

**Secrets of Top Performers: How Companies With Highly
Effective Employee Communication Differentiate
Themselves – the Methodology Behind the 2007/2008
Communication ROI Study™**

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The opinions and conclusions stated here are the authors' and should not be construed to be those of Watson Wyatt Worldwide or any of its other associates.

Executive Summary

Six years of Watson Wyatt research confirm that effective employee communication is a *leading indicator* of financial performance. The 2007/2008 Watson Wyatt Communication ROI Study™ leverages data collected from 264 companies representing 6.2 million employees around the world. It confirms that the positive correlation between effective communication and financial performance extends worldwide. The study also describes the evolution of communication practices since we launched this study, in 2003/2004.

This paper offers insight into the statistical methodologies used to measure communication effectiveness and its relationship to performance, as well as the policies and practices that differentiate organizations that communicate most effectively from those that communicate least ineffectively.

Together, the study and the white paper enable communication professionals to build a compelling business case for more staff and budget, allocate limited time and resources more effectively and get the highest return on investment from their employee communication programs.

Key Findings

- Effective employee communication remains a leading indicator of financial performance worldwide.
- Companies with the most effective employee communication programs delivered a 91 percent *total return to shareholders* (TRS) from 2002 to 2006 compared with 62 percent for firms that communicate least effectively. Moreover, a significant improvement in communication effectiveness is associated with a nearly 16 percent increase in market value.
- Employee communication programs that drive behavioral change have the strongest correlation to financial performance.
- All nine best practices that constitute the Watson Wyatt Hierarchy of Effective Communication continue to be positively correlated to financial performance.
- The number of high-effectiveness companies that measure employee behavior change has increased by almost 25 percent since the 2003/2004 study.
- Since the 2003/2004 study, there has been a decline in the number of high-performing companies that explain the reasons behind major decisions and solicit meaningful input from employees on decisions that will affect them and how the work gets done.

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Introduction

The 2007/2008 Watson Wyatt Communication ROI Study™ examines the relationship between an organization’s communication practices and its business performance. The 2003/2004 and the 2005/2006 studies showed that companies with effective communication practices earn significantly higher market premiums than their competitors. For the third fielding of this study, we again estimate the impact of effective communication on employee retention, productivity and market premium for shareholders, and identify the characteristics of an effective communication program. The study also suggests ways that firms can enhance shareholder returns by changing the culture and methods of communication across their organization.

Building on previous studies, we identify trends – both positive and negative – in key communication policies and practices since 2003. Finally, this year’s study stretches beyond North America into Europe and Asia-Pacific.

About the Survey

This is the third Communication ROI Study. The 2003/2004 study focused only on companies in the United States. The 2005/2006 study extended the focus into Canada, and the 2007/2008 study crosses oceans, reaching into Europe and Asia-Pacific. There are 264 study participants in the United States, Canada, Europe and Asia Pacific. As shown in Table 1, nearly 69 percent of respondents are from the United States, 17 percent are from Canada and the rest are from Europe and Asia-Pacific.

Table 1
Global Breakout of Respondents

	Number of Respondents	Percentage
United States	182	69%
Canada	44	17%
Europe	19	7%
Asia-Pacific	19	7%
Total	264	100%

Participating organizations are relatively large. The average firm in the sample has annual revenues (in U.S. \$) of \$16.3 billion (median \$4.3 billion) globally and an

average of \$5.2 billion (median \$1.7 billion) in its home country (defined as the country of the survey respondent).¹ Table 2 breaks out respondents by organization size as measured by the number of global employees. Nearly half the companies employ 10,000 or more employees globally. The breakdown of respondents by the number of global employees for this year's study is very similar to those in previous years.

Table 2
Percentage of Respondents by Employer Size

Number of Global Employees	2007	All Years (2003 thru 2007)
Less than 1,000	14.5%	11.9%
1,000 to 2,499	11.2%	10.8%
2,500 to 4,999	12.2%	14.7%
5,000 to 9,999	18.2%	20.1%
10,000 to 24,999	20.6%	19.5%
More than 25,000	23.4%	23.0%

Table 3 indicates the average number of global employees and employees in the respondent's home country. The average respondent has 31,464 employees in its global operation, of which 2,948 work part-time, and employs 17,273 workers in its home country.

Table 3
Average Number of Employees by Country/Region

	Global Employees	Home Country Employees
United States	30,277	22,615
Canada	18,342	4,273
Europe	14,411	11,343
Asia-Pacific	83,149	7,445
Average	31,464	17,273
Median	9,000	5,687

¹ Surveys are primarily fielded by individuals in the company's corporate headquarters. However, the home country can include respondents in satellite offices of a global company. As such, the home country of a respondent may be different from their company's corporate headquarters.

The questionnaire asked each organization to describe the general structure of its communication department. A key element of a communication program is the coordination between internal and external communication functions. Roughly 54 percent of surveyed firms locate both internal and external functions in the same department. Twenty-eight percent separate internal from external functions, with each headed by its own director/executive (see Table 4).

Canadian respondents are most likely to locate both internal and external communication in the same department. The percentage of companies that separate their internal and external functions is similar across Asia-Pacific, Europe and the United States. Coordinating the internal and external communication functions is more a matter of organizational fit than of a universally acceptable best practice.

Table 4
Coordination of Internal and External Communication Functions

	All	Low Effectiveness	High Effectiveness	AP	Canada	Europe	USA
Both functions are in the same department	53.8%	51.2%	52.4%	47.4%	59.1%	52.6%	53.3%
Each function has its own department, but they share a common director/executive	13.3%	7.3%	16.7%	15.8%	15.9%	10.5%	12.6%
Each function is separate with its own director/executive	28.0%	30.5%	31.0%	31.6%	15.9%	31.6%	30.2%
We do not have an internal or external communication function	4.9%	11.0%	0.0%	5.3%	9.1%	5.3%	3.9%

In 39 percent of surveyed organizations, both functions share a single budget; while each function has its own budget in the remaining 61 percent (see Table 5). Almost half the Canadian firms have shared budgets, compared with roughly one-third in the other regions. The difference might be because Canadian firms tend to be smaller than those in other regions.

Companies with high-communication-effectiveness scores are more likely than those with low effectiveness scores to maintain separate budgets for their internal and

external communication functions. This might be partly because a disproportionately low percentage of Canadian respondents fall into the high effectiveness category – 26.2 percent versus 33.3 percent for the entire sample. However, given that Canadian respondents make up only 17 percent of the total, the “Canadian effect” would not entirely explain the propensity for high-effectiveness companies to maintain separate budgets.

Table 5
Coordination of Internal and External Communication Budgets

	All	Low Effectiveness	High Effectiveness	AP	Canada	Europe	USA
Both functions share the same budget	39.0%	48.8%	33.3%	33.3%	48.8%	33.3%	37.8%
Each function has its own budget	61.0%	51.3%	66.7%	66.7%	51.2%	66.7%	62.2%

Table 6 shows the average expenditures per employee in companies with separate budgets for their internal and external communication functions. The average expenditure is \$158 per employee, adding up to a communication budget of roughly \$1.2 million. Of the total budget, roughly 60 percent is devoted to external communication and 40 percent to internal communication. Companies with the most effective communication programs spend more than twice as much per employee as low-effectiveness companies (\$277 vs. \$116). Moreover, high-effectiveness companies spend a larger share of their budget on internal communication (40 percent) than low-effectiveness companies (28 percent).

Table 6
Annual Budget per Global Employee for Internal and External Communication

U.S. Dollars	Internal	External	Total – Per Global Employee	Total
All (N=114)	\$61	\$97	\$158	\$1,225,000
<i>Cx Effectiveness Group:</i>				
High	\$112	\$165	\$277	\$2,000,000
Medium	\$62	\$104	\$166	\$1,250,000
Low	\$33	\$83	\$116	\$750,000

Most responding companies (60 percent) centralize their communication staff in the corporate office (see Table 7). This is consistent among both high- and low-effectiveness companies. However, in nearly 38 percent of low-effectiveness companies, the internal communication staff is either not centralized or only partially centralized, compared with roughly 12 percent of high-effectiveness companies.

Centralization varies widely across regions. North American companies are much more likely to centralize their staffing structure, while European companies appear to prefer a decentralized model. This may reflect the language differences across European borders, which necessitate a local communication staff able to customize corporate communications in terms of languages and customs.

