

**A quick history of
Internal Communication
and its business value**





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Introduction – showing the value of communication

In today's knowledge economy the most valuable commodity is communication. Demonstrating that sound internal communication activities within an organisation have a positive impact on its outward performance is the starting point for this dissertation.

As globalisation continues apace and customer expectations rise, internal communication will play an increasingly pivotal role in defining leading organisations from the also-rans. Indeed, for many companies in mature or declining marketplaces a robust internal communication strategy offers one last source of competitive advantage in aiding the eternal drive for greater efficiency.

Although research in this field is now growing it is only in the past 20 years that commercial enterprises have begun placing greater emphasis on internal communication as a strategic function within their organisations. In 2004 global communication consultants Watson Wyatt published the most definitive study to date (subsequently updated year-on-year) linking organisational communication to financial performance. The ROI study found that a significant improvement in communication levels is associated with an increase in market value of up to 29.5%. Companies with the highest levels of effective internal communication experienced a +26 percent total return to shareholders from 1998 to 2002, compared to a -15 percent return experienced by firms that communicated least effectively.

Still the full potential of internal communication would appear to be largely unappreciated and untapped by a majority of UK organisations. The belief that better internal communication can deliver significant business value has been slow to capture the corporate imagination. British management has consistently neglected internal communication with employees although consultants often advocate it as a cure for low morale, high absenteeism, and high labour turnover levels (Townley, 1994). According to Burke (1999) many organisations do not pay adequate attention to communication when planning and implementing change. And Buchanan et al (1999) report similar widespread concern over the quality and effectiveness of organisational communication among managers.

Although regular internal communication with employees is generally considered as a 'good thing to do', the true business value of such activity is less clear and not easily demonstrated in practice. To this day the internal communication function remains a poor relation to its wealthier external cousins in marketing and public relations. But why should this be so? Surely, if people are deemed to be a business' greatest asset, why do so many companies fail to invest in and develop effective internal communication strategies with their staff?

Why has the value of internal communication been so overlooked within the corporate environment? For the simple reason that to all intents and purposes, communication is management.

Kotter's landmark study (1982) on the day-to-day behaviour of business managers challenged traditional preconceptions that executives spent most of their time in high-powered meetings



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planning and strategising for the longer term. Fundamentally, Kotter credibly advanced the notion that the business of management is all about effective communication. If this is generally acknowledged to be the truth, surely it follows that there is real value in structured internal communication activities? Unfortunately this would still not seem to be the case in most businesses today.

Most managers assume that they are reasonable communicators and of course, they communicate endlessly each day. Ironically communication at work is such an implicit behaviour that its strategic importance to business success usually 'goes without saying'.

Mintzberg (1973) demonstrated the ad hoc style of interpersonal communication in the corporate organisation. His study found that half the human interactions engaged in by managers lasted less than nine minutes. Less than 10% exceeded one hour and most contacts were unplanned and highly ubiquitous in nature. According to another study by Stewart (1967) in which 160 British managers kept diary records of their daily activities, the ability to work uninterrupted for 30 minutes or more, occurred only once every two days.

Numerous leadership studies, such as the work of Sims and Lorenzi (1992), reaffirm the reality that managers in today's business organisation are required to develop a growing armoury of communication tools in order to bring meaning to increasingly complex business objectives. Sharing a common vision for the business and building a focus behind which all employees can move forward together requires a more enlightened use of organisational communication.

So what is Internal Communication?

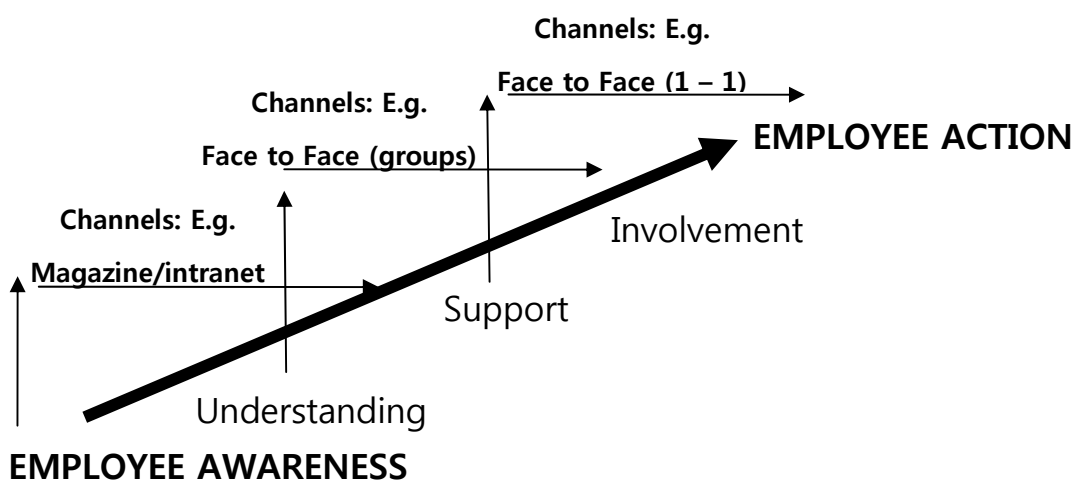
The traditional definition of internal communication is the act of imparting the wider business picture to all or a specific part of an organisation’s employees from the top down. A more contemporary perspective defines internal communication as a bilateral exchange of information, ideas and feelings that generates positive dialogue and action throughout organisational ranks.

Above all, internal communication activities focus on better informing and engaging an organisation’s workforce. The way in which such news and information is received, discussed and acted upon by employees will ultimately have a positive or negative influence on business performance. Employees that feel better informed about their organisation become more personally involved in the business generating higher quality work. In fact, as well as higher quality, Clappitt & Downs (1993) identify the business benefits of internal communication as being improved productivity; reduced absenteeism; increased levels of innovation; fewer strikes and reduced costs.

In practice employees do not receive their information in the same way. Individuals are different so a balanced suite of communication channels is required to best serve the broad needs of an entire organisation. These channels can be incredibly diverse. A ACAS advisory booklet on Employee Communications and Consultation (2004) identifies 15 general communication methods. These range from direct, spoken channels such as cascade team briefing systems, conferences and management roadshows, through to indirect, written or audio-visual methods such as staff magazines, intranets and DVDs. Like any operational process internal communication channels are numerous and highly dynamic. They vary depending on the shape and culture of the organisation.

The concept of the ‘communication escalator’ (Quirke, 1995) demonstrates the role a balanced range of internal communication channels have to play in developing employee awareness. Working together these channels can influence employee action in the form of positive behavioural change.

