“An insightful and practical compass for navigating the new ocean of globally distributed information, expertise, and relationships.”

—Jon Iwata, senior vice president, Marketing and Communications, IBM

DIGITAL STRATEGIES FOR POWERFUL Corporate Communications

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Chapter 1

WELCOME TO THE JUNGLE

An Introduction to the New Business Environment

The business of managing relationships—and therefore, business itself—has changed dramatically in the last decade. Stakeholder empowerment, as it's come to be known, has shifted the corporate hierarchy of influence from the hands of elite business executives to those of their once-passive audiences, including employees, consumers, media, and investors. The complex modern business environment, driven by these individual stakeholders' needs, wants, opinions, and whims, underscores a harsh reality for corporate leaders: They have all but relinquished control over their organizations' reputations and messaging to a dissonant public. Whether you are a corporate leader or a self-described member of said public, this reality affects almost every interaction you will have with the institution of business.

While this evolution—some would say revolution—in business didn't happen overnight, it was prompted by a juggernaut of catalysts that emerged and metastasized so rapidly that many executives were left without any strategies for thriving—let alone surviving—in this new environment.

A number of instigators sparked this swift transformation, but one stands out as having the most impact, endurance, and longevity: the emergence of digital communications platforms, including blogs and social communities. These platforms sparked a complete overhaul of the business environment, especially in the context of communication.

Before the digital explosion at the turn of the twenty-first century, corporations' reputations were shaped by one-dimensional messaging that the senior-most managers pushed down the corporate ladder and disseminated to stakeholders separately and without discussion. As summarized by the 2007 Authentic Enterprise CEO Report, commissioned by the Arthur W. Page Society, "Companies used to control their identities, value propositions and the content of the messages about themselves. Companies used to segment and target audiences. Companies used to have distinct expertise in and control over the channels of communication."[1]

The report's use of past tense is indicative of the seismic shift that occurred to empower "target audiences," otherwise known as stakeholders. A *stakeholder* is any individual or group that can affect and be affected by the actions of a corporation. Universally, the most common and influential stakeholders include employees, customers, media, investors, community members, analysts, nongovernmental organizations, lobbyists, and activist groups. In the past, these stakeholders had limited interactions with corporate entities. Messages were created by executives to meet the needs of a specific group, and that group received these messages with limited means for commentary or reaction.

Now, an ever-growing list of interactive digital platforms, all of which reside beneath the umbrella of "Web 2.0," gives stakeholders the ability to communicate with one another, to build communities around shared interests, to disseminate their own messaging about an organization, and ultimately, to threaten companies' increasingly vulnerable reputations (for more information about Web 2.0 versus its earlier iteration—Web 1.0—see the section "Y2K" below). Corporate executives still create and disseminate messaging to stakeholders, but these individuals and groups are now empowered to "talk back" through digital channels. Perhaps more intimidating, they can converse with one another, comparing notes, so to speak, and interpreting corporate information in their own way, which may or may not be accurate.

This uneasy reality requires business leaders worldwide to redefine their strategies and brands in the context of digital communications platforms and the power these platforms grant to stakeholders. Control of messaging and reputation may seem all but lost, but executives are in a position to emerge from this cyber jungle with renewed authority and influence. First, however, they must learn to harness the power of digital communications by integrating these platforms into all business strategies and applying them across every business function.

This book sets out to define the current business environment as it is shaped by these new technologies and to offer executives strategies for understanding them and (finally) using them to the advantage of their organizations. While revising long-held business beliefs and practices, this approach will empower an often-overlooked organizational function—corporate communication—to lead the movement to digital supremacy.

To begin, this chapter will outline the catalysts that instigated stakeholder empowerment and its role in business and then define the specific digital communications platforms discussed throughout this book. It then will describe what all these changes mean for corporate leaders and specify how corporate communication fits into the big picture.

The Business Environment Version 3.0: The Evolving Corporate Landscape

The more things change, the more they stay the same. This adage might be true in some contexts, but business certainly isn't one of them. Over the course of the last decade, a number of factors came together to catalyze a massive change in the way business is conducted around the world. Most senior executives entered the corporate world in a very different era, and they now face a business landscape that is very different from what they once knew.

For starters, corporate reputations have become extremely vulnerable in the wake of scandals that rattled the public's trust in business. While corporate malfeasance was by no means unheard of in the twentieth century, scandals became ubiquitous in recent years, beginning most notably in 2001 with the infamous dissolution of energy company Enron after a series of fraudulent accounting procedures became public.

From that point on, one could argue that the situation went from bad to worse. Trust in business institutions plummeted, with only 44 percent of the population saying they trusted business to do the right thing.[2] Likewise, by February 2002, approximately 81 percent of surveyed investors “did not have much confidence in those running Big Business.”[3] These grim statistics set the tone for what would become a common theme for corporate leaders: Their credibility—along with their organizations’ reputations—was declining in the face of increased scrutiny by every stakeholder group, be it consumers, investors, or even employees. What’s more, this sentiment of skepticism has endured to the present day. The 2008 Edelman Trust Barometer revealed that, globally, only 51 percent of respondents (made up primarily of elites) trust business to do what’s right.[4] (For a complete breakdown in confidence in leaders of various institutions from 2001–2008, see Table 1.1.)

Here’s an even sadder story just waiting to be told: As far as confidence in the leaders of various institutions is concerned, the public ranked major companies only above Wall Street, organized labor, law firms, the press, Congress, and the Executive Branch of the government.[5] Again, the confidence that corporate leaders seem incapable of engendering places additional pressures and responsibilities on the corporate communication function because it must position senior executives as trustworthy thought leaders while still enhancing the perception of the organization as a whole—a charge, we will argue, that is made possible by the power of digital communications platforms.

If You Build It, They Will Come: The Rise of Online Media

While the widespread distrust and doubt in companies and their leaders may not be so detrimental on its own, imagine it taking place in tandem with another trend: the fragmentation of media. This phenomenon developed as Internet usage became more ubiquitous in the 1990s, during which time it was estimated that Internet users grew by 100 percent each year, with periods of even more explosive growth within this time frame.[6] Prior to that time, the Internet had existed in its most basic form, operating as a series of internal communication networks for the likes of governmental agencies, military outfits, and university research teams. It wasn’t until 1989 that the Web as we know it was invented by an English scientist named Tim Berners-Lee. Then, on August 6, 1991, the European Organization for Nuclear Research (most commonly referred to as CERN, the acronym for the organization’s French moniker, Conseil Européen pour la Recherche Nucléaire) publicized its

Table 1.1: Confidence in Leaders of Institutions (2001–2008)

"As far as people in charge of running (READ EACH ITEM) are concerned, would you say you have a great deal of confidence, only some confidence, or hardly any confidence at all in them?"

Those saying "a great deal of confidence"
Base: All Adults

	2001	2002	2003	2004	2005	2006	2007	2008	Change 2007–2008
	%	%	%	%	%	%	%	%	%
The military	44	71	62	62	47	47	46	51	+5
Small business	X	X	X	X	47	45	54	47	−7
Major educational institutions such as colleges and universities	35	33	31	37	39	38	37	32	−5
Medicine	32	29	31	32	29	31	37	28	−9
Organized religion	25	23	19	27	27	30	27	25	−2
The U.S. Supreme Court	35	41	34	29	29	33	27	25	−2
Public Schools	X	X	X	X	26	22	22	20	−2
The courts and the justice	X	X	X	X	22	21	21	16	−5
Television news	24	24	21	17	16	19	20	16	−4
The White House	21	50	40	31	31	25	22	15	−7
Major companies	**20**	**16**	**13**	**12**	**17**	**13**	**16**	**14**	**−2**
Wall Street	23	19	12	17	15	15	17	11	−6
Organized labor	15	11	14	15	17	12	15	11	−4
Law firms	10	13	12	10	11	10	13	10	−3
The press	13	16	15	15	12	14	12	10	−2
Congress	18	22	20	13	16	10	10	8	−2
The executive branch of the federal government	20	33	26	23	X	X	X	X	X
Harris Interactive Confidence Index	**55**	**65**	**57**	**55**	**53**	**52**	**53**	**44**	**−9**

X = Not asked
Source: "Big Drop in Confidence in Leaders of Major Institutions," The Harris Poll #22, February 28, 2008.

World Wide Web project, and the basic applications and principles that had defined the Internet until then finally were given a public interface.

Web technology's subsequent exponential growth, aided largely by the lack of central administration and protocol, happened organically. This would be the public's first taste of the unrestricted power of connection that would soon govern their professional and personal communications, as well as their media consumption habits.

This brings us to the fragmentation of media and its effect on modern business. As the Internet's presence infiltrated homes and businesses throughout the 1990s, major news outlets began to explore the role the Web would play in their own operations. On January 19, 1996, the *New York Times* on the Web—www.nytimes.com—went live, giving readers around the world access to the newspaper's content on the night of publication.[7] The *Wall Street Journal Online* was launched that same year, and most national and international media companies quickly followed suit.

The expansion of media online happened synonymously with the public's rapidly changing consumption habits. Multiple distribution channels, including search engines and site aggregators, made it easier than ever for consumers to find information. The 2007 Media Usage Survey conducted by the USC Annenberg Strategic Public Relations Center sums this trend up nicely:

> *The continuous creation of new technologies is speeding up the pace of news gathering and dissemination and providing numerous media outlets for consumers to turn to for their daily dose of information. That means that the time consumers devote to media consumption is more fragmented than ever—presenting multiple challenges for communicators attempting to reach their target audiences.*[8]

These challenges become even more salient when you look at the statistics that support the fragmentation of media:

- The percentage of Internet users that went online for news consumption "yesterday" (indicating that they do so daily) went from approximately 20 percent in the fall of 2000 to nearly 40 percent in December 2007.
- The Web is becoming a more integral part of people's lives. Eight in 10 Americans 17 years of age and older now say that the Internet

is a critical source of information—up from 66 percent in 2006. According to the same survey, more Americans identified the Internet as a more important source of information than television (68 percent), radio (63 percent), and newspapers (63 percent).

