
**Company Communication Trends:
Growth of new communication technologies
demands rethink of companies' internal
communication strategies**

A Survey Report by The Boston Consulting Group

February 2002

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Company Communication Trends: Growth of new communication technologies demands rethink of companies' internal communication strategies

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Executive Summary

SURVEY HIGHLIGHTS

This report summarizes the findings from a December 2001 phone survey of internal corporate communication trends in a representative sample of 123 large U.S., European and Asian companies. The results reveal some striking trends in the adoption and use of new communication technologies.

- **Substantial increase in new communication modes.** One finding is that the economic downturn has increased, not dampened, companies' appetite for new communication technologies, especially among U.S. firms. Most companies report a substantial increase in the use of new communication modes: the use of video conferencing, virtual meeting places, online communities, and online training was up 10 percent on average last year (2001 over 2000), with a further average increase of 15 percent expected this year (2001-2002). That's over a *25 percent average increase* in the use of each of these communication modes over a two-year period. This trend is robust, taking place across major industries, company sizes and geographies. While European and Asian companies reported a lower usage increase in new communication technologies than their U.S. counterparts last year (6 percent vs. 13 percent average growth, respectively), that gap is expected to close in 2002 (with 16 percent and 15 percent average usage increases expected for European/Asian and U.S. companies, respectively).
- **Traditional communication modes still holding sway.** Equally striking, this increase in the use of new communication technologies has not yet led to a significant decline in the use of traditional communication modes: the use of face-to-face interactions (meetings and training) was flat last year, while the use of voicemail is growing 4 percent annually. Overall, therefore, the *total volume* of communication within companies increased moderately last year and is expected to do so this year as well. Not surprisingly, a number of respondents are concerned about information overload in their companies.

- **Something has to give.** It is unlikely that this increase in the use of communication modes can continue at this pace—the resulting information and communication overload would undermine any potential benefits. Two things need to happen. First, new communication modes will replace traditional face-to-face ones where appropriate. The European and Asian companies in this sample reported that this is happening for routine interactions (but not for intensive people-management issues and brainstorming). Also, this substitution appears to have started in very large companies, where respondents reported an average 3 percent decrease in the use of face-to-face interactions but a sharp increase in new communication modes. Second, the use of new communication modes needs to be much better managed to increase their benefits without incurring interaction overload. Surprisingly, most companies in the sample did not report a systematic approach to managing new communication modes.
- **“It’s the economy, stupid.”** In the U.S., the main perceived driver of changes in company communication patterns is the economic downturn, not the events of September 11. Nearly 30 percent of U.S. companies identified this as the primary driver for the increased usage of new communication modes. In Europe and Asia, however, both the economic downturn and the events of September 11 were less important in driving the increased usage of new communication technologies, according to survey respondents.
- **A very favorable environment for the adoption of new communication modes.** The companies in the sample reported that a confluence of factors—including the maturation of communication technologies, pressures to reduce costs associated with the economic downturn, and sustained spending on new internal communication technologies—has led to a very favorable corporate environment for the adoption and use of new communication technologies within companies. Forty percent or more of the respondents named these drivers as top three factors for the increased usage. This is perhaps the most favorable corporate environment ever for the launch of corporate initiatives that deploy new communication mechanisms.
- **Companies are pursuing an “invest-to-reduce-costs” model.** Many companies are following a model whereby they invest in new communication technologies in order to drive down other costs and increase productivity. Companies report a high level of activity in terms of internal communication initiatives and associated spending on communication technologies, yet they are under pressure to reduce operating costs. In the sample, 80 percent of U.S. and 90 percent of European and Asian companies reported flat or increased spending on internal communication activities—remarkable numbers given the pressure to reduce operating costs in many companies. Worth noting is that companies that did well in 2001 (as measured by stock-price performance) reported nearly twice as large an increase in their communication budgets as those that did less well.

- **No systematic tracking of impact.** However, although companies report that they are undertaking several corporate communication initiatives and are continuing to spend money on new communication technologies, they have not put in place systematic tracking and management mechanisms to ensure that cost savings and efficiency gains are realized. Although nearly 90 percent of the companies interviewed thought their communication strategies were very or moderately efficient, only 50 percent of those could pinpoint the tangible benefits in terms of cost savings or efficiency gains.
- **Need for a comprehensive communication strategy.** The data paint a picture of widespread spending without a coherent communication strategy and tracking systems to ensure that the economic potential is realized. Worse, it appears that the availability of new communication technologies, and not the business case for their usage, is driving corporate initiatives. Given these trends, it is clear that companies require an organized framework and approach to link internal communication initiatives to business strategy and efficiency programs. At the end of the report, we discuss BCG's framework for developing and implementing an internal communication strategy. Three aspects are highlighted: the identification of interactions amenable to new communication technologies, four communication levers that yield the most value, and a four-phased approach for implementing change.

TO LEARN MORE

If you wish to discuss this further, please contact the following experts in BCG:

For Americas: Hal Sirkin (phone: [312] 993-3366
email: sirkin.hal@bcg.com)

For Europe: Stephan Dertnig (phone: +43 1 537 56 8122
email: dertnig.stephan@bcg.com)

For Asia/ANZ: David Brownell (phone: +61 3 9656 2140
email: brownell.david@bcg.com)

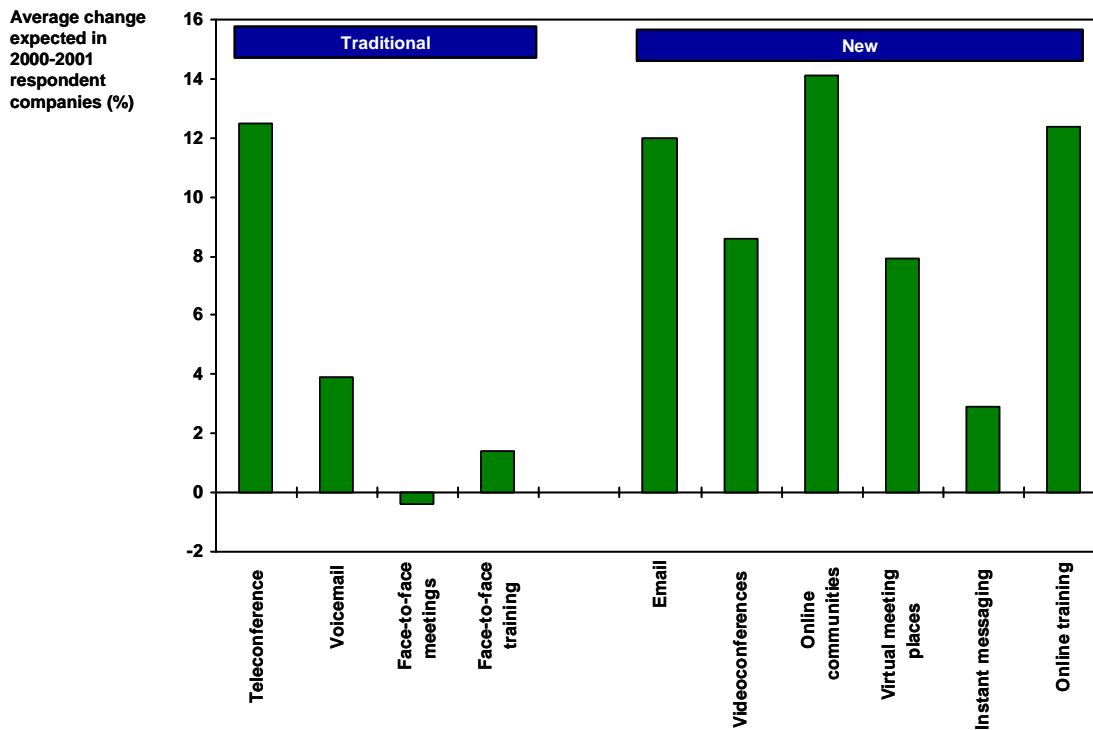
1. Types of communication: Substantial increase globally in the use of new communication technologies

EMERGING NEW COMMUNICATION MODES IN COMPANIES

As depicted in Chart 1.1, the usage of new modes of communication increased in 2001 significantly in the sample of companies over 2000, including the use of videoconferencing, online communities, virtual meeting places (also known as Internet meetings), and online training. In contrast, more traditional modes of communication did not show the same level of increase, indicating that they may have reached a level of saturation. This was true of voicemail, face-to-face training (i.e., in classrooms) and face-to-face meetings, which showed a slight decrease.

Chart 1.1

Usage of new electronic communication modes has increased significantly in the past year



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

The data do not reveal a strong substitution of face-to-face meetings by virtual communication modes over the past year, although it is clear from comments made by survey respondents that cutbacks in travel budgets have led employees to meet virtually instead of traveling to meet face-to-face. Seagate Technology, the hard-disc manufacturer based in Scotts Valley, California, provides a good example: its employees have increased their use of desktop-based Internet meetings in lieu of traveling for internal meetings (see nearby box).

Seagate's Use of Virtual Meeting Places

Virtual meeting place platforms have been around for several years, but they've only really begun to grab hold of corporate America over the last year or so, as they've become more and more user-friendly. Vendors in this space – including Microsoft NetMeeting, Lotus Sametime, PlaceWare, Centra, and WebEx – claim that interactive online meetings will help companies realize considerable cost savings and increases in productivity.

Functionality differs slightly from provider to provider, but in general virtual meeting places allow participants to connect remotely for a meeting or presentation via the Internet. They may communicate via chat, audio and/or video technology, and together view a Web page, software application, document, or entire desktop simultaneously.

Seagate Technology has already become heavily reliant on virtual meeting place technology. Doing business around the world in personal computing, enterprise computing, and consumer electronics, Seagate has enormous global communication requirements, and has embraced virtual meetings as one solution. Dave Wickersham, executive vice president of global disc storage operations, says that usage of the application at the company has really hit its stride over the last year, with overall usage up an estimated 30 to 40 percent, and at least a 20 percent increase expected in the coming year as well.

One out of every two annual operations/strategy meetings involving Seagate senior executives, for example, is now held via WebEx. Similarly, two out of the last three quarterly meetings for top management over the past six months were held virtually. As a result, cross-location, face-to-face meetings have decreased by approximately 20 percent over the past year, with a further decline of five to 10 percent expected over the next year.

The benefits, Wickersham says, have been considerable. Most tangible has been

Seagate's ability to trim its travel budget. However, gains haven't just been realized in foregone flights and hotel rooms. More importantly, gains have come from savings in time. Previously, a typical high-level meeting might have required a Seagate executive to spend a day flying to another company location, a day attending the meeting (of which maybe only an hour or so was directly relevant to him or her), and a day flying back. Now, with the advent of virtual meeting places, that three-day time commitment can be reduced to a one- or two-hour affair, which the executive can turn to from whatever else he or she had been working on just a few minutes beforehand.

The simplification of the logistics involved in attending the meeting broadens the circle of people who are able to attend – and thus the number of brains available at the table. These cost and productivity benefits combined have, Wickersham says, "put most other [remaining face-to-face] meetings into question."

Some benefits of face-to-face meetings, he notes, are lost through Internet-based meetings. Without a video link, which Seagate doesn't employ, participants are unable to see whether other attendees are engaged, excited, or rather distracted by their e-mail. Additionally, some face-to-face contact is critical to maintaining a successful organization. "There are times when you just have to meet face-to-face," Wickersham notes. Seagate's last quarterly meeting for top management was held the old-fashioned way – in person – to ensure that the personal relationships at the core of the organization would not be neglected. "The little things, like what goes on during the breaks, are also important," he says. Logistics also sometimes demand face-to-face contact; for example, during one past strategy session, top Seagate executives were asked to swarm around a room and attach post-it notes to brainstorming posters lining the walls – an

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Seagate (continued)

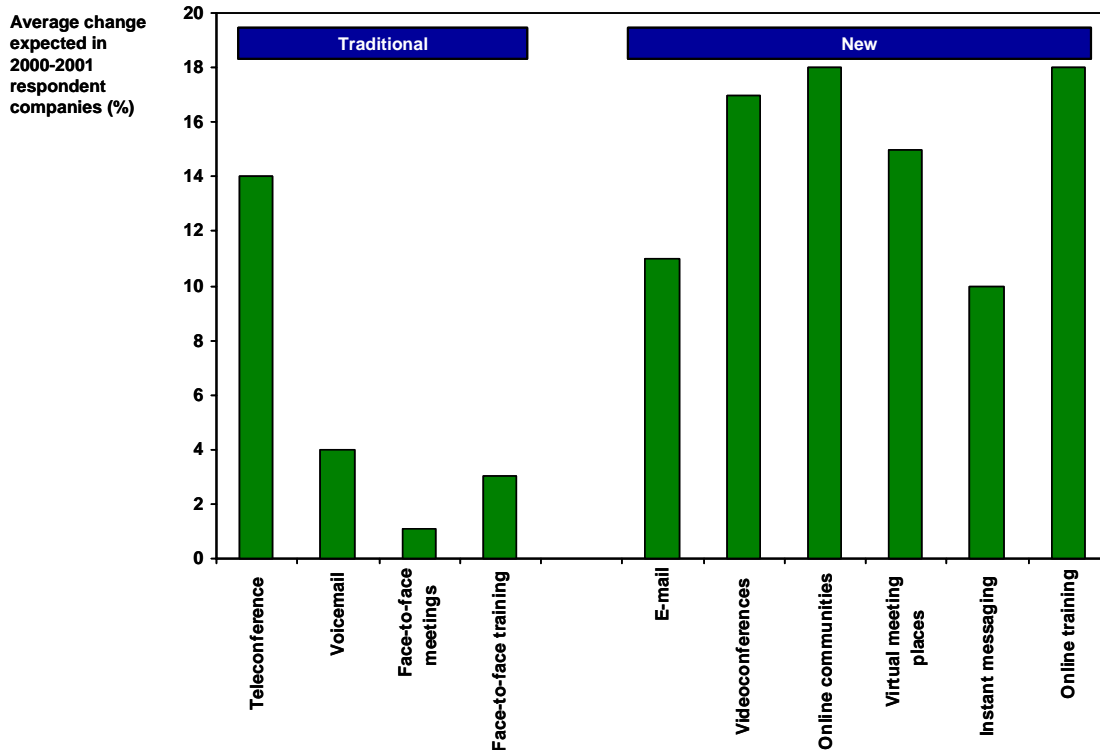
effort that would have been impossible to conduct virtually.

Virtual meetings may not replace every type of corporate meeting, but in some instances –

particularly presentation-style meetings that might benefit from some degree of collaboration but are not excessively involved – the benefits are considerable. “The more we embrace these new technologies, the more taken we are with them,” says Wickersham.

According to survey respondents, usage trends over the past year are likely to continue in 2002. As shown in Chart 1.2, the use of the new communication modes is expected to increase significantly in 2002, including the use of instant messaging, which did not show a marked increase last year. As an example of the increased use of online communities, consider IBM’s increased use of “TeamRooms,” a form of task-based online community in which participants exchange information and collaborate around specific tasks and projects (see nearby box). Likewise, e-mail usage is expected to go up this year as well. Again, the usage level of traditional communication modes—voicemail, face-to-face meetings and training—is likely to remain more or less unchanged in this sample of companies. Overall, therefore, the amount of communication is likely to increase as usage of new modes continues to gain momentum while traditional modes remain unchanged.

Chart 1.2
Trend is expected to continue for the next year



Note: Responses to question: What changes do you foresee in the use of each of the following communication tools next year?

IBM's Online TeamRooms

According to Dr. Mahnaz Dean, IBM's director of business development, the company has seen a substantial increase in the use of online "TeamRooms" as a means of improving communication and information flow for task teams over the past year.

This is how TeamRooms work:

A person in charge of a task force requests the set-up of a virtual TeamRoom. Once the request is approved, an automatic connection to a database is established and the manager of the TeamRoom selects the members whose participation is requested. The set-up provides managers with the ability to restrict areas of information to some members of the team and select levels of accessibility (e.g., read-only, add or edit) to others.

According to Lynn Dorsett, a member of the team responsible for delivering teaming services, the main purpose of TeamRooms is to provide a shared space where teams can work together, make decisions and write proposals. Team members with busy schedules are able to work in their shared space whenever and wherever they can, enabling the concept of a truly global team to become a reality.

Dorsett highlights several advantages of TeamRooms. The ability to share information openly and simultaneously inspires discussion, triggers action and prompts offers of help from team members. It also leads to

an increased sense of accountability among team members because of the increased transparency of member contributions.

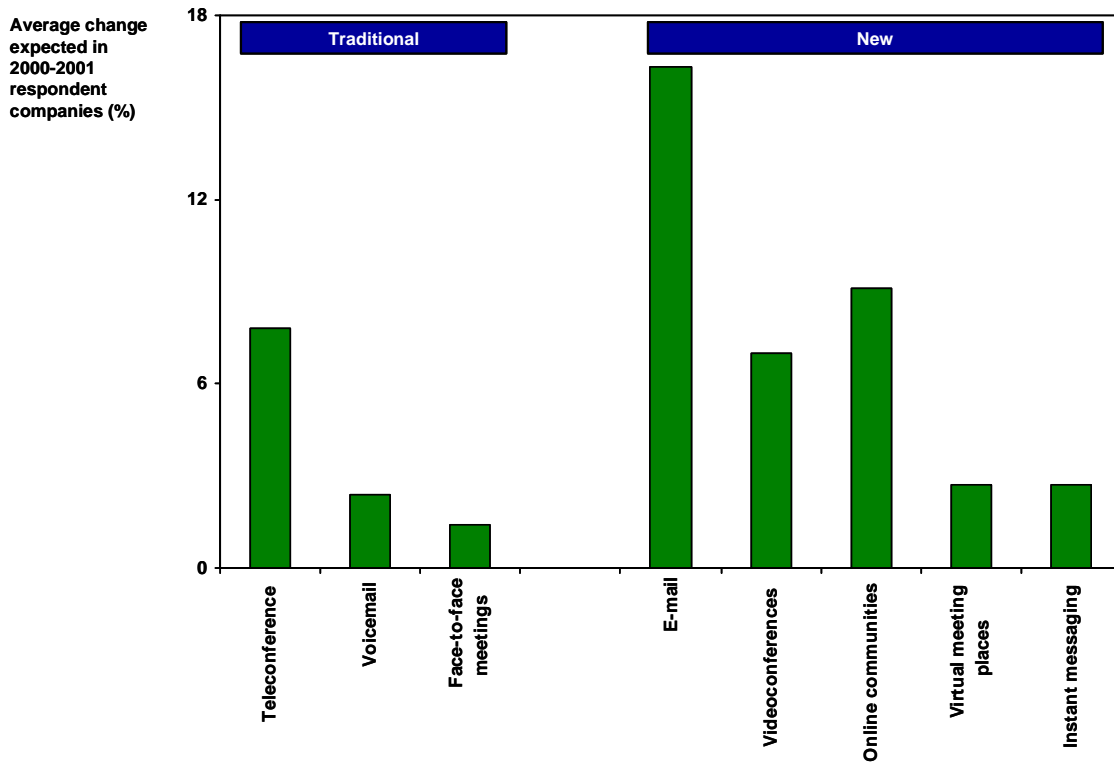
The ease with which TeamRooms can be set up and used has, however, resulted in information overflow. According to Dr. Dean, "you have a yellow pages' directory to all sorts of teams." As a result, people end up joining many team groups, and their active participation on each naturally decreases. However, Dr. Dean claims that the benefits exceed the drawbacks by providing teams with specialized knowledge that they would otherwise not be able to access as effectively. In fact, according to Dorsett, being able to collaborate digitally is now considered a critical skill for IBM employees, and the measured impact on the bottom line has reached hundreds of millions of dollars. Studies at IBM have shown that the more effective use of time and effort can result in a shortening of cycle times by a factor of three or more.

As a consequence, TeamRooms has quickly become a common way of communicating at IBM. Currently, there are more than 17,000 active TeamRooms, compared with only 50 back in 1990.

In addition to the new communication modes depicted in Chart 1.2, respondents also mentioned experimenting with a number of other communications technologies. One new medium mentioned several times was Webcasting, or streaming media, which allows firmwide video broadcasts of executive announcements, business strategy information, product rollouts and training sessions. For example, one large electric utility interviewed explained that, while streaming media technology requires a solid and costly infrastructure, the cost savings are substantial once the investment has been made. A number of respondents also reported the planning or implementation of a company-wide intranet portal in order to organize fragmented business units or department-level Web sites into a cohesive whole. A third emerging communication technology highlighted by lead adopters was wireless technology. Though only a handful of companies mentioned having specific wireless applications already in place (e.g., wireless LANs and communications with sales and delivery forces), a number of respondents anticipated future applications and indicated plans to explore those over the next few years.

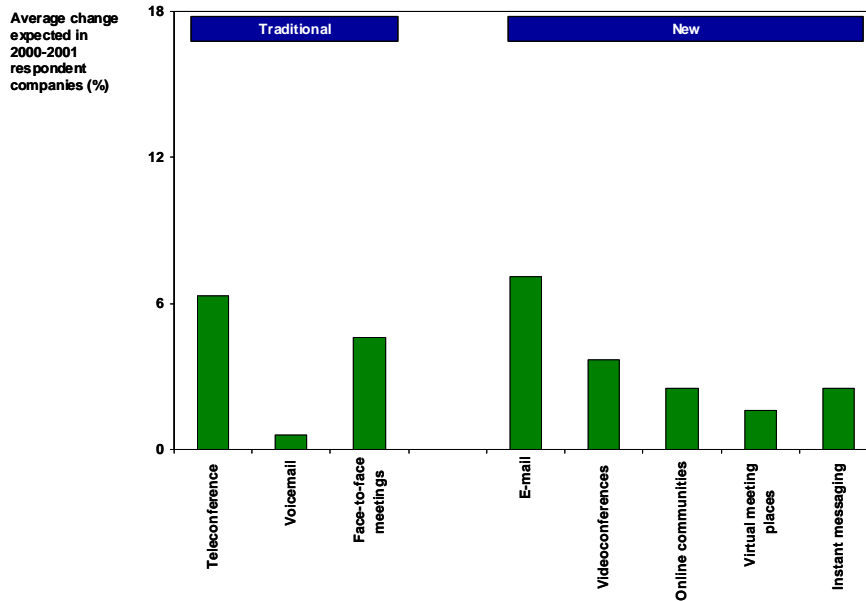
Given this increase in the use of new communication technologies, it is interesting to note that they are predominantly used for routine interactions among people and are only to a lesser extent used for more intensive interactions such as brainstorming meetings and discussions involving people issues (e.g., performance management). As highlighted in Chart 1.3, the increase in usage of online communication modes is first and foremost accounted for by routine activities, which are more amenable to back-and-forth interactions that do not require instant replies and physical presence.

Chart 1.3A
 Increase in the use of new communication modes for routine activities
 (Europe/Asia only)



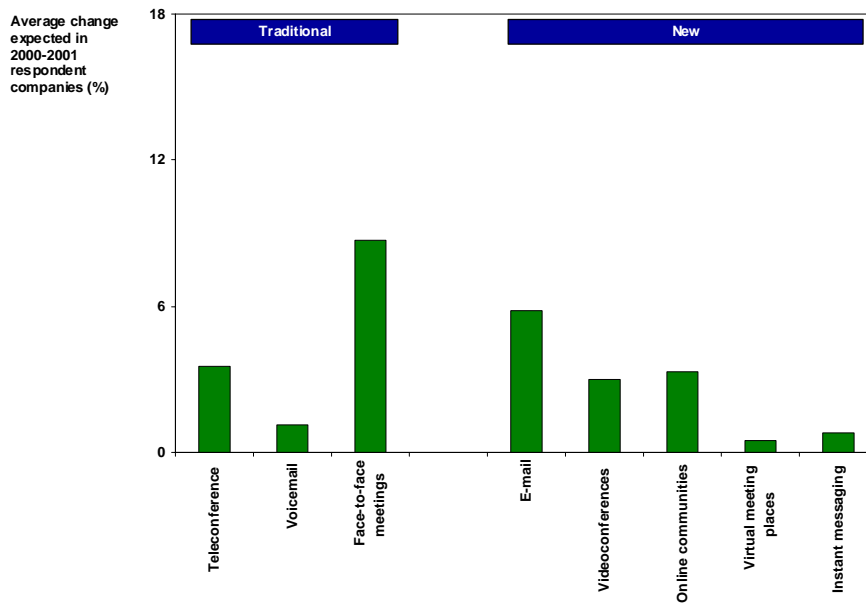
Note: Responses to question: How has your company's reliance upon each of the following communication tools been affected by the economic downturn over the past year, with respect to daily, routine business/brainstorming/people management?

Chart 1.3B
 Increase in the use of new communication modes for brainstorming activities
 (Europe/Asia only)



Note: Responses to question: How has your company's reliance upon each of the following communication tools been affected by the economic downturn over the past year, with respect to daily, routine business/brainstorming/people management?

Chart 1.3C
 Increase in the use of new communication modes for people management activities
 (Europe/Asia only)



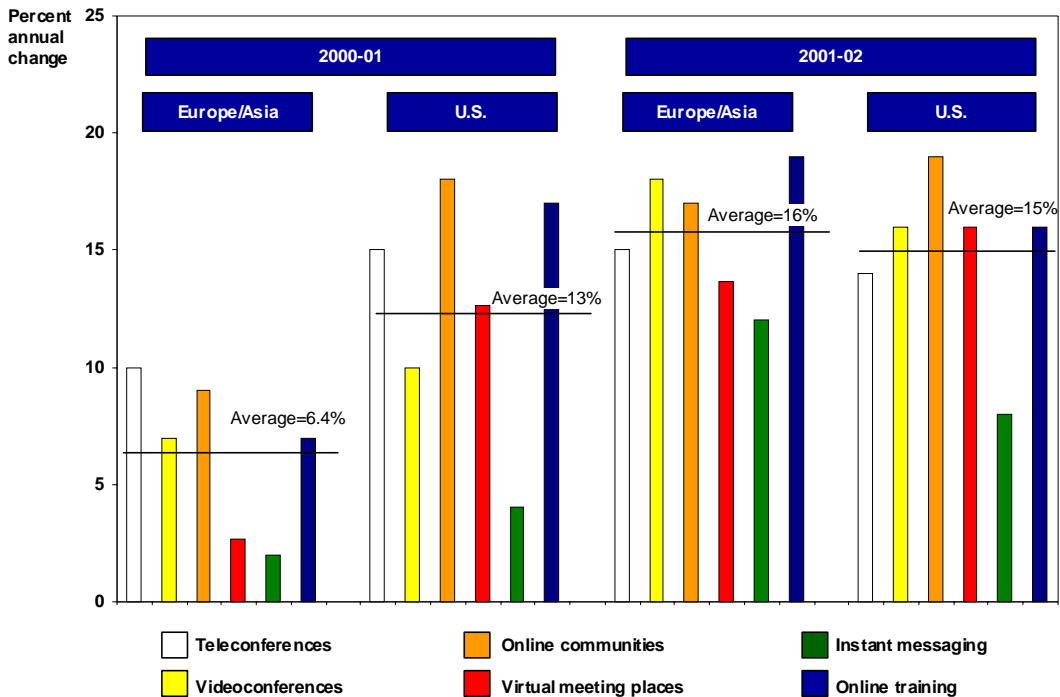
Note: Responses to question: How has your company's reliance upon each of the following communication tools been affected by the economic downturn over the past year, with respect to daily, routine business/brainstorming/people management?

TRENDS BY INDUSTRY, GEOGRAPHY AND COMPANY SIZE

One interesting finding is that European and Asian companies in the sample have been lagging behind their U.S. counterparts in the adoption of new communication technologies. However, the gap is expected to close in 2002. As reported in Chart 1.4, while U.S. companies reported a higher increase in adoption of new communication mechanisms over the past year, European, Asian and U.S. companies expect the same level of increase in 2002 (note that this information does not reveal the absolute level of penetration of these technologies, only the change in usage levels). These data suggest that European and Asian companies are not far behind U.S. ones in pushing new communication modes.

Chart 1.4

Europe and Asia have been lagging but now appear poised to catch the US in increased usage of new communication tools

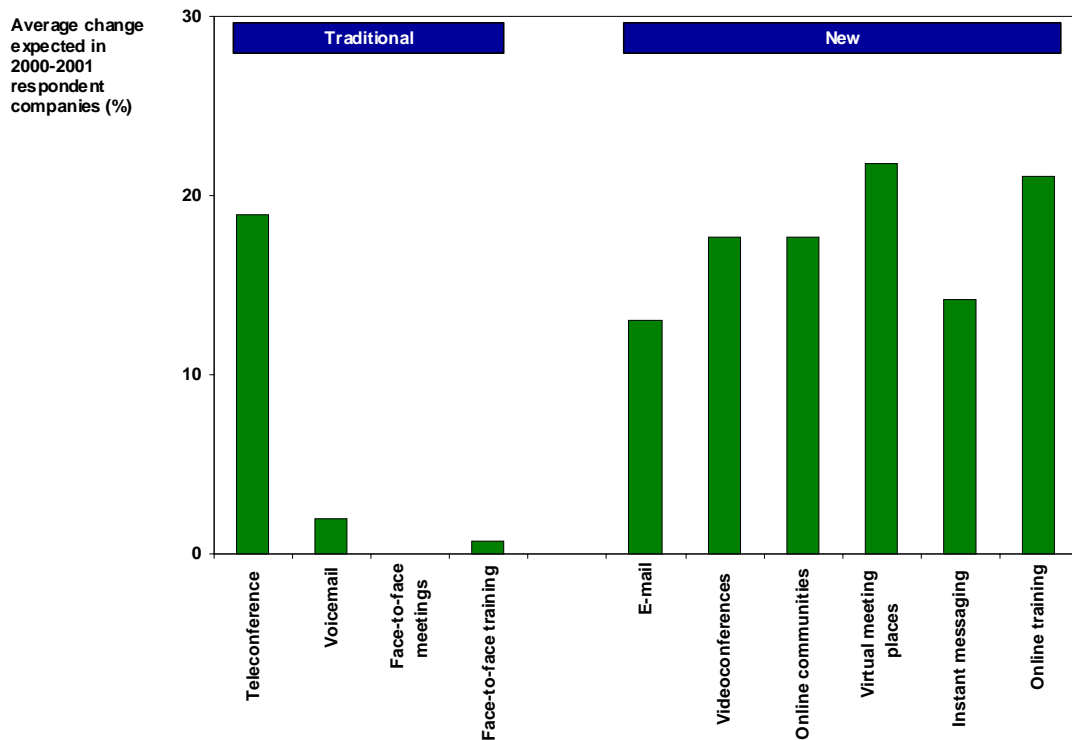


Note: Responses to question: By roughly what percentage has your company's reliance upon each of the following communications tools changed over the past year? and What changes do you foresee in the use of each of the following communication tools in 2002-03, as compared to 2001?

Besides geographical differences, the overall trend is remarkably similar across industries and company sizes. First, the trends reported above are not isolated to one or two industries but are taking place across major industries, including the technology sector, financial services, health care, consumer goods, industrial goods and utilities (see Chart 1.5). In each of these industries, there is a significant increase in the usage level of new communication modes while traditional ones are hardly increasing. Thus this phenomenon is occurring throughout the economy.

Chart 1.5A (Technology/communications)

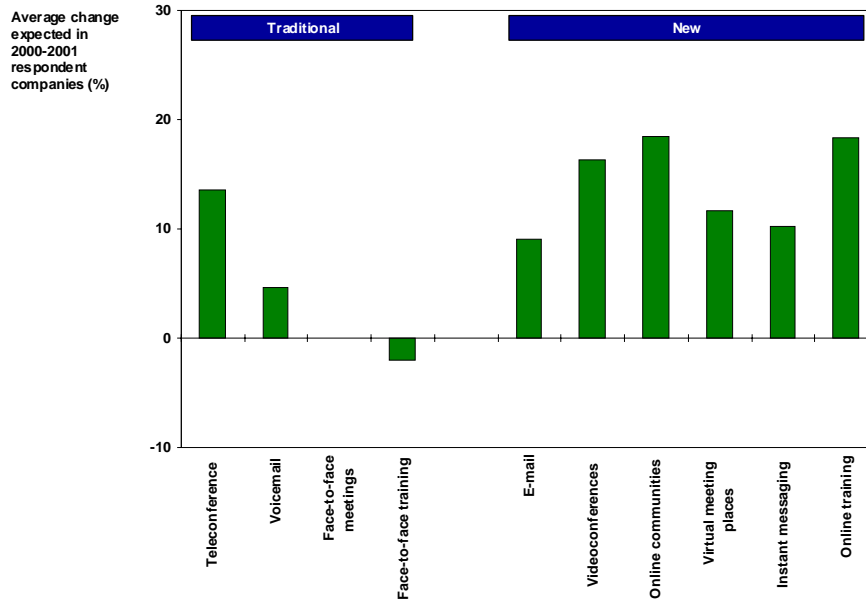
Increase in the use of new communication modes occur across industries



Note: Responses to question: By roughly what percentage has your company's reliance upon each of the following communications tools changed over the past year? and What changes do you foresee in the use of each of the following communication tools in 2002-03, as compared to 2001?

Chart 1.5B (Financial)

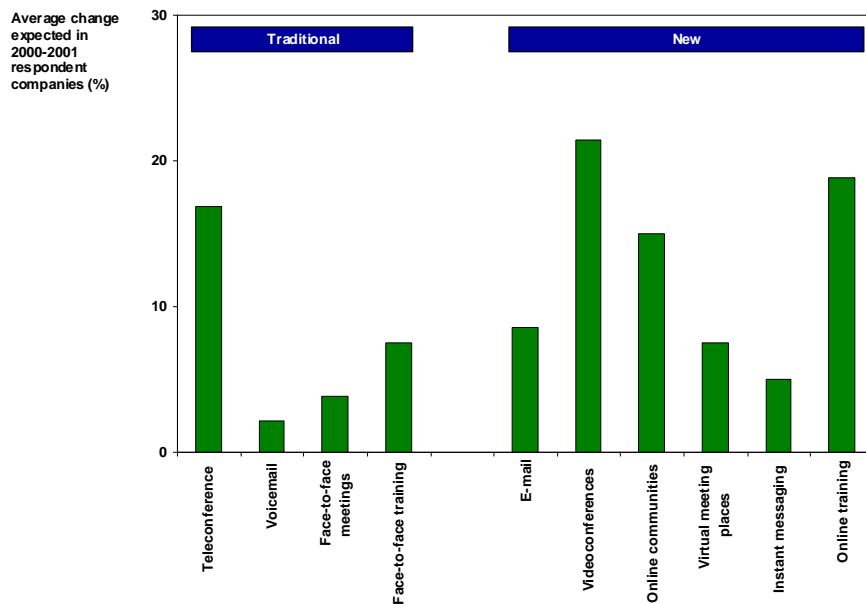
Increase in the use of new communication modes occur across industries



Note: Responses to question: By roughly what percentage has your company's reliance upon each of the following communications tools changed over the past year? and What changes do you foresee in the use of each of the following communication tools in 2002-03, as compared to 2001?

Chart 1.5C (Health care)

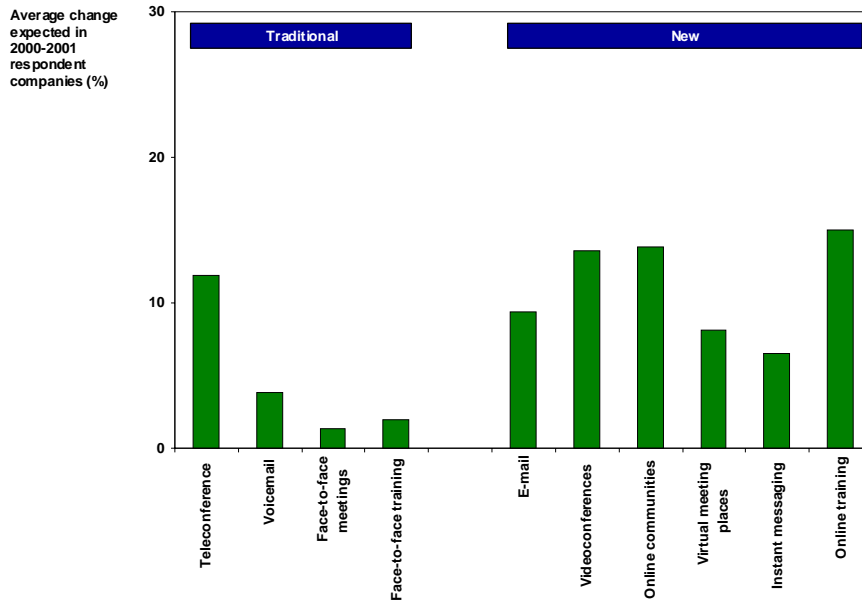
Increase in the use of new communication modes occur across industries



Note: Responses to question: By roughly what percentage has your company's reliance upon each of the following communications tools changed over the past year? and What changes do you foresee in the use of each of the following communication tools in 2002-03, as compared to 2001?

Chart 1.5D (Consumer goods)

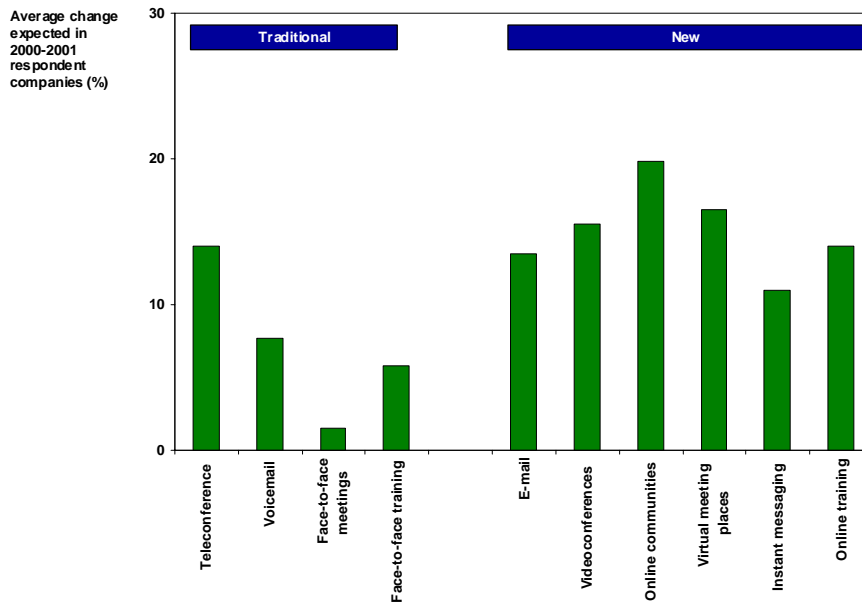
Increase in the use of new communication modes occur across industries



Note: Responses to question: By roughly what percentage has your company's reliance upon each of the following communications tools changed over the past year? and What changes do you foresee in the use of each of the following communication tools in 2002-03, as compared to 2001?

Chart 1.5E (Industrial goods)

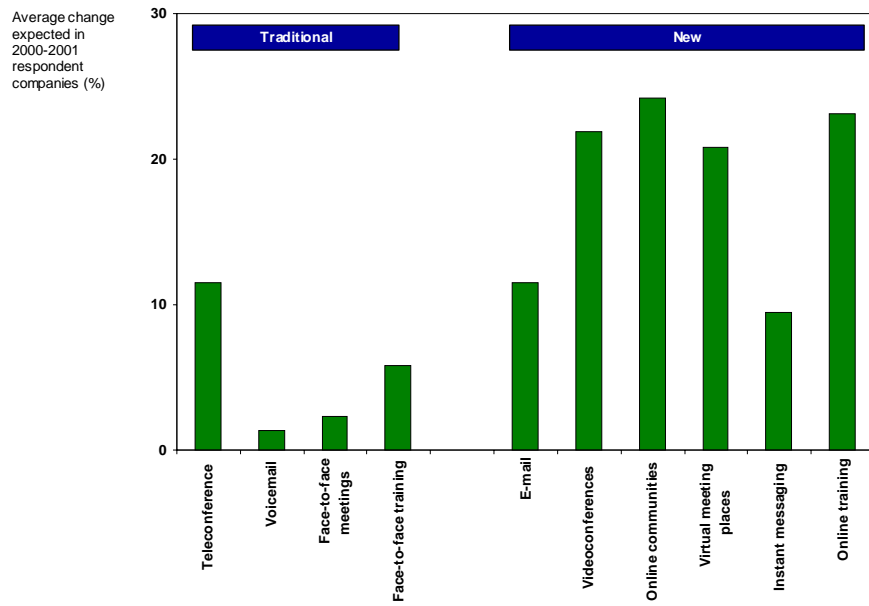
Increase in the use of new communication modes occur across industries



Note: Responses to question: By roughly what percentage has your company's reliance upon each of the following communications tools changed over the past year? and What changes do you foresee in the use of each of the following communication tools in 2002-03, as compared to 2001?

Chart 1.5F (Utilities)

Increase in the use of new communication modes occur across industries

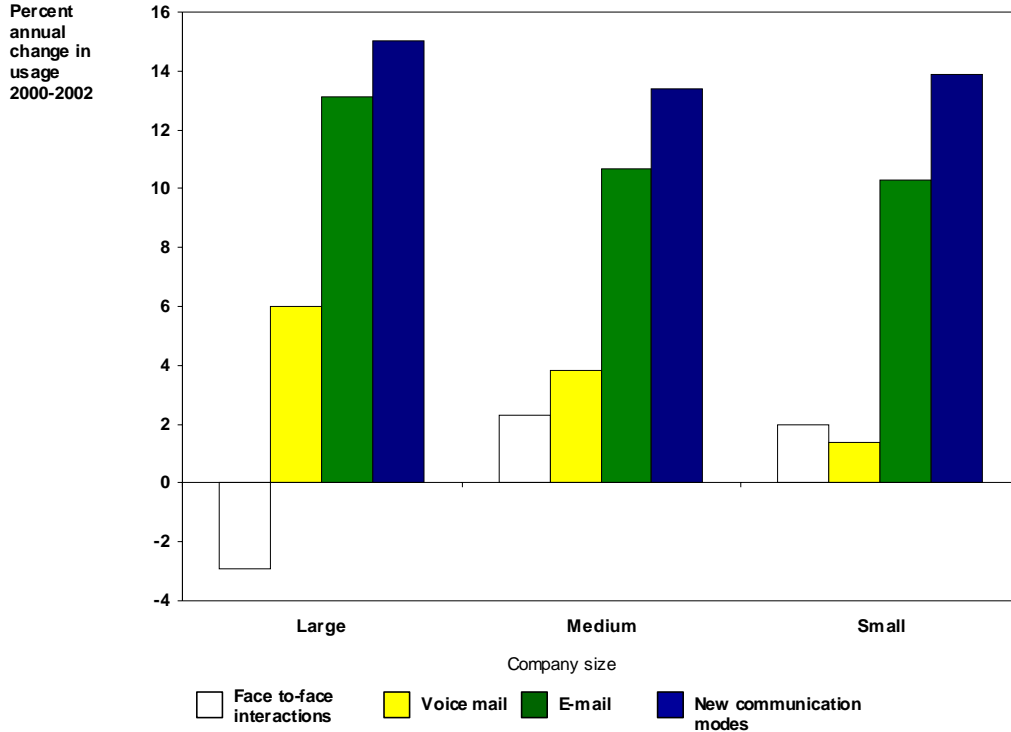


Note: Responses to question: By roughly what percentage has your company's reliance upon each of the following communications tools changed over the past year? and What changes do you foresee in the use of each of the following communication tools in 2002-03, as compared to 2001?

Second, as depicted in Chart 1.6, the trend holds across large, medium and smaller companies (note that the survey did not cover very small companies, i.e., those with fewer than 500 employees). In each of these size categories, there is a marked increase in the use of new communication technologies. At the same time, the use of face-to-face meetings and training remains flat. There has been a slight decrease in face-to-face meetings across physical locations in large companies, although the decline is very small.

Chart 1.6

Increase in the use of new communication modes taking place in small and large companies



Note: Large is more than 40,000 employees, medium is between 40,000 and 5,000 employees and small is less than 5,000 employees. New communication modes include teleconferences, videoconferences, on-line communities, net/virtual places, instant messaging and on-line training; face-to-face includes meetings and class-room training/seminars; Responses to question: By roughly what percentage has your company's reliance upon each of the following communications tools changed over the past year? and What changes do you foresee in the use of each of the following communication tools in 2002-03, as compared to 2001?

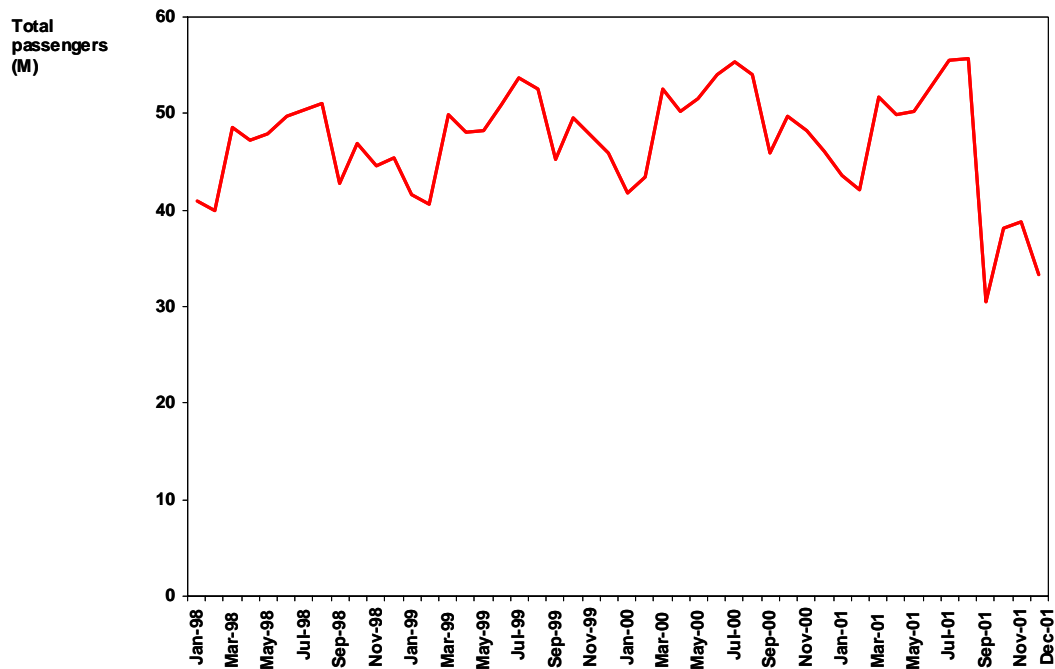
COMMENTS ON COMMUNICATION TRENDS

- A quiet revolution is taking place in many companies, as they continue to embed online communication technologies throughout their organizations. This revolution is not geared outward toward customers to increase sales but instead is geared inward to reduce costs and increase productivity. Though it appears that this revolution has attracted considerably less hype than the 1999-2000 Internet boom, it will have a significant impact on the cost position for those companies that are able to take advantage of these new modes of communication.

- The increased use of new communication modes is happening as traditional ones, such as voicemail and face-to-face interactions, are leveling off (there is even a decline in face-to-face meetings across physical locations in some large companies). It is quite possible that this trend is the beginning of a substitution of face-to-face meetings by virtual communication technologies. There is clearly a partial substitution taking place, as a number of companies have increased their use of teleconferencing, videoconferencing and Internet-based meetings while cutting back on face-to-face meetings that require travel. As shown in Chart 1.7, this trend manifested itself in flat to declining airline traveler volume in the U.S. in 2001 (interestingly, airports are responding to this trend by increasing their supply of videoconferencing and other new communication technologies that can be used by business travelers). Whether the substitution of

Chart 1.7

Recent decline in U.S. air travel indicates shift away from traditional face-to-face interactions involving travel



Source: Air Transport Association. Reproduced with permission.

face-to-face interactions by new communication technologies and the resulting decline in traveler volume will continue will depend on whether companies continue their efforts to reduce costs and improve efficiency through these new communication modes. If that effort is sustained, there is likely to be a profound substitution of traditional communication modes by new modes, leading to a fundamentally different way of communicating within companies.

- This quiet revolution appears to be robust: it is taking place across different industries, company sizes, and geographies. The revolution seems to be slightly ahead in the U.S. at this point, but similar patterns are beginning to emerge in Europe and Asia.

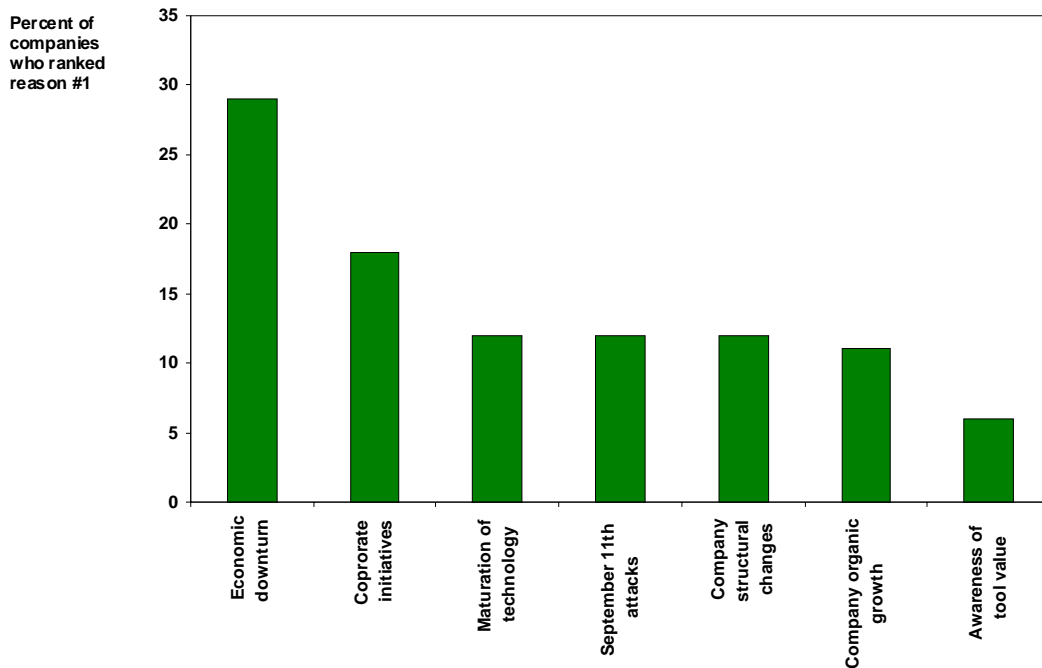
2. Drivers of change: In the U.S., first and foremost the economic downturn and the maturation of technologies, not the events of September 11

NOT SEPTEMBER 11, BUT THE ECONOMY

One initial hypothesis during the research for this survey was that the events of September 11 would turn out to be the most important driver of changes in companies' communication patterns. This turned out to be incorrect. While these events have had some impact according to the survey respondents, there have been other, more important drivers behind the overall trend reported in section 1 of this report. In particular, U.S. companies reported that the economic downturn is the primary driver of these changes (see Chart 2.1), while European and Asian companies reported that neither the events of September 11 nor the economic downturn were the primary drivers.

Chart 2.1

Economic downturn most frequently cited as #1 reason behind communication changes in U.S. companies

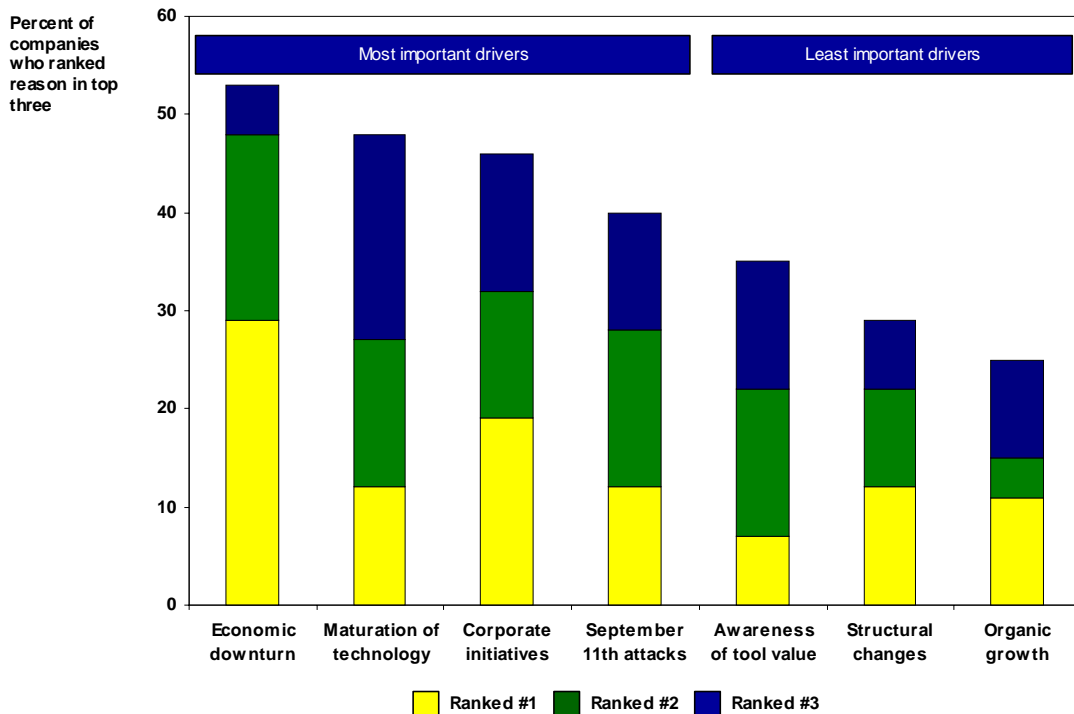


Note: Responses to question: To what factors can you attribute the overall change?

A VERY FAVORABLE ENVIRONMENT

In addition to the economic downturn, respondents highlighted two important drivers for the increased use of new communication technologies: the maturation of the technology and the launch of internal corporate communication initiatives (see Chart 2.2). Respondents often mentioned that the various communication technologies, such as videoconferencing, have become more stable, user-friendly and affordable, making them much more attractive for company-wide usage. This trend, in combination with pressure to reduce costs and improve productivity, has led many corporate managers to launch corporate initiatives aimed at rolling out these new communication technologies. It is this confluence of drivers— economic, technological and managerial—that seems to explain the recent rapid increase in the use of new communication technologies in many companies.

Chart 2.2
Confluence of factors explains changes in the use of communication modes in U.S. companies

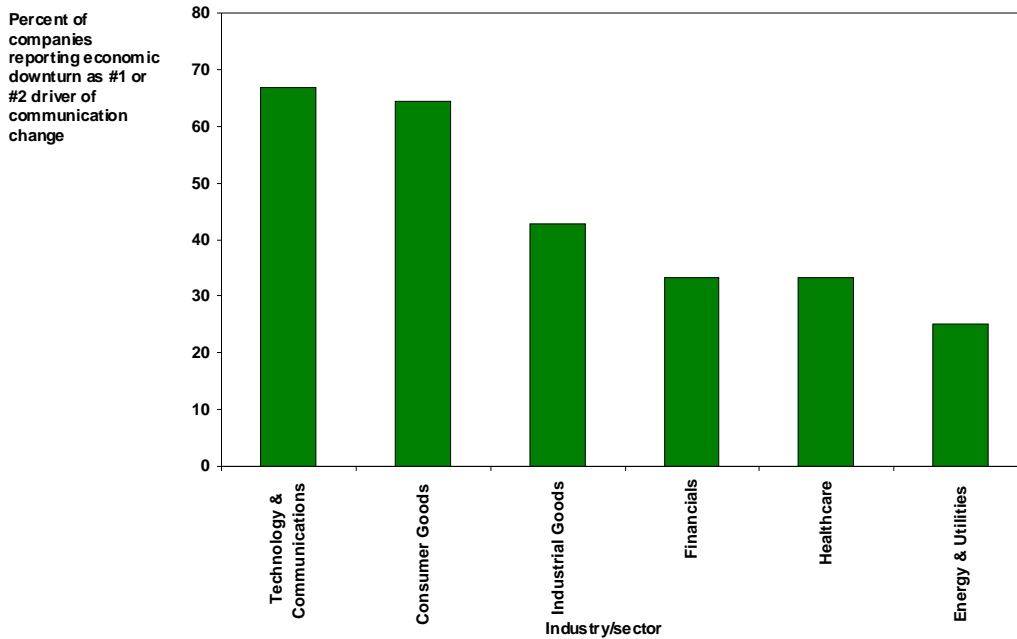


Note: Responses to question: To what factors can you attribute the overall change?

However, internal corporate communication patterns have been more affected by the economic downturn in some industries than in others. Notably, as shown in Chart 2.3, a higher percentage of respondents in the technology/communications, consumer goods and industrial goods sectors ranked the economic downturn a more important driver than did their counterparts in the health care, energy and utilities, and financial services industries.

Chart 2.3

Changes in the use of communication modes as a result of the economic downturn more pronounced in some industries



Note: Responses to question: To what factors can you attribute the overall change?

COMMENTS ON REPORTED DRIVERS OF CHANGES IN COMMUNICATION MODES IN COMPANIES

The data suggest that there is a very favorable environment right now for the adoption and increased usage of new communication technologies such as videoconferencing, Internet-based meetings and online training. Indeed, the environment has perhaps never been more favorable: the technology is easier and better to use, there is an economic imperative to reduce communications costs incurred by more traditional communication modes such as face-to-face meetings, and there are also many corporate-wide initiatives driving company-specific adoptions. If this environment persists, the rapid increase in the use of new communication modes is likely to continue.

The trend does present some challenges, however. In particular, many respondents mentioned the risk of information overload for employees confronted with a daily barrage of e-mails, voicemails and communication via other, newer channels. According to one respondent, “although we have seen some productivity gains, there has also been the issue of information overload—the increased ease of communication has created a backlog of competing priorities for many people.” Because these newer communication modes have not radically displaced more traditional ones, there appears to be a net increase in the information flows in many companies. The possibility that these new communication technologies will increase the number of people feeling overburdened by information may ultimately render the new communication modes less valuable. Corporate managers as well as vendors of these technologies will need to aggressively manage this problem.

3. Benefits: Many corporate initiatives and sustained spending, but no systematic tracking and management to gain efficiency

A RANGE OF CORPORATE-SPONSORED INITIATIVES

The companies interviewed were in the process of undertaking a range of corporate-wide initiatives to drive the adoption of various communication modes. Chart 3.1 shows a number of those initiatives by category: online communities, Internet-based meetings, Webcasting/streaming media, scaled-up standard videoconferencing (installed in meeting rooms), personal video conferencing (conducted on an individual's desktop), and use of wireless communication technology. The sheer breadth of this list and the ambition of some of the initiatives indicate that there is substantial momentum behind the trend discussed in section 1 of this report.

Chart 3.1

U.S. companies are undertaking a wide variety of electronic internal communication initiatives

Field	Company	Initiative
On-line communities/knowledge sharing	<ul style="list-style-type: none"> • Adobe • U.S. Utility • Major U.S. Retailer • Leading Computer Manufacturer • M&T Bank 	<ul style="list-style-type: none"> • Considering adding chat software for sales force communications • Peer-to-peer communities • Development of "knowledge net" • Team rooms, on-line communities
	<ul style="list-style-type: none"> • Montgomery Watson Harza • Pennzoil • Pfizer • Pharma Millennium • Raytheon • U.S. Investment Specialist 	<ul style="list-style-type: none"> • Internal contact information accessible via intranet; mailing lists used for notification of changes in sales force automation & distribution of competitive intelligence • Employee communities of practice • CEO chat rooms, employee participation (question of the week) • Function-specific sites for knowledge sharing • Employee communities of practice • Electronic peer-to-peer communication • On-line project management communities
Net meeting/Webx/document sharing	<ul style="list-style-type: none"> • Agilent 	<ul style="list-style-type: none"> • Heavy data conferencing usage for presentations and collaborative sessions; considering adding remote support for internal and customer questions
	<ul style="list-style-type: none"> • Alltel • Leading U.S. provider of network solutions • Major U.S. Retailer • Guidant • Electronic Defense Manufacturer 	<ul style="list-style-type: none"> • Introducing WebEx technology to allow simultaneous viewing of online products and websites from remote locations • On-line meetings • Documents and on-line product sharing • NetMeeting is catching on rapidly company-wide; functionality soon to be extended to external communications • Ad hoc virtual meetings
Web-casting/streaming media	<ul style="list-style-type: none"> • Air Products and Chemicals • U.S. Energy Provider • Alltel 	<ul style="list-style-type: none"> • Management-to-employees presentations • Training, executive communication, product roll-out announcements • Used to distribute business strategy info and executive announcements • Corporation-wide streaming media technology • Firm-wide videoconferencing broadcasting
	<ul style="list-style-type: none"> • U.S. Utility • Towers Perrin 	
Scaled-up videoconferencing	<ul style="list-style-type: none"> • Scoular 	<ul style="list-style-type: none"> • Introduction of videoconferencing as an alternative to internal face-to-face meetings • IP based video conferencing (in video conferencing rooms)
	<ul style="list-style-type: none"> • Leading U.S. provider of network solutions • Raytheon 	<ul style="list-style-type: none"> • Desktop video conferencing
Wireless communication technology	<ul style="list-style-type: none"> • Adobe • U.S. Energy Provider • Ryder 	<ul style="list-style-type: none"> • Salesforce communications • Wireless LANs • Collection of input from trucks

For example, Pennzoil-Quaker State, the automotive consumer products company based in Houston, Texas, has launched a corporate portal with far-reaching ambitions for communications with and participation by employees (see nearby box), using the portal to educate employees about the business, gather feedback and ideas through an online idea drop-box and online survey features, host chat rooms with senior executives, and develop intranet pages for individual business units. In many ways, this communication strategy represents a third generation of intranets: the first offered a simple Web page display with some company information; the second provided a data dump of lots of information; and the third offers a new communication and participation vehicle for employees.

Pennzoil-Quaker State Uses Intranet as a Communication Vehicle

A year after its 1998 merger with Quaker State, Pennzoil launched a corporate intranet named Pennzweb. Budget restrictions had forced the move toward electronic communication tools, and Pennzweb was supposed to become the primary channel for dissemination of information throughout the company. However, Pennzweb failed to live up to expectations, as employees rarely visited the site. It wasn't until 2000 that Pennzweb received a much-needed makeover. The site was completely redesigned around the ideas of increasing employee participation and knowledge sharing. As a result of this new approach, Pennzweb has finally become a focal point for employee communication.

A current snapshot of the site would reveal a variety of features that serve to educate employees about the business, gather feedback and ideas, and provide employees relevant information and benefits.

To educate employees about the business, Pennzweb has a Business Alert feature that includes current information on competitors, Wall Street, corporate economics/financials, and the marketplace overall. The idea is to help employees understand how Pennzoil-Quaker State is positioned in the global business landscape so that employees themselves can be the company's number one voice in the marketplace.

No longer constrained by the time and monetary obstacles that have previously limited company-wide surveys, Pennzweb has enabled Pennzoil-Quaker State to constantly poll employees for both feedback and ideas. The Question of the Week is one Pennzweb feature that encourages participation and provides a simple yet valuable avenue for employee input. Another Pennzweb feature is the Idea Drop Box, which opens the door for

employees in any position to submit ideas for new products.

Attracting employees to Pennzweb is the key to realizing its potential value, so several features have been added that do not relate specifically to the company itself but are valuable for employees. Such features include weather and traffic updates, a calendar of events, a photo album, and the Just For You rewards program. Of particular interest to employees, the Just For You program provides them with coupons and discounts to retail stores, from Best Buy to Banana Republic.

Plans are always in the works for new features. The current list of initiatives includes a chat room for the CEO and senior management, an intranet page for each individual business unit, and a Digital Dashboard program that will allow employees to view Pennzweb through Microsoft Outlook. The hope continues to be that Pennzweb will be the first thing employees look at when they arrive each morning, the last thing they check before they leave in the evening, and a valuable tool that is used throughout the entire business day.

Challenges and Benefits

Redesigning Pennzweb was really only the first step in convincing employees, and perhaps more importantly senior management that an intranet could be a valuable communication tool. By asking employees to utilize the new site, the Pennzweb team was essentially asking the company to change the way it communicates. Managing this shift to an intranet site was accomplished through a variety of initiatives meant to simplify the transition and quickly

Pennzoil-Quaker State *(continued on next page)*

Pennzoil-Quaker State *(continued)*

respond to feedback. Weekly "Cyber Walk" e-mails were sent out to the entire company, introducing employees to the new Pennzweb and highlighting its features. The e-mails took employees on a lighthearted tour of the new site, and the links to various pages made exploring the site as easy as one click. In addition, monthly communications committee meetings were held with representatives from all units of the company to encourage use of Pennzweb and simultaneously find out what initiatives needed to be communicated throughout the company. These weekly meetings also provided the corporate communications team a forum to market the benefits of using

PennzWeb as a first step in the communications process.

According to Wendy Hopkins, Pennzoil-Quaker State's employee communications manager, Pennzweb has successfully increased both the efficiency and effectiveness of internal communication within the company, although it is difficult to quantify the benefits. Pennzweb is clearly an integral component of the overall communication improvement, and the site is now fully integrated into the firm's corporate culture. As Wendy states, "We began the [redesign] project when we realized we were not where we needed to be in terms of internal communication." Feedback from employees and management suggests that the company is definitely on the right track.

For another example, consider Agilent Technologies, the electronic instrumentation company that was spun out of Hewlett-Packard (see nearby box). Because its engineers rely heavily on cross-unit collaboration to develop products quickly, there is a need for interactive collaboration tools. To fill this need, executives launched a Web-based tool that allows engineers to share documents in real time and work on a document together.

Agilent Technologies' Use of Data Conferencing

Another company that has embraced virtual meeting place technology is Agilent Technologies, a producer of test and measurement equipment, semiconductor products, and chemical-analysis tools and a recent spin-off of Hewlett-Packard. Data conferencing has been seamlessly integrated into Agilent's business activities and has fundamentally changed the way the company operates.

Though data conferencing has been supported at Agilent for more than five years, network and product incompatibility and bandwidth problems that plagued its virtual meeting platform were not fully ironed out until July 2001. Since then, usage has exploded. Denis Morgan, Agilent's information management and collaboration services manager, estimates the increase over the last year at 200 percent and projects another increase this year of from 75 to 100 percent. Roughly 130 formal virtual meetings, and many more informal ones, are currently held *per day* worldwide; the average meeting lasts about two hours. The number of host accounts (necessary to initiate a meeting) is currently around 8,000

and continues to climb. Both WebEx's Meeting Center Pro and Microsoft's NetMeeting platforms are used.

Morgan identifies four different uses for these tools: presentations, collaborative sessions, training and remote support. One-way presentations are by and large the most popular use of the programs, accounting for roughly 60% of all meetings. Collaboration sessions, in which all participants are granted the authority to modify a shared document, are used for brainstorming sessions and the like and comprise about 30% of all meetings. The last tenth of virtual meetings at Agilent are accounted for by e-training and remote support, an application still under development. (Remote support allows one user to take authorized control of another's desktop to help with troubleshooting or other support). While presentations account for the majority of meetings, Morgan sees the potential for considerable growth in collaborative sessions. However, considerable drawbacks exist today. For example, as the number of participants increases, the session tends to become both increasingly sluggish from a technical standpoint (because a connection is only as fast as the slowest user) and increasingly "out of control" (because there are no partial levels of control over documents). However, these

Agilent *(continued on the next page)*

Agilent *(continued)*

issues will likely fade over time as the technology matures and as usage becomes more mainstream.

While Agilent is not alone among Global 1000 companies in its adoption of virtual meeting place technology, it is farther along the adoption path than most. If the first step along this path is to schedule virtual meetings to displace formal meetings like annual conferences, then the second step is perhaps to expand usage from isolated scheduled meetings to include spontaneous, informal meetings as well. Successfully making the leap between these stages has fundamentally changed the way employees at Agilent communicate. Morgan uses himself as an example of how employees at Agilent leverage data conferencing for informal communication: "I participate in a NetMeeting or WebEx conference at least 10 times a day. It's just so natural for me, so ingrained in our culture, that I use it even just to call across campus!" Morgan estimates that 60% of virtual meetings in which he

participates are spur-of-the-moment rather than scheduled, and 70% are cross-campus.

The only downside to Agilent's heavy use of data conferencing, according to Morgan, is the possibility that familiarity may sometimes translate into overuse—a tendency that must be combated, lest the important interactions that accompany at least minimal face-to-face meetings disappear. But assuming that this problem is properly managed, Morgan asserts that the benefits of the new communication mode are substantial. For example, both the informal and formal types of virtual meetings result in productivity gains, thanks to reduced travel and an improved work/life balance. Both types also allow access to a wider group of people who might not otherwise be able to participate in a meeting. "For example, we hold regular formal 'phase reviews' for our investment projects with IT managers from around the world," Morgan explains. "Without data conferencing, that just would not be possible." Lastly, a unique benefit of informal applications is their contribution to employees who spend at least part of their time working from home. Morgan, for example, spends quite a bit of time working from his rural home. But, thanks to data conferencing, he remains connected.

For a third example, consider the "electronic think tank" developed by a leading supply company in Europe. It is really an idea suggestion and exchange "box" that has been moved on the company's intranet, thereby enabling many employees to make, review and build on ideas (see nearby box).

The Electronic Think Tank in a European Energy Company

At the beginning of 2000, one of the leading energy supply companies in Europe moved its employee suggestion system on to the company's intranet, thereby revolutionizing the process. The system offers employees the opportunity to submit an online form with suggestions for improvements. At the same time, employees can look at other ideas provided by peers, a process that stimulates new ideas and allows others to elaborate on existing ideas. Employees who prefer a larger audience can put up their ideas for discussion on an online discussion forum. Currently 500 employees are discussing about 16 different topics.

The system is actively managed. First, to make sure people contribute, the company offers monetary rewards for good ideas. Second, the elaboration and further development of the ideas takes place electronically. Each suggestion is forwarded to a topic-specific expert for evaluation. At any time, employees have the possibility to access the site to learn about the status of their ideas.

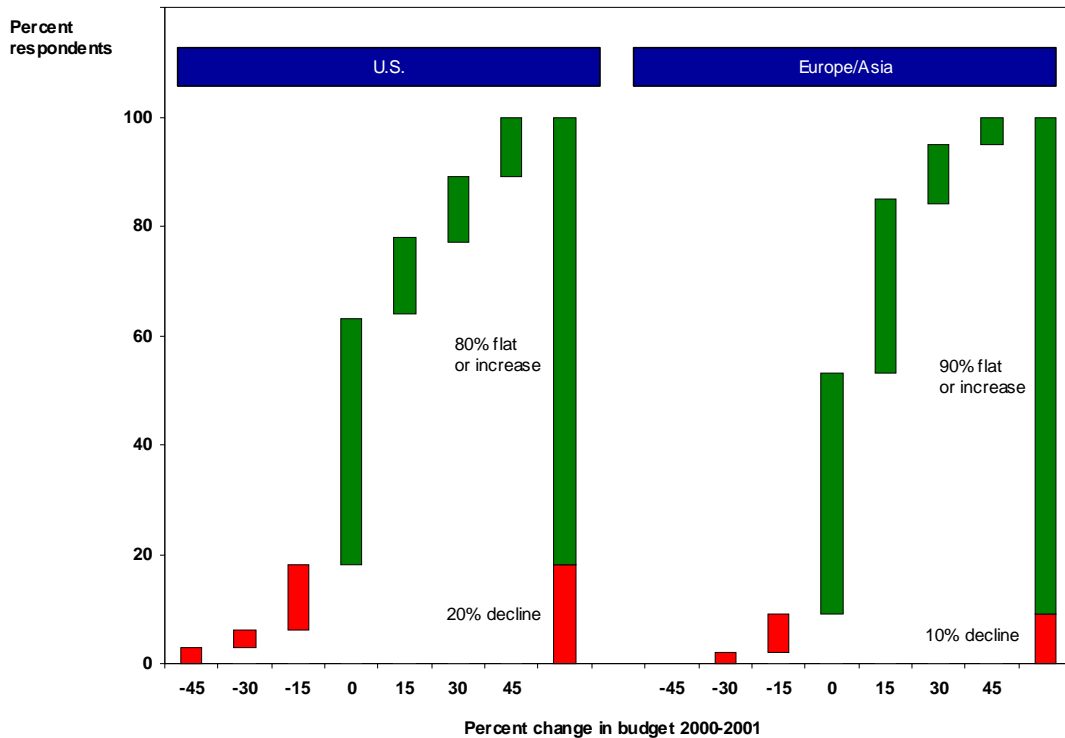
The electronic think tank has proven to be a great success, translating into significant improvements in time management, employee motivation, general employee competence and cost control. Indeed, an initial investment of about \$300,000 has led to more than \$2.5 million in net benefits.

CONTINUED CORPORATE SPENDING ON COMMUNICATIONS TECHNOLOGIES

As shown in Chart 3.2, about 80 percent of U.S. and 90 percent of European and Asian companies in the survey sample reported that their budgets for communication technologies were either flat or up in 2001. Fully 40 percent of U.S. companies and nearly 50% of the European and Asian companies reported an increase. These numbers are especially noteworthy given the severe budget cuts made by many companies during 2001. The data suggest that many companies are following a model whereby they invest in new communication technologies in order to drive down costs elsewhere and increase productivity.

Chart 3.2

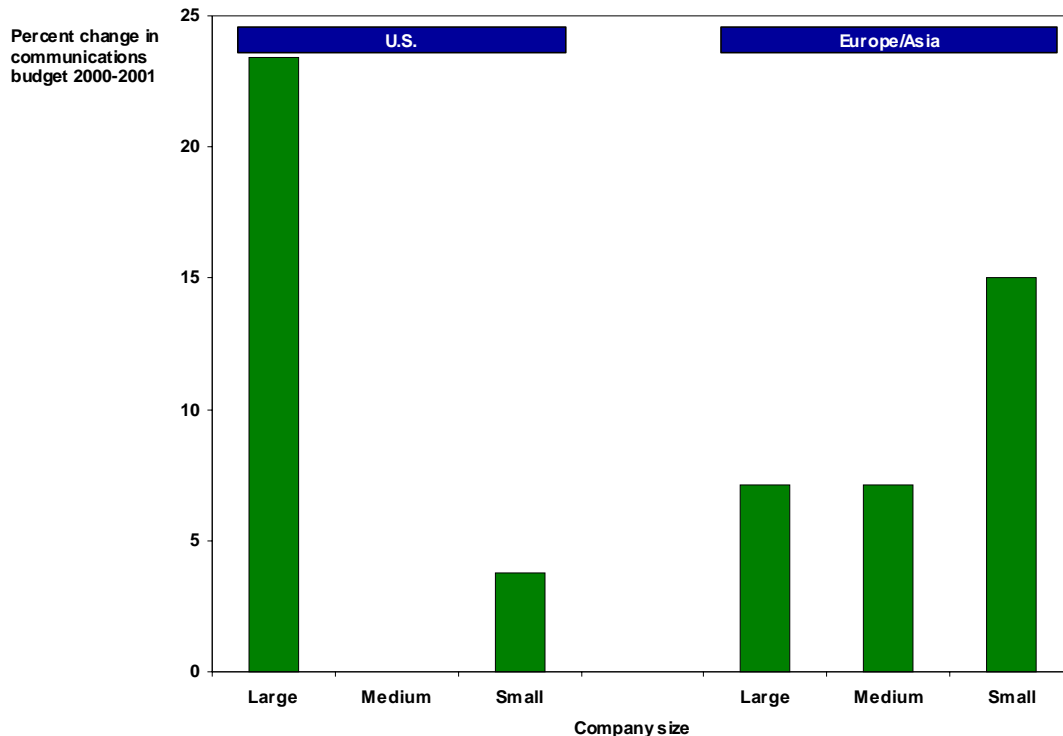
Most companies are maintaining internal communications budgets in spite of economic downturn



Note: Responses to question: By roughly what percentage has the money spent on internal communication tools changed over the last year?

There are some significant differences in spending patterns between large and small companies in the U.S. and Europe and Asia (see Chart 3.3). In the U.S., large companies have on average increased their spending on new communication technologies, while medium and small companies have kept spending flat. In Europe and Asia, the data are different: small companies have increased their budget on communication technologies the most.

Chart 3.3
Types of spenders differ in U.S. and Europe

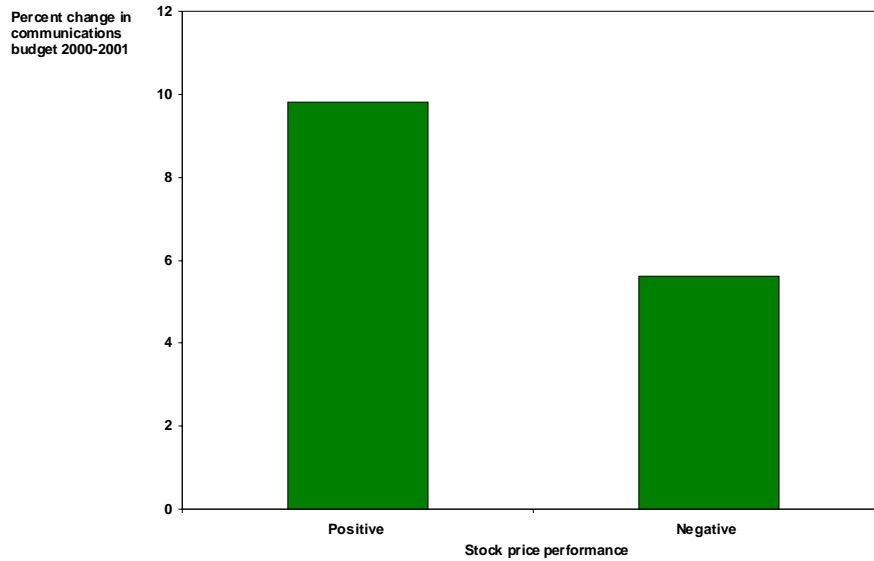


Note: Large is more than 40,000 employees, medium is between 40,000 and 5,000 employees, small is less than 5,000 employees; Responses to question: By roughly what percentage has the money spent on internal communication tools changed over the last year?

In addition, there are some slight differences in spending patterns between well-performing and underperforming companies, as shown in Chart 3.4. Companies that saw their stock price rise in 2001 increased their spending significantly more than those that saw their share price fall. However, both categories of companies reported an increase in their communications budgets on average. This suggests that companies are pursuing the model of investing in communication technologies to reduce costs and improve efficiency regardless of their performance (as measured by stock price).

Chart 3.4

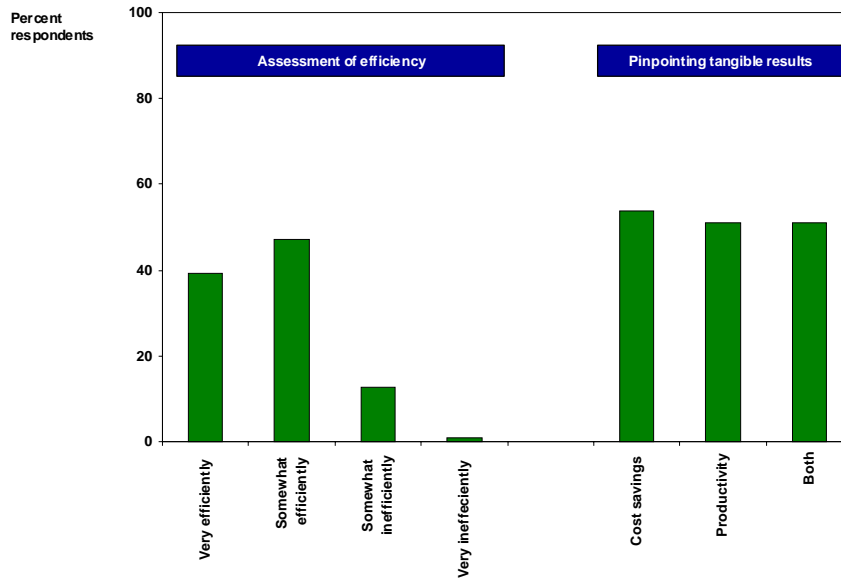
Increase in communications budget holds for high and low performing companies



Note: Share price on 31/10/01 over share price at end of 2000; Responses to question: By roughly what percentage has the money spent on internal communication tools changed over the last year?

Chart 3.5

Perception that communication budget is spent efficiently, but companies cannot pinpoint clearly



Note: By respondents that said that budget was spent efficiently or somewhat efficiently (n=105); Responses to questions: In your experience, how efficiently have additional monies/resources allocated to improving internal communications been deployed? and if your company has increased its dependence on electronic communications channels over the past two years, what has the impact been? Please quantify benefits wherever possible (cost savings, higher productivity)

WIDESPREAD BELIEF THAT SPENDING IS WORTHWHILE, BUT MANY COMPANIES CANNOT CLEARLY PINPOINT BENEFITS

As reported