Figure 1: The Communication Escalator

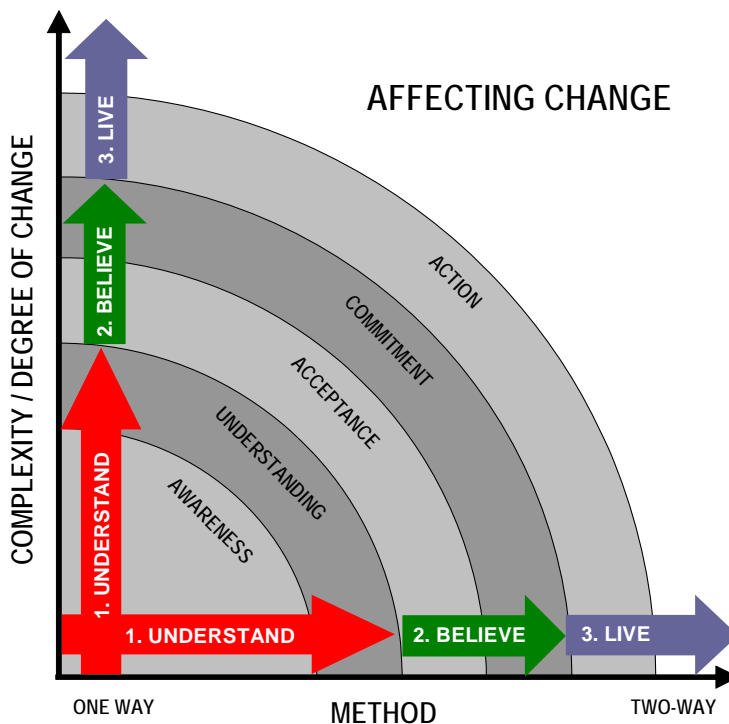


Adapted from Quirke (1995)

Different communication mechanisms achieve different objectives. Communication channels such as staff newsletters and intranet sites inform and reinforce - helping to build awareness of important business news and information. However they do not change people's behaviour in their own right. Quirke maintains that to truly engage employees to a level that they change their behaviour, requires a more comprehensive mix of communication mediums. The emphasis is much more on closer communication acts such as frequent one-to-one meetings with line managers or talkback sessions that encourage group debate and buy-in.

Agertoft (2004) further develops Quirke's escalator concept by asserting that the greater the change needed within an organisation will determine the extent of communication activity of this kind. Significant changes require greater two-way communication methods in order to encourage people to truly understand, believe and live them.

Figure 2: Affecting Change model



Agertoft (2004)

Werner (1995) describes internal communication as a discrete and continuing task at every level within an organisation. Two concepts underlie the understanding and effective use of communication. He argues that everyone from new recruits to the most senior director has a role to play in what he terms 'the communication network' of an organisation. And that above all communication is a continuous function to be directed consciously. Within the context of this study, internal communication is seen as the operational function that exists to consciously facilitate and encourage an organisation's entire 'communication network'.

The knowledge economy

The internal communication function has grown in importance in the post-war period for a collection of reasons. The external factors that have influenced this growth are shown in the PESTLE analysis and discussed briefly below.

Political	Economic	Social
- End of Cold War & relative global stability	- Globalisation & new markets	- More diverse & better educated workforces
- Greater democracy	- Higher general standard of living	- Demise of institutional class systems
- Growth of the corporation	- Growth of consumerism & hypercompetition	- Greater freedom of information
Technological	Legal	Environmental
- Growth of PC, telecoms, online, CMS & wireless technologies	- Increased rights of the individual	- Awareness of climate change & pollution controls
- Growth in travel	- Greater control of corporations	- Growth in corporate social responsibility
- Advent of the Internet	- Increasingly litigious cultures	- Increases in safer working practices

On a macro level, the wider business landscape continues to change radically. Companies operate in a fiercely competitive environment that is more global and more interdependent than at any time in history. Information flows more freely and significantly quicker than it did even less than two years ago. These simple factors have given rise to a new basis of competition. In the UK an industrial and manufacturing-led economy has been overtaken by one that is predominantly service and knowledge-led. New market opportunities can be created literally overnight and killer technologies can collapse existing markets almost as quickly. Adaptation to rapidly changing business conditions is a key activity for companies. This requires learning organisations that are more responsive to and acceptant of change than ever before.

The impact of globalisation has generated new markets and in many cases lowered the barriers to entry. Successful organisations can only remain dependent on existing resources and a single strategic position for so long. In this new global economy organisations are shifting to more knowledge-based forms of competition. As Handy (1994) observes:

“Organisations and individuals everywhere are waking up to the fact that their ultimate security lies more in their brains than in their land or their buildings...Focused intelligence, the ability to acquire and apply knowledge and know-how, is the new source of wealth’.



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Such a strategic outlook requires the nurturing of human knowledge resources in order to continually innovate. Intellectual capital cannot be locked in a secret vault with restricted access for a few very senior executives. Information has to be shared more freely than ever across entire organisations. Pooling knowledge enables greater product and service improvement. This in turn aids an organisation's commercial response to an increasing state of what Eisenhardt & Sull (2001) term 'hypercompetition'.

Hypercompetition has been created by the growing expectations of customers and consumers for high quality and low cost simultaneously. Less than two decades ago Porter (1987) implored organisations to adopt a strategy of differentiation and not get 'caught in the middle' between low cost or quality strategies. But no longer are these ends of the competitive spectrum mutually exclusive.

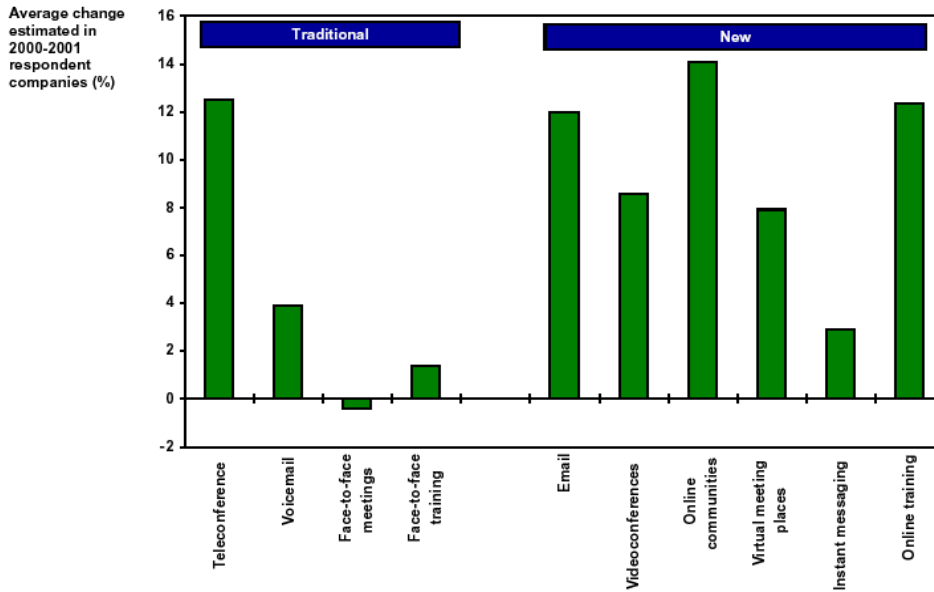
Customers increasingly demand both at the same time. And, if one supplier in one geographic location cannot provide an adequate product or service, it is not long before a competitor (often trading on the other side of the world) will. To survive organisations are naturally compelled to find better ways of doing things through increased knowledge gathering and sharing. A key part of this process is the way organisations communicate internally to involve and engage their people in addressing such challenges. Analysis of the current communications market substantiates these general economic trends.