- In 2007, as the number of people going online grew, so did the frequency with which they went there, as well as how much time they spent. Overall, 75 percent of adult Americans use the Internet, according to data from the Pew Internet and American Life Project gathered from October 24 to December 2, 2007. That number is up from the 70 percent during the same time in 2006.[9]

These statistics are only a brief glimpse into the complex mechanisms that drive the shift in the public's media consumption habits. While these mechanisms will be discussed further in Chapter 4, suffice it to say here that they have contributed to a monumental shift in the way organizations reach their key stakeholders. As the propensity for online consumption increases, companies must ramp up their digital presence by creating dynamic, interactive, and original content around the clock.

Of course, many organizations noticed this and acted accordingly. On June 25, 2000, the *New York Times* and the *New York Times Digital* inaugurated a continuous news operation, providing updated news and analysis around the clock.[10] This decision was four years in the making because the first incarnation online was simply repurposed content from the printed publication. However, greater demands for more content more often from consumers forced *Times* executives to approach the Web site not just as an extension of the printed product but as a viable brand in and of itself.

Y2K: The New Millennium Marks More than a Calendar Change as Web 1.0 Matures into Web 2.0

Before exploring the forays of companies into online brand extensions, it's important first to understand the technical and semantic differences that separate the earliest version of publicly accessible information online—Web 1.0—from the interactive, dynamic Internet that we know today—Web 2.0.

Web 1.0 is the Internet version of primitive corporate communication strategies, in which executives pushed out messages to stakeholders, who digested them without many means for responding. This isn't to say that one-way messaging from corporate executives to stakeholders was strictly due to the absence of the Internet. On the contrary, by 1996, the Web 1.0 Internet was composed of approximately 250,000 sites and 45 million global users (see Figures 1.1 and 1.2). However, these sites were static, populated primarily with read-only information programmed in basic HTML code and accessed by users via dial-up Internet connections—in other words, "surfing the Net" was more akin to wading through a poorly catalogued library of seemingly random information. In its earliest stages—circa 1996, when major news outlets began publishing their printed products online—the Web was a

Figure 1.1: Web 1.0 versus Web 2.0

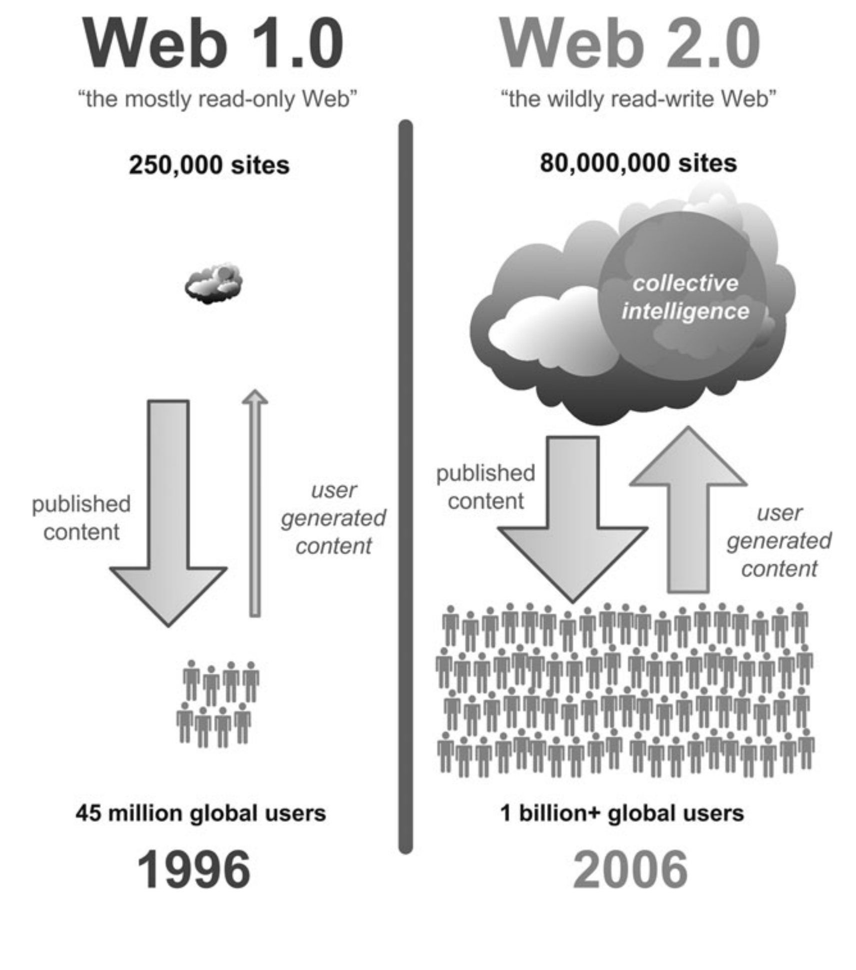
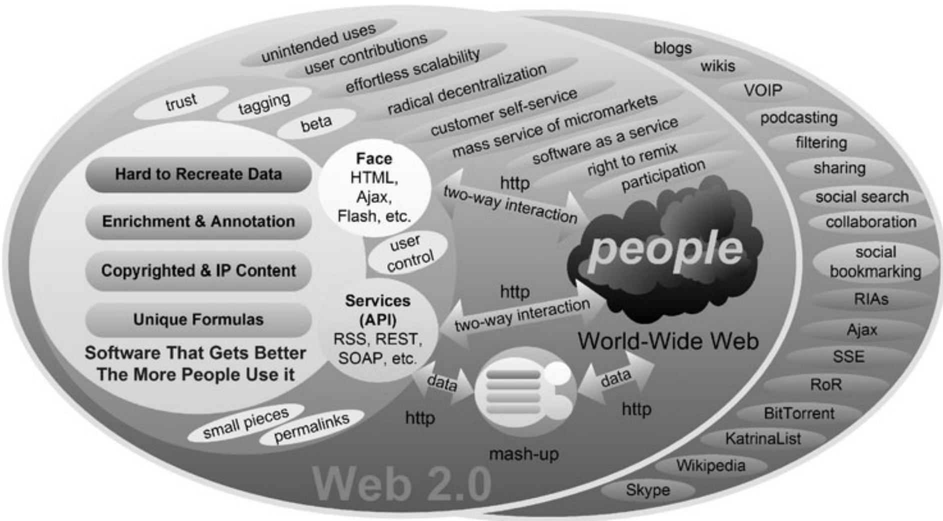


Figure 1.2: Elements of the Web's next generation



Source: Dion Hinchcliffe, Hinchcliffe & Company, http://content.zdnet.com/2347-9595_22-10672-10673.html?seq=1.

resource for few and a curiosity for many. Major network service providers such as AOL and Delphi had already connected their proprietary e-mail systems to the Internet, so the adoption of e-mail as a personal communications tool began to crescendo. Likewise, corporate use of Web technologies began to increase steadily as tools for taking corporate messages online began to emerge, from internal communications networks to corporate Web pages.

With the entrance of these technologies came a slew of Internet-based companies, also known as *dot-coms*, whose rapid escalation to market dominance shined a blinding spotlight on the Internet. The stock market reacted kindly to these companies, many of which defied standard business models by focusing more on market share and less on the bottom line. Venture capitalists swooped in to fund these speculative business propositions, and stock values soared. The success of these organizations was predicated primarily on growing consumer bases as rapidly as possible, so public awareness campaigns were of critical importance. By 2000, the dot-com bubble reached its pinnacle, with the Nasdaq peaking at 5132.52 on March 10.

But, as the old adage goes, what goes up must come down, and even the dot-com bubble couldn't overcome the law of gravity. Its meteoric rise halted abruptly and unceremoniously in March 2000, and the fallout would linger for years to come. It was a rocky time for the economy and for business in general, but the dot-com bubble's burst was a major catalyst for the birth of the next generation of the Web—that is, Web 2.0.

Between December 1996 and December 2006, the number of Internet users skyrocketed from approximately 36 million to nearly 2 billion.[11] This explosive growth straddled the dot-com bubble's wave of success turned to failure, and the flurry of online business activity democratized the Web to a large degree, transforming the Internet from a technological interface into a dynamic platform.

Therein lies the difference between Web 1.0 and Web 2.0—observation versus participation, static versus dynamic, monologue versus conversation. Some organizations were quick to identify this critical shift; for example, as previously stated, the *New York Times* had updated its Web presence to include continuous news updates around the clock by 2000. Constant content updates aren't the defining characteristic of Web 2.0, however; it is the collaborative environment that facilitates the creation and exchange of user-generated content via dynamic channels, including blogs, wikis, and social networks.

The Perfect Storm: Technology, Trust, and Media Fragmentation Beget Stakeholder Empowerment

Up to this point, the stage on which modern business is conducted has been partially built: Widespread corporate scandals crippled the public's trust in corporations, all while the fragmentation of media online cultivated a place for consumers to get information and communicate freely with one another. But these two factors are just the building blocks of the current business construct because they enabled the creation of the Web 2.0 platforms that enhance collaboration, communication, and community building among users.

The proliferation of these platforms occurred almost anarchically over the course of the last five years. There are a number of platforms and iterations therein, but for the purposes of this book, the following will be the focus because they are most relevant to corporate communications and strategic management (a thorough dictionary of terms can be found in Appendix A):

- Blogs
- Social networks
- Video-sharing platforms
- Search engine marketing and optimization
- Corporate Web sites/online newsrooms
- Wikis
- Mash-ups
- Viral/word-of-mouth (WOM) marketing

These platforms have been embraced and implemented by the most successful, innovative organizations; alternatively, others have ignored them at their own risk and to great detriment. Examples from both categories will be explored in the following chapters. For now, though, it is most important to have a thorough understanding of what these digital communications platforms have collectively enabled—stakeholder empowerment. The "Authentic Enterprise" report mentioned earlier explores the stakeholder empowerment phenomenon, stating

> *In addition to the familiar intermediaries and constituencies with whom corporations have interacted in the past, there is now a diverse array of communities, interests, nongovernmental organizations and individuals. Many of these new players represent important interests, while others are not legitimate stakeholders, but rather simply adversarial or malicious. Regardless of motive, all are far more able to collaborate among themselves around shared interests and to reach large audiences. At the same time, companies and institutions themselves are seeking similar kinds of engagement with multiple constituencies.*[12]

In addition to these effects of stakeholder empowerment, the power to interpret messaging and communicate with other individuals has another profound effect. Now, anyone with an Internet connection and an opinion is a journalist for all intents and purposes. A particularly salient example can be seen in the announcement of Tim Russert's death in 2008. When the moderator of NBC's *Meet the Press* died suddenly of a heart attack on June 13, 2008, the official news of his passing didn't come from an NBC correspondent; it came via an update made on Wikipedia approximately 40 minutes before the official announcement was made.

