2004 compared with companies having low communication effectiveness.

Higher Market Premium. Market premium—the extent to which a company's market value exceeds the cost of its assets—reflects the market's assessment of an organization's ability to generate future profits from intangible assets, such as brand equity and human capital. The study found that higher communication effectiveness (a difference of one standard deviation) is associated with a 19.4 percent higher market premium. Companies that communicate more effectively earn a higher market premium than their less effective peers.

Leading Indicator of Financial Performance. Many have argued that effective communication is a *result* of superior financial performance—successful firms simply have more money to spend on communication. So perhaps the most important discovery in the recent analysis is that effective communication is a *leading*, rather than *lagging*, indicator of financial performance. The communication effectiveness of participants in the 2003/2004 and 2005/2006 surveys was compared with their financial results for the prior, current, and following years. The correlation between communication effectiveness and subsequent financial performance (one year later) was twice as large as the correlation between communication effectiveness and the prior year's financial performance. This strongly suggests that communication effectiveness is a driver rather than an outcome of strong financial performance.

Higher Employee Engagement. Other Watson Wyatt research has found a significant positive relationship between employee engagement and a firm's financial performance. In comparing high communication effectiveness companies with those having low communication effectiveness, the 2005/2006 study found that the highly effective communicators were more than 4.5 times more likely to have highly engaged employees, which positioned them for better financial results.

Lower Turnover. Replacing people who terminate their employment is an expensive proposition, with the total cost of turnover for the typical position estimated to be between 48 and 61 percent of the annual salary/wage for that position.[2] The 2005/2006 survey analysis found that highly effective communicators were 20 percent more likely than companies with low communications effectiveness to report having turnover lower than that of their competitors. These highly effective companies can spend less time and money on recruiting and training, and they benefit from a skilled, engaged workforce that understands the business and keeps things operating smoothly.

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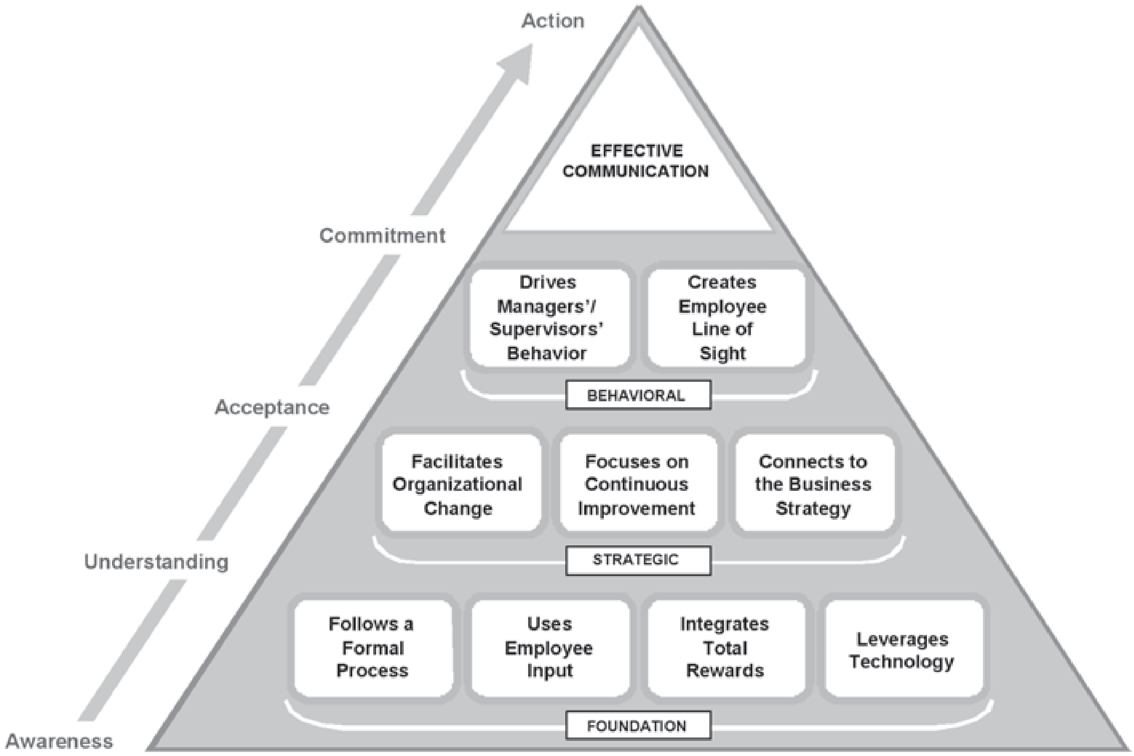
COMMUNICATION PRACTICES THAT DELIVER RESULTS