According to Global Industry Analysts Inc. (2004), worldwide communications industry spending is expected to increase from US\$1,066.5 billion to US\$2,049.1 billion in 2005. This represents a compound annual growth rate of 11.5 per cent. The same source also forecasts that the specialist communications industry – which includes employee communications – is growing at an average annual growth rate of more than 9% in the UK, 10% in the USA, 27% in France, 16% in Germany, and 12% in the rest of the world.

A quiet revolution is slowly starting to take place in many companies, as they continue to embed online communication technologies throughout their organisation. This revolution is not directed solely toward customers to increase sales, it is also geared inwardly to reduce costs and increase productivity. The growth of new technologies has demanded a re-evaluation of internal communication strategies.

While many new modes of communication have not yet started to significantly replace traditional methods of communicating, it is clear that the future is about integrating traditional channels such as employee publications and face-to-face meetings with new channels such as online communities, collaboration tools, information portals and eLearning.

Figure 3: Company Communication Trends (1)



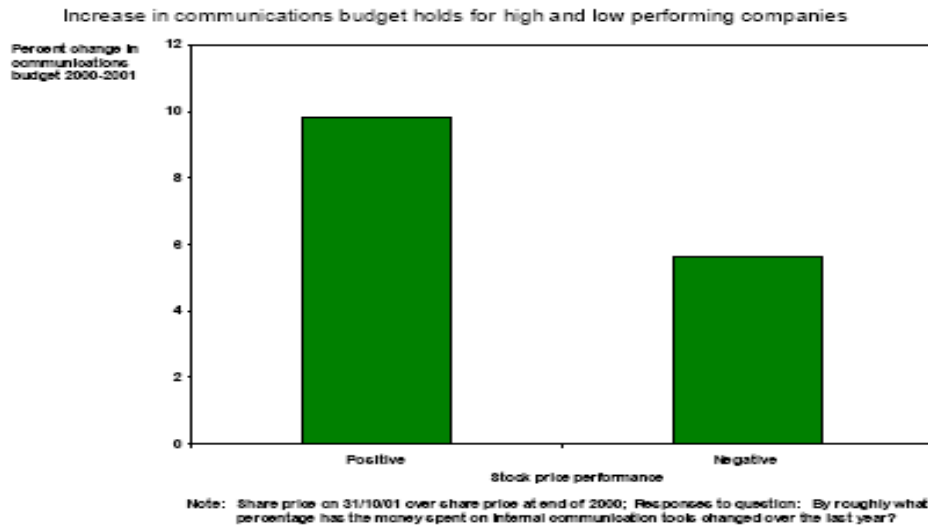
Note: Responses to question: By roughly what percentage has your company's reliance upon each of the following communications tools changed over the past year?

(Survey by Boston Consulting Group - 2004)

The chart above illustrates the growing importance of electronic and other new media communications methods to the communication strategies of corporate organisations. While the companies surveyed observed a growth in e-mail, online communities and training as key communication tools, they also witnessed a reduction in traditional reliance on face-to-face meetings.

The chart on the next page (from the same report) also illustrates the fact that companies are continuing to increase spending on internal communication functions despite poor financial performance, as it is seen as a method of increasing productivity among the workforce. This would seem to indicate that internal communication is perceived as an increasingly strategic function of the modern organisation.

Figure 4: Company Communication Trends (2)

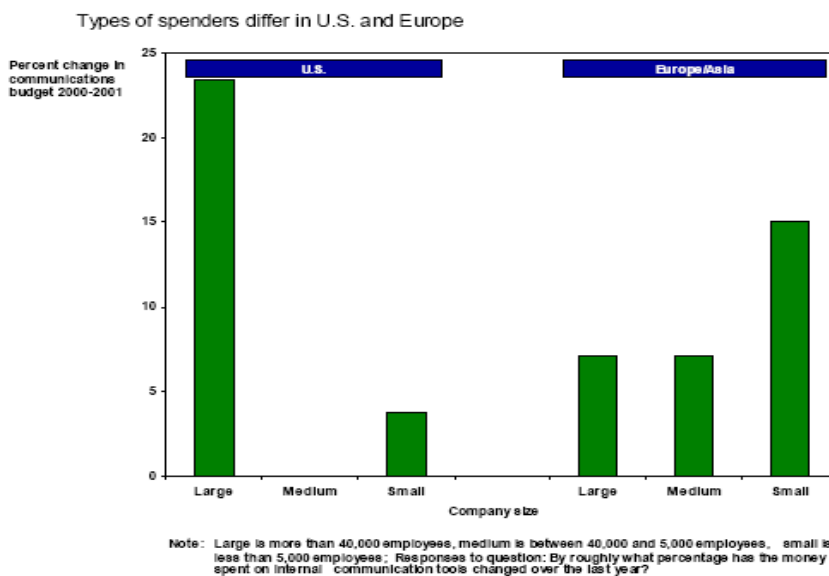


(Survey by Boston Consulting Group - 2004)

There are also some important differences in spending patterns between large and small companies in Europe, USA and Asia. In the United States large companies are, on average, increasing their spending on new communications solutions while medium and small companies have kept their spending flat. In Europe and Asia, the data is different. Small companies (less than 5,000 employees) are increasing their spending the most. More important to this study is that the results above reinforce the general notion that modern organisations of all sizes are increasingly looking to internal communication as a valuable means of improving operational performance.

Figure 5: Company Communication Trends (3)

(Survey by Boston Consulting Group - 2004)





A changing workplace

Technological innovation has undoubtedly redefined the modern workplace. Fifteen years ago e-mail was non-existent, now it is the cornerstone of daily operational communication in most modern organisations. And as a result, today's workforce consumes its information in new ways. Employees are more conversant than ever with online formats and virtual communication mediums.