This realization instigated a debate among media representatives and the general public. After all, the story was deliberately kept quiet until Russert's wife and son, who were traveling in Italy, could be notified. Other news outlets agreed to hold the story out of respect for Russert's family, but it didn't matter. The Wikipedia update, made by an employee of a Minnesota-based company that provides Web services to local NBC-TV stations, sparked conversations prematurely and proved the Internet's power once and for all.

This is just one example of the "citizen journalists" who find and influence audiences online in a 24/7 news cycle. Traditional journalists, too, have found their way online, and many host blogs and communities that influence audiences worldwide. Now, almost all major news outlets have a roster of blogs that cover everything from business to media to the economy. The statistics that frame both traditional and citizen journalists' activities in the blogosphere tell the story of a proactive and prolific population (for more on citizen journalists and digital media relations, see Chapter 4):

- Technorati, the Internet search engine that tracks and indexes new media activity, tracks 112.8 million blogs and more than 250 million pieces of tagged social media.
- According to Technorati, more than 175,000 new blogs are created every day. Bloggers update their blogs regularly to the tune of 1.6+ million posts per day, which is equivalent to more than 18 updates per second.

These numbers aren't limited to the activity of media stakeholders because the Internet also empowers consumers; they are becoming the ultimate brand evangelists (or brand destroyers) based on the power of communications granted by digital platforms. Beyond creating their own content, these stakeholders also turn to their peers for brand references and testimonials before requesting information from companies themselves. The 2008 Edelman Trust Barometer supports this tendency, revealing that the highest percentage of respondents—58 percent—trust "a person like me" as a source of information about a company.[13]

In a similar vein, employees at every level of the organization now have more collective influence than C-suite executives, who until recently were the top-down decision makers. Now, employees have more channels through which to communicate their dissatisfaction with management, policies, workplace, etc. And whereas senior leaders could at once dismiss this discontent—or even punish it—they are now compelled, if not required, to listen up. With that, the human resources (HR) function becomes increasingly integral to the C-suite's communication with employees. The integration of HR and communication as employees take on greater roles in their organizations' reputations and bottom-line success will be discussed at length in Chapter 5; for now, suffice it to say that employees as a stakeholder group have been empowered by digital platforms, and their influence is driving change within organizations.

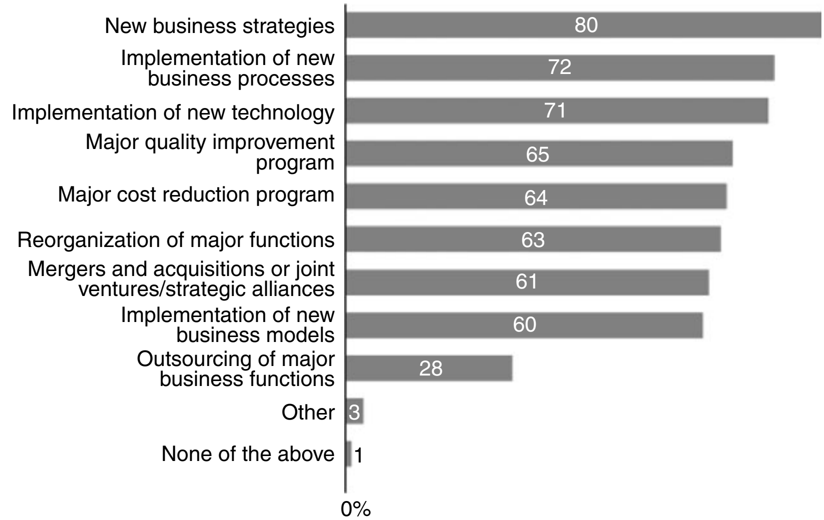
Externally, another stakeholder group that has always wielded a great deal of power—investors—also finds itself even more influential with the dawn of digital communications. Publicly traded companies now face increased pressure from investors owing to a boom in shareholder activism that has been enabled by the ease with which investors can communicate with other stakeholders to influence management.

The combined power of these stakeholders, which will be discussed individually in subsequent chapters, punctuates the current business context. Corporate leaders find themselves at the mercy of the people they once controlled, and their organizations' reputations hang in the balance.

Business Models Version 3.0: Evolving Corporate Strategies

This anarchic business backdrop has severe implications for global corporate executives, the majority of whom have been forced to change their business strategies accordingly (see Figure 1.3). While recent economic upheavals reshuffled the cards for many global organizations, much of this transition took place at the turn of the century, when the Internet bubble burst, the economy faltered, the American political system revealed critical flaws, and the United States experienced the largest-scale terrorist attack in history—not an inconsequential list of events to have taken place between 1999 and 2001. With these landscape-altering revisions to the direction of business, coupled with the explosive growth of new digital communications platforms, institutions themselves moved from a proverbial Web 1.0 mind-set to a Web 2.0 reality (see Figure 1.4).

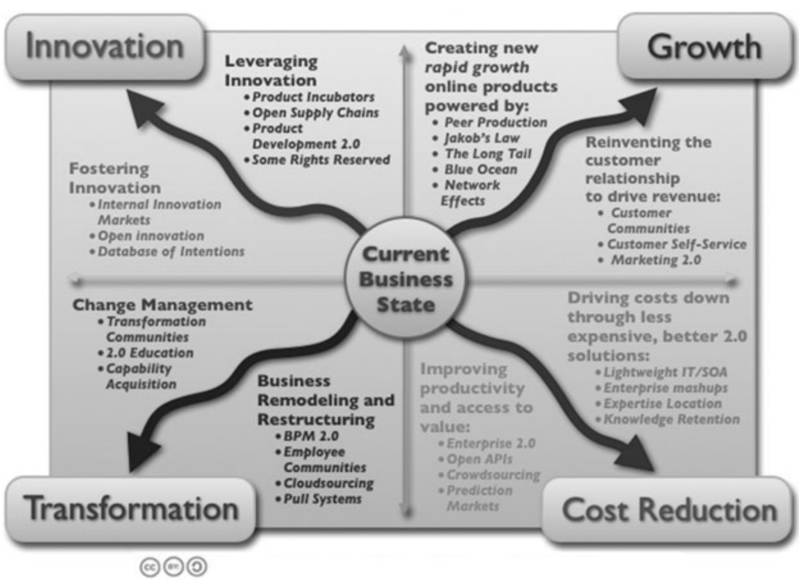
Figure 1.3: Implementation of new business strategies



Q: Which of the following changes, if any, has your organization implemented in the past 3 years? (Base: All respondents 1,150)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey, 2008.

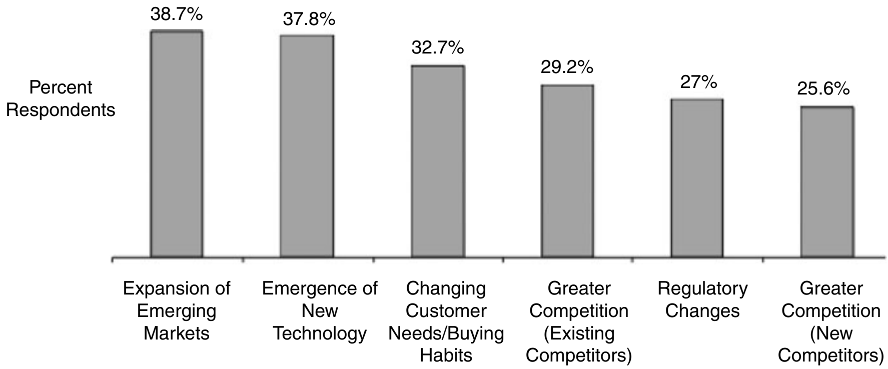
Figure 1.4: How to survive and thrive in business today with 2.0.



Source: Dion Hinchcliffe, Hinchcliffe & Company, 2008, http://hinchcliffeandco.com.

Figure 1.5: Top causes of business model transformation

"Which three of these issues will require the biggest changes to your business model in the next three years?"



Source: "Business Model Transformation," Marketing Leadership Council, Corporate Executive Board, 2007.

This general transformation process offers a visual overview of a more specific transformation process—that of business models. In fact, the 2008 IBM Global CEO Study revealed that virtually all CEOs would be adapting their business models over the next three years, and two-thirds planned to implement extensive innovation (for types of innovative business models, see the sidebar "Types of Innovative Business Models").[14] Complementing these findings is a study conducted by the Corporate Executive Board's Marketing Leadership Council that found that in 2007, 93 percent of surveyed executives planned to make changes to their business models in the next three years. These executives cited all the trends discussed earlier in this chapter as drivers for remodeling their strategies, placing the greatest weight on the expansion of emerging markets (38.7 percent) and the emergence of new technology (37.8 percent; see Figure 1.5).[15]

Types of Innovative Business Models

- *Enterprise model*: Specializing and reconfiguring the business to deliver greater value by rethinking what is done in-house and through collaboration (as Cisco has done by focusing on brand and design while relying on partners for manufacturing, distribution, and more).

- *Revenue model*: Changing how revenue is generated through new value propositions and new pricing models (as Gillette did by switching the primary revenue stream from razors to blades).
- *Industry model*: Redefining an existing industry, moving into a new industry, or creating an entirely new industry (think music industry and the Apple iPod and iTunes).

