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Companies that continue to take a tactical, short-term approach to communicating with key constituencies will find it increasingly difficult to compete. Developing an integrated, strategic approach to communications will be critical to success.

Paul A. Argenti, Robert A. Howell and Karen A. Beck

The link between strategy and its implementation has always been tenuous. Top consulting companies have employed countless MBAs to develop strategy for their clients. Academics at top business schools have spent their careers developing frameworks explaining how to develop better strategies for top companies. However, only a handful of academics and a cadre of tactical consultants, primarily at public relations companies, have struggled with strategy implementation in the area where it matters most: its communication to a set of varied constituents.

Many companies take a tactical, short-term approach to communicating with key constituencies, which is not only nonstrategic but may be inconsistent with the corporate strategy or even impede it. Exxon Corp.'s decision in 1989 to remain silent for days after the Exxon Valdez ran aground in Alaska's Prince William Sound, AT&T Corp.'s decision to permanently lay off 40,000 employees on the first business day of 1996, a CFO's decision to avoid notifying senior managers about a downgrade of the company's stock by a major investment bank and, more recently, Merck & Co. Inc.'s decision to wait until pressured to pull Vioxx, its arthritis and acute pain medication, from the market are all examples of communications being used tactically as part of a short-term legal or financial orientation. However, the dearth of both academic and practitioner emphasis on the strategic nature of communications, coupled with recent legal and regulatory responses to corporate scandals (such as enactment of Regulation Fair Disclosure and the Sarbanes-Oxley Act of 2002), has created a strategic communication imperative — an increasingly urgent need for executives to ensure that their communications practices contribute directly to corporate strategy implementation.

We define strategic communication as *communication aligned with the company's overall strategy, to enhance its strategic positioning.* (See "The Framework for Strategic Communication," p. 85.) Over the past year, we conducted primary research into strategic communication, conducting more than 50 interviews with CEOs, CFOs, heads of corporate communications and investor relations, and others from a dozen companies representing different industries, market capitalizations and approaches to organizing their communications efforts. To research the concept that strategic communication is inextricably linked to corporate strategy, we asked these executives about their communications strategies and tactics.

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The research not only indicates the drivers, best practices and lessons of strategic communication, but it also suggests that when companies take a strategic approach to communication, communication becomes integral to the formulation and implementation of strategy. (See "About the Research.")

We found that the companies most likely to recognize the strategic communication imperative are those in which the CEO has an inherent understanding of how communication can be a differentiator for a business and thus can drive strategy. Executives at PepsiCo Inc. and Dell Inc., for example, are keenly aware of the need for a strategic approach to communications. Dell chairman Michael Dell says, "I communicate to customers, groups of employees and others, while working on a strategy. A key part of strategy is communicating it. Communications is key to operations and execution and an integral part of the process." PepsiCo president and CFO Indra Nooyi puts it cogently: "You only have to go through one or two communications debacles as a senior executive to understand the importance of communications."

This indicates that communications professionals need to have a seat at the strategy-making table. Indeed, the communications professionals we met with agreed that their job was not only to reinforce and help implement the company's strategy by communicating with key constituencies but also to interpret constituency responses in ways that inform strategy going forward. "The communication function supports the businesses and brand-building efforts," says Tod MacKenzie, senior vice president of corporate communications at PepsiCo. "It moves the organization. The messages articulate the strategic direction of the company and motivate people to move behind it."

About the Research

Our primary research into strategic communications comprised more than 50 individual interviews, conducted one-on-one and in person, by all three members of our research team over a period of six months. Our selection of companies included those representing the state of the art in corporate communications (Dell, FedEx and Pepsi), companies that have faced and survived major crises (Cendant, Knight Trading and Textron), and some unsung heroes (Cognex, Infosys, Jet Blue, the New York Times Co. and Playboy Enterprises) that are great corporate communicators, but not usually recognized for their efforts. We also included a pharmaceutical company (GlaxoSmithKline), given the formidable communications issues in that industry.