The falling cost of communications coupled with the ongoing increase in technological sophistication has led to what is termed 'the death of distance' (Huczynski & Buchanan, 2001). As organisations operate more globally, one of their biggest challenges is to communicate effectively to culturally diverse workforces. Better standards of living combined with advancements in science and technology has produced increasingly educated and independent workforces. Increased regulation in the workplace, particularly after World War Two, has given the individual more rights and more flexibility in the way employment is undertaken.

In March 2005 the European Information and Consultation Directive will come into force for all organisations in the EU employing 150 people or more. This new law will, for the first time in the UK, require organisations to consult with and inform employees on a wide range of business and organisational topics. For many issues consultation must take place 'with a view to reaching agreement'. Heavy financial penalties await those organisations that do not comply.

Everyday working patterns are also changing. The typical 40-hour working week from Monday to Friday is becoming less and less common. Research from the Department of Trade and Industry (Huczynski & Buchanan, 2001) revealed that by 1996 17% of all EU workers were part-time. One in seven EU workers worked at night. And one in four workers in the UK worked from home. Another study (Huws, 1999) estimated that there were more than two million 'teleworkers' in the UK.

A blurring of the lines between home life and professional career has been evident in the post war era. Because people are not fundamentally rational creatures they do not set aside normal human needs during working hours. Traditional mechanistic organisational forms that separate employees' behavioural and cognitive sides from their emotional one are outmoded.

Hargie & Tourish (2000) confirm that effective communication promotes organisational cohesion and positive performance because of the very fact it interacts with employees' basic motivational impulses. Ultimately, organisations have to engage their rather more remote and independent workforces by tapping into what they really want to know.

Arnott (1987) asserts that employees are interested in six basic questions. These questions fall into two categories: 'What's in it for me?' (WIITFME) and 'What's in it for us?' (WIIFU). Arnott maintains that many communication activities in today's organisation fail because they only address the WIIFU-related questions thereby neglecting the all-important personal dimension.

Part One	Part Two
What's my job?	How are we doing?
How am I doing?	How do we fit into the whole?
Does anybody give a damn?	How can I help?

As organisations attempt to stay ahead of the game, they have to change. But most efforts at strategic change fail. Fewer than 50% of the top Fortune 1,000 companies (in the USA) have succeeded in implementing strategic change. And, in many instances, the chief executives cite poor communication as the reason for the failure (Lyons, 2003). Managing a continual process of change is primarily a matter of managing communication with individuals across an organisation. It would seem that the free-flow of information is a precondition for commercial success.

Research has found that in many cases it is the way in which change is introduced rather than the content of the change that turns employees off (Turnbull and Wass, 1998). Adeptly managing what Argyris (1960) terms the 'psychological contract' with employees is a concept that modern organisations are increasingly aware of. Argyris' concept dictates that both employee and employer have a set of beliefs and expectations that they require from each other. These form the basis of a psychological contract. For example, an employee may expect job security, reward and recognition. If the 'psychological contract' is seen to be honoured then this leads to greater employee satisfaction, motivation and performance. However, if the contract is perceived to be broken the consequences may well be poorer quality work, lower morale and increased staff turnover.

In today's knowledge economy, learning organisations battle fiercely to retain their top talent. By providing quality information to employees that addresses Arnott's basic WIIFME questions, and by encouraging opportunity for individual feedback, internal communication has a pivotal role to play in preserving and managing the 'psychological contract'. While conversely, a lack of communication and consultation will help to generate significant resistance in any organisation.

A new role for IC

A recent *Sunday Times* 50 Best Companies (Walker, 2004) all identified good internal communication as part of their winning work environment. These companies were able to return a 3.6% revenue growth compared to a 15% decline in the FTSE overall. A growing change in the role and use of internal communication has been evident in recent years. A growing distinction can now be made between the traditional role of internal communication activity and a more modernist perspective.

Traditionally internal communication was about 'one way' traffic of management conclusions. Corporate strategy decided by the top of an organisation was converted into identifiable and consistent messages that were then distributed via various communication channels to those below. However, in the knowledge economy organisations are increasingly looking to unlock the power of their people through greater two-way involvement and participation. This general movement towards a more participative style of management has generated a whole set of communication objectives (Quirke, 2002) for the modern learning organisation:



- The stimulation of thinking, participation and ideas
- The networking of 'know how' and learning across the organisation
- The involvement of all employees in improving processes
- The identification of ways of providing additional value to customers
- The expansion of what all employees believe is possible

Nichols and Stevens (1957) conducted research which demonstrated that the average listener will remember only approximately 25% of what is actually spoken. Although managers might be able to talk, this doesn't necessarily hold true that they communicate effectively. Nichols and Stevens argued that communication is much more about effective listening than it is about speaking. On a corporate level organisations are also slowly realising that the business of internal communication is more about listening than it is about talking. Ultimately this means that there is a greater need for a coordinated internal communication function than ever before. Quirke (1995) summarises this apparent change in the following way:

“The role of communication becomes not the top down dissemination of management thinking, but the bottom up means of connecting those who know what needs to change to those who have the authority to make change happen.”

This idea is aligned to Gibb's concept of an 'open communication climate' (1961). In an open communication climate, Gibb maintains that employees develop a sense of self-worth. They feel they can contribute freely without reprisal and know that their suggestions for improvement will be welcomed by senior management. Equally, their mistakes will be regarded as learning opportunities. Overall they will feel trusted and secure in both their job and the wider organisation.

The internal communication professional's role is no longer to communicate solely for and on behalf of an organisation's top management. Communications professionals are not 'spokespeople' imparting the correct corporate messages to the workforce with occasional amounts of 'political spin'. Indeed quite the reverse applies. The art of good internal communication practice is to facilitate healthy and productive two-way communication across all levels of an organisation.

In defining this new role and purpose for internal communication a key feature is 'facilitation'. To varying degrees the responsibility for imparting information is a universal one. However, as specialists in this particular field, internal communication professionals exist to 'facilitate' the necessary conditions and apparatus within an organisation to help it communicate better in order to succeed.

