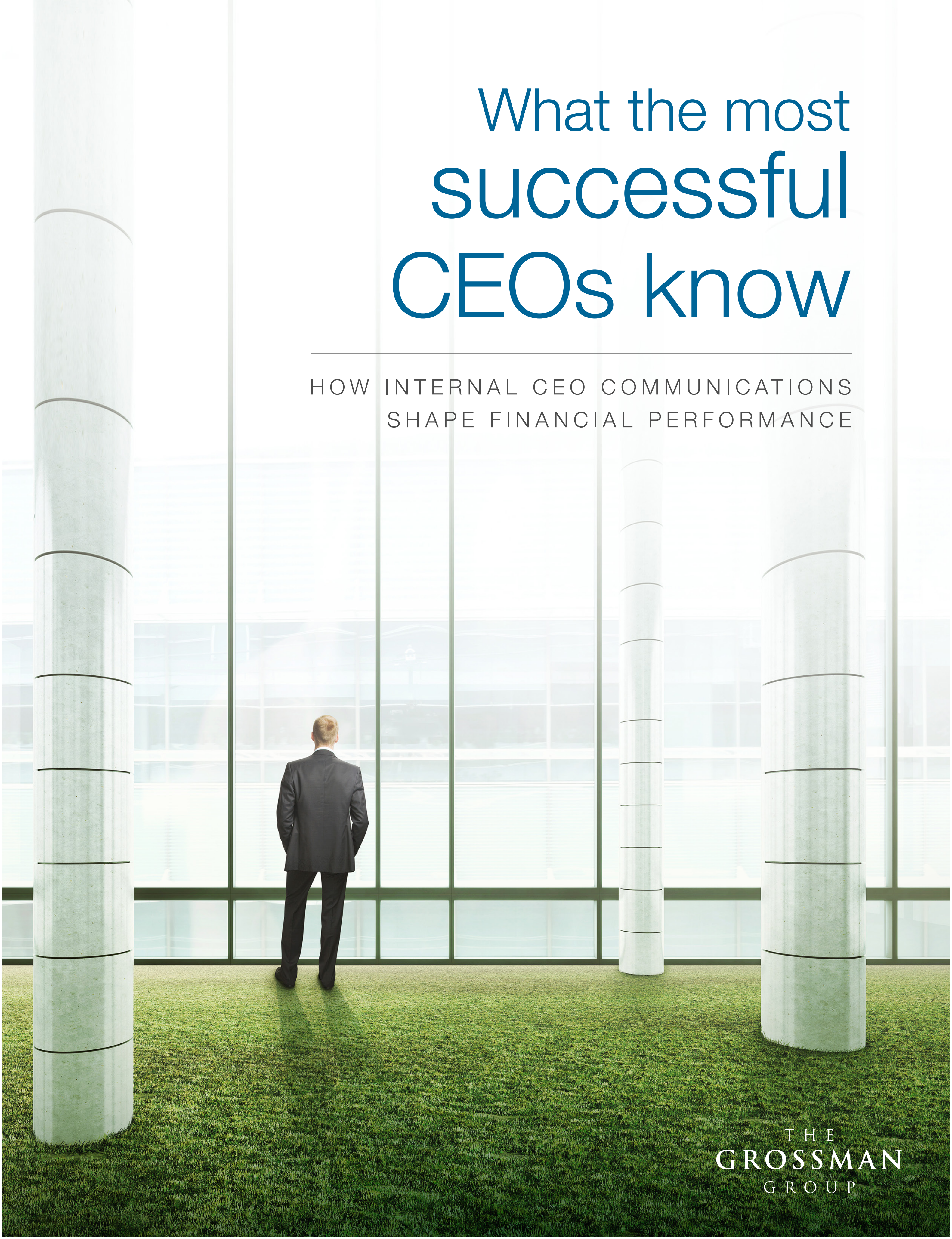
# What the most successful CEOs know

HOW INTERNAL CEO COMMUNICATIONS SHAPE FINANCIAL PERFORMANCE



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In today's pressure cooker of a business world, there's an under-used resource many CEOs don't realize can have a major impact on their company's financial performance: ***Internal Communications***. CEOs who communicate often and well inside their organizations have better reputations—and that leads directly to better business results. They've also got more engaged employees—another strong, measurable driver of positive financial outcomes.

> The numbers tell the story. Here's how internal CEO communications create a significant financial advantage for any organization.

## Internal communications helps drive organizational financial performance and other key business results, and enhances organizational reputation.