Table 7
Extent of Centralized Internal Communication Staff

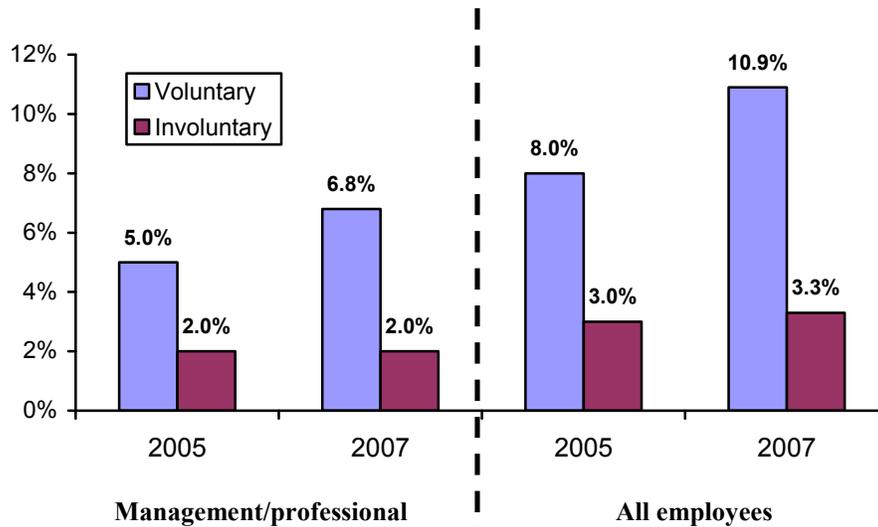
	All	Low Effectiveness	High Effectiveness	AP	Canada	Europe	USA
Not at all or to a small extent	22.6%	37.5%	11.9%	26.3%	23.3%	47.4%	19.4%
To a moderate extent	18.8%	8.8%	31.0%	26.3%	11.6%	15.8%	20.0%
To a great or very great extent	58.6%	53.8%	57.1%	47.4%	65.1%	36.8%	60.6%

We also asked executives in North American companies about their organizations' voluntary and involuntary turnover rates for management/professionals and for all employees. As Figure 1 shows, average annual turnover rates were nearly 9 percent for management/professionals and 14.2 percent for all employees. The turnover rates are limited to North American organizations to provide comparable rates over time. Reported voluntary turnover rates were considerably higher in 2007 than in 2005. The increase could reflect changes to the labor market environment and/or to the sector composition of respondents between the two years. It is also consistent with *Playing to Win in a Global Economy 2007/2008 Global Strategic Rewards® Report*,² which states that employee retention has become increasingly difficult in the United States. However, when study participants were asked to rank their turnover rates against those of their

² *Playing to Win in a Global Economy 2007/2008 Global Strategic Rewards® Report*, Page 17, Figure 13.

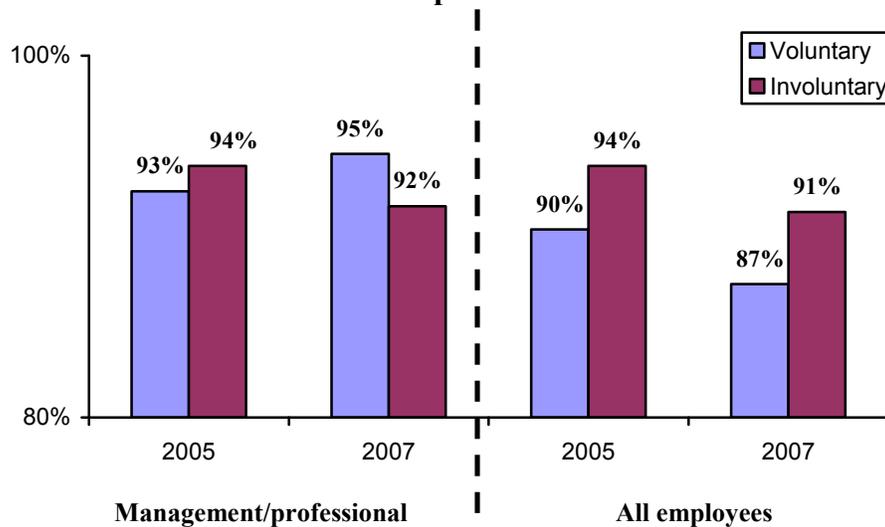
peers, relative rates appear comparable to those reported by respondents in 2005 (see Figure 2). On average, roughly 90 percent of respondents indicated that their turnover rate is at or below those of their competitors.

Figure 1
Voluntary and Involuntary Turnover Rates



Note: Limited to North American companies.

Figure 2
Turnover Rates and Market Comparisons



Note: Limited to North American companies.

Table 8 shows the percentage of respondents in each industry for the 2007/2008 survey and the combined respondents for 2003 through 2007. The distribution of

companies across industry sectors in the 2007 sample is very similar to the distributions in all years. However, this year's sample has a slightly higher proportion of financial and IT & telecommunications companies.

Table 8
Percentage of Respondents by Industry Sector

	2007	All Years (2003 – 2007)
Basic materials	1.7%	2.6%
Finance/insurance/real estate	23.5%	20.7%
General services	3.4%	6.9%
Government/public services	5.6%	5.1%
Health care	12.9%	11.7%
IT & telecommunications	15.6%	12.3%
Manufacturing	19.6%	21.2%
Media & entertainment	2.2%	2.4%
Utilities	5.6%	6.9%
Wholesale & retail trade	10.1%	10.4%

The Methodology Behind Communication Effectiveness

The 2007 Communication ROI survey asked respondents more than 150 questions about their organization's overall effectiveness in communication along several dimensions and about their policies and practices. Most of the questions in the 2007 study were used in at least two and often all three studies. This enables us to identify and measure important trends and to rely mostly on tried and tested constructs for scale reliability.

Creating Reliable Scales to Measure Communication Programs and Effectiveness

This study uses the characteristics listed below to define communication effectiveness. We developed a series of questions around each characteristic and assigned an effectiveness score to each participant based on its responses.

- Helping employees understand the business
- Providing employees with financial information and objectives
- Exhibiting strong leadership by management during organizational change

- Aligning employees' actions with customer needs
- Educating employees about organizational culture and values
- Explaining and promoting new programs and policies
- Integrating new employees into the organization
- Providing employees with information about the value of their total rewards program

In addition to communication effectiveness, we created and tested nine additional scales using most of the questions from the survey. These scales represent different aspects of communication policies and practices including:

- Drives supervisors'/managers' behavior
- Drives employee behavior
- Facilitates change
- Focuses on continuous improvement
- Connects to the business strategy
- Follows a formal process
- Uses employee feedback
- Integrates total rewards
- Leverages technology

Together with communication effectiveness, these scales represent the 10 boxes in the hierarchy of effective communication discussed below (see Figure 4).

Before using the scores in these scales, we performed statistical tests to confirm their reliability. We used the Cronbach alpha measure for scale reliability based on internal consistency (Cronbach 1951). The Cronbach alpha coefficient is a measure between 0 and 1 that increases along with correlation. For a scale to be considered reliable, the alpha coefficient must be at least 0.70 (the standard criterion). The Communication Effectiveness construct had an alpha of 0.87 (see Table 9). Other scales also had Cronbach alphas greater than 0.70, indicating their reliability for measuring aspects of communication programs. In Tables 14 through 22 below, we provide additional information on the specific survey items used to create each scale.

Table 9
Scale Reliability for all Scores Used in Communication ROI Report

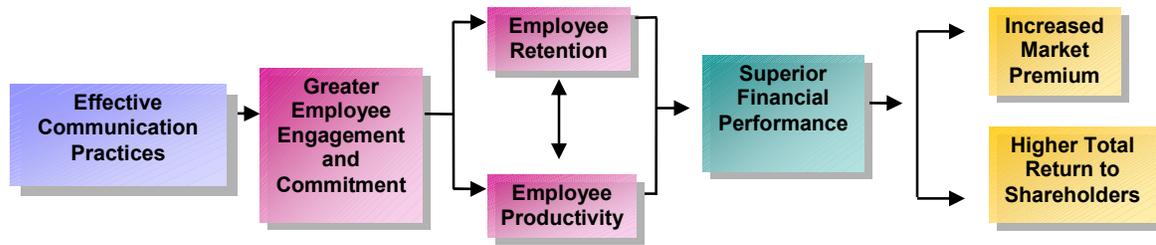
Scale	Cronbach Alpha
Communication effectiveness	0.87
Drives supervisors'/managers' behavior	0.81
Drives employee behavior	0.83
Facilitates change	0.82
Focuses on continuous improvement	0.79
Connects to the business strategy	0.81
Follows a formal process	0.85
Uses employee feedback	0.79
Integrates total rewards	0.77
Leverages technology	0.78

After determining that the items formed reliable scales, we scored each organization that completed the survey on all the scales listed above. We assigned an overall score to each company by summing an equally weighted value of its responses to the items in each scale. The communication effectiveness score captures all facets of effective communication in a single summary measure. Firms scoring the highest effectiveness score are the most effective communicators. Although all the activities are crucial to enhancing communication, no single activity guarantees a successful communication program. Instead, the most successful organizations integrate these tactics and processes into a results-oriented and effective program.

Linking Communication Effectiveness to Shareholder Value

Figure 3 shows how effective communication practices enhance employee engagement, commitment, retention and productivity. These improvements in turn create better financial performance and, ultimately, greater returns to shareholders and higher market premium.

Figure 3
Communication Effectiveness Drives Superior Financial Performance



Source: Adapted from Watson Wyatt's WorkUSA® 2004/2005: Effective Employees Drive Financial Results

The link between communication effectiveness and shareholder returns becomes clear when organizations are grouped according to their overall communication effectiveness. Table 10 provides three measures of performance: market premium, revenue per employee and total return to shareholders (TRS). Market premium is the ratio of the market value of an organization's equity plus the book value of its debt minus the book value of assets divided by the book value of assets.³

The market premium is positive when a firm's market value exceeds the value of its assets – indicating that the firm can generate profits beyond its assets. A positive market premium might reflect a strong brand built up over the years through advertising, new products or patents developed through R&D, or intellectual capital, such as superior human resources or communication programs that improve productivity or customer service.

As shown in Table 10, high-communication-effectiveness companies tend to earn a higher market premium than medium- and low-communication-effectiveness companies. High-effectiveness companies also report higher revenue per employee – a common measure of worker productivity. The typical high-effectiveness company

³ Market premium is closely related to the economic metric Tobin's Q. The key difference is that Tobin's Q uses the replacement cost of assets instead of the book value of assets. When the replacement cost of assets equals the book value, market premium is equal to $Q - 1$. In periods of inflated asset values, Q will be significantly lower relative to the market premium. However, detailed empirical studies have shown that Q and market premium are highly correlated (average correlation of approximately 0.9). Therefore, we have used market premium because of its relative ease of calculation for a broad cross-section of global firms.

generates about \$420,000 in sales per employee compared with \$282,000 for the typical low-effectiveness company – a difference of about 49 percent.