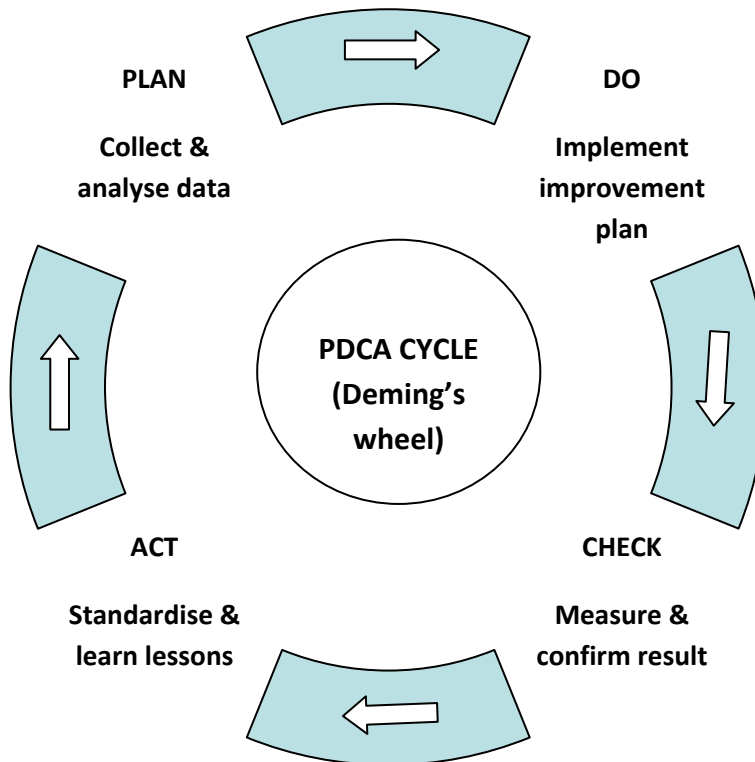
People power: TQM

'Quality of operations' is arguably the most important single factor affecting an organisation's performance relative to its competitors. The concept and value of 'employee participation' is not new and has been found to significantly improve the quality, and therefore performance of operations in all types of organisation.

The concept of Total Quality Management was first introduced by Feigenbaum in 1957. During the 1950s Deming also advanced a similar ethos with his '14 points for quality improvement'. This idea rested on the contention that quality and productivity increase as process variability decreases. Deming saw quality improvement as a never-ending process involving repeated questioning and re-examination of operational tasks to extract more and more efficiency. His idea led to the PDCA cycle

(or Deming Wheel) of continuous improvement as illustrated above (1986). This workplace philosophy is known in Japan as 'Kaizen'. Kaizen hinges on the general acceptance by the workforce that the PDCA cycle never stops and that improvement is part of every person's job.

Figure 6: The Deming Wheel



Deming (1986)

Imai (1986) draws a radical distinction between perceptions of job functions in Japanese companies and those of their Western counterparts. In Japan, business improvement is part of every employee's responsibilities – whether this is radical innovation or kaizen. Western organisations, argues Imai, expect rather less of their lower level employees who are concerned with maintaining the existing status quo. Consequently, constant interactivity among research, design, production and sales functions at all levels remains rather more undeveloped and culturally restricted in western organisations. Matsushita Electric founder, Konosuke Matsushita (1985), famously identifies this contrast in perspectives:

“We are going to win and the industrialised West is going to lose out. There is nothing you can do about it because the reasons for your failure are within yourselves. With your bosses doing the thinking while the workers wield the screwdrivers, you are convinced deep down that this is the right way to do business.

“For you the essence of management is getting the ideas out of the heads of bosses and into the hands of labour. For us the core of management is the art of mobilising and putting together the intellectual resources of all employees in the service of the firm.”

Figure 7: Japanese perspectives of job functions

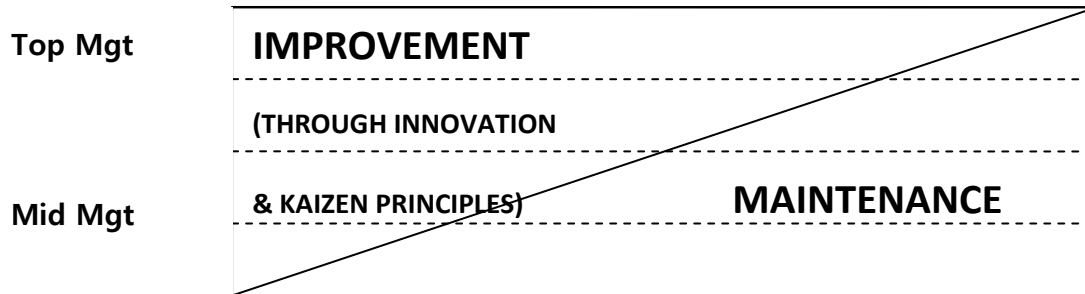
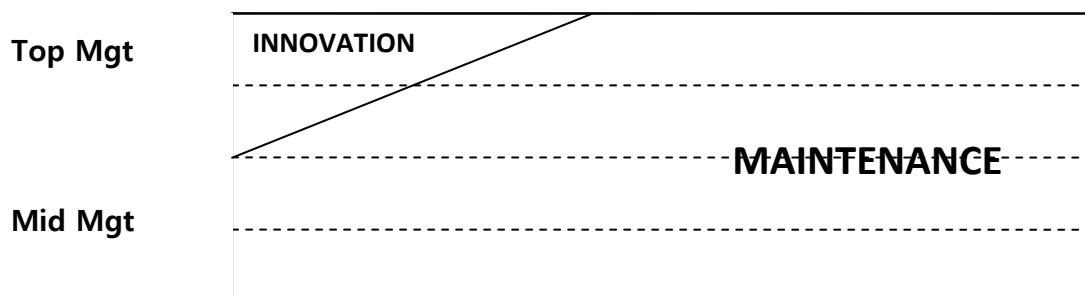


Figure 8: Western perspectives of job functions



(Imai, 1986).

The economic revival of Japan after World War Two is widely attributed to superior quality operations that embraced TQM concepts and the overall philosophy of continuous improvement. Many western organisations have yet to instill a similar ethos across their operations. This general observation presents a clue as to why the role of internal communication is so under-developed in many UK organisations.

An equally important aspect to emerge from TQM that impacts internal communication is the principle of the ‘internal customer and supplier’. Keeping employees abreast of organisational news and information is one part of maintaining these internal relationships in order to sustain and improve quality levels. From a communication perspective the concept of the ‘internal customer’ is closely aligned with the earlier idea of the ‘psychological contract’ between employer and employee. Striving for a more ‘open communication climate’ within an organisation is fundamental in generating the necessary commitment among employees to drive better business performance. Ishikawa (1985) and Taguchi & Clausing (1990) both emphasise the key importance of regular interactivity between managers and workers in order to make TQM successful.

The significance of effective internal communication activities in facilitating TQM becomes clear as Muhlemann et al (1992) observe:

“For an organisation to be truly effective, every single part of it, each department, each activity, and each person, and each level, must work properly together, because every person and every activity affects and in turn is affected by others.”