At each company, we met with (at least once) the CEO, CFO, chief communication officer and investor relations officer. The interviews were structured in advance, but often veered from the initial questions. We did, however, ask each executive key questions about the role of communication in strategy formulation and implementation, communication strategy, how the function is structured in their companies, what process exists for communication and what role they play in communicating, including how much time they spend on this activity. Interviews were set for an hour but often lasted as long as three hours.

Best Practices of Strategic Communication

Strategic-communication leaders allow their corporate strategy to drive their communication choices. They are equally adept at tailoring their communication activities to support existing strategy or drive new strategy.

FedEx The emphasis placed on communications at FedEx is reflected in the amount of time executives devote to it. T. Michael Glenn, president and CEO of FedEx Services, says, "Communication is at the center of everything. You can't execute strategy if you can't communicate about it. … The communication philosophy goes back to [founder] Fred [Smith] and his military training. His management philosophy is 'Shoot, move, communicate.'"

For example, when the economy took a downward turn a few years ago, FedEx, like many companies, determined it had to lay off employees. But FedEx realized that the goodwill and morale of its employees is central to the success of its exceedingly customer-facing strategy. The company not only offered generous voluntary severance packages to its departing employees, but it clearly communicated this both internally and externally using a multifaceted approach across a variety of platforms to maintain employees' loyalty, customers' trust and the good graces of Wall Street.

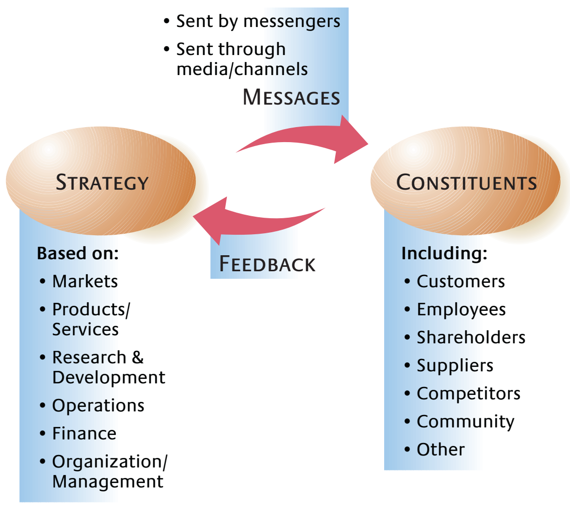
"It was like changing a tire on a moving truck because an entirely new organizational structure was being developed and communicated in phases to nearly 13,000 employees," says Bill Margaritis, corporate vice president of worldwide corporate communications. "We worked with our HR group and external suppliers on numerous highly detailed and personalized communications to those eligible for early retirement or voluntary severance. We created a number of two-way communication channels to answer employee questions including various hot lines and Web sites where we collected questions and answered them for all employees to read. And each of those processes had to be coordinated with the others."

According to Eric Jackson, vice president of corporate communications, "FedEx is now held up as an example of how to transition, of how to keep the hearts and minds of employees while meeting business needs."

Textron Textron was one of the original highly diversified "growth by acquisition" conglomerates. Over the years, Textron has acquired, merged with and divested itself of dozens of com-

The Framework for Strategic Communication

The framework for strategic communication comprises a wide variety of iterative loops, encompassing multiple connections with multiple constituencies on multiple strategic levels. Those strategic elements include the markets addressed, the products and services offered in those markets, the underlying research and development that supports those products and services, the operations plan to deliver those products and services, the finances required and the financial practices needed to assure optimal performance and, finally, the organizational infrastructure, culture and management necessary to attain that optimal performance.



panies. Today, its principal businesses include Bell Helicopter, Cessna Aircraft, Textron Fastening Systems and Textron Financial. One of the repercussions of such frenetic buying and selling was the absence of common systems, procedures and a shared culture across the corporation. Despite these internal hurdles, Textron rode the wave of the buoyant market during the 1990s, only to watch its stock fall by 80% when the bubble burst in the stock market.

"The core of our existence was shaken," says chairman, president and CEO Lewis Campbell. He realized he had to articulate a new vision and strategy for Textron — to become the premier multi-industry company in the world recognized for its world-class enterprise processes — and that selling it internally and externally would require a coordinated communications effort. "We moved from a 'want to' communicate to a 'have to.' The only way to show the commitment is to communicate with passion, face-to-face, all the time with the same message."