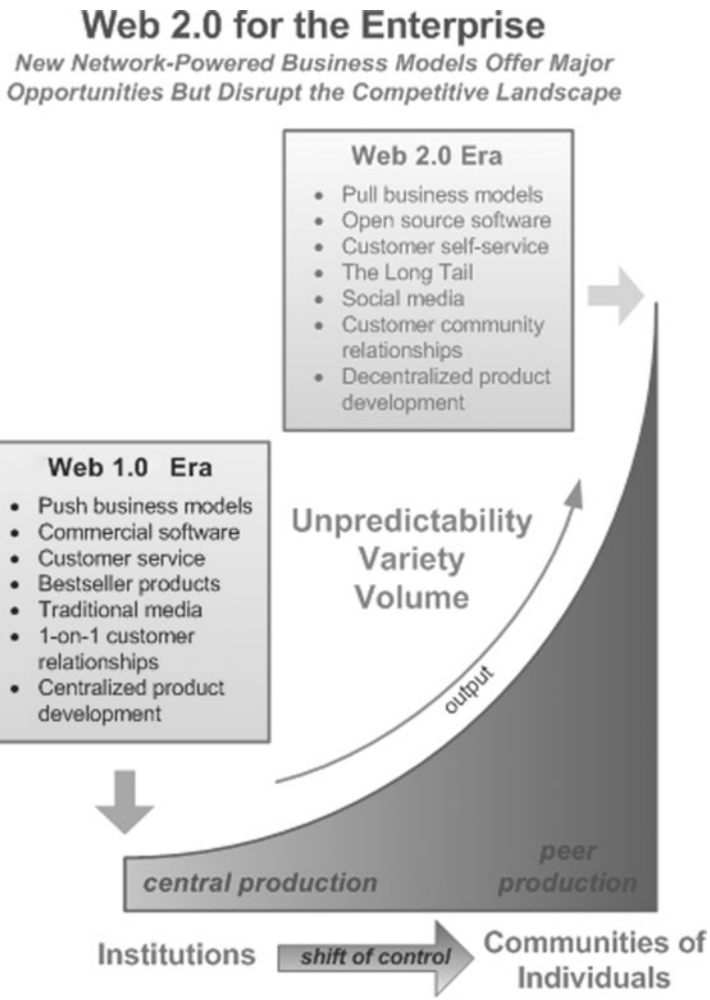
Source: "The Enterprise of the Future," IBM Global CEO Survey, 2008, p. 49.

The influence of these issues over the transformation of business models can be seen directly in corporate leaders' increasing interest—and, more important, investment—in intangible business drivers, including research and development (R&D), investment in building organizations, and internal and external organizational communication (see Figure 1.6). The latter drivers will be discussed at greater length in later chapters, but for now, consider it a noteworthy shift in the collective corporate mind-set from tangible to intangible investments.

Case in point: Research shows that the economic boom experienced in the 1990s can be correlated directly with an increase in intangible investment dollars. The National Bureau of Economic Research's report of R&D investments shows that R&D relative to gross domestic product (GDP) grew by 30 percent between 1994 and 2000.[16] More indicative is the fact that net intangible investment in the business sector was an estimated 3 percent of GDP prior to 1990 and rose to more than 8 percent in the late 1990s; this level dropped back down to the first approximation in 2001, which coincides with the proverbial dot-com bubble's burst. Finally, research shows that one indicator of increased intangible investment is the increased funding of R&D (aided and abetted by rapid technological advances), as well as the dramatic increase in mergers and acquisitions.[17]

Development innovations have been the crux of pharmaceutical maker Eli Lilly and Company's healthy sales growth, even in the face of its peers' general malaise. From 2002 to 2007, its sales increased at a compound annual growth rate of 11 percent[18]—an accomplishment widely attributed to its constantly evolving collaborative business models. For example, in 2001, Lilly launched InnoCentive, a Web site on which organizations can anonymously submit scientific challenges to a diverse network of more than 140,000 "solvers" from

Figure 1.6: Web 2.0 for the enterprise



Source: Dion Hinchcliffe, Hinchcliffe & Company. http://blogs.zdnet.com/Hinchcliffe/?p=135.

175 countries. Then, in 2007, the company established an agreement with Nicholas Piramal India Limited (NPIL) under its newly minted status as a Fully Integrated Pharmaceutical Network (FIPNet)—that is, a model based on pioneering risk-sharing relationships aimed at

facilitating research and development.[19] The combined effect of these collaborative business models helped to reduce the company's costs, increase development capacity, accelerate the drug development process, and leverage the assets of both Eli Lilly and its external partners.[20]

Hindsight is 20/20: Times Changed, and We Should Have Too

Alongside the increase in intangible investments, which perhaps many executives committed to unknowingly—or at least impulsively—the increase in Web 2.0 platforms precipitated involvement by those who were at the forefront of the participatory age. However, for those who weren't, hindsight has proven to be 20/20 in the most clichéd sense. According to a 2007 article in *McKinsey Quarterly* entitled, "How Businesses Are Using Web 2.0," when asked what they might have done differently to make previous investments in Internet technologies more effective, 42 percent of surveyed executives said that they "invested at the right time, but should have invested more in our company's internal capabilities." Twenty-four percent said that they "should have invested sooner in technology that in the meantime had a significant impact on our industry"[21] (see Figure 1.7).

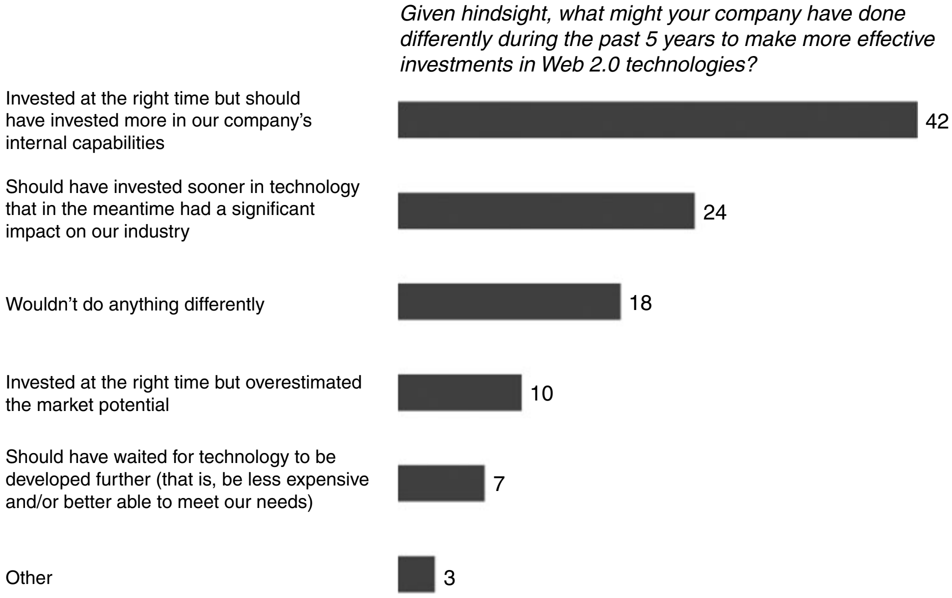
In terms of business leaders' investments specifically in social media in 2008, the following breakdown illustrates the commitment of significant financial resources:

- $149 million on social networking
- $78 million on Really Simple Syndication (RSS)
- $64 million on blogs
- $63 million on wikis
- $39 million on mash-ups
- $33 on podcasting
- $29 million on widgets

Plus, social media spending is expected to surge between 2008 and 2010 from an estimated $800 million to nearly $2 billion.[22]

But what does all of this research have to do with corporate communication's shifting role in business strategy and development? As Chapter 2 will reveal, it represents the catalysts that sparked a complete

Figure 1.7: Given hindsight



transformation in the way the corporate communication function is viewed by corporate leaders, as well as the reorganization of strategic business units within the overall company (in terms of reporting relationships, etc.). Of course, technology and emerging digital communications platforms also play a role in the need to transform business strategies via increased intangible investments; their influence over stakeholders' ability to affect business' success or failure forces senior managers to at least consider substantial revisions to their strategies to respond to changes.

Besides acknowledging the rapidly changing business environment, companies must adapt without changing what they stand for or compromising their principles. In effect, companies must invest resources to establish an intimate understanding of their stakeholders' identities and preferences, a clear picture of the innovations that will enhance their brand identities in a digital context, and a thorough awareness of the risks and challenges that could derail even the sturdiest of business strategies.

Conclusion

This chapter introduced the modern business environment in the context of the profound changes that continuously redefine the way companies interact with their stakeholders, especially in terms of the two-way conversations facilitated by digital communications platforms. In the following chapters we will provide the strategies and tactics needed to exploit these digital platforms to regain the control over messaging that has been ceded to stakeholders, leaving corporate reputations—and, in turn, bottom-line business results—vulnerable to irreversible damage. But first we will consider the changing environment's impact on organizations in terms of structures and reporting relationships, with a specific focus on the corporate communication function's emergence as a key player in leading companies into this new era of business.

CHAPTER 2

CORPORATE DARWINISM

Organizational Structures Evolve to Meet Changing Stakeholder Demands

When Charles Darwin developed his evolutionary theory around natural selection and the concept of survival of the fittest, he couldn't have known how well it would translate to twenty-first-century business. Based on the trends identified in Chapter 1, including heightened public scrutiny, emerging digital communications platforms, and the subsequent stakeholder empowerment these platforms enable, corporations have been forced to adapt to a new environment. Those that haven't, suffer the consequences and, in many cases, become vulnerable to extinction.

This chapter will consider the theory of corporate evolution in a number of contexts—the need for corporate leaders to evolve their business strategies to remain competitive and to protect their organizations' reputations, as well as corporate communication's evolution from a backroom function to one that is integral to senior management's decision-making processes. The chapter then will introduce the concept of integration and its relationship to the alignment of many organizational subfunctions, including media relations, investor relations, and human resources. Finally, the chapter will offer an in-depth look at each subfunction that now resides under the umbrella of "corporate communication" and explain the significance of emerging digital platforms to each platform's interactions with the others and with the organization as a whole to strengthen corporate reputation and, ultimately, the bottom line.