- Towers Watson reports a strong correlation between superior financial performance and effective communication (e.g., organizations that are highly effective at communications are nearly twice as likely to financially outperform their competitors as those who aren't effective).[1]
- Tower Watson has also found that companies with highly effective communications had 47% higher total returns to shareholders during the previous five years compared to the least effective communicators.[2]
- Companies that communicate effectively also have a 19.4% higher market premium than companies that do not.[3]
- There's also a reputation dividend for companies that invest in corporate communications, as Burson-Marsteller reports, organizations with better reputations spend a larger percentage of their revenue on corporate communications. The 100 firms with the very best reputations spend .21% of revenue on corporate communications compared to those in the bottom 100 of reputation who spend only .06% of revenues.[4]

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>
> *- Towers Watson*

## Internal communications helps drive employee engagement, and engagement is highly correlated with significant business results.

Employee engagement (most often defined as the willingness and ability to go the extra mile for an employer; communicate about the enterprise in positive terms to others; and stay committed to working there) has been frequently and thoroughly proven as a leading indicator of financial performance and other positive business results (by such diverse organizations as Gallup, the Hay Group, AON Hewitt, Dale Carnegie, Modern Survey and others). Examples of those performance indicators include:

- The Gallup organization's meta-analysis work (pooling 263 employee engagement studies across 192 organizations including nearly 1.4 million employees) has shown that work units with high levels of employee engagement outperform those in low-engagement organizations by 22% in terms of profitability and 21% in terms of productivity. They also experienced 147% higher earnings per share than their competitors in 2011-2012 (a relationship that has strengthened as the economy has rebounded over the past several years).
- Gallup has also repeatedly confirmed the high correlation between employee engagement and more favorable customer ratings, lower turnover, fewer safety incidents, less shrinkage, less absenteeism, and fewer product quality issues.
- High employee engagement has been correlated with 26% higher revenue per employee, 13% higher total returns to shareholders over 5 years, and a 50% higher market premium by Watson Wyatt (not Towers Watson).[5]

***NOTE:** Employee engagement study after study produces virtually the same engagement levels year after year—typically, these studies find that roughly 25-30% of employees are highly or fully engaged, with about the same percentage actively disengaged (and the remaining half in fairly neutral engagement terrain).*

## There's a correlation between effective internal communications on topics the CEO is best prepared to address, such as explaining business conditions and challenges, providing information on organizational performance and financial objectives, superior financial performance and employee engagement.

- Towers Watson reports that the best financial performers were also the best communicators in these two CEO-centric arenas: helping employees understand the business, and providing information on organizational performance and financial objectives.[6]
- Towers Watson also reports a significant gap in understanding of organizational goals between the highly engaged and the disengaged: 86% of the highly engaged say they understand their organization's business goals vs. 36% of the disengaged; 82% of the highly engaged say they understand the steps their organizations are taking to reach their goals vs. just 25% of the disengaged.[7]

## Ensuring that senior leadership effectively conveys direction and communicates corporate strategy compellingly are two of the four most successful strategies for creating continuous engagement (and enjoying the related business results).

- Watson Wyatt (now Towers Watson) has reported that engaged employees have a strong line of sight when it comes to understanding the organization's business goals, the steps needed to achieve them, and how they contribute personally. Ensuring that senior leadership clearly conveys organizational direction and communicates effectively inside the organization are two of the four most successful strategies they defined for creating continuous engagement (along with an intense customer focus and ensuring that people are rewarded equitably).[8]

**Employees most want to hear this kind of information from senior leadership, not their immediate supervisors or managers. In fact, many companies overestimate the importance of supervisors in driving engagement, when the quality and frequency of senior leadership communications is a more significant driver.**

- Watson Wyatt has also reported that highly engaged employees are much more likely to report receiving “line of sight” information from senior leadership than low-engagement employees. They found that senior leadership needs to communicate at least monthly (and via multiple channels) to drive engagement—and the most effective communications focus on vision, strategy, goals and “team” successes.[9]
- In a study of 60,000 employee engagement surveys conducted by Dr. Charles Galunic (and reported on in the Harvard Business Review), the researchers found that supervisors play virtually no direct role in ensuring company strategy is understood and accepted by employees—direct communication from top management had by far the most significant impact (with CEOs by far the best prepared to give such communications the appropriate weight, credibility and even symbolic communication power inside an organization).[10]

**Belief in senior leadership is one of the strongest drivers of employee engagement in multiple studies (and the very top driver in at least one), and there’s a correlation between confidence in senior leadership and employee agreement that senior leaders communicate well.**