When TRS is compared in terms of communication effectiveness, organizations that communicate effectively earn higher total shareholder returns than their peers. Companies that are the most effective communicators experienced a 91 percent TRS from 2002 through 2006, compared with a 62 percent return for firms that communicate less effectively. Investing \$100 dollars in the typical high-communication-effectiveness company in 2002 would return \$191 dollars in 2006 — whereas investing the same amount in a typical low-effectiveness company would return only \$162. During the last five years, shareholder returns were roughly 47 percent higher for the most effective communicators than for the least effective communicators.

Table 10
High Levels of Communication Effectiveness Lead to Greater Shareholder Value

Communication Effectiveness	Number of Companies	Market Premium	Revenue per Employee (\$000s)	5-Year TRS (2002-06)
High	57	32%	\$420	91.1
Medium	53	8%	\$363	77.1
Low	48	1%	\$282	62.0

Notes: Market premium is (the market value of equity plus book value of debt minus the book value of assets) divided by the book value of assets. Includes those publicly traded companies where financial information was available.

Source: Watson Wyatt Worldwide 2007/2008 Communication ROI Survey and Standard & Poor's *Compustat* database.

Survey participants reported their company's turnover rates for management/professionals and for all employees. As shown in Table 11, firms that communicate most effectively report below-average turnover rates for both groups. This result is consistent with the results of our 2003/2004 and 2005/2006 surveys. *In 2007, highly effective communicators were almost 80 percent more likely than less effective communicators to say their turnover rate was lower than their competitors' rates – roughly equivalent to our 2003 study.* In 2005, however, the difference between highly effective communicators and less effective communicators was only about 20 percent. This is partly because 2005/2006 respondents were much more likely than 2003

respondents to report having lower turnover rates than their competitors. This was particularly true among the least effective communicators. Moreover, turnover rates were lower in 2005 than in 2007, as shown earlier in Figure 1.

Table 11
Low Levels of Communication Effectiveness Lead to Greater Turnover Relative to Peers

	Communication Effectiveness		
Management/professional	High	Low	Ratio
2007	64.7%	38.1%	1.70
2005	66.7%	52.8%	1.26
2003	51.7%	31.8%	1.63
All employees	High	Low	Ratio
2007	65.0%	36.4%	1.79
2005	57.4%	49.8%	1.15
2003	51.6%	33.3%	1.55

Notes: Percentages represent firms answering “below” or “significantly below” when asked to compare their turnover rates with those of their competitors. Results include only U.S. responses in order to provide comparable rates over all three studies.

The conclusions from Tables 10 and 11 are consistent with the model in Figure 3. In companies whose communications are highly effective:

- Employer turnover is lower.
- Employee productivity is higher.
- Profits are higher and market premium is significant.
- Long-term (five-year) shareholder returns are superior.

The evidence demonstrates a strong correlation among these variables, supporting the hypothesis that improved communication effectiveness leads to better financial performance.

Multivariate Regression Results

While Tables 10 and 11 indicate that organizations that communicate more effectively have generated higher shareholder value and enjoyed lower turnover rates, the analysis does not control for outside influences that could affect firm performance. For example, could the differences in performance result from industry/sector influences – such as a rising tide lifting all boats – rather than from the communication programs? Company characteristics, such as the riskiness of the firm’s capital structure, the value of nonfinancial assets such as brand (often referred to as customer capital) or future patents and new products also contribute to variations in company performance.

To eliminate these uncertainties, we employed a multivariate regression analysis to regress firm performance on the score for communication effectiveness and other control variables. The value of the regression analysis is twofold. First, it isolates the effectiveness of a company’s communication programs and quantifies their impact on shareholder returns, while controlling for the confounding effect of other factors. Second, in a similar vein, it enables us to estimate how the increased (or decreased) use of a particular communication practice is associated with changes in market premium.

We use the natural log of the market value of equity plus the book value of debt divided by the book value of assets (the natural log of market premium plus one) as the dependent variable. Academic literature often refers to this metric as the log of Q (or a pseudo-Q). We use this specification of the dependent variable to avoid eliminating organizations that are selling at a discount from their book value (i.e., that have a negative market premium), and because we hypothesize that an increase in communication effectiveness is likely to be linearly related to the percentage increase in market premium, as opposed to the percentage-point increase. This is consistent with the specifications used in previous studies, including the two earlier communication ROI studies.

The independent variables include various control variables and the communication effectiveness score. First, we use industry control variables based on the Global Industrial Classification System (GICS). There are often significant differences in

market premiums across industries that reflect differences in accounting conventions and industry competitiveness.

A firm's potential earning ability also depends on factors such as market position, patents and expertise. The specification we used for this analysis controls for these factors by including the ratio of R&D expenditures plus advertising expenditures relative to total assets. Though these expenses do not purchase assets that appear on the balance sheet, such as new equipment, they can create market value through branding and creating new products and raise the observed market premium.

We also use a second control: capital intensity as measured by the ratio of assets to employees. This enables us to control for the firm's capital structure and, more importantly, for expenditures on human capital. We have to resort to an indirect measure of labor expenses because more direct measures are not publicly available.

The risk associated with a firm's capital structure plays an important role in variations in market premiums across organizations. All else being equal, firms with more debt relative to assets are at higher risk of bankruptcy, and the higher debt limits investment opportunities. As in earlier studies, we also include size as a control variable, because larger firms tend to be in multiple lines of business. Previous research has shown that firms with multiple lines of business generally have lower market premiums, particularly if the lines are unrelated.

We estimate the relationship between communication effectiveness and shareholder value for different model specifications. This approach checks the robustness of the estimates by eliminating various control variables from the model specification. The estimates in Table 12 are standardized to represent the effect on market premium of a one-standard-deviation change in communication effectiveness (and any other independent variable).

Regression 1 represents the global database and is the estimated impact used in the report. Regressions 2 through 4 are for North American firms only and are directly comparable to the regressions performed with the 2005 data – which are reproduced in regressions 5 through 7 in Table 12. The estimates in Table 12 indicate that communication effectiveness is significantly related to market premium, and the impact is robust across various specifications. In addition, comparing the estimated impact in

regressions 2 through 4 with the estimated impact of communication effectiveness in regressions 5 through 7 confirms that the relationship between communication effectiveness and market premium has been fairly strong and stable across time periods – the differences are well within the margin of error based on our sample sizes.

Table 12
Regression Results of Communication Effectiveness and Shareholder Value

<i>STD Betas (t-values)</i>	2007 Analysis				2005 Analysis		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Comm. effective	.1107	0.1343	0.1429	0.0937	0.1299	0.1191	0.1013
	<i>1.72</i>	<i>1.98</i>	<i>2.02</i>	<i>1.07</i>	<i>2.37</i>	<i>2.16</i>	<i>1.43</i>
Research & development	-.0051	0.0006	0.0639	-0.1978	0.1596	0.1418	0.4501
	<i>-0.07</i>	<i>-0.01</i>	<i>0.79</i>	<i>-2.24</i>	<i>2.41</i>	<i>2.23</i>	<i>6.37</i>
Capital intensity	-.3003	0.3678			-0.1350		
	<i>-2.50</i>	<i>-2.98</i>			<i>-1.60</i>		
Leverage	.1449	0.1763			0.1181		
	<i>1.98</i>	<i>2.32</i>			<i>1.81</i>		
United States (=1)	-.0218	0.0082	0.0189	-0.0337	0.04112	0.0360	-0.0572
	<i>-0.22</i>	<i>-0.12</i>	<i>0.26</i>	<i>-0.38</i>	<i>0.74</i>	<i>0.64</i>	<i>-0.81</i>
Asia-Pacific (=1)	.0780						
	<i>0.94</i>						
Europe (=1)	-.0321						
	<i>-0.41</i>						
Size	-.1828	0.1677	0.2494	-.3422	-0.0442	-0.0599	0.0209
	<i>-2.56</i>	<i>-2.30</i>	<i>-3.49</i>	<i>-3.94</i>	<i>-0.74</i>	<i>-1.03</i>	<i>0.30</i>
Industries¹	X	X	X		X	X	
RSquare	.5449	.5667	.5389	.1507	0.5824	0.5680	0.2247
Adj RSquare	.4913	.5090	.5208	.1211	0.5429	0.5335	0.2051
N	136	120	120	120	163	163	163
F Value²	9.21	9.81	9.69	5.10	14.74	16.44	11.45

Notes: ¹ Utilities is the base industry and Canada is the base country/region for all regressions.

² All values are significant at the 1 percent level.

The coefficient presented in Table 12 is the estimated effect of a one-standard-deviation change in communication effectiveness on the expected market premium – approximately an 11 percent change. In the survey report, we convert this number to the expected impact on equity market value by calculating the expected market premium for the typical firm based on all parameters and coefficients and the corresponding market value. We then increase the market premium by 11 percent (the estimated impact from the regression analysis) and calculate the equity market value that the typical firm attains based on the 11 percent increase. This enables us to solve for the percentage increase in equity market value – in this case 15.7 percent. The conversion factor is a function of the median market premium in the sample and the leverage for the typical firm. More leverage increases the conversion factor (i.e., an 11 percent increase in market premium increases the equity market value to more than 15.7 percent). Companies with lower leverage will have a smaller impact on equity market value.

Effective Communication as a Leading Indicator of Financial Performance

In any cross-sectional analysis of the relationship between two variables, A and B, there are three possible explanations: A causes B, B causes A, or A and B are both caused by some other factor, C. Our previous studies found a strong relationship between communication effectiveness and firm financial performance. This correlation demonstrates a relationship: firms that communicate effectively outperform their peers financially. But this does not prove that communication effectiveness causes better financial performance (A causes B). High-performing firms might spend more and thus create more effective communication programs (B causes A), or superior financial performance and more effective communication might both be caused by some other factor (C) such as superior visionary leadership.