To date, the process has been focused internally to get alignment and commitment from within. Prior to the transformation, the business units operated as independent, self-directed companies. Now, they have to buy into a centralized strategy and streamlined processes. Textron has hundreds of communication programs under way to support the "one company" objective. For example, it holds an annual Corporate Communications Council to develop one message and incorporate that message into the business units. In addition, the council holds a monthly Internet teleconference to ensure compliance. At an even more tactical level, all relevant press releases are reviewed at the corporate level as well.

For Textron, strategic communications came in the form of harnessing the power of the CEO and other senior executives to communicate the message both internally and externally in a time of incredible transformation. Campbell is using communications to disseminate his new vision and strategy throughout the corporation, while at the same time keeping the financial community apprised of the company's progress at implementing its new strategy.

Dell Founded by Michael Dell in his dorm room at the University of Texas in 1984, Dell Inc. generates more than $49 billion in annual sales, has 55,000 employees and does business in every corner of the world by selling directly to end users. The phrase "Dell Direct" not only describes the company's business model, but it is about as clear a unifying communications statement as a company could possibly have. It defines how Dell relates to its customers, its employees, its competitors and its shareholders. This concise and straightforward ethos also characterizes the company commitment to and attitude toward strategic communications. "Communications are an essential part of what you have to offer to customers and shareholders," says Michael Dell. "Communications has to be in the center to be optimally effective."

For Dell, strategic communication means functional integration. CEO Kevin Rollins uses communications to create alignment among strategy, messages, employees, Wall Street and the media. "You have to modify messages by constituency," says Rollins. "Which elements of the overall strategy do you want to discuss with each constituent? The communication function breaks strategy into pieces and sells the right pieces to the right audience."

Cendant Cendant's commitment to strategic communication grew out of crisis. One of the foremost providers of travel and real estate services in the world, the company was created by the merger of HFS Inc. and CUC International Inc. in December 1997. Cendant was hit hard in April 1998 when it was discovered that CUC's financial statements had been overstated by hundreds of millions of dollars in both revenues and profits. Following this discovery, the market value of Cendant dropped more than 40%, threatening the credibility of both the company and chairman and CEO Henry Silverman and spurring a barrage of questions from numerous constituencies. How could a company and its CEO not have conducted adequate "due diligence" to uncover

CUC's fraudulent reporting of this magnitude before the transaction was completed?

Silverman realized that, to regain credibility, complete honesty and financial transparency was the only viable course of action. He established the mantra, "Tell the truth. Tell it all. Tell it now," insisting that all the accounting irregularities be acknowledged as soon as they were known. Silverman and the company's senior vice president of corporate communications and investor relations, Samuel Levenson, continue to tell the Cendant story as frequently and as clearly as possible to restore investor confidence in the company. "I can never be far away from investor relations or public relations. At the end of the day, I'm accountable," says Silverman. "You can never overcommunicate. There is no such thing."

Drivers of Strategic Communication

Even if a CEO or CFO does not have an active interest in or inherent understanding of strategic communications, a number of factors, both external and internal, can necessitate such an approach.

Regulatory Imperatives New regulations often drive companies to revisit communications strategies and practices. In 2000 when the U.S. Securities and Exchange Commission adopted Regulation Fair Disclosure prohibiting companies from communicating preferentially with certain outside parties, particularly analysts, critics worried that companies might reduce the amount of information they communicated to the analyst community and other interested parties. On the contrary, companies have developed regular conference calls and other procedures to get their message out fairly and consistently. "Communications now have to be crisper and give more clarity," says Ted French, executive vice president and CFO of Textron Inc., on the topic of Reg FD.

The Sarbanes-Oxley bill requiring that CEOs and CFOs certify their companies' financial results and attest to systems of internal controls, also has changed the way companies communicate. Sarbanes-Oxley and the move toward transparency has pressured companies to make their footnotes to financial statements more understandable and complete and to make the management discussion and analysis section of annual reports more comprehensible and accessible.