Customer focus

Most companies today are executing some form of 'customer focused' strategy (in line with TQM principles) essentially aimed at getting all employees to appreciate and improve service quality from the customer's point of view. Excellence in customer service can differentiate a company from its competitors. Hutton (1996) calls this a 'culture to customer' philosophy. Many other organisations have adopted the same basic philosophy but by a different name. Bowen et al (1999) found that small increases in customer retention lead to large increases in profitability. In some cases it was found that five per cent increases in customer retention had led to 75-100% increases in profitability.

Internal communication has a significant part to play – particularly in service industries - in this value generating activity by connecting employees with their customers. Ryder (1998) advanced the theory that customer loyalty rests on innumerable communicative episodes which have been termed 'Moments of Truth'. The quality of each contact is dependant upon the attitude and ability of the employee that the customer interaction takes place with. A significant testament to the power of Ryder's 'Moments of Truth' concept is the case of US retailer Sears Roebuck (Rucci et al 1998). Throughout the 1990s, Sears demonstrated a significant correlation between employee satisfaction and customer satisfaction [see *The Sears Case Study* below].

The Sears Case study:

Having suffered from a decade long business downturn, the Sears Roebuck company redesigned its business model around what it termed the 'employee-customer-profit chain'. This long established US retailer overcame the chief problem of measurement by developing a process of data collection, analysis, modeling and experimentation around a series of Total Performance Indicators (TPI). These TPI metrics were placed at the centre of the business operation and were used to show how well the company was doing with its customers, employees and investors.

The model used a methodology known as 'causal pathway modeling'. This technique is distinct from regression analysis because it establishes causation in addition to correlation. Specific soft data measures of employee attitudes were shown, through cluster and factor analysis, to link to employee retention. Sears looked at how employee retention influenced the drivers of customer satisfaction and in turn how customer satisfaction impacted financial performance. The company also calculated the lag time between a change in one variable and its impact on another.

Rucci was able to confidently assert that Sears could tell how and when a shift in employee attitudes would affect the company's financial results. For example the company believed a five point increase in employee attitude turns into a 1.3 unit increase in customer positivity and in turn to a 0.5 per cent revenue growth. In practical terms if the company knew nothing about a store other than its employees' attitude scores had increased by five points, it could effectively plan that in a region of Sears' stores where revenue growth as a whole was 5%, revenue growth in that particular store was likely to be 5.5%. These measures were treated with as much financial rigour as the company's regular financials and were audited externally each year.

Key factors

The system was successful because of two underlying factors. The first was that the Sears' business operation was totally aligned to the model and managed through it. Critically, leadership across the company unanimously bought into the system and made it the foundation for managerial decision-making. Much of this buy-in can be attributed to the prevailing economic situation that Sears found itself in at the time. During the 1980s the company had diversified into insurance, financial services and property. Sears lacked any real



strategic focus. The year 1992 was the worst in the company's 111 year history. It made a \$3.9 billion loss - \$3 billion of which was from the merchandising group. In Rucci's words, Arthur Martinez did not need to invent a crisis to get his managers' attentions.

It took more than two years of off-site management meetings and the creation of five distinct task forces to eventually produce the employee-customer-profit chain model. However, the important outcome here was that it was the whole senior management group's idea (between 100 to 200 people). Through collective invention, everyone owned the eventual econometric model.

The second factor that made the system successful was the degree to which the system was implemented throughout the company. All staff had to understand the purpose of the system, trust it and ultimately own it. This meant Sears' employees had to have what CEO Martinez called an 'economic literacy' of the company. Instilling such understanding across a workforce of 32,000 people was more than a mere communication exercise from the top-down. It involved the full education and engagement of the workforce through changes to existing communication, development and reward structures. First, misconceptions had to be broken down in order to engender trust. For example, when quizzed as to how much profit employees thought the company made from every dollar, the median response was 45 cents. The reality was two cents in every dollar.

Sears engaged its workforce through a programme of 'town hall meetings' combined with prior 'learning map' discussions to stimulate appropriate levels of economic literacy that was cascaded throughout the organisation. These local face-to-face group meetings were held regularly and involved all employees in the action-planning process. Improvement suggestions were encouraged from all employees with the emphasis on implementing as many as possible as quickly as possible.

Implementation of the employee-customer-profit chain also involved changing leadership behaviour across the company. All of Sears' 19,000 managers underwent regular 360-degree reviews with their superiors, peers and subordinates. Recruitment and development policies were tied to 12 criteria inherent in a new leadership model. A Sears University was established to train managers in each aspect of the new leadership model, which was closely aligned by meeting the Total Performance Indicators (TPIs).

Then in 1996 Sears took another radical but essential step of basing all long-term incentives for senior management on the TPIs of the employee-customer-profit chain model. Approximately one third of executive compensation was dependent on traditional investor measures and the other two thirds on non-financial employee and customer measures. This was followed by the linking of all field managers' pay to improvements in customer satisfaction and the piloting of similarly linked incentives for sales associates on the shop floor.

Arguably the employee-customer-profit chain did more to provide general clarity and direction than it did to supply the company with a clear competitive advantage. The company had its back to the wall. Sears was in such a bad way by 1992 that any change (especially a clearly focused 'back to basics' strategy) would have helped its situation.

Additionally, when Martinez was appointed to head up the merchandising group in 1992, he instigated a dramatic turnaround long before the employee-customer-profit chain was implemented. All non-retail businesses were divested. Some 113 stores were closed in an effort to move away from Mall-based store operations. The marketing strategy was now aimed primarily at women. The company's entire service strategy was revamped to support this new sales direction.