While effective communication may seem to be a vague or intangible concept, the reality is that top-performing companies engage in very specific communication practices that deliver quantifiable results. These practices comprise what Watson Wyatt calls the "Hierarchy of Effective Communication," shown in **Exhibit 2.**

The bottom three tiers of the hierarchy—Foundation, Strategic, and Behavioral—comprise nine communication practices that lead employees from awareness through understanding, acceptance, and commitment:

- ***The Foundation Tier:*** The starting point for effective communication is a solid foundation of four communication practices:
  - A formal communication process
  - Employee input
  - Links between desired behavior and employee compensation
  - Effective use of technology
- ***The Strategic Tier:*** Efforts at the strategic level align internal communication with business objectives and employ communication tools to
  - Facilitate organizational change
  - Focus on continuous improvement
  - Connect employees to the business strategy
- ***The Behavioral Tier:*** The behavioral tier uses communication to increase employee commitment by focusing on the relationship between employees and their leaders, with communication practices designed to

Exhibit 2. Hierarchy of Effective Communication



- — Drive changes in the behavior of managers and supervisors that enable them to support senior management's vision through their actions
- — Work through these key managers and supervisors to draw a clear line of sight between employees' jobs and business outcomes

The aggregate result of these nine practices is Effective Communication, the pinnacle of the pyramid. Companies that reach this top tier are able to drive behavioral change in their employees—change that translates into action that produces positive business and financial results.