The correlation between communication effectiveness and financial performance has been robust. Conducting multiple iterations enables us to take our analysis a step further – to test whether communication effectiveness is a leading or lagging indicator of financial performance. If more effective communication causes superior financial performance, then a higher communication effectiveness score should be strongly correlated with better future financial performance. If superior financial performance creates better communication, then financial performance should be a strong predictor of

subsequent communication effectiveness. Finally, if another factor is causing both effective communication and superior financial performance, then we would expect a relatively strong contemporaneous correlation between variables, but correlation with the future value of the other variable would be weak.

To perform this analysis, we compared the effectiveness scores from both the 2005 and the 2007 studies with the market premium for those same firms from two years before the studies to the present. We pooled the data, lining it up in “event time.” There was no evidence that superior financial performance leads to communication effectiveness, nor was there a statistically significant linear relationship between past performance and current communication effectiveness. Rather, we found a positive correlation between current financial performance and current communication effectiveness, as we have found in both studies. Finally, the correlation between communication effectiveness and financial performance one year later was twice as large as the contemporaneous correlation (i.e., measured at the same time). These data suggest that communication effectiveness is a leading indicator of financial performance.

Does this finding prove that communication effectiveness causes superior financial performance? It does not. It is difficult to prove causation in social science research, because we cannot run controlled experiments like those performed in the physical sciences. So it is important not to over-interpret the data. The appropriate inference is that the evidence indicates that communication effectiveness is correlated with subsequent financial performance and can be viewed as a leading indicator of financial performance.

Given the strong relationship between communication effectiveness and financial performance, however, it is useful to know what makes a communication program effective. These results suggest that effective communication with employees and the investment community matters. Firms that do it well can significantly boost shareholder value. The rest of this analysis investigates the processes, tactics and programs associated with effective communication.

Effective Communication Programs and Practices

We use statistical analysis to uncover the relationship between communication policies and programs and the communication effectiveness score. This analysis took two forms: regression analysis to estimate the effect of each category on communication effectiveness and statistical tests to identify differences in means between highly effective and less effective communicators. We used the regression analysis to allocate the estimated effect of communication effectiveness on firm performance to the individual categories. We used the difference-in-means tests to confirm the data in the supporting tables discussed throughout the paper. While the regression analysis clearly demonstrates the effects of specific practices on effective communication, the statistics describe the characteristics of effective communicators.

Estimating the Effect of Communication Dimensions on Market Value

The questionnaire asked organizations for information about their communication policies and practices. We grouped these policies and practices into reliable scales and scored each respondent according to the responses to the items in each scale. The next step was to analyze the relationship between these scales and the organization's communication effectiveness score. We accomplished this through regression analysis, with the communication effectiveness score as the dependent variable and the other scores as the independent variables.

Ordinary-least-squares regression analysis assumes that the independent variables are orthogonal to each other. This assumption is never entirely true but is particularly problematic with survey data. The scores based on the survey responses are significantly correlated with each other because organizations that are strong in some areas tend to be strong in others as well.

To facilitate the regression analysis, we performed factor analysis on the scales. As a statistical tool, factor analysis combines items (in this case, the developed scales) that are significantly correlated with each other based on their variance-covariance matrix. We performed a principal components analysis and examined the scree pattern and other statistics to determine the proper number of factors to use to combine the

scales. We also tested the factors formed, based on their rotated factor pattern, to ensure that they formed a simple structure.

To determine the structure of a set of factors, we examined the relationship between each scale and the factors. The stronger the correlation between an item (or, in this case, a scale) and the factor formed, the more the item (or scale) is considered to load on the factor. A simple structure implies that the items (or scales) load significantly (typically assumed to have an absolute value between 0.3 and 1.0) on one and only one factor. It is also desirable that each factor have at least three items (or scales) that load significantly on that factor. Rotating three factors yielded the simplest structure.

In a standard variance-covariance matrix, the diagonal elements, which represent the covariance of an item with itself, are equal to 1. When we performed our factor analysis, we set the diagonal items equal to the R-squared of the regression with the scale as the dependent variable and all of the other scales used in the factor analysis as the independent variables. This adjustment reduces the risk of “overfitting” the data – in other words, basing our analysis on a random error in the responses. As part of the process of forming the factor scores, we rotated the factors using a Varimax rotation.

Two types of rotation methods are available to the researcher: oblique and orthogonal. Orthogonal methods rotate the factors so that, to the greatest extent possible, the factor scores formed from the scales are not correlated with each other, while oblique rotation methods do not produce this result. In general, an orthogonal rotation method may yield a less realistic result, because the underlying factors being measured probably are correlated with each other. However, when the factor scores are used as independent variables in a regression – as in this case – it is standard practice to use an orthogonal rotation approach like the Varimax method to reduce the impact of multicollinearity in the regression.

Our next step was to regress the communication effectiveness scores against the factor scores formed from the scales through our factor analysis. This regression analysis gave us an estimate of the effect of a one-standard-deviation change in the factor scores on the organization’s communication effectiveness score. These factors are individually and collectively significant at conventional levels.

The final stage in the process was to determine the relative impact of the individual scales on the organization's performance. The initial regression, reported in Table 12, estimated the effect of a significant (one standard deviation) change in communication effectiveness on organizational performance (15.7 percent). The next regression (not presented here) estimated the effect of each factor on the communication effectiveness score. We allocated the estimated effect based on the relative weight of each factor. The factor scores, in turn, are based on a system of linear equations with the values on the scales. Therefore, in allocating the estimated effect of each factor on firm performance through its effect on communication effectiveness, we inverted that matrix to determine the appropriate weight for each scale. The results of this process appear in Table 13.

Table 13
Effect of the Communication Dimensions on Market Value

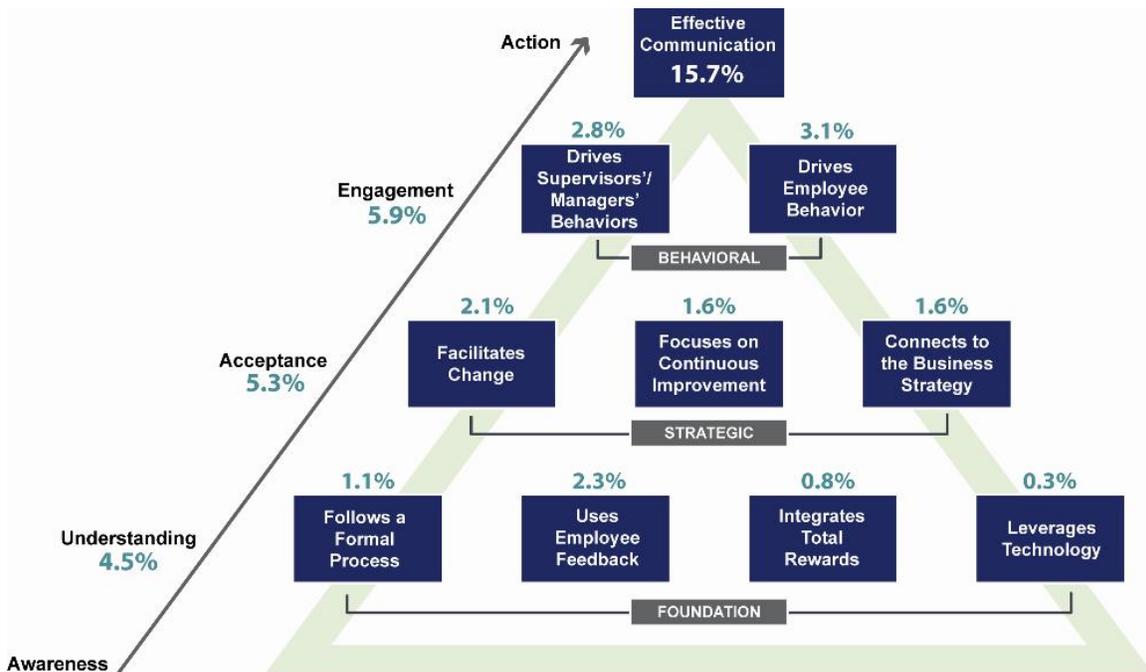
Category	Estimated Change in Market Value
Behavioral	
Drives supervisors'/managers' behavior	2.8%
Drives employee behavior	3.1%
Strategic	
Facilitates change	2.1%
Focuses on continuous improvement	1.6%
Connects to the business strategy	1.6%
Foundation	
Follows a formal process	1.1%
Uses employee feedback	2.3%
Integrates total rewards	0.8%
Leverages technology	0.3%

Note: This is the change in market value associated with a one standard deviation improvement in each area.

Hierarchy of Effective Communication: The Characteristics of Highly Effective Communication

Organizations that communicate effectively are competent in several communication practices. These practices collectively constitute the Hierarchy of Effective Communication. However, while individual practices are critical to enhancing communication across an organization, no one practice guarantees effective communication. Rather it is the integration of all practices that delivers a results-oriented and effective communication program.

Figure 4
Hierarchy of Effective Communication



Behavioral Tier — Reaching the Pinnacle

The most important goal of an effective communication program is to motivate employees and management to act upon and achieve the goals set by the organization. This is the “behavioral” level of the hierarchy, and the pinnacle to which all world-class communicators aspire.

Strategic Tier — Planning for Success

To bring about employee engagement, organizations must be strategic in the way they design their communication programs. Communication at this level facilitates change and promotes continuous improvements in business operations.