The Global Village: Globalization's Impact on Organizational Communications

The drastic shift in the business landscape, complicated by the ongoing changes that continue to transform it, has a number of significant implications for corporate leaders. With control over corporate reputation, brand, and messaging shifting from senior executives to their stakeholders, corporations must evolve their overall business strategies to place an increased focus on the communication function.

Of course, this impetus to redefine strategies with a more respected view of the contributions of communications wasn't based solely on the loss of power to stakeholders discussed in Chapter 1. Consider the reputation-damaging crises that happen with a higher frequency and are more difficult to anticipate, especially with the influence of digital communication channels over a global 24/7 news cycle. These crises, fueled by the harsh, often-impulsive criticisms of stakeholders that gather and converse online, can only be weathered if a reputation is strong enough to endure the storm.

An ever-growing number of examples illustrate this point, which we will focus on in later chapters. However, one example that demonstrates the Web's ability to take an issue and elevate it to crisis status in no time flat involves Dell. The computer manufacturer's reputation was thrown for a loop when in June 2005 an irate blogger by the name of Jeff Jarvis lambasted the company for poor customer service. Within hours, hoards of consumers who were in agreement with his claims posted comments on Jarvis' blog as well as their own, thus creating a maelstrom of negativity throughout the blogosphere. The company remained in the doghouse for months after failing to address the discontent properly in cyberspace; however, beginning with the launch of its own blog (Direct2Dell) in July 2006, executives finally joined the online conversation and began to slowly rebuild the company's tarnished image.

The blog was put to good use when another potential crisis—a widespread battery recall—hit. Dell's chief blogger, Lionel Menchaca, addressed the issue in a human voice and enabled customers to comment freely. Michael Dell even launched IdeaStorm.com in February 2007 and implored customers to give the company advice. New metrics show that the company's customer-service rating has risen significantly.

This is just one example of the modern business climate's impact on corporate reputations and the crises that threaten them. Business leaders also must consider the dramatic increase in global mergers and acquisitions (M&A) volume, which surpassed the $3.4-trillion record set in 2000 by reaching $3.8 trillion in 2006.[1] M&A activity places pressure on executives to merge often-disparate corporate cultures and to rebrand the organization with a new identity (see Chapter 3 for more on branding/rebranding).

An additional element that has profound effects on organizations, whether or not they are involved in M&A activity, is corporate culture. After all, today's tumultuous business environment is ripe with reputational risks such as Apple's dependence on Steve Jobs, who is a cancer survivor facing further illness, or the connection between the evil financier Bernard Madoff and several fund managers. As a result, companies need to change and evolve. In doing so, though, they can't build strategies without first aligning the organization's identity, mission, and goals. And when two companies—and, therefore, two cultures—combine, this alignment is critical.

It comes as no surprise that digital communications channels ease this alignment because they provide platforms for interacting with employees regardless of location. Hewlett-Packard (HP) executives realized this early on in their 2002 merger with Compaq Computer Corporation, a move that brought together more than 88,000 employees across 178 countries. To improve information management and cultural alignment during this time, HP executives, with the help of public relations (PR) agency Porter Novelli, created @hp, a business-to-employee intranet portal that acted as a gateway to the merging HP and Compaq legacy intranets. This platform would serve as the infrastructure to communicate messages to all 88,000+ employees in multiple languages and at multiple locations.

According to Porter Novelli Senior Vice President Peter Eschbach and Account Manager Jeremy Morgan, both of whom worked with HP to develop the intranet:

A shared sense of community would be critical to the integration of the two organizations.... [Our intranet's homepage] needed to embody and propagate elements of the new corporate culture, while also promoting the numerous professional and personal communities of interest to be found within the new company. The two companies [HP and Compaq] worked together to establish an internal communications infrastructure that harmonized intranet-related messaging and coordinated employee outreach to ensure that communications were delivered at the right time to the right internal audiences.[2]

This merger experience highlights both the challenges associated with combining two disparate cultures and the opportunities offered by digital platforms. But it isn't the only example: In late 2006, Dow Jones began the process of acquiring Factiva from Dow's venture partner Reuters. The acquisition took a great deal of communications prowess. In addition to the usual challenges presented by M&A activity, one unusual circumstance was thrown into the mix: Factiva was owned as a joint venture between Dow Jones and Reuters but always had operated independently. As a result, many Factiva employees weren't familiar with the Dow Jones culture, to which they would be required to assimilate.

This question of corporate culture—so relevant during a merger or acquisition, but increasingly more important to any public company thanks to stakeholder empowerment—will come into play in later chapters. In the case of Dow Jones's acquisition of Factiva, though, it was certainly top of mind for executives, as was their use of technology to communicate. According to Diane Thieke, director of global public relations for Dow Jones:

Making good use of technology enables you to build a corporate culture worldwide. Our head of internal communications and I [worked closely during the acquisition process]..., and our philosophy was to be completely transparent with all stakeholders, and particularly with *employees. You must keep employees up-to-date and informed before [acquisition-related] external messages go out.*[3]

Crafting messaging during a merger or acquisition isn't solely a function of communications, though, as evidenced by Dow Jones Executive Vice President and Chief Marketing Officer Alan Scott's participation. During the Factiva acquisition, he said:

Corporate communications, PR and marketing executives all got together to decide where we had the most brand equity overall, and then what the best way to move forward would be in terms of leveraging that equity and creating a go-to-market strategy. Then, [it was about] . . . putting together a polity that allows the organization to be seen and act as a thought leader.[4]

From the Backroom to the Boardroom

Up to this point, we have considered the modern business environment, the catalysts that brought it to its current condition, its impact on corporate leaders, and the reasons that these leaders are now inspired (or should be) to give greater attention to the communication function. Our focus is on digital communications platforms and the role they play in empowering stakeholders but also communicators. Before we go any further, though, it is important to understand the function itself.

Corporate communication, formerly described more basically as PR, grew up within organizations to meet the need of responding to external stakeholders. The earliest iteration of the function was communication at its most basic level; it was largely tactical, with employees responsible for PR-related activities that focused mostly on generating publicity through press releases and, when trouble arose, keeping the press at bay. A common complaint these professionals had was their inability to "get a seat at the table," which refers to their lack of representation at C-level meetings, when high-level strategies are shaped and executed.

Management's argument, if it could be defined as such, hinged on the misunderstanding that PR was a cost to the organization and offered very little return. After all, PR executives dealt largely with intangible assets such as reputation, whereas the marketing executives down the hall could justify their budgets by demonstrating the return on investment (ROI) of advertising campaigns. When faced with the choice of giving money to PR or to marketing, then, management historically favored the latter, encouraged by the hard numbers this function could bring back to show the effect of its work.

In conjunction with the competition historically brought on by the marketing discipline, it's also worth considering the corporate communication function's counterpart: external PR agencies. Their rise in prominence over the course of the last decade helps to set the stage for the current role corporate communications plays in companies.

In the economic boom of the late 1990s, PR agencies went on a proverbial shopping spree, hiring new and expensive talent to meet their clients' voracious appetites for services. Then the terrorist attacks of 9/11 and the dot-com bust crippled the businesses that had, mere weeks earlier, been fat, happy, and more than willing to write checks for service firms, including PR agencies. Executives within these agencies responded to the financial hit accordingly, firing their most expensive assets—the senior-level strategists—and relying on cheaper junior staffers to do most of the client work. Traditional consultancies, à la McKinsey and Bain, recognized the crater left by the void of senior PR talent and began to offer their clients strategic counseling services that once fell within communications' parameters. This commoditization of PR left an industry that was on the upswing after years of battling a negative image back in the doghouse; once again, these professionals were defined by their ability to write press releases and little else. Redefining their roles from tacticians to strategic counselors became another top priority. Whether this is a necessary shift in focus or merely a manifestation of preferences in diction remains to be seen, but there is certainly an argument to be made that in the current business environment, moving completely away from tactical skills isn't a wise approach.

"Despite the fact that most everyday PR activity focuses on tactics, the tendency within most PR circles is to overemphasize the strategic aspects of public relations and to subordinate the tactical. To be taken seriously, it seems, everyone with a PR responsibility feels the need to self-identify as a strategist," said Mark Weiner, CEO of PRIME Research North America, a global PR and corporate reputation research-based consulting firm. "The implications for PR's heavy emphasis on strategy are clear: Strategy is the superior mental and managerial activity, and tactics can be relegated harmlessly to the lower echelons. In reality, this argument is simply wrong."[5]

Rather, to accommodate increasingly complex organizational needs, PR professionals must hone strategic *and* tactical skill sets to both set objectives and achieve them. According to Weiner:

> *Those who choose to marry tactics with strategy will almost certainly succeed. In the first place, tactics must be fully considered as a part of the strategic process if anything is to come as a result of conducting a campaign. As the Chinese general and philosopher Sun Tzu wrote in 500 B.C., "Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat."*[6]

Thanks to digital communications developments and the 24/7 news cycle, slow routes to victory are not an option for corporations, nor are noisy defeats (made all the noisier by stakeholders' online grumblings). That said, these challenges, coupled with the increase in M&A activity to the commoditization of PR, have come full circle to position communication professionals to take a leading role, strategically *and* tactically, in their organizations. While getting "a seat at the table" and scraping by on shoestring budgets are still legitimate struggles among some PR/communication executives, the situation quickly began to change in recent years because senior leaders are increasingly confronted with heightened public scrutiny, stakeholder empowerment, a more stringent regulatory environment, and of course, emerging digital communication platforms.

According to Jon Iwata, senior vice president of marketing and communications at IBM Corporation:

> *There are pretty clear implications of message control and segmentation of audiences. [Digital media] . . . has created a great deal of complexity, but it has put a potentially powerful array of new tools into the hands of communicators. We are in the business of building and selecting channels of communication, but now we can build networks of relationships with the . . . [stakeholders] we care about.*[7]

Thus, as more management teams recognized the need for developing relationships via communications, PR began its transition from a backroom mechanism to a central function within corporations. No longer dismissed as a cost with diminished returns to the organization, today's most successful companies, such as IBM, view the corporate communication function as a profit center, even going so far as to transfer funds that historically went to marketing into communication's budget or to merge the two functions.