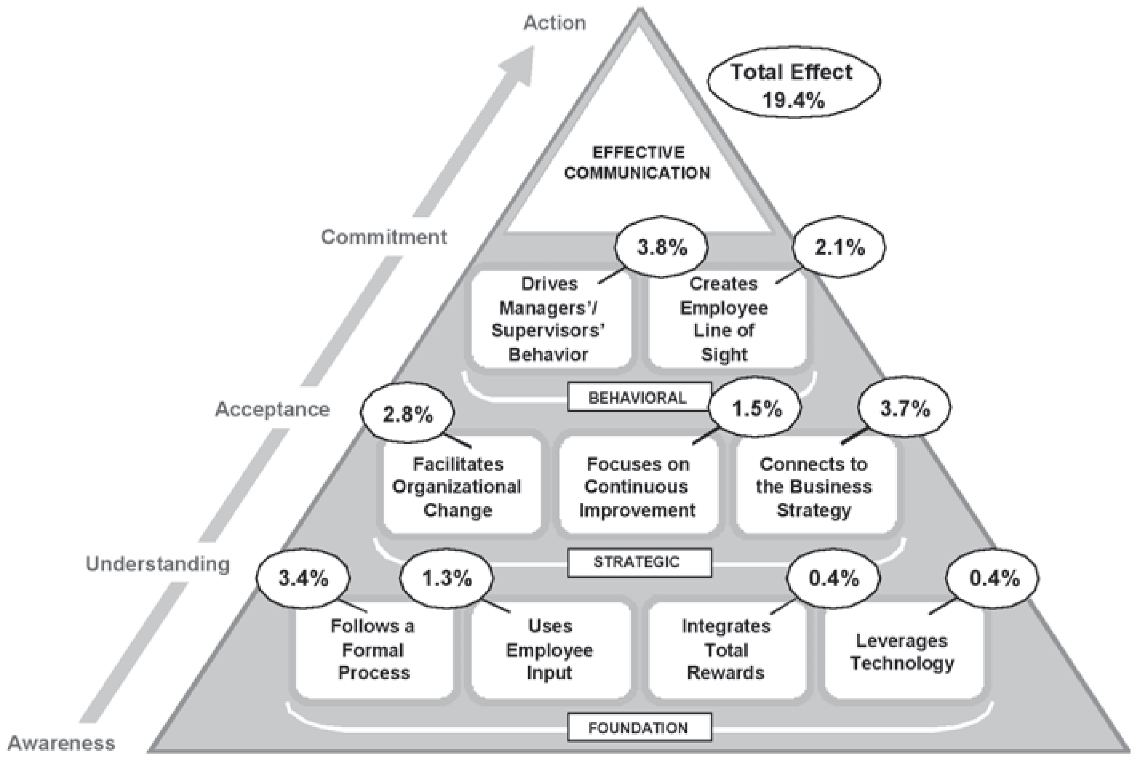
STRATEGIES FOR EFFECTIVE COMMUNICATION

As mentioned earlier, companies with highly effective communication enjoy a 19.4 percent higher market premium. **Exhibit 3** shows the effect of each communication practice on market premium. Each practice is vital to improving internal communication, and some play a more significant role than others do: For example, practices with the greatest effect on market premium are (1) driving changes in managers'/supervisors' behavior, (2) linking employees to the business strategy, and (3) following a formal communication process. However, it is the integration of all practices that delivers a results-oriented and effective communication program.

Companies can use the Hierarchy of Effective Communication as a roadmap for improving the effectiveness of their own internal communication and reaping the rewards that effective communication offers. Each practice is discussed below, in some cases with a brief example of the value the practice delivered when implemented by a particular company.

Follow a Formal Process. The 2005/2006 Watson Wyatt study found a formal communication process to be among the top three contributors to the higher market premium enjoyed by companies with high communication effectiveness. These companies have a documented internal communication strategy to guide communi-

Exhibit 3. Impact of Communication Practices on Market Premium



cation activities. Internal communication managers meet regularly with senior executives as well as business unit managers to discuss communication issues and opportunities. Moreover, they coordinate their communication efforts with those of their counterparts in the marketing and corporate communication functions.

After learning about the impact of this element of effective communication, one Midwest manufacturing company put a more formal process in place. It began its planning season by gathering together corporate and divisional human resources, communication, and business unit representatives to create a communication plan focused on aligning resources and messages with the company business objectives. Communication was treated like any other business function and representatives were expected to devise a concise yearly plan focused on delivering results. The payoff for this change was an increase in the line-of-sight and engagement scores for employees as well as better internal positioning for the communication function.

Use Employee Input. A climate that fosters feedback—both positive and negative—engages employees in the business, motivating them to work toward company goals. Opinion surveys and focus groups help, but only if they are conducted on a regular basis. Employees should have input into how their work gets done and how the business is run. By encouraging meaningful input and acting upon employee recommendations, high-effectiveness companies demonstrate the value they place on the role of employees in business success. Employees understand how their efforts contribute to corporate objectives, and they act accordingly.

Integrate Total Rewards. Compensation comprises not only salary and benefits but also the work environment, culture, development opportunities, and training. Highly effective companies attract and retain top-notch employees with a total rewards package whose link to the organization's business strategy and outcomes is fully understood by the employee. A global professional services firm, for example, used a comprehensive performance management process to facilitate discussions between managers and employees about their role in achieving organizational goals. Employees emerged from these discussions with a clear understanding of how their performance—both their behaviors and the achievement of measurable, agreed-upon goals—directly affected their compensation package and contributed to the firm's performance.

Navigating change requires clear communication from the executive suite through middle management down to the individual employee, in both directions.

Leverage Technology. For more than a decade, e-mail, Internet, and intranet technologies have been available to enhance communication, collaboration, and resource sharing. These as well as emerging technologies help ensure the ready availability and free flow of information across the enterprise. Relative to their less effective peers, companies with highly effective communications are

- More than twice as likely to use technology to facilitate internal communication
- More than twice as likely to have documented intranet/Internet communication strategies
- Nearly seven times more likely to use leading-edge communication tools—for example, blogs, wikis, and discussion boards

Facilitate Organizational Change. Findings of the initial and most recent Communication ROI studies show that organizations adept at facilitating change outperform their peers. Navigating change requires clear communication from the executive suite through middle management down to the individual employee, in both directions. Companies with a high level of communication effectiveness leverage their front-line leaders—those midlevel managers and supervisors who are the most credible source for information—to build focus and support among employees for any type of change. They involve managers early in the process and give them detailed information and appropriate training and tools. This ensures high levels of enthusiasm and confidence that enable managers and supervisors to communicate the change, deal with resistance, address employee concerns, and drive behavioral change.