"Being on message is critical," says Leonard Forman, executive vice president and CFO of the New York Times Co., "but it has to be based on something real."

Organizational Complexities As an organization grows in size and complexity — more markets, customers, products, services, employees, suppliers, investors and so on — the need for a consistent communications strategy becomes even more critical because it must communicate to a diverse and rapidly expanding array of constituents while remaining relevant to all.

"In a large, complex company with multiple operating units such as ours, all the pieces get lumped together and are viewed negatively," says Ronald Nelson, Cendant Corp. president and CFO. "Some investors say, 'Cendant's too complicated — forget it!' And that is exactly what we have to respond to."

"As Dell matured," says Michael Dell, "we had to put a premium on making sure we had communication nailed down. While we've done a better job in the last couple of years, there were times when communications wasn't well integrated, particularly over parts of the worldwide operations. As a global business, it is essential that we have a clear, consistent strategy."

The Need to Increase Credibility Corporate crises, both internal and external, also can drive companies to reconsider how they communicate. In the high-flying 1990s, "making the quarterly earnings estimate" became a dangerous mantra for some companies. Enron Corp.'s incessant drive to do so led to its demise. Xerox Corp. overstated sales and lost 90% of market value when the real numbers became clear. The bursting of the bubble and the corporate crises that followed gave new management at many companies the formidable challenge of restoring credibility.

Recent polls show that over 80% of the American public feel that business does a poor job of balancing profit and the public interest.[1] In fact, the 2005 Edelman Trust Barometer poll shows that nongovernmental organizations are held in higher esteem than businesses, and executives in large companies are among the lowest rated in terms of credibility, ranking below even lawyers and government officials.[2] Given such low levels of approval and trust, the need for a more strategic approach to communication truly becomes imperative as companies strive to differentiate themselves.

Aligning Communication With Strategy

Corporations have multiple constituents, and their communications must be responsive to all of them. "The job of a senior manager is to determine which elements of the overall strategy you want to communicate to each constituency," says Dell CEO Kevin Rollins. Whether a company is developing a coherent identity for itself through advertising, is discussing with employees the reasons for a merger and subsequent work-force reductions or is explaining to shareholders why it didn't meet fourth-quarter projections, employing a coherent communication strategy is critical. "We break messages into pieces and try to give the right piece to the right audience," says Rollins.

Executives have to think carefully about an organization's objectives for each specific communication, determining which constituencies are critical to meeting that objective and understanding what kinds of messages to deliver to them through the most effective channel. In fact, the message and the messengers are the critical links between a company's strategy and the understanding of and response to that strategy by the company's various constituents. (See "Using a Strategic Approach to Communications.")

Communications professionals and other executives we spoke with agree that strategic communication requires clarity and consistency of message. "Communication has to be able to talk to people inside and outside the company," says FedEx Corp. executive vice president and CFO Alan Graf. "We have to have the same messages and conflicts." Repetition is also crucial. "You almost can't communicate a message frequently enough, particularly to the employees," says Russell Lewis, former president and CEO of the New York Times Co. "Use every mechanism." And, perhaps above all, effective strategic communication is based on truth. "Being on message is critical," says Leonard Forman, executive vice president and CFO of the New York Times Co., "but it has to be based on something real."

Channel choice is another integral part of the strategic communication process. Senior managers need to focus on using the right channel(s) for each message to each constituency. Given the complexity and array of choices available as distribution channels today, this offers managers an opportunity to choose on the basis of the preferences of their constituents, who are more sophisticated than ever before as a result of media exposure, the evolution of technology and the ability to access communications in real time. Companies also must realize that there is great overlap among their various constituencies. Market analysts and suppliers may also be customers. This makes it increasingly important that companies "speak in harmony."

Finally, feedback from constituents determines the overall success of a communication and, more critically, the successful implementation of strategy in general. For example, "In [investor relations], you get real-time feedback as people vote every day with their shares," says Ron Nelson of Cendant. "The feedback isn't determinative, but it's valuable in picking out what troubles shareholders."