Foundation Tier — Building a Strong Base

The foundation of an effective communication program is built by establishing formal communication processes, encouraging and using employee feedback, and leveraging technology. An effective communication program also engages employees in the business by establishing clear links between desired behaviors and the rewards program.

Building the Foundation

Driving superior shareholder returns through effective communication requires building a strong foundation by addressing processes and resources. Organizations that communicate effectively:

- Follow a formal process or structure for communication
- Use employee feedback to create a dialogue with employees
- Use their communication programs to position their total rewards
- Leverage technology to enhance the speed and accessibility of information

Follows a Formal Process

Successful communicators handle process issues correctly: they develop their programs proactively, document their communication strategy and coordinate their internal and external messages to eliminate confusion. New employees are brought up to speed quickly through a systematic orientation process and an organizational culture that supports knowledge-sharing and information exchange. High-effectiveness organizations also use internal surveys to verify that employees understand key messages. These processes manage the development and flow of information and lay the groundwork for all other practices.

Table 14
Follows a Formal Process

Short Question Description	Low Effectiveness	Medium Effectiveness	High Effectiveness	Ratio High to Low
Internal and external communications are coordinated effectively	40.2%	71.8%	82.1%	2.0
This organization has a documented internal communication strategy	35.4%	64.0%	82.1%	2.3
Cx function is regularly called upon to provide communication counsel and insight to the CEO and senior management team	38.8%	55.8%	71.4%	1.8
Cx function communicates regularly with members of the senior management team to discuss business communication issues and opportunities	32.1%	48.8%	78.6%	2.4
Cx function communicates regularly with business unit leaders to discuss business communication issues and opportunities	23.5%	43.0%	67.9%	2.9
Internal cx programs developed primarily proactively	28.4%	50.0%	55.4%	2.0
Cx function is included by the CEO and senior management in major business decisions	27.2%	34.9%	59.5%	2.2
The organization’s culture effectively supports the sharing of knowledge across the organization	8.9%	30.9%	72.5%	8.2
We have a process in place to capture compliance/legislative/governance differences among countries to guide our communication efforts	3.9%	8.2%	16.3%	4.2

Note: Numbers indicate the percentage of respondents that gave a favorable response to that item, typically a response of 4 or 5 on a 5-point Likert scale.

Uses Employee Feedback

Soliciting and acting on employee feedback at regular intervals gives employees a voice and engages them in running the business. Distributing employee surveys is not enough. In highly effective organizations, employees play an active role in determining how their work gets done and have opportunities to provide input into how the business is run. More importantly, acting on employees’ suggestions directly connects their actions to the organization’s strategy and helps employees understand their role in achieving business objectives.

Table 15
Uses Employee Feedback

Short Question Description	Low Effectiveness	Medium Effectiveness	High Effectiveness	Ratio High to Low
This organization communicates the results of employee opinion surveys to employees	50.0%	80.3%	78.2%	1.6
Conducted internal surveys or focus groups to support change was effective	34.6%	42.9%	71.4%	2.1
The organization has developed action plans and implemented policy changes as a result of employee opinion survey results	22.6%	50.0%	67.9%	3.0
The organization actively collects information to assess the value of benefit programs to employees	38.5%	42.5%	63.6%	1.7
Employees are given are given the opportunity to provide meaningful input into how the work gets done	16.5%	27.2%	44.4%	2.7
Employees are given the opportunity to provide meaningful input into decisions that affect them	3.8%	12.3%	38.3%	10.1
Employees are given the opportunity to provide meaningful input into organization’s programs and changes to the way the business is run	3.8%	11.1%	24.7%	6.5

Note: Numbers indicate the percentage of respondents that gave a favorable response to that item, typically a response of 4 or 5 on a 5-point Likert scale.

Integrates Total Rewards

Organizations that communicate effectively do a better job of communicating total rewards to employees than other organizations. Rewards include more than pay and benefits – they encompass the work environment, culture, development opportunities and training. Organizations with highly engaged employees “package” rewards effectively to attract and retain key talent. The payoffs can include lower turnover, higher productivity and stronger financial performance. Moreover, the programs themselves communicate important messages about the organization and its values to employees.

Effective communicators are more likely to develop an identifiable employer brand and to use pay to engage and involve employees in improving business performance. Developing and communicating the right total rewards package reinforces

the message that employees are valued business partners and key contributors to the company's success.

Table 16
Integrate Total Rewards

Short Question Description	Low Effectiveness	Medium Effectiveness	High Effectiveness	Ratio High to Low
Pay is linked to the organization's business strategy	64.6%	84.1%	87.8%	1.4
Employees receive information about other total rewards offerings	53.2%	79.0%	82.9%	1.6
Pay is viewed as a means of engaging and involving workers in improving business performance	51.9%	74.4%	74.4%	1.4
Top performers receive significantly better pay than average performers	49.4%	53.7%	64.6%	1.3
Actions are taken to increase participation upon review of low employee enrollment	33.3%	41.3%	66.2%	2.0
Employees understand the monetary value of their total rewards package	21.5%	40.2%	62.2%	2.9
This organization has a clear "employer brand"	17.7%	29.3%	54.9%	3.1

Note: Numbers indicate the percentage of respondents that gave a favorable response to that item, typically a response of 4 or 5 on a 5-point Likert scale.

Leverages Technology

Organizations that communicate effectively use technology to amplify their message. Their employees use Web technology to communicate, collaborate and share resources. The communication department plays a lead role in developing and managing the intranet. These organizations are more likely to use the Intranet to give employees access to total compensation statements, total retirement income projections and decision-making tools.

Table 17
Leverages Technology

Short Question Description	Low Effectiveness	Medium Effectiveness	High Effectiveness	Ratio High to Low
Increased use of electronic communication	65.9%	82.6%	81.0%	1.2
Organization has a portal	64.2%	68.6%	72.8%	1.1
Offer personalized info on the importance of participating in the benefits programs	44.9%	55.6%	68.3%	1.5
The communication function plays a lead role in developing and managing the content of our intranet	43.0%	50.0%	69.9%	1.6
Employees use Web technology to gain access to relevant training/learning/development tools and materials	37.0%	52.3%	57.3%	1.5
Extensive use of conference calls, Webcasts, other	40.7%	45.3%	51.8%	1.3
This organization has a documented intranet/Internet communication strategy	24.4%	38.8%	71.4%	2.9
Employees use Web technology to communicate, collaborate and share resources inside the organization	39.5%	45.3%	49.4%	1.3
Offer personalized educational materials on income needs in retirement	29.5%	39.5%	53.8%	1.8
Offer personalized total retirement income projections	25.6%	36.6%	45.7%	1.8
Increased use of social media (blogs, podcasts, etc.)	21.3%	32.1%	40.2%	1.9
Offer personalized total rewards statements	15.2%	29.3%	45.1%	3.0
Extensive use of intranet using audio/video (streaming or mpeg)	18.5%	24.4%	34.9%	1.9
Extensive use of blogs, wikis, discussion boards	3.8%	3.5%	7.3%	2.0

Note: Numbers provided indicate the percentage of respondents that gave a favorable response to that item, typically a response of 4 or 5 on a 5-point Likert scale.

Evolving Through Strategic Communication

Effective communication requires a strategic approach. The strategic tier focuses on connecting all communication efforts to business objectives – thereby facilitating organizational change – and then measuring the results.

Facilitates Change

Organizations are constantly evolving in response to changes in the business environment. Organizations that communicate effectively manage major changes better than other organizations. The 2007/2008 study reaffirms the 2003/2004 and 2005/2006 findings that organizations that are good at facilitating change outperform their peers. One key to success is fully utilizing the frontline leader to build employee support for the change, because employees often view their immediate supervisor as a more credible source of information. Companies that keep their managers informed and involved during a change tend to realize a significant return on their efforts.

Unfortunately, while frontline managers play an important role in facilitating organizational change, they often do not receive the necessary training and tools. High-effectiveness firms involve their managers early in the process and give them the information they need to manage the change. With effective support, frontline leaders can be important in channeling communication throughout the organization.

Table 18
Facilitates Change

Short Question Description	Low Effectiveness	Medium Effectiveness	High Effectiveness	Ratio High to Low
Measures used to assess reorg – Employees understand the rationale for change	70.0%	76.9%	89.0%	1.3
Measures used to assess reorg – Employees understand how change will impact them personally	62.9%	80.8%	89.0%	1.4
Implemented new communication initiative to support change was effective	50.0%	71.4%	85.2%	1.7
Measures used to assess reorg – Employees understand what they need to do differently	51.4%	70.5%	83.6%	1.6
This organization explains to all employees the reasons behind major decisions	36.7%	67.9%	87.7%	2.4
Extent the internal communication function involved in the changes recently undertaken by your organization	36.8%	62.8%	80.8%	2.2
Managers support the organization’s vision through their actions and attitude	26.5%	48.7%	82.2%	3.1
Measures used to assess reorg – Evidence of desired changes in employee behavior	28.6%	46.2%	57.5%	2.0
Managers address the needs and concerns of remaining employees	14.7%	34.2%	72.2%	4.9
Managers enthusiastically implement new approaches to work	7.2%	28.9%	65.3%	9.0
Extensive use of objective measures of changed behavior	2.5%	9.6%	20.3%	8.1

Note: Numbers indicate the percentage of respondents that gave a favorable response to that item, typically a response of 4 or 5 on a 5-point Likert scale.

Focuses on Continuous Improvement

Excellence is a moving target, and achieving it requires continuous improvement and ongoing communication. Communication measurement is becoming more important and more prevalent. Organizations that communicate effectively leverage information such as customer feedback to help employees improve their performance.