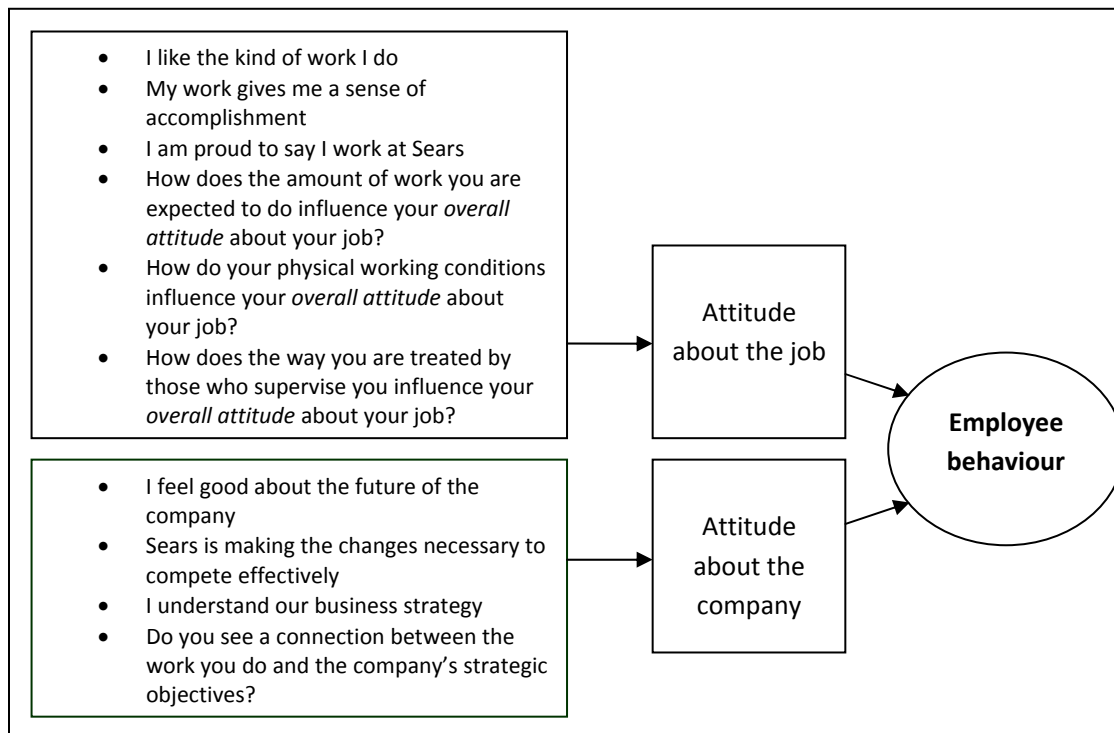
Framework for change

For Sears Roebuck, the employee-customer-profit chain enabled it to gain a realistic grasp of what its customers and employees actually thought and did. It was by no means a perfect system but provided reliable information for more informed managerial decision-making where there had been none before. The model set in place a broader framework for behavioural change. Essentially, the institution of the model allowed the

momentum of Martinez' early strategic revival to be maintained.

In 1996 where independent surveys were showing a fall in national retail customer satisfaction, Sears employee and customer satisfaction measures had both risen by 4%. If the figures are correct, management using the employee-customer-profit model had translated into more than \$200 million in additional revenue for Sears over that 12 month period alone.

Figure 9: Sears: A Compelling Place to Work



The Sears model involved investment and structural change in many areas on a significant scale. In many ways it was the right approach for that organisation at that specific point. However, the fact remains that better internal communication between senior management, employees and customers was a major thrust of Sears change programme.

Fundamentally, Rucci's study demonstrates that an employee's ability to see the connection between their work and the company's strategic objectives is a key driver of positive behaviour. From a 70-question employee survey, two dimensions of employee satisfaction – attitude to the job and toward the company (constituting ten questions) – had a far greater impact on employee loyalty and behaviour toward customers than all the other dimensions put together. Without employee commitment from the top down it would not have worked. Making the link between employee and customer was reasonably intuitive and straightforward for a business in the retailing industry. Arguably it is much harder to make this connection in other commercial enterprises where employees' day-to-day operations are less customer-facing.

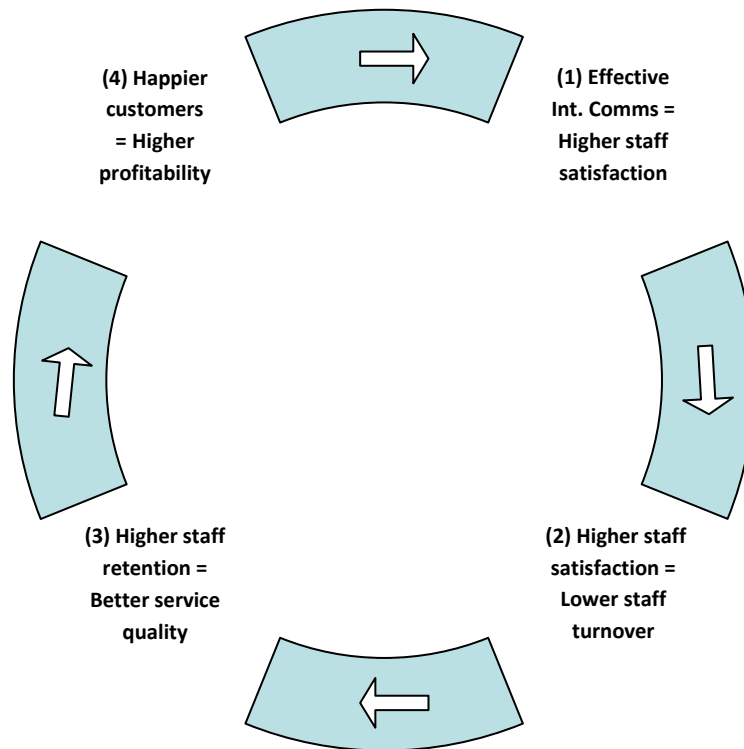
However, the Sears case demonstrates that employee satisfaction within a large scale organisation can be statistically linked to improving outward business performance. As internal communication has such a large part to play in the engagement levels of employees, the Sears example reinforces a

credible causal relationship between effective internal communication activity and its influence on a business' bottom-line results.

Demonstrating value

As with any operational process internal communication must be measured, not only as the saying goes to be managed, but also for the exact nature of its business value to be recognised. But with communication, hard measures are difficult to come by. Its very intangibility would appear to be its greatest downfall. The traditional gauge for measuring internal communication performance has been the employee survey and the relationship between employee satisfaction and customer satisfaction. The 'virtuous circle' principle shown below has come to be the definitive way of demonstrating the overall benefit of 'doing' internal communication.