A strategic communications approach also attempts to tie its activities to both financial and behavioral outcomes. On the financial side, senior managers are increasingly interested in measuring communications activity in terms of market value. This is in part due to having tighter budgets in a time of limited resources. But it is also the result of having new techniques and frameworks that allow managers for the first time to establish the direct links between a company's intangible assets and performance.[3] "Communications is an intangible, but it adds to

Using a Strategic Approach to Communications

Strategic communications requires an integrated, multilevel approach. Each communication function fulfills specific objectives, is targeted at specific constituencies that are critical to meeting those objectives and is delivered through the channels most appropriate to and effective for those constituencies. To achieve full strategic impact, all communications to all constituencies through all channels must be customized to a given objective, yet consistent both with one another and the corporate strategy.

COMMUNICATIONS FUNCTIONS	OBJECTIVES	CONSTITUENCIES		CHANNELS
		PRIMARY	SECONDARY	
Media relations	Public relations, crisis management	All constituencies	Media	Press releases, interviews
Employee communications	Internal consensus building	Employees	Customers, families	Town hall meetings, memos, newsletters
Financial communications	Transparency, meeting financial expectations	Investors	Analysts, media	Conference calls, CEO/CFO
Community relations	Image building	Communities	NGOs, media	Events, speeches, philanthropy
Government relations	Regulatory compliance, meeting social expectations	Regulators	Media, customers	Lobbying efforts, one-on-one meetings
Marketing communications	Driving sales, building image	Customers	All key constituencies	Advertising, promotions

our valuation, credibility and the ease with which we enter markets," says Dell senior vice president and CFO James Schneider. Over the next several years, with the development of more refined frameworks, as well as the creation of industry standards, the connection between a company's communications activities, business outcomes and value creation will be ever more definable.

Lessons of Strategic Communications

Our research suggests there are some basic lessons to be learned about how communication can add to the process of translating boardroom strategy to front-line execution, as well as the ability of communications to support strategy development.

Lesson 1: Senior managers must be involved. The CEO and other top leaders, including the CFO, *must* understand the importance of communication and leverage communications strategically with all their constituents. Jean-Pierre Garnier, CEO of GlaxoSmithKline, said it best, "At the end of the day, the communications aren't owned by the communication department. You have to have good executives who can and will communicate."

While there have been sensational headlines in business publications about the decline of the charismatic CEO, it is clear from our interviews that the role of top leaders in communications actually has expanded in the past few years. Now, more than ever, the CEO is not only the thought leader but also the face and voice of the company, setting the tone for the executive team and the organization as a whole. Those senior executives who think that communications can be delegated to the head of the corporate communication function are mistaken. In fact, in many companies, the CEO acts, in effect, as the senior communications officer of the company. When asked how much time he spends communicating, Dell's Kevin Rollins said, "Can you go above 100%?"

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Surprisingly, CFOs also are more involved in the overall communications activity of corporations, seemingly as a result of their connection to investor relations executives who sit on the senior executive team. Alan Graf of FedEx says that "[communication] is the vast majority of my time. I'm either communicating or thinking about it. I'm an input-driven CFO. I'm absorbing, translating or communicating."

As outcomes-based measures of communication continue to develop, even the most reluctant senior executives will see the demonstrated value that communications brings to the implementation of strategy and will recognize the critical role they must play in that effort.

Lesson 2: Communications must be integrated. Bob Shillman, president, chairman and CEO of Cognex Corp., a Natick, Massachusetts-based manufacturer of machine vision systems, puts integration into perspective: "Communication is not a separate function. It's hard to separate it out. It's like a car. What's the most important part? An engine can't get you anywhere without the wheels. It all has to be integrated."

Integration develops in a variety of ways. JetBlue Airways, the budget-oriented airline, achieves integration through the close connection between its CEO and CFO; the New York Times Co., FedEx and Cendant achieve integration by having one person manage the function; Dell achieves integration through the relationships developed between corporate communications and investor relations professionals; and Textron and Infosys Technologies Ltd., an Indian company focused on outsourcing, achieve integration through their communications processes. However structured, communication must be integrated and adept at delivering a harmonious message to all constituents.