Table 19
Focus on Continuous Improvement

Short Question Description	Low Effectiveness	Medium Effectiveness	High Effectiveness	Ratio High to Low
Regularly measure effect of communication on employee engagement	62.2%	70.2%	83.1%	1.3
Extensive use of employee feedback via surveys	47.6%	56.5%	64.3%	1.4
Regularly measure whether information helps employees perform better	45.9%	46.8%	66.1%	1.4
Have a corporate scorecard with internal communication metrics	48.8%	56.0%	57.1%	1.2
Regularly measure employee behavior change	40.5%	42.6%	61.0%	1.5
Changes made as a result of employee opinion surveys are communicated effectively to employees	21.0%	39.5%	61.5%	2.9
Regularly measure effect of communication on business performance	10.8%	23.4%	55.9%	5.2
Extensive use of manager feedback via surveys	22.5%	25.9%	43.2%	1.9
Regularly measure effect of communication on retention of critical talent	8.1%	19.1%	33.9%	4.2
Regularly measure effect of communication on workforce productivity	10.8%	21.3%	27.1%	2.5
Extensive use of employee feedback via focus groups	6.2%	15.3%	28.0%	4.5
Extensive use of manager feedback via focus groups	5.0%	10.7%	22.0%	4.4
The organization makes extensive use of measurement to verify the communication function's contribution to strategic business goals	3.7%	3.5%	19.5%	5.3
The organization benchmarks the performance of the communication function against other companies	3.7%	4.7%	12.2%	3.3

Note: Numbers indicate the percentage of respondents that gave a favorable response to that item, typically a response of 4 or 5 on a 5-point Likert scale.

Employee opinion surveys are still the preferred method for gathering feedback, but many companies don't use them to measure communication effectiveness or to identify the links between effective communications and improved productivity and business performance. The few companies that ask the right questions and link their communication initiatives to business outcomes are seeing the difference. Organizations with highly effective communications are over 5 times more likely to make extensive use of measurements to verify communication's contribution to organizational business

goals. They are also 3 times more likely to benchmark their practices than those that communicate less effectively.

Continuous improvement relies on measurement, including hard measures such as those obtained in communication audits, and objective measures of behavior change and the degree to which communication helps employees improve their performance.

Organizations that communicate effectively ensure that the communication function supports strategic business plans, making a strong business case for investment in the communication function.

Connects to the Business Strategy

An organization cannot successfully execute a business strategy if its employees do not understand its vision and goals. Communication is an important link between organizational leadership and employee performance, and highly effective organizations directly connect communication with business objectives. Organizations that communicate effectively use feedback from employees to enhance and implement key business objectives. Their senior managers recognize the importance of communication and employee engagement in achieving business objectives and are actively involved in the communication process. Linking communication objectives to business goals can significantly strengthen the business case for additional resources.

Table 20
Connect to the Business Strategy

Short Question Description	Low Effectiveness	Medium Effectiveness	High Effectiveness	Ratio High to Low
This organization directly links its communication objectives to its business objectives	53.7%	80.2%	95.2%	1.8
Senior management recognizes the importance of communication in achieving business objectives and takes an active role in communicating	54.9%	77.9%	95.2%	1.7
Corporate communication is an essential part of this organization's business strategy	42.7%	74.4%	88.1%	2.1
Measures used to assess reorg – Achieving overall revenue/savings goals	44.3%	51.3%	72.6%	1.6
Measures used to assess reorg – Retention of high performers	40.0%	51.3%	74.0%	1.8
The organization's employee opinion surveys are designed to obtain feedback relating directly to key business objectives	27.4%	47.4%	69.2%	2.5
Measures used to assess reorg – Limited additional turnover	31.4%	41.0%	63.0%	2.0
Extent use increased employee participation related to the initiative	22.2%	32.5%	48.8%	2.2
Extent use customer measures (e.g., sales growth, customer satisfaction)	8.8%	12.2%	34.9%	4.0
Extent use operational measures (e.g., increased productivity)	6.3%	4.9%	25.6%	4.1
Extent use decreased turnover	10.0%	7.3%	14.6%	1.5
Extent use financial measures (e.g., revenue growth, profitability)	7.5%	3.6%	19.5%	2.6

Note: Numbers indicate the percentage of respondents that gave a favorable response to that item, typically a response of 4 or 5 on a 5-point Likert scale.

Effecting Change at a Behavioral Level

Effective communication drives behavior change. The behavioral tier focuses on the relationship between employees and their direct leaders. It also highlights how, working through these leaders, organizations can use communication to draw a clear line of sight between employees' jobs and business outcomes.

Drives Supervisory/Managerial Behavior

Formal processes are just one means of communicating with employees. Frontline leaders have the most day-to-day contact with their employees and thus more opportunities to communicate company goals, performance and objectives. Companies with high levels of communication effectiveness treat managers as a distinct and highly valued audience, give them information in advance and “package” the information in a palatable form for delivery. These companies also recognize and reward managers for being effective and attentive communicators almost five times more often than firms with low levels of communication effectiveness. However, there is still considerable room for improvement in this area.

Table 21
Drives Supervisory/Managerial Behavior

Short Question Description	Low Effectiveness	Medium Effectiveness	High Effectiveness	Ratio High to Low
Managers are given information before it is shared with employees	58.5%	79.1%	90.4%	1.5
Managers support the executive management vision through their actions	32.9%	48.1%	77.8%	2.4
Managers are taking on a greater share of communication responsibility in this organization	42.7%	47.1%	67.5%	1.6
This organization does an effective job of “packaging” company/business information for managers to deliver to employees	25.6%	50.6%	69.9%	2.7
Managers enthusiastically implement new approaches to work	20.8%	33.3%	66.7%	3.2
Managers help provide feedback to employees about their job performance	19.0%	37.5%	63.0%	3.3
Measures used to assess reorg – Employee engagement relative to external benchmarks	17.1%	30.8%	47.9%	2.8
Managers help employees with career development	11.5%	28.8%	51.9%	4.5
Managers at all levels are rewarded for communicating effectively	4.9%	9.3%	23.8%	4.9

Note: Numbers indicate the percentage of respondents that gave a favorable response to that item, typically a response of 4 or 5 on a 5-point Likert scale.

Drives Employee Behavior

Organizations that communicate effectively do a better job of creating a “line of sight” for employees that helps drive behaviors to achieve desired financial results. Line of sight means that employees understand the big picture and, more importantly, see how their actions can help the organization attain its goals. Successfully communicating organizations foster a culture of information exchange, and they consistently share financial information, business plans and organizational goals with employees. Effective communicators are twice more likely to share business plans and goals with employees and five times more likely to share customer feedback than companies with low communication effectiveness.

Employees with a clear line of sight are more likely to provide feedback that supports the business strategy as the organization makes continuous improvements or initiates major changes. In these organizations, employees also are more likely to initiate appropriate actions because they understand how their work is directly linked to business results. Their quick responses to changing circumstances gives the organization a major advantage over competitors whose employees are shooting in the dark.

Table 22
Drives Employee Behavior

Short Question Description	Low Effectiveness	Medium Effectiveness	High Effectiveness	Ratio High to Low
This organization communicates openly to employees about matters that affect them	49.4%	75.3%	95.1%	1.9
The organization shares business plans and/or goals with employees	40.5%	57.5%	88.9%	2.2
The organization shares financial information with employees	39.2%	59.3%	85.2%	2.2
A systematic orientation program for new hires exists	30.8%	48.1%	62.8%	2.0
The organization is sharing more business-related information with employees than it did last year	35.9%	35.8%	60.8%	1.7
The organization shares customer feedback with employees	13.9%	31.3%	70.4%	5.1

Note: Numbers indicate the percentage of respondents that gave a favorable response to that item, typically a response of 4 or 5 on a 5-point Likert scale.

Employee Engagement

Watson Wyatt’s WorkUSA™ research into employee attitudes demonstrates a strong relationship between employee engagement and financial performance. This relationship has been both statistically and economically significant throughout the past decade. On that basis, we also examined the relationship between communication practices, employee engagement and turnover rates. Engagement is measured using the responses to the items in Table 23.

Table 23
Elements of Employee Engagement

Employees are motivated to achieve the goals and mission of the organization.
Employees regard the organization as a good place to work.
Applicants for open positions are referred to us by existing employees.
Employees believe they are paid well for the work they do.
This organization formally measures employee commitment to the company.
This organization has developed action plans and implemented policy as a result of measuring employee commitment to the company.

We combined these items into a single, reliable scale and then ranked organizations based on their scores. The findings in Table 24 indicate that firms that communicate effectively are more than four and a half times more likely to report high employee engagement than other firms.

Table 24
Percentage of Firms Reporting High Employee Engagement: Overall and by Communication Effectiveness Rank

	Communication Effectiveness		
	Low	High	All
Engagement	14.1%	57.1%	31.7%
Communication Effectiveness Effect (High/Low)			4.1x

Table 25 shows that high employee engagement translates into lower turnover.

Table 25
Percentage of Firms Reporting High Employee Engagement vs. Relative Turnover

Turnover	Turnover Group (relative to competitors)		All
	Low (Companies with high turnover rates relative to peers)	High (Companies with low turnover rates relative to peers)	
Engagement	24.4%	34.8%	29.7%
Turnover Effect(high/low)			1.42x

This information demonstrates how effective communication translates into superior financial performance through greater employee engagement and lower turnover. According to the Watson Wyatt Human Capital Index®, turnover can cost roughly six months of wages in direct expenses and lost productivity. Other research associates higher employee engagement with higher customer satisfaction and thus greater revenue. Both of these factors should lead to superior financial performance.