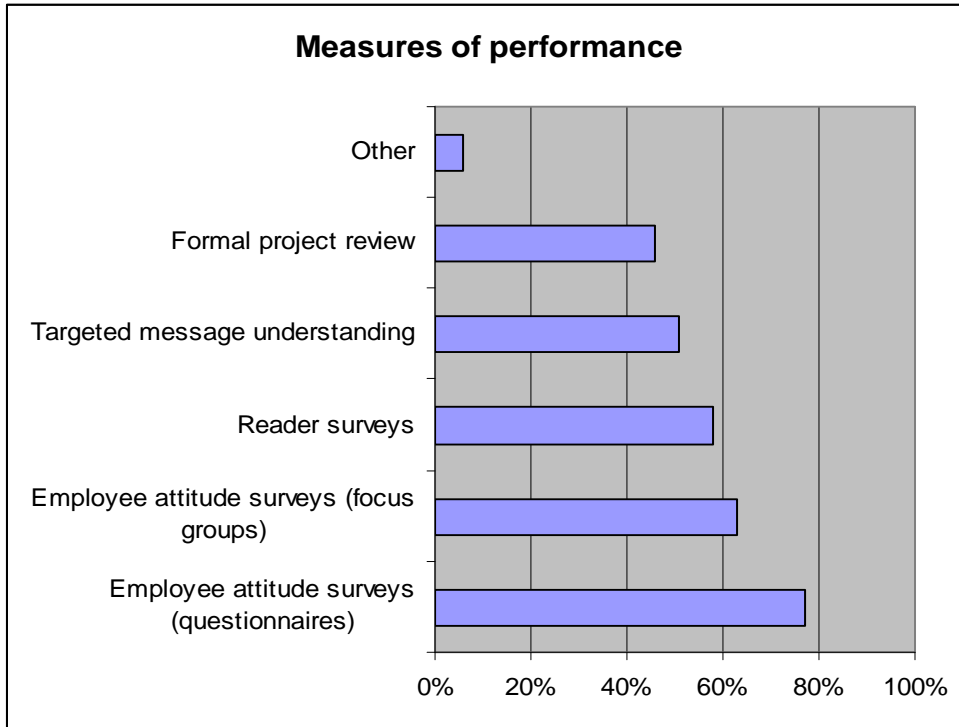
Figure 10: The Virtuous Circle of Internal Communication



For most organisations the scope and scale of the Sears employee-customer-profit chain initiative is far beyond their practical needs. Equally important to this debate, is that the Sears case also demonstrated how a direct causal link between communication effectiveness and the bottom-line is a long, costly and often tortuous exercise.

Making a credible, measurable link to the bottom-line is more the exception than the rule for internal communication teams in most UK organisations. Most often internal communication is viewed as a support function. Its very existence depends more on whether senior management view it as an acceptable overhead than as a uniquely positioned strategic resource. Committing revenue of significant scale to measuring communication performance is rare. Invariably, the intent to measure internal communication performance is there but it is overtaken by more pressing business priorities. As a consequence, the 'virtuous circle' principle remains a common sense way of

demonstrating the theoretical value of internal communication activity. This observation is reinforced by Gatley & Clutterbuck’s study of 100 UK organisations (1996) below:



Note: Response to ‘Do you use regularly any of the following measurement methods to assess the success of internal communication activities?’ (Gatley & Clutterbuck, 1996)

Employee surveys

The style, scope and purpose of employee surveys vary enormously throughout the literature. As an instrument to measure communication performance, Roberts & O’Reilly (1973) suggest the Organisational Communication Scale (OCS). This survey consists of 35 Likert scale questions, which can be used to compare dimensions of communication within organisations and as a benchmarking tool across wider industries. Similarly, Downs & Hazen (1977) put forward the Communications Satisfaction Questionnaire (CSQ) – a 40-question survey that measures eight key communication factors. And Goldhaber (1976) promotes the Internal Communication Audit (ICA). This survey consists of some 122 questions that make up eight major sections. Using a similar scaling format to Roberts & O’Reilly, the principle of the ICA is to match information needs in an organisation to information actually required. Each instrument entails sound surveying methods but ultimately employee surveys limit the way forward for internal communication. Quirke (1995) questions whether it is actually right for internal communication to start from the basis of what information employees feel they need or how happy employees feel they are as both measures are highly subjective. The real starting point is more what information the organisation needs employees to know and understand in order to fulfil their roles more effectively.

Technically, much of the challenge with tracking communication performance and value is that communication itself is a process and not a static variable, which makes it extremely difficult to measure accurately. Behavioural observations are often impossible to make with any real validity



and self reporting forms (like employee surveys) are usually phrased ambiguously and in a way that they only take a snapshot of the ongoing process at any one time. The employee survey is effectively a rather blunt instrument in measuring communication performance and value in real time. The speed of change in today's marketplace often means that the findings of an employee survey (traditionally commissioned every one or two years) are outdated because external markets, internal business strategies and individual job roles have moved on.

Consequently, if employee surveys are accepted to be the common way of measuring internal communication performance the business function of internal communication will continue to be dictated predominantly by how improved employee attitude scores are. But employee satisfaction is dictated by a wider and more complex set of workplace issues than merely communication quality alone. And as a demonstrator of actual business value the link employee surveys establish between employee satisfaction, customer satisfaction and profitability is arguably too indirect and too cumbersome to be used on its own. This general over-reliance on employee survey scores as a broad indicator of communication performance and value is restricting the development of the function in most UK organisations.

Targeted opportunities to show value

Employee surveys are a long term solution to a short term need. Increasingly communication professionals are going to have to measure their activities and demonstrate their value in terms of more quantifiable realities and not just generally acknowledged perceptions. Today's internal communication practitioner needs 'quick and dirty' ways of demonstrating visible business value within the organisation. The real problem facing internal communication professionals is how they go about achieving this.

To demonstrate the tangible value of internal communication activity to other managers in their organisation in as credible a way as possible is no easy accomplishment for such an intangible phenomenon. It is here where internal communicators can learn from other business disciplines. Like any other business manager, demonstrating value involves seeking opportunities to align operational activity with hard, measurable business outputs. Only when this kind of measurement is undertaken regularly and with clear, analytical rigour will internal communication begin to attain a more equal status with other operational counterparts.

Quirke (2001) asserts that internal communication is most valuable when a connection is made with the organisation's specific business challenges. Demonstrating this link in tangible, valid ways has become the internal communicator's equivalent of the Holy Grail. Indeed Gatley & Clutterbuck (1996) confirm:

"Internal communication professionals need to work towards continuous improvement in their own right, as well as being facilitators of others improvement initiatives. In this sense, measuring and monitoring the results of internal communications activities is not an option but an essential – and doubly so...The hunt is on to identify and develop better measures which can be applied to internal communication processes."

A robust, measurable approach to communication performance is the way forward for internal communication functions. Not unsurprisingly, the literature on how to achieve such an approach is limited. Walker (2004) believes that the conundrum of demonstrating the value of internal communication resides at the practical level. For example, an internal communication campaign to



www.44communications.co.uk

promote increased company-wide awareness of a health and safety message should be valued on the outward result in terms of a lower accident rates. Emphasis on quality should reduce errors and faulty goods or services. Messages about improving customer response times should be linked to increases in customer satisfaction levels.

The challenge facing today's internal communicators is how to connect their activities with more robust business outputs such as sales, safety, productivity and quality. Monitoring and reporting tangible performance data of this kind will enhance an organisation's understanding of internal communication's value.

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