So what can you do to integrate communications activities at your company? First, realize that while communication is something that everyone does, the communication function must ensure that communications emanating from the business units are aligned with and support the company's overall strategy. Martha Lindeman, Playboy Enterprises Inc. senior vice president of corporate communication and investor relations, says: "[We integrate] because we're concerned with maintaining the integrity of the brand. The brand means different things to different people, and we don't want counterproductive moves or multiple divisions pitching to the same media."

Second, specific messages must sound like they are coming from the same place leading in the same direction. This is the concept of "speaking in harmony." "[Investor relations] and corporate communications are separate functions that work very closely together," says GlaxoSmithKline's Jean-Pierre Garnier. "But we still have one story here — one basic message."

Third, think about the opportunities that integration of communications will create, which would otherwise be missed. "Before investor relations and corporate communications were integrated," says Russell Lewis, formerly of the New York Times Co., "we didn't have problems, but we failed to take advantage of opportunities."

And, finally, pay attention to detail. Dell is exemplary in this regard. The company integrates its communications activities down to specific messages, such as the mandate to "be direct" in all activities, delivered by specific executives, including both Michael Dell and Kevin Rollins, to further a specific strategic goal.

Lesson 3: Structural integration is not the only choice. Some companies strategically integrate their communications functions by combining them under one executive. It is surprising, however, how often structural change is not used as an integrating mechanism. "Reporting relationships do not matter as much as informal relationships in most organizations," says Cendant's Samuel Levenson.

"[Investor relations] and corporate communications are separate functions," says GlaxoSmithKline's CEO Jean-Pierre Garnier. "But we still have one story here — one basic message."

Communications executives are integral to the extent that they have a strong personal network, access to information, awareness of how their work connects to the overall strategy of the company and the ability to measure its impact on shareholder value. Senior executives at the companies we studied were quick to point out attributes such as broad perspective and personal credibility as the reasons communications executives earned a seat at the strategy-making table.

Lesson 4: Communications must have a long-term orientation. It has been suggested that the most enduring companies are those that focus on the long term, have a strong set of values and are proactive rather than reactive in communicating.[4] Just as companies have long-term marketing and budgeting plans for the organization as a whole, they also must have a master communication strategy. For many, however, this is a difficult task. Most communications professionals are rewarded for their tactical abilities in the short term (that is, for "getting good ink"). Indeed, their compensation is often tied to short-term, tactical achievements. Their job, however, is to meet short-term needs but stay focused on the long-term issues that will affect the company. There is a clear need in the marketplace for a measurement framework that connects the two, a goal succinctly stated by Eric Jackson of FedEx: "It's not about meeting next quarter's numbers. We have 30 years of history and want 100 more."

Lesson 5: Top communicators must have broad general management skills. All too often, the corporate communications function is a dumping ground for tactical managers who are uncomfortable with the quantitative skills needed for success in other functions. But effective communications professionals are those who speak the same language as senior executives and have a deep understanding of the business and its strategy. That often means they have business intuition garnered outside the communication function or from formal education, personal credibility with senior executives, a wide organizational reach, integrity and a strong leadership position in the company. One of the best ways to acquire these attributes is to work at building an informal network of contacts within the company, getting involved in every aspect of the business. When Lynn Tyson, Dell's vice president of investor relations and corporate communications, first joined the company, she attended operations and other functional meetings so that she could learn about Dell inside and out. "For IR to be proactive and effective," she says, "IR needs to understand what happens in the company."

COMPANIES THAT CONTINUE to take a laissez-faire approach to communication will find it increasingly difficult to compete. Although there will be a continuing need for tactical execution, the addition of an integrated, strategic focus will be critical to success. For communications professionals, this imperative will not be a threat but an opportunity to not only get a seat at the table, but to stay there.

ACKNOWLEDGMENTS

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3. There is, in fact, growing evidence to suggest that intangibles do drive valuation. A recent study by the Brookings Institution showed that in 1978, 20% of corporate value was attributable to intangible assets, whereas in 1998 that had increased to 80%. See M.M. Blair and S.M.H. Wallman, "Unseen Wealth: Report of the Brookings Task Force on Intangibles" (Washington, D.C.: Brookings Institution Press, 2001).

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