Communicating Effectively in a Global Workplace

As companies become increasingly global, they face complex challenges, crossing numerous activities, business objectives and functional responsibilities. Meeting these challenges – along with customers’ growing demands – requires capable management of competitive assets, including both capital and human resources. To develop a profitable and sustainable global footprint, companies must establish best practices and processes that enable management and employees to share information with their offshore operations quickly and efficiently.

An important strategy for effective communication on a global scale is to designate communication resources in other countries. Many organizations create a global communication committee or advisory board with representatives from each country. These organizations conduct regular calls or webcasts to maintain a continuous dialogue among global business units and to share best practices across the organization.

Organizations that communicate effectively are more likely to have a documented global employee communication strategy. When communicating globally, it is essential to set up processes that capture and conform to each country’s legal and other requirements.

Table 26
Communicating With Global Employees/Operations

Short Question Description	Low Effectiveness	Medium Effectiveness	High Effectiveness	Ratio High to Low
We have designated communication resources in other countries/offshore business units	13.9%	24.7%	32.5%	2.3
We have a global communication committee or advisory group with representatives from various countries	6.3%	11.9%	18.8%	3.0
We regularly meet or have conference calls/Webcasts with our global business unit communication colleagues	6.4%	21.2%	29.6%	4.6
We share best practices with our global business unit communication colleagues	10.1%	21.2%	36.3%	3.6
We have a documented global employee communication strategy	7.6%	16.5%	27.8%	3.7
We have a process to capture compliance differences among countries to guide communication efforts	3.9%	8.2%	16.3%	4.2

Providing employees with differentiated communication is critical to getting the company’s message to its offshore facilities. Organizations that communicate effectively use customized communication sent from corporate headquarters. These companies tailor their communication for each offshore location, adapting communication to the local environment and business unit. It is less effective for companies to share the same message with all employees or for local managers to customize messages from corporate headquarters.

Table 27
Communicating With Global Employees/Operations

Short Question Description	Low Effectiveness	Medium Effectiveness	High Effectiveness	Ratio High to Low
Messaging from corporate headquarters is the same for all employees	59.3%	69.4%	60.7%	1.0
Employees in international locations receive customized communication from corporate headquarters unique to their country	22.2%	21.0%	32.8%	1.5
Employees in international locations receive customized communication from corporate headquarters unique to their business unit	13.0%	21.0%	29.5%	2.3
Business unit and/or local managers receive general information from corporate headquarters and are responsible for customizing and communicating messages from corporate headquarters	51.9%	54.8%	57.4%	1.1

Trends: What We've Learned in Six Years of Communication ROI Studies

Overall, companies have made considerable progress in recent years in adopting communication practices and strategies that span the nine best-practice components, including foundational, strategic and behavioral practices. The good news includes some positive trends around measurement, helping employees own their benefits, and planning and implementing communication programs. Companies also have taken important steps to address organizational change by giving communication an essential role in the change process. Sharing the results of employee surveys also has become more widespread over the last six years.

But there have been negative trends and lack of improvement over the last six years as well. Notably, many organizations have made little progress in providing the focus and direction employees need to help make their organization successful. This includes systematic orientation programs for new hires and sharing business-related information with employees. Companies also have been slow to adopt Web technologies to communicate and share information within the organization and to offer personalized retirement education. Finally, many companies still do not groom their managers to be champions of communication initiatives and to take on communication responsibilities.

Tables 28 and 29 show communication trends since the 2003/2004 study. Both tables show the percentage of favorable responses to the questions over the last three studies. The last column shows the ratio of the average response of high-communication-effectiveness companies to their low-effectiveness counterparts in 2007.

Table 28
Positive Trends in Communication Practices Linked Most Closely to High-Effectiveness Companies

Short Question Description	Pyramid/ Construct	2003	2005	2007	Difference (2007-2003)	Ratio of High to Low Cx Effectiveness in 2007
						-
Actions are taken to increase participation upon review of low employee enrollment	Reward	25.3%	30.1%	52.7%	27.3%	2.0
Regularly measure employee behavior change	Improve	28.8%	42.3%	53.3%	24.4%	1.5
Employees use Web technology to gain access to relevant training/learning/development tools and materials	Technology	36.5%	42.9%	56.6%	20.1%	1.5
The organization actively collects information to assess the value of benefit programs to employees	Feedback	33.8%	43.4%	50.3%	16.5%	1.7
Extent was the internal communication function involved in the changes recently undertaken by your organization	Change	47.2%	65.0%	62.9%	15.6%	2.2
Internal communication programs developed primarily proactively	Formal	35.0%	36.4%	48.3%	13.3%	2.0
Offer personalized total rewards statements	Technology	19.4%	30.2%	32.2%	12.7%	3.0
This organization has a documented internal communication strategy	Formal	53.3%	61.5%	64.6%	11.3%	2.3
This organization communicates the results of employee opinion surveys to employees	Feedback	57.1%	57.0%	67.1%	10.0%	1.6
Corporate communication is an essential part of this organization's business strategy	Strategy	58.3%	58.9%	68.0%	9.6%	2.1
The organization shares customer feedback with employees	Drives	30.6%	32.6%	40.2%	9.6%	5.1
Implemented new communication initiative to support change and it was effective	Change	60.2%	78.0%	69.7%	9.5%	1.7
Pay is linked to the organization's business strategy	Reward	70.2%	78.9%	79.5%	9.4%	1.4
Regularly measure whether information helps employees do their jobs better	Improve	46.8%	44.0%	56.1%	9.3%	1.4
Managers help employees with career development	Behavior	16.7%	26.5%	25.6%	8.9%	4.5
Conducted internal surveys or focus groups to support change was effective	Feedback	47.4%	61.1%	56.2%	8.8%	2.1
Employees understand the monetary value of their total rewards package	Reward	34.2%	39.3%	42.1%	7.9%	2.9
Managers are given information before it is shared with employees	Behavior	69.3%	67.1%	76.8%	7.5%	1.5
Internal and external communication are coordinated effectively	Formal	60.0%	58.9%	67.4%	7.4%	2.0
The organization has developed action plans and implemented policy changes as a result of employee opinion survey results	Feedback	39.3%	49.3%	45.6%	6.4%	3.0

Table 29
Negative Trends in Communication Practices Linked Most Closely to High-Effectiveness Companies

Short Question Description	Pyramid/ Construct	2003	2005	2007	Difference (2007-2003)	Ratio of High to Low Cx Effectiveness in 2007
						-
Offer personalized educational materials on income needs in retirement	Technology	58.0%	59.4%	47.3%	-10.7%	1.8
Implemented new communication initiative to support change	Change	38.3%	20.0%	31.9%	-6.5%	1.4
Employees are given the opportunity to provide meaningful input into how the work gets done	Feedback	32.9%	32.1%	28.2%	-4.7%	2.7
A systematic orientation program for new hires exists	Drives	50.7%	44.8%	46.1%	-4.6%	2.0
This organization explains to all employees the reasons behind major decisions	Change	66.4%	67.7%	62.4%	-4.0%	2.4
Employees use Web technology to communicate, collaborate and share resources inside the organization	Technology	46.7%	36.6%	43.1%	-3.6%	1.3
The organization is sharing more business-related information with employees than it did last year	Drives	42.7%	43.0%	39.9%	-2.9%	1.7
This organization communicates openly to employees about matters that affect them	Drives	72.8%	67.7%	70.0%	-2.8%	1.9
Managers support the executive management vision through their actions	Behavior	56.4%	50.2%	54.1%	-2.3%	2.4
Employees are given the opportunity to provide meaningful input into decisions that affect them	Feedback	19.9%	16.0%	17.6%	-2.3%	10.1
Managers are taking on a greater share of the communication responsibility in this organization	Behavior	55.2%	51.2%	53.0%	-2.1%	1.6
Employees are given the opportunity to provide meaningful input into organization's programs and changes to how the business is run	Feedback	11.7%	11.9%	10.6%	-1.1%	6.5
Conducted internal surveys or focus groups to support change	Change	19.8%	15.7%	18.8%	-1.1%	1.7
Managers support the organization's vision through their actions and attitude	Change	53.7%	48.5%	53.2%	-0.5%	3.1
The organization makes extensive use of measurement to verify the communication function's contribution to strategic business goals	Improve	9.5%	14.7%	9.2%	-0.3%	5.3

Conclusion

The 2007/2008 Communication ROI Study reaffirms our earlier findings – the way a company shares information with employees can positively affect its financial performance. For the third time, we found that effective communication practices are associated with higher shareholder returns, increased market premiums and higher revenue per employee. So companies that take the initiative and invest in improving their employee communication practices position themselves to gain a significant advantage over their competitors. The study also reconfirmed that effective communication is a leading indicator of financial performance.

Successful programs that drive employee behavior, engage managers and supervisors in the communication process, and use employee feedback offer the greatest return on investment. However, all nine dimensions in the Hierarchy of Effective Communication add value and merit attention as you develop or update your communication strategy and implementation plan for the coming year.

By continuing to conduct this groundbreaking study, Watson Wyatt provides business leaders with the evidence they need to position organizational communication as an important business function that can potentially improve financial performance. The study also helps communication professionals understand the relative return on investment for effective communication practices, enables them to compare their organization's practices with North American norms and encourages them to work alongside senior managers in designing programs that deliver optimum results.

The bottom line: It's all about engaging employees and driving behavior change to achieve business results. Investing in communication and improving the effectiveness of your communication practices are crucial steps to higher financial performance.