The backroom-to-boardroom evolution happened concurrently with the increased importance of brand and corporate reputation, two intangible assets that communicators are best equipped to handle based on their inherent skills in building and maintaining relationships with stakeholders. While marketers, for example, create campaigns to move customers to take action (usually in the form of purchasing a product or service), they don't have the inherent propensity for nurturing the relationships with stakeholders that ultimately define the strength of the organization's reputation and the viability of its brand—a difference that will be explored in greater depth in Chapter 3.

"New media models give [communication professionals] additional ways of reaching audiences with messages. But this is not about expanding channels of communication. It's about building networks of relationships," said IBM's Iwata. "But it starts with a recognition that we are no longer in control of our company's messages and channels—which we don't have anyway. Once we liberate ourselves from that illusion, we can begin to adopt and embrace new ways, tools and approaches."[8]

Ultimately, suffice it to say that emerging digital platforms have put communications executives in the position to reassert and reinvent themselves as valuable leaders within their organizations, which is a natural segue way to the next step of communications' repositioning in companies—a completely refined job description that bestows these executives with newfound responsibilities across every business function.

Form Fits Function: Integration Redefines the Role of Corporate Communications

With recognition of the corporate communication function as more strategic than tactical, senior executives are now inclined to integrate it into the overall organization. However, inclined is the operative word because this inclination, in many cases, stalls in the earliest stages of development. But the situation isn't as hopeless as it may sound. The communication function has received more kudos—and, in turn, more responsibility—as the changing business environment becomes apparent to corporate leaders. According to "The Authentic Enterprise CEO Report" by the Arthur W. Page Society:

> *In earlier eras, a company's principles, credos or beliefs—like its strategies and processes—were typically dictated from the top. However, we now live in a world of distributed, dynamic enterprises and shifting workforce attitudes and expectations. This demands increased delegation and empowerment, while maintaining consistency of brand, customer relationships, public reputation and day-to-day operations.*[9]

Speaking of increased delegation and empowerment, research shows that communications professionals do enjoy a marked improvement regarding their prominence as strategic counselors (see Table 2.1). The "Fifth Annual Generally Accepted Practices Study," released by the Strategic Public Relations Center at the University of Southern California on May 18, 2008, revealed that a growing number of companies recognize the value of corporate communications and are adapting their budgets and internal structures accordingly. For example, the study showed that PR/communications budgets increased by 10 percent between 2002 and 2007 for all responding organizations. And when asked to describe the extent to which communications

Table 2.1: Relying on PR Counsel: Aside from internal/external communications in which of these areas do you involve your PR counsel?

Function	Total (Percent of CEOs)
Managing corporate reputation	70.8%
Recruiting top talent	64.6
Launching new products	62.5
Developing company strategy	59.7
Engagement with community leaders	59.0
CSR (Corporate Social Responsibility)	57.6
Boosting investor/analyst perception; perception of your company's well-being	57.6
Retaining top talent	55.6
Green/sustainability/environmental issues	55.6
Weathering a crisis (product recall, etc.)	53.5
Shaping your corporate brand	50.7

Source: Burson-Marsteller/PR Week 2007 CEO Survey, November 12, 2007.

functions were integrated in their organizations (1 = not at all integrated; 7 = extremely integrated), respondents specified a solid level of integration (4.92) compared with 2002 (4.64).[10]

To understand the concept of integration fully, though, an in-depth examination of companies' organizational structuring is required. *Organizational structure* refers to the way that people are arranged within their companies in terms of both reporting relationships and divisions of responsibility.

In the context of organizations and their subfunctions, historically, structuring could be categorized loosely as centralized or decentralized. *Centralized* communications functions describe those in which all communications activities report to one senior officer at headquarters. Conversely, *decentralized* activities allow individual business units to handle communications independently. There are pros and cons to both approaches. In the past, more centralized models provided an easier way for companies to achieve consistency in and control over all communications activities. With increased globalization and fragmentation of media, however, this model is becoming obsolete because companies now need to have communications capabilities that extend into every area of their business and that address specific needs as they arise.

The decentralized model lies at the opposite end of the spectrum; it gives individual business units more flexibility in adapting the function to their own needs. This model was ideal for an organization as large and diversified as Johnson & Johnson (J&J), for example: With more than 110,000 employees in more than 200 operating companies in 57 different countries, complete centralization of communications would be difficult, if not impossible. Instead, Bill Nielsen, the legendary former corporate vice president of corporate communication at J&J, described the function as "a partnership of professionals in communication."[11]

These black-and-white approaches were more effective in an era when stakeholders received messages passively; today, it is more difficult to manage communications in "silos," thus requiring managers to reshape their organizational structures to reach highly targeted audiences with customized messages. Finding a middle ground between a completely centralized and a wholly decentralized structure is the best way to maintain an effective communications strategy in today's environment. For example, a centralized functional area can be supplemented by a network of decentralized communications executives who adapt the function to meet the special needs of individual business units.

While every company is structured slightly differently to meet its own needs—be it centralized or decentralized—there are, almost without exception, always certain positions that report directly to the CEO and subsequently define the rest of the organization's reporting relationships. Traditionally, a common C-suite would include (but not necessarily be limited to) the chief executive officer (CEO), chief marketing officer (CMO), chief financial officer (CFO), chief information officer (CIO), and chief operational officer (COO). However, the modern business environment has precipitated something of a boom in the creation of chief communications officer (CCO) positions—a role that, in the past, often fell under the chief administrative officer (CAO) umbrella.

In fact, a 2008 study released by Weber Shandwick and Spencer Stuart revealed a strong correlation between a company's corporate communications organization and its ranking on *Fortune*'s "World's Most Admired Companies" list. The study, dubbed "The Rising CCO," compared responses from 141 top communications executives in the "World's Most Admired Companies" with those from "contender companies" to find that the former class of executives has more prominent organizational statuses and longer tenures than their counterparts.[12]

Perhaps more significant, though, is the connection drawn between communication and an organization's reputation: Approximately 34 percent of CCOs from the most admired companies cited corporate reputation as their number one priority for 2008, compared with fewer than 21 percent of CCOs at contender companies. According to Dr. Leslie Gaines-Ross, chief reputation strategist at Weber Shandwick, "Our research identifies how the corporate communications function can be a critical force in driving a company's reputation in good times and bad. With the right organizational structure and partnership at the top, the best CCOs can significantly contribute to building shareholder value and corporate reputation."[13]

This nod to the importance of CCOs within companies brings us back to the factor that is so imbedded in the collective evolution of organizational structures—integration. As the PR profession began to transform into an empowered carbon copy of its former self, communications executives took more aggressive steps to integrate their activities with those of other functions; not coincidentally, this transformation happened as "international" companies became truly multinational corporations. It was not until the 1980s, when trade barriers were dropped and the privatization of state-owned companies occurred regularly, that a company's organizational form could become increasingly efficient. The rise of the Internet in the 1990s only served to highlight that the economic and industrial rules of the game had changed.

Thus traditional means of structuring reporting relationships became inefficient. According to Sam Palmisano, CEO of IBM:

> *It's about culture and how decisions are made. The old model of the corporation was vertically integrated, whereas today, the most important kind of integration—the most important way to be "one"—is horizontal. For IBM today, being one means figuring out ways for 370,000 IBMers, expert in virtually every industry and working in 170 countries across the globe, as well as literally millions of business partners and other members of IBM's global ecosystem, to exercise their own judgment and imagination . . . but at the same time produce work that is consistently and recognizably "IBM."*[14]

Note that this antisilo organizational approach emphasizes the importance of both fostering a consistent brand and allowing employees to exercise their imaginations and foster innovation; in other words, communication—among employees, managers, and external stakeholders—is of paramount value.

According to IBM's Iwata:

> *[In 2006], IBM's business consulting unit surveyed more than 750 CEOs from all over the world on the subject of innovation. The CEOs had a lot to say. They emphatically agreed that innovation is a top priority for them and their companies, and they see themselves as personally driving the innovation agenda. They said that innovation today meant more than novel products and services, and that it extended to innovative business processes and models and to how they manage their workforces and evolve their corporate cultures.*

Significantly for communications executives, the CEOs identified as top sources of innovative ideas their own customers, business partners and the general employee population. This is excellent news for communications executives. It means that CEOs are asking for help to drive systemic change across the enterprise. It means that CEOs are looking for ways to engage employees in meaningful, two-way dialogue, and to find ways to open up their companies to collaborate with customers and business partners. The fact that they need all of this but are scratching their heads as to how to get it done spells opportunity for progressive communications leaders who rise to the challenge.[15]

INTEGRATION'S CATALYSTS, APPROACHES, AND BENEFITS

Catalysts:

- The legal and regulatory environment
- Sophisticated overlapping constituencies
- Organizational growth and complexity
- Technology

Approaches:

- Reporting relationships
- Creation of informal communications councils
- Creation of a unique communications integration manager position
- Leveraging technology

Benefits:

- Preservation of the corporate brand, enhanced reputation
- Ability to weather crises more effectively
- Optimization of business outcomes

Source: Paul Argenti, "The Power of Integration: Building a Corporate Communication Function That Is Greater Than the Sum of Its Parts," Tuck School of Business at Dartmouth for NIRI's Center for Strategic Communication, Hanover, NH, September 2005.

Ultimately, this shift in mind-set has precipitated the increasingly prevalent role of communications in an organization's reporting structures. Case in point: Many companies have gone so far as to completely restructure their reporting relationships in recent years to place more focus on corporate communication, especially its role in protecting and enhancing reputations. As mentioned briefly early in this chapter, the usual structures—centralized and decentralized—met the needs of most organizations until relatively recently, mostly owing to the one-way communications that took place between a company and its stakeholders.

Now, with the number of multinationals growing exponentially and the continued emergence of digital communications platforms, organizations that rely on these approaches find themselves less and less successful in communicating with their target audiences (for specific catalysts of integration, see the sidebar "Integration's Catalysts, Approaches, and Benefits"). In light of the challenges presented by the modern business environment, then, how *should* senior managers consider restructuring in the context of the corporate communication function—and how can digital platforms facilitate the process?

Matrix Reloaded: An Integrated Organizational Structure Gives Communications the Lead

A third category of organization structures is the most ambiguous, with its malleability helping to meet the ever-changing needs of corporations. Matrix structures, which first gained popularity in the late 1970s but were implemented originally with relatively little success, came back into style with improved results in the late 1990s and 2000s because this era's economic and corporate environments were better suited to this type of management. According to the Corporate Leadership Council, these structures most often define flat, horizontal corporations that are organized around teams and that have a greater drive to increase customer satisfaction.[16]

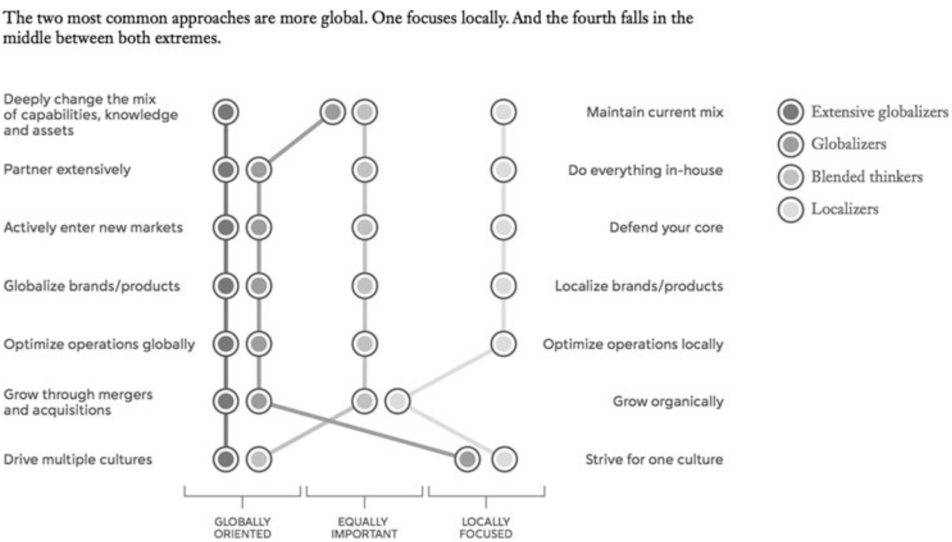
Reasons for the relative success of the matrix structure include its ability to leverage core competencies across horizontal companies, to stay plugged in with local stakeholders (in the case of global organizations), to react responsively to the needs of different markets, and to keep up with shorter production cycles. In short, products and individual brands within a corporation often drive organizational structures. According to Georg Baur, CEO of BMW Financial Services, "Products have to be local with a global brand. I see us as a globally integrated organization with a local presence and localized products."[17]

However, while products and brands are key to organizational approaches, the ability to develop relationships "on the ground" with local employees and consumers often determines the use of one organizational approach over another. A more modern, "digital minded" iteration of the matrix structure that focuses on relationships within the organization, as well as between the organization and external partners, is the networking model, which focuses on the interests of individual communities and stakeholders and develops value propositions around them accordingly. As corporate leaders move to embrace integration, the majority—60 percent of them, according to IBM's 2008 Global CEO Survey—are taking largely global approaches by leveraging networks and local partners (see Figure 2.1).

According to Rupert Stadler, chairman of the board of management of Audi AG:

> *Networking plays a substantial role at Audi. We're a company with branches in 130 countries around the world. You can't make this business model work unless you have partners that you can trust. The biggest opportunity of this networking model is that you make use of available skills and conserve your own resources. We assume that our local partners know their market much better than we do and can do a lot better than we could from Germany. As for risk, the big risk is mistrust.*

Figure 2.1: The two most common approaches to organizational structure



> *Obviously, in a collaborative relationship, you are completely dependent and at your partner's mercy. This means one has to think about how to manage everything. But I think good networks and good partnerships are characterized by both parties continually moving forward to address these issues. One has to cultivate a culture of discussion.*[18]

Indeed, research suggests that corporate culture is the most important factor in determining the success of a matrix structure, as well as being one of the intangibles cultivated and maintained by the corporate communication function. While this will be discussed in greater detail in Chapter 5, Mike Davies, global director of communications for PricewaterhouseCoopers, notes that his organization adopted a matrix structure after its 1998 merger (between Price Waterhouse and Coopers & Lybrand):

> *Communications is paramount when you are trying to bring together two organizations, or when you are trying to communicate worldwide. Communications has to be very high up on the agenda. I have a central team of 10 that deals with communications issue, but then we work in close cooperation with the communications leaders around the world.*[19]

Davies offers these best practices when considering a modern matrix structure:

- "You must be able to explain to people who are driving the business that it isn't just a case of money and resources. It's about spending time to manage and communicate both internally and externally."
- "Execution can differ widely from country to country, so you have to understand and accommodate local need. You can have a core message, but you have to tailor that to the marketplaces you disseminate to."
- "News travels very fast these days, so you need to be close with your network in order to get the right intelligence and then react to situations. You can always make things better when bringing on new technology. Though it's not the answer, it is part of the solution. You have to make the message worth reading."[20]

These strategies are overarching themes in any modern communications effort, and they help to address restructuring challenges. The point becomes even more salient when illustrated by another company's journey to true integration, which optimized the internal economic, cultural, and political forces that already existed and then delivered a value proposition for individual stakeholders and, ultimately, for the company as a whole.

And the Walls Come Tumbling Down: Diagnosing and Implementing Effective Organizational Structures

The value of centralized, decentralized, and matrixed organizational structures is certainly company-specific, but changes in the global business landscape discussed thus far have forced almost every corporate leader to reevaluate his or her company's internal processes. One of the greatest challenges is diagnosing which structure will optimize business performance, facilitate development, control costs, and enhance employee development—all at the same time. Choosing the wrong structure and moving forward to implement it can have devastating effects on brands and bottom lines. HP executives, for example, spent 16 years alternating between centralized and decentralized organizational structures, losing critical business assets with each transition.[21] More recently, HP executives began leveraging digital assets, including the intranet, as we mentioned earlier in this chapter, to streamline internal communications and integrate business units after its 2002 merger with Compaq.

DaimlerChrysler, on the other hand, couldn't pull off the reorganization instigated by the 1998 merger, thus failing to realize the hyped synergy that would never be brought to life. While it was true that there may have been very little overlap between the product lines of the businesses (Mercedes built high-end, exclusive automobiles, whereas Chrysler operated in mass-market mode), achieving synergy is never a given. More is needed, such as the willingness to integrate supplier relationships. Looking to become a global behemoth, the company abandoned the core supply management principles at the unit level that had differentiated the Chrysler brand under Lee Iacocca, reverting back to pressure tactics to squeeze the best possible prices from its suppliers.

As late as 2002, analysts noted that DaimlerChrysler appeared to be running two independent product lines. Worried about diluting its luxury brand, Daimler never followed through on its promise to share patents and vehicle architectures between Chrysler and Mercedes-Benz models—a key selling point of the original deal. And questions have always persisted about whether the traditional hierarchical management model prevalent in Germany, with its silos of reporting levels, was able to be flattened as easily as Daimler anticipated. Less than a decade into the merger, in August 2007, DaimlerChrysler completed the sale of Chrysler to Cerberus Capital Management, a private equity firm that specializes in restructuring troubled companies.

What HP's and DaimlerChrysler's struggles with structures do highlight is key for all business leaders: No single organizational structure is a panacea for business challenges. Even a matrixed approach, which on paper appears to solve many of the problems associated with pure centralization or decentralization, has proven to be ineffective. Giving equal power to different leaders throughout a corporation presents conflicts of interest that can be resolved only if one party agrees to cede power. This structure is also prone to disconnects in management's communications with employees company-wide, thus prompting their trust in leadership to suffer.

Does this mean that there is no real solution? Yes and no. Before the emergence of digital technologies, corporate leaders were forced to be married largely to one structure and one structure only because any mixing and matching usually led to gaps in communications. But digital communication channels facilitate cheap and immediate connections between offices around the world; they also provide mechanisms for executives specifically to communicate goals and strategies for reorganizations to employees themselves, as General Electric (GE) did via its GE Reports blog on November 18, 2008. Executives posted the company's new organizational chart for its GE Capital Division and also used the forum to explain the reasons for the reorganization and to post a video interview with Bill Cary, COO of GE Capital, and Communications Director Marissa Moretti that discussed the change.[22] Thanks to the ability to streamline communications around restructuring, many companies have begun to embrace a buffet approach to reorganizations, taking a little of this and a little of that to meet their specific needs and seeing no real reason to label it one way or the other. Most organizations today are too complicated for labels anyway.

As IBM CEO Sam Palmisano summarized:

The challenge for IBM—given our complexity, geographic dispersion and the breadth of our businesses—is to define what is common, shared *and enduring. That's what being "one company" is about for us—and it's not synonymous with centralization or top-down control. It is not at all the same thing as rigidity, conformity or even alignment, which are actually fairly easy to impose as management systems.*[23]

Adidas is a prime example of an organization whose recent restructuring had very little to do with alignment, let alone a "one company" vision. Beginning in 2000, its leadership began planning a reorganization that would position the Germany-based company for massive growth in all its markets. That strategy has largely been realized, especially since its 2006 acquisition of Reebok. Once organized under a matrix structure that divided the company into brands and regions, Adidas now takes a combined centralized and decentralized approach, leaning toward one or the other based on specific units' needs. For example, the company no longer organizes according to region; all divisions are brand-specific, falling under either Adidas, Reebok, or Taylor Made (in 2006, all products that didn't fall under these brands' core subsets of golf, sports shoes, or sportswear were sold[24]). These brands and their related activities—all of which are consumer-facing—are decentralized, each having its own leaders (who report directly to the CEO) and brand identities (i.e., logos, design, marketing, etc.). This approach has a number of benefits: The individual brands' employees can focus on one mission and corporate culture, and consumers aren't confused by convoluted messaging or branding that detract from the products.

Global Operations, then, hovers above these three brand divisions on the organizational chart. This is a centralized cluster of functions that handle all non-consumer-facing activities, including the coordination and optimization of production planning, inbound and outbound logistics, and supplier relations (Adidas' production is completely outsourced). Thus the brand identities—from the perspectives of both employees and consumers—are Adidas' competitive advantage, and they guide organizational strategies accordingly. Said Herbert Hainer, CEO of Adidas, "The management of brands is our core competence, and we are sure that we can reach a bigger target audience with separate world-class brands."[25]

Meanwhile, Dutch firm Philips Electronics, led by CEO Gerard Kleisterlee, underwent a restructuring of its own, seeking to identify the tie that binds its employees to the company and, in turn, increase synergies and enable cooperative efforts among all organizational functions.

The crux of the strategy to achieve this goal was to ensure that the values and beliefs of Philips' core businesses resided within its employees rather than on a piece of paper in a strategic plan. After all, even in a technologically advanced world, there is only so much that enterprise resource planning systems can do to facilitate true integration. Bringing a company to its potential today is not about nature versus nurture but rather about how, in bringing together global units, a company can take advantage of the competitive environment through culture changes and aligned communications—a philosophy that can be described in short as "one company."

Unlike other companies, which have undergone transformation mainly in response to competitive pressures or the sometimes culturally harsh realities of postmerger euphoria, Philips' Kleisterlee instinctively understood the inherent value of the one-company tenets and the bottom-line effect those could have on his company. At the beginning of his tenure as CEO, Philips consisted of an armada of independent ships each with its own identity, about which he said, "I was determined to change them to one effective fleet joining forces aimed at serving customers' needs in an integrated way."[26] Until the late 1990s, Philips' strategy was the accumulation of individual divisional strategies focused primarily on its high-volume electronics value chain. Unfortunately, that wasn't where the company was making money. Medical devices and lighting were where the action was.

Philips' first step was to establish consistency in its communications, making sure that the messages and media the company was projecting were aligned in its external and internal platforms—in other words, that they were truly integrated. Accomplishing such a goal involved taking a tough look at the consistency in the look and feel of media, as well as the themes and messages conveyed. Part of the process was checking to see that redundancies were avoided and that there was no "local" messaging within departments that was out of step with the effort.

In addition, tracking progress in the degrees of employee alignment (as measured by desired behavior) will allow management to be in control of the change process—enabling managers to press the right buttons at the right time.

Philips has been using a tool assessing the degree of employee alignment at a global level for years. The tool enables it to see figures corresponding to the awareness, attitude, understanding, and actual behavior of Philips' people at divisional and country levels. Kleisterlee uses these figures not only to be aware of the failures and successes of the change process but also to create awareness about the fact that the "Towards One Philips" strategy really was serious and that he could see who was a follower and who was an opponent.

Measuring alignment among employees with corporate strategy is fundamentally different from traditional employee satisfaction surveys. While the former is a proxy for risk assessment regarding the implementation of the intended strategy, the latter is a proxy for the degree of retention within a company. To put it simply, alignment research provides an answer to the question, "Do my people do what I want them to do?" whereas employee satisfaction studies focus on the question, "Will my people still work for me next month?"

Realizing a one-company philosophy is not a simple goal to achieve, and without clear ambition from top management to become a unified business, many companies will fail in the effort to make the transformation.

For Philips, as for most companies, the most convincing argument to reaching consensus on aiming for one company boils down to anticipated improvements in the marketplace thanks to a balanced approach that serves customer demands in a more efficient way. For Philips, its key account management system—which showcased clear bottom-line gains—was the turning point in gaining company-wide acceptance of Kleisterlee's internal "One Philips" campaign. As just one example, Philips' communications and HR teams were able to offer proof of lowered costs for attracting capital, which, in turn, increased the corporate brand's prestige and lowered recruitment costs.

This example of Philips' process to achieve integrated communications is ideal for setting the stage for the organizational subfunctions that, thanks to integration and organizational restructurings, now reside beneath the corporate communications umbrella:

Marketing

Historically, the marketing function has been PR/corporate communications' greatest competitor in terms of both budgets and respect from senior leadership. The Corporate Executive Board defines marketing as the "organizational function and set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders." As will be discussed in Chapter 3, integration and digital technologies abetted the process of transferring the responsibilities of customer messaging from the marketing to the communication function.

Media Relations

While the old-fashioned PR function focused almost exclusively on dealing with media relations may be a thing of the past, the subfunction now referred to as *media relations* is still central to the corporate communication function; so too is it evolving almost as quickly as the function itself, given the fragmentation of media and the concurrent proliferation of digital media channels. Regardless of the monumental changes occurring in this subfunction, it still refers to the processes of communicating an organization's news to media, be they traditional journalists or, as they are more and more frequently, bloggers.

Internal Communications

Once owned primarily by human resources (HR), internal communications—which encompasses talent management and employee relations—has an increasingly prominent role in the corporate communication function as companies focus on retaining a contented workforce in the face of changing values and demographics. While strong internal communications always have generated a more engaged, productive, and loyal workforce, the business themes discussed thus far have further necessitated strong communications channels between management and employees to win back employee trust and loyalty. More and more, companies are making sure that their employees understand the new marketing initiatives they are communicating externally and are uniting the workforce behind common goals and corporate strategies. This type of communication requires the expertise of strong corporate communicators who are also well connected to senior management and the corporate strategy process.

Additionally, difficult economic times, layoffs, and uncertainty require open, honest communication from senior management to all employees. The sensitive nature of some of these messages further speaks for the involvement of seasoned communications professionals alongside their HR counterparts and, most important, of the CEO or of senior executives who are the individuals communicating messages to internal and external audiences most frequently.

Finally, owing to the merging of stakeholder groups, companies must recognize that employees now also may represent investors and members of community advocacy groups—making thoughtful communications even more critical.

Investor Relations

Traditionally, investor relations (IR) was handled by the finance function, often reporting to the company's CFO, but the focus in recent years has moved away from "just the numbers" to the way the numbers are actually communicated to various stakeholders. IR professionals deal primarily with shareholders and securities analysts, who are often a direct source for the financial press, which this subfunction cultivates in conjunction with experts from the media relations area. IR professionals interact heavily with both individual and institutional investors. They also are highly involved with the financial statements and annual reports that every public firm must produce.

Given the quantitative messages, as well as the need for IR professionals to choose their words carefully to avoid any semblance of transferring inside information, the IR subfunction must be a coordinated effort between communications professionals and the IR team. The need for this coordination has only increased in recent years with more stringent regulatory demands in the age of Sarbanes-Oxley and Regulation Fair Disclosure (Reg FD), both of which will be discussed in greater detail in Chapter 6.

Corporate Social Responsibility

Today, reputational risks and rewards transcend simply staying out of trouble; rather, stakeholders are far more proactive in seeking out information about corporations, and corporate social responsibility (CSR) now plays a much larger role in forming these groups' perceptions. Study after study shows that how good a "corporate citizen" a company is directly correlates with the strength of its reputation, brand, and bottom line.

As the CSR discipline—also referred to as *corporate citizenship*, *philanthropy*, *sustainability*, or *green*—evolved, the corporate communication function quickly adopted it. Pressures to have a positive impact on communities, employees, consumers, and investors (in other words, stakeholders) mounted, and simply *doing* good had far less impact than *communicating* the good that was being done. And with increased globalization and international corporate expansion, stakeholders' expectations for corporate citizenship also have grown more global in scope. In turn, many companies are publishing environmental and social performance information in the same manner as they traditionally would report financials. This, along with other CSR and green-marketing-related endeavors, will be discussed in depth in Chapter 7.

Public Affairs

Public affairs, also referred to as *government relations*, traditionally was more important in some industries than in others; however, the democratization of information online, coupled with heightened public scrutiny, increased government regulation, and an increasingly litigious business environment, makes this subfunction at least tangentially relevant to most organizations.

Staying connected to what is happening in local, federal, and international governments through a well-staffed and savvy government relations team is important to virtually all businesses given the far reach of government regulations within industries from pharmaceuticals to computer software. As companies expand internationally, building or outsourcing government relations efforts in key major foreign hubs—for example, in Brussels to concentrate on European Union legislation—will become equally important. Public affairs as it relates to companies' digital communications efforts among stakeholders will be discussed at length in Chapter 8.

Crisis Communications

One of the most profound effects of the changing business environment on companies and their corporation communication functions is the exponential increase in risk factors that could lead to a devastating crisis, be it financial, legal, reputational, or otherwise. The proliferation of digital communications channels only exacerbates the risk because news travels at warp speed across the autobahns of cyberspace, reaching audiences all over the globe with the click of a button.

Chapter 9 will highlight crisis management strategies in the context of both anticipating challenges and leveraging opportunities provided by digital communications platforms.

Conclusion

The changing business environment described in Chapter 1 has had a monumental impact on the way businesses operate, both internally and externally. As this business landscape evolved to encompass emerging digital platforms, increased globalization, and a more stringent regulatory environment, the importance of communications—and, specifically, the corporate communication function—has morphed from a backroom tactical department to a strategic liaison between the organization and its many stakeholder groups, all of whom have significantly more control over companies' reputations and bottom lines.

Because of organizations' new vulnerability to stakeholder demands, the corporate communication function, naturally skilled in relationship building and reputation management, became a central organism whose tentacles extend to every internal department, be it marketing, public affairs, or investor relations. Corporate leaders have been required to reshuffle their organizational structures accordingly, integrating functions that were previously siloed to incorporate communicators' intrinsic skill sets, especially in the context of the challenges and opportunities presented by digital communications platforms.

Whether a company is in the midst of a merger, shifting from a centralized to a decentralized organizational structure, or just trying to remain competitive in an increasingly complicated environment, modern reputational risks and rewards require senior executives to rethink the way they position themselves internally to have a positive impact on the actions of external stakeholders. The biggest lesson: The devil's in the digital, and corporate communicators are stepping up to lead their brands out of the inferno and into the future.