Focus on Continuous Improvement. Organizations with effective internal communication use audits, objective assessments of behavior change, assessments of the impact communication has on job performance, and other hard measures to help gauge the effectiveness of internal communication programs. Through objective measurement, they are able to identify what works and what does not, thereby spotlighting areas for improvement. Compared with low-effectiveness peers, organizations that communicate very effectively are

- 26 times more likely to make extensive use of measurement to verify communication's contribution to organizational goals
- 15 times more likely to benchmark their communication practices

An example of the value of rigorous objective measurement is in the U.S. division of a global manufacturing company that found many employees were overbuying healthcare benefits. They were enrolling in the most expensive plans even when they did not actually require the additional coverage. The company wanted to help employees make better-informed decisions for 2006—e.g., enrolling in its consumer-driven, high-deductible plan if the plan was a better choice for the employee—and to encourage them to take advantage of new online enrollment tools and education resources that would help them with their decisions.

As it designed an enhanced enrollment communication, the company also devised clear and hard measures to determine the communication program's effectiveness. However, rather than limiting measures to employee awareness, understanding, or satisfaction, it also set enrollment and financial-savings goals, thus connecting the communication program to the desired business outcomes. The company was subsequently able to determine that the program was well utilized, with more than 75 percent of the employees saying they had read the Decision Guide before making enrollment decisions and 80 percent taking advantage of the new online education tools. But even more importantly, outcomes measures showed the program produced the intended results: a 16 percent increase in the number of associates electing the consumer-driven plan; more than \$900,000 of company savings in gross healthcare expenditures; and a 1,500 percent return on the program investment of $60,000 plus printing costs.

Connect Employees to the Business Strategy. As seen in Exhibit 3, making the connection with business strategy was the second largest contributor to the higher market premium associated with effective communication. In high-effectiveness organizations, senior management recognizes the role communication plays in driving behavior that supports business objectives. These organizations focus communication efforts on keeping employees aware of the corporate vision and goals.

Drive Managerial/Supervisory Behavior. Communication through managers and supervisors, another major contributor to higher market premium, is vital to business success because it is these frontline leaders who have the most day-to-day contact with their employees. High-effectiveness organizations rely on these people to communicate company goals, performance, and objectives. They treat managers as a distinct and highly valued audience, providing information in advance so managers have time to assimilate it and develop innovative ways of presenting it to their direct reports. Also these companies are more than five times as likely to recognize and reward managers for being effective and attentive communicators than are firms with low levels of effectiveness.

A major U.S. hospital system found its low scores on employee opinion surveys were linked to employees wanting more information and insight directly from their managers, especially about the link between pay, performance, and business direction. The low perception of pay and benefits was affecting recruitment and retention, and the system was experiencing shortages in critical positions and losing valuable employees to other hospitals.

The system created a communication campaign to educate managers on the various pay and benefits opportunities available, and also to coach managers on effective means to deliver and reinforce key messages to their employees. As a result of providing managers with toolkits and other communication and training programs, employees' favorable scores on pay and benefits satisfaction have doubled over the past four years. These score changes are especially impressive as they occurred during a time of increasing benefits costs and cost sharing. Recruitment and retention rates have also improved and are now within the system's target range, and managers continue to use the materials and request toolkits and other communication resources.

In high-effectiveness organizations, senior management recognizes the role communication plays in driving behavior that supports business objectives.

Create Employee Line of Sight. Companies with highly effective communication practices recognize the importance of communicating the "big picture" to employees and helping them understand how their actions influence bottom-line results. These organizations communicate openly with employees about matters that affect them. For example, compared with companies with low communication effectiveness, the highly adept communicators are nearly

- Three times more likely to share business plans and goals with employees
- Four times more likely to share customer feedback

ROOM FOR IMPROVEMENT

As good a job as the top performers are doing, Watson Wyatt researchers found that even companies in the high-communication-effectiveness category could improve their communication practices. Four areas in particular—communication planning, employee feedback, leveraging technology, and measurement—offer significant opportunities for improvement.

Formal Planning. While more and more companies are developing communication plans, the majority are still planning their programs reactively. Less than 50 percent of high-effectiveness companies and only 25 percent of low-effectiveness companies are doing any proactive communication planning.

Employee Feedback. Organizations are also falling short in the area of employee feedback. Among high-effectiveness companies, less than one-third give employees the opportunity to provide meaningful input into decisions, and only 25 percent solicit employees' input on how the business is run.

Improvements in this area can help engage employees in the business and, as a result, provide the organization with greater adaptability to respond quickly to changes in the business environment.

Leveraging Technology. Organizations are increasing their use of electronic communication and Web technologies, with more than 60 percent of survey respondents reporting that they have an enterprise portal. However, only a handful of companies—7 percent of the high-effectiveness companies—are delivering their message with the help of faster, easier-to-use, more trusted channels such as blogs and wikis.

As companies become increasingly more global, communication challenges become more complex.

Measurement. Relative to the initial 2003/2004 study, the 2005/2006 study found a 10 percent higher prevalence of companies that use formal communication measures; however, fewer than 25 percent of high-effectiveness companies measure extensively to validate the contribution that communication makes to achieving business results. Robust metrics such as communication audits and objective assessments of behavior change and the impact communication has on job performance should be part of a comprehensive communication plan.

AN AREA FOR CONCERN: POOR GLOBAL COMMUNICATION

A key addition to the 2005/2006 study was a series of questions probing global organizations on their practices and processes for communicating with offshore facilities. As companies become increasingly more global, communication challenges become more complex. A critical success factor for companies in a global marketplace is establishing best practices and processes to enable managers and employees to openly share information with offshore operations in a timely and efficient manner.

Nearly 60 percent of the 335 study participants have global operations. However, fewer than 50 percent of the global companies in the high-communication-effectiveness category said they are doing a good job of communicating with their employees and business units around the globe. For example:

- Fewer than 30 percent of the high-effectiveness companies have a documented global communication strategy. This drops to 9 percent for low-effectiveness companies.
- Fewer than 23 percent of high-effectiveness companies and fewer than 10 percent of low-effectiveness companies customize the corporate message for other countries. Companies tend to rely on local managers to interpret and deliver the message but provide little training or support to assist managers in this effort.

One solution is to integrate the global communication program into the company's overall communication strategy. Another is to form a global advisory group to identify and voice local needs, customize the messages, and secure buy-in among managers at the local level.

ACTIONS TO IMPROVE COMMUNICATION EFFECTIVENESS

Regardless of the effectiveness category a company falls in, Watson Wyatt research indicates that most companies could benefit from improvements in their communication practices. Companies that want to improve communication effectiveness should consider taking the following actions:

1. Create a documented communication strategy that is linked to the business and focuses on both deliverables and results.
2. Conduct yearly communication planning to move toward a more proactive approach to communications.
3. Establish two-way communication channels that facilitate employee input into decisions.
4. Give managers better tools and training so they can be successful as they take on a greater share of communication responsibility.
5. Leverage a broad range of technologies to facilitate communication.
6. Implement formal measures to assess the effectiveness of communication programs.

7. For global companies, form a global advisory group to identify and voice local requirements, customize messages to meet local needs and cultural sensitivities, and secure buy-in among managers at the local level.

CONCLUSION

As the new millennium unfolds, companies should continue to use tried-and-true strategies for improving financial performance—for example, implementing programs to reduce costs, increase market share, and enter new markets. At the same time, however, they need to recognize the role that internal communication plays in driving business success: A company can share information with its employees in ways that have a positive impact on financial performance. Companies that invest now in improving the effectiveness of their communication practices will position themselves to realize substantial rewards in the future, including higher shareholder returns, increased market premiums, higher employee engagement, and lower turnover. ■

NOTES

1. The average North American participant in the 2005/2006 Watson Wyatt Communication ROI Study has annual revenues of $3.9 billion (median of $1.8 billion) and 13,000 employees. Sixty percent of respondents are global organizations that have an average of $8.2 billion in annual revenues and 20,000 employees. In terms of the overall study results, the Canadian responses tend to be more similar to than different from those of U.S. companies, and no difference was found between the U.S. and Canadian participants in the correlation between a company's communication effectiveness and increased market premium.
2. Watson Wyatt 2005 human capital index® study (Chicago, Ill.: Watson Wyatt, 2005).