APPENDIX – REGIONAL DETAIL

Building the Foundation

Table A1
Follows a Formal Process

Short Question Description	AP	CANADA	Europe	USA
Internal and external communication are coordinated effectively	68.4%	54.5%	61.1%	67.4%
This organization has a documented internal communication strategy	68.4%	45.5%	57.9%	64.6%
Cx function is regularly called upon to provide communication counsel and insight to the CEO and senior management team	36.8%	58.1%	57.9%	56.4%
Cx function communicates regularly with members of the senior management team to discuss business communication issues and opportunities	42.1%	48.8%	57.9%	54.7%
Cx function communicates regularly with business unit leaders to discuss business communication issues and opportunities	42.1%	48.8%	42.1%	46.4%
Internal cx programs developed primarily proactively	38.9%	34.1%	42.1%	48.3%
Cx function is included by the CEO and senior management in major business decisions	42.1%	53.5%	26.3%	38.9%
The organization’s culture effectively supports the sharing of knowledge across the organization	47.1%	31.6%	53.3%	36.5%
We have a process in place to capture the compliance/legislative/governance differences between countries to guide our communication efforts	23.5%	0.0%	25.0%	8.8%

Table A2
Uses Employee Feedback

Short Question Description	AP	CANADA	Europe	USA
This organization communicates the results from employee opinion surveys to employees	66.7%	78.4%	93.3%	67.1%
Conducted internal surveys or focus groups to support change was effective	30.8%	44.4%	66.7%	56.2%
The organization has developed action plans and implemented policy changes as a result of employee opinion survey results	60.0%	54.1%	53.3%	45.6%
The organization actively collects information to assess the value of the benefit programs to employees	41.2%	47.4%	30.8%	50.3%
Employees are given the opportunity to provide meaningful input in how the work gets done	17.6%	38.5%	33.3%	28.2%
Employees are given the opportunity to provide meaningful input in decisions that affect them	23.5%	17.9%	20.0%	17.6%
Employees are given the opportunity to provide meaningful input in organization’s programs and changes to how the business is run	17.6%	23.1%	13.3%	10.6%

Table A3
Integrates Total Rewards

Short Question Description	AP	CANADA	Europe	USA
Pay is linked to the organization's business strategy	100.0%	66.7%	80.0%	79.5%
Employees receive information on other total rewards offerings	72.2%	69.2%	53.3%	74.1%
Pay is viewed as a means of engaging and involving people in improving business performance	88.9%	51.3%	60.0%	69.0%
Top performers receive significantly better pay than average performers	66.7%	51.3%	80.0%	53.8%
Actions are taken to increase participation upon review of low employee enrollment	23.5%	37.8%	28.6%	52.7%
Employees understand the monetary value of their total rewards package	44.4%	43.6%	26.7%	42.1%
This organization has a clear "employer brand"	38.9%	33.3%	26.7%	34.5%

Table A4
Leverages Technology

Short Question Description	AP	CANADA	Europe	USA
Increased use of electronic communication	78.9%	77.3%	68.4%	77.2%
Organization has a portal	70.6%	71.4%	81.3%	66.5%
Offer personalized info on the importance of participating in the benefits programs	27.8%	53.8%	28.6%	62.4%
The cx function plays a lead role in developing and managing the content of our intranet	33.3%	31.0%	68.8%	61.0%
Employees use Web technology to gain access to relevant training/learning/development tools and materials	38.9%	28.6%	31.3%	56.6%
Extent use conference calls, Webcasts, other	22.2%	28.6%	31.3%	54.0%
This organization has a documented intranet/Internet communication strategy	63.2%	31.8%	47.4%	47.2%
Employees use Web technology to communicate, collaborate and share resources inside the organization	50.0%	42.9%	62.5%	43.1%
Offer personalized educational materials on income needs in retirement	16.7%	33.3%	15.4%	47.3%
Offer personalized total retirement income projections	16.7%	38.5%	14.3%	39.4%
Increased use of social media (blogs, podcasts, etc.)	26.3%	30.0%	31.6%	31.5%
Offer personalized total rewards statements	38.9%	20.5%	20.0%	32.2%
Extent use intranet using audio/video (streaming or mpeg)	38.9%	14.3%	18.8%	28.2%
Extent use blogs, wikis, discussion boards	11.1%	0.0%	6.3%	5.3%

Evolving Through Strategic Communication

Table A5
Facilitates Change

Short Question Description	AP	CANADA	Europe	USA
Measures used to assess reorg - Employees understand the rationale for change	86.7%	75.8%	76.9%	78.8%
Measures used to assess reorg - Employees understand how it will impact them personally	80.0%	69.7%	76.9%	79.4%
Implemented new communication initiative to support change was effective	66.7%	80.0%	100.0%	69.7%
Measures used to assess reorg - Employees understand what they need to do differently	86.7%	60.6%	69.2%	68.8%
This organization explains to all employees the reasons behind major decisions	70.6%	61.5%	86.7%	62.4%
Extent was the internal communication function involved in the changes recently undertaken by your organization	46.7%	68.8%	30.8%	62.9%
Managers support the organization's vision through their actions and attitude	66.7%	51.6%	38.5%	53.2%
Measures used to assess reorg - Evidence of desired changes in employee behavior	60.0%	33.3%	46.2%	45.0%
Managers address the needs and concerns of remaining employees	46.7%	45.2%	23.1%	40.8%
Managers enthusiastically implement new approaches to work	46.7%	32.3%	30.8%	33.5%
Extent use objective measures of changed behavior	22.2%	2.4%	6.7%	11.8%

Table A6
Focus on Continuous Improvement

Short Question Description	AP	CANADA	Europe	USA
Regularly measure its effect on employee engagement	83.3%	85.0%	90.0%	68.2%
Extent use employee feedback via surveys	55.6%	66.7%	47.1%	53.7%
Regularly measure whether information helps employees do their jobs better	50.0%	50.0%	60.0%	56.1%
Have a corporate scorecard with internal cx metrics	70.6%	59.5%	52.9%	51.1%
Regularly measure employee behavior change	33.3%	35.0%	60.0%	53.3%
Changes made as a result of employee opinion surveys are communicated effectively to employees	53.3%	48.6%	53.3%	38.3%
Regularly measure its effect on business performance	58.3%	25.0%	40.0%	31.8%
Extent use manager feedback via surveys	33.3%	33.3%	12.5%	30.6%
Regularly measure its effect on the retention of critical talent	25.0%	35.0%	30.0%	18.7%
Regularly measure its effect on workforce productivity	25.0%	30.0%	10.0%	19.6%
Extent use employee feedback via focus groups	38.9%	21.4%	18.8%	12.6%
Extent use manager feedback via focus groups	27.8%	16.7%	12.5%	9.8%
The organization makes extensive use of measurement to verify the communication function's contribution to strategic business goals	11.1%	7.1%	5.9%	9.2%
The organization benchmarks the performance of the communication function against other companies	11.1%	2.4%	5.9%	8.1%

Table A7
Connects to the Business Strategy

Short Question Description	AP	CANADA	Europe	USA
This organization directly links its communication objectives to its business objectives	63.2%	68.2%	84.2%	79.4%
Senior management recognizes the importance of communication in achieving business objectives and takes an active role in doing so	78.9%	84.1%	84.2%	73.5%
Corporate communication is an essential part of this organization's business strategy	78.9%	68.2%	68.4%	68.0%
Measures used to assess reorg - Achieving overall revenue/savings goals	66.7%	60.6%	46.2%	55.0%
Measures used to assess reorg - Retention of high performers	66.7%	45.5%	46.2%	56.9%
The organization's employee opinion surveys are designed to obtain feedback relating directly to key business objectives	66.7%	59.5%	60.0%	44.3%
Measures used to assess reorg - Limited additional turnover	53.3%	33.3%	23.1%	48.8%
Extent use increased employee participation related to the initiative	27.8%	31.0%	42.9%	35.4%
Extent use customer measures (e.g., sales growth, customer satisfaction)	33.3%	19.0%	20.0%	16.9%
Extent use operational measures (e.g., increased productivity)	22.2%	15.0%	13.3%	10.4%
Extent use decreased turnover	22.2%	7.5%	14.3%	9.7%
Extent use financial measures (e.g., revenue growth, profitability)	22.2%	17.1%	6.7%	7.5%

Effecting Change at a Behavioral Level

Table A8
Drives Supervisory/Managerial Behavior

Short Question Description	AP	CANADA	Europe	USA
Managers are given information prior to it being shared with employees	73.7%	69.8%	89.5%	76.8%
Managers support the executive management vision through their actions	64.7%	43.6%	53.3%	54.1%
Managers are taking on a greater share of the communication responsibility in this organization	47.4%	57.1%	42.1%	53.0%
This organization does an effective job of “packaging” company/business information for managers to deliver to employees	47.4%	35.7%	47.4%	54.1%
Managers enthusiastically implement new approaches to work	52.9%	48.7%	46.7%	36.9%
Managers help provide feedback to employees about their job performance	64.7%	38.5%	40.0%	37.9%
Measures used to assess reorg - Employee engagement relative to external benchmarks	33.3%	39.4%	30.8%	30.6%
Managers help employees with career development	64.7%	35.9%	40.0%	25.6%
Managers at all levels are rewarded for communicating effectively	15.8%	9.1%	5.3%	14.4%

Table A9
Drives Employee Behavior

Short Question Description	AP	CANADA	Europe	USA
This organization communicates openly to employees about matters that affect them	88.2%	82.1%	73.3%	70.0%
The organization shares business plans and/or goals with employees	64.7%	64.1%	66.7%	61.5%
The organization shares financial information with employees	52.9%	64.1%	66.7%	61.2%
A systematic orientation program for new hires exists	58.8%	50.0%	40.0%	46.1%
The organization is sharing more business-related information with employees than it did last year	56.3%	56.4%	46.7%	39.9%
The organization shares customer feedback with employees	47.1%	33.3%	26.7%	40.2%