- Modern Survey’s most recent employee engagement study found that belief in senior leadership is the strongest driver of employee engagement (a post-recession phenomenon in their research), and that engagement levels are heavily tied to effective senior leadership communications. Even so, only 42% of employees in their study reported having confidence in senior leadership—a number that jumps to 79% among those who say senior leadership communicates effectively and drops precipitously to only 8% among those who say senior leadership does not.[11]
- The most recent MSW/Dale Carnegie study found that 60% of employees who have confidence in the abilities of senior leaders—and who think that senior leaders are moving the organization in the right direction—are fully engaged, compared with less than a third who don’t feel that way. Belief in senior leadership was found to be one of the three key drivers of employee engagement in this study (along with an employee’s relationship with an immediate supervisor and overall pride in working for the company).[12]

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**On a related front, trust in senior leadership is a significant variable in employee engagement—and there's much ground to be regained by CEOs on this front (especially since they are not seen as the most trustworthy information source on almost any of the topics most important to employees).**

- Edelman's 2013 Trust Barometer (its 13th annual survey on the topic and the largest global exploration of trust with 31,000 respondents in 26 countries), revealed a crisis of trust in organizational CEOs. Across the board, employees were reported to be much more trustworthy sources of information than CEOs—even when it comes to a company's situation in a time of crises and for information on its business practices. CEOs outpaced employee trust only when it came to reporting on its financial earnings and operational performance—and for reporting on the accomplishments of the senior leadership team.[13]

- Towers Watson's latest study identifies trust in senior leadership as a significant variable in employee engagement—but fewer than half of surveyed employees trust that senior leaders have a sincere interest in their well being. In addition, accessibility, authenticity and transparency were found to be increasingly important to improved employee perceptions in today's environment.[14]

**Organizational reputation is also a strong driver of both market value and employee engagement, nearly half of a company's reputation is driven by the CEO—and internal favorability is at fairly low levels. These findings and the trust crisis noted previously are seriously impacting CEOs' reliability and transparency as communicators (and may well be diminishing their reputations along with corporate image).**

- A Burson-Marsteller study of 500 opinion leaders found that more than 50% of company reputation is based on how its CEO is perceived—and employees aren't helping much on that front, since most don't perceive their senior leaders very favorably (in fact, only 54% of respondents in a recent AON Hewitt study view senior leaders in a positive light).[15]

- Weber Shandwick research similarly found that 49% of a company's reputation can be attributed to its CEO, and 60% of its market value is in turn driven by corporate reputation.[16]
    - ***NOTE:*** The figure on CEO contribution has risen steadily since 1997, when Burson-Marsteller first reported that CEO average estimated contribution to company reputation stood at 40%

- Perceptions about organizational reputation increase dramatically with employee engagement, though. More than 8 in 10 highly engaged employees say their organizations conduct business activities with honesty and integrity, and are highly regarded by the general public compared to just over a quarter of the disengaged employees who feel that way.[17]

## Of the five most critical drivers of CEO reputation, two are specifically related to internal communications—communicating a clear vision inside the company, and motivating and inspiring employees.

- Both of these drivers were found to be even more important than financial drivers such as increasing shareholder value, external communications drivers such as communicating a clear vision outside the company or operational matters such as executing well on strategic vision. Other top five drivers of CEO reputation include establishing and maintaining credibility (defined as being consistently truthful and delivering on promises); modeling and setting expectations around a code of ethics; and having the ability to attract and retain a quality senior management team.[18]

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>
> *- Burson-Marsteller 2001 Building CEO Capital study*

## There's a substantial disconnect between what CEOs think they're communicating, how often they're doing it, and what employees believe on those same fronts.

- Edelman reports large gaps between expectations and performance when it comes to the frequency of CEO communications and honest communications about the state of its business (only 23% say their companies perform well on that front vs. 54% who say it's important that they do so). There's also a 15 point gap in importance vs. performance when it comes to having highly regarded and admired top leadership.[19]

- Deloitte reports a potentially large communications gap when it comes to another driver of employee engagement (and, ultimately, business performance), organizational values and purpose. While 84% of executives believe senior leadership regularly communicates the company's core values and beliefs, while only 67% of employees say that's the case.[20]

- A study of 36,000 employees in 18 countries conducted by the Boston Research Group finds that 27% of top executives think employees are inspired by their firm—while only 4% of employees agree—and that 41% of executives believe their organizations reward people based on its stated values (while only 14% of employees say that's the case). C-suite executives are also three times more likely than employees to believe their cultures are characterized by trust, values and mission overall.[21]

- Gallup's latest State of the American Workplace study reports that only 41% of U.S. employees feel they know what their company stands for and what makes it different from competitors.[22]

**Significant CEO attention to internal communication is a best practice recommended by the vast majority of chief executives (especially as a means of offering clear guidance for decision-making that could affect customers, colleagues and company reputation; for ensuring that employees know how they can contribute to organizational success; and for conveying ethical expectations and standards that apply to everyone).**

- Executives surveyed by Burson-Marsteller recommend that CEOs allocate no less than 53% of their time communicating internally.[23]

**CEOs themselves say that inspirational leadership of employees—designed to engage, motivate and guide them with values and shared purpose—is one of the two most important CEO leadership traits needed today (just behind customer obsession).**

- In a study conducted with 1,700 CEOs sponsored by IBM, 60% of CEOs cited inspirational leadership as a trait most critical to their success (just behind customer obsession at 61%).
- CEOs in this study also noted that as organizations are inevitably becoming more collaborative/open and where formal controls are loosening, it's increasingly important to engage employees around the shared values, purpose and mission that become the new employee-employer contract.[24]

**Finally, it's worth noting that reputation matters on all fronts. Beyond CEO and corporate reputation, a negative hit on employer reputation is the most frequent cause of decreases in employee engagement among both Millennial and Baby Boomer workers.**

- In a large-scale study of 3,500 Millennial and Baby Boomer respondents as reported in The Ivey Business Journal, researchers found that employer reputation is the most frequent threat to engagement among both cohorts.[25]

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> *- IBM 2012*
> *Global Chief Executive Officer Study*

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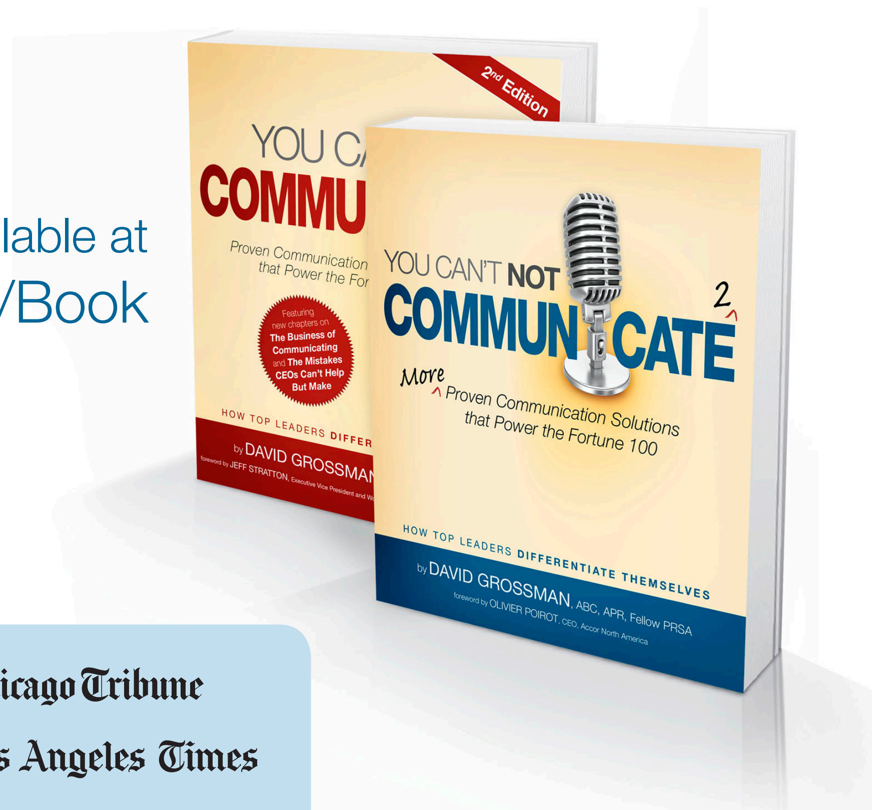
## David Grossman, ABC, APR, Fellow PRSA

David helps leaders drive productivity and get the results they want through authentic and courageous leadership and communication. He's a sought-after speaker and advisor to Fortune 500 leaders, and author of the highly-acclaimed books, *You Can't **NOT** Communicate: Proven Communication Solutions That Power the Fortune 100,* and its follow-up, *You Can't **NOT** Communicate **2**.*

David counsels leaders at top organizations to unleash the power of strategic internal communication and drive performance. Clients include Accor, AOL, DuPont Pioneer, GlaxoSmithKline, HTC, LifeScan *(a Johnson & Johnson Company)*, Lockheed Martin, McDonald's, Nielsen, Symantec, and Tyco to name a few.

He's Founder and CEO of The Grossman Group, an award-winning Chicago-based strategic leadership development and internal communications consultancy, and teaches at Columbia University in NYC.

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[1] Towers Watson, 2011-2012 Change and Communication ROI Study Report

[2] Towers Watson, 2009-2010 Communication ROI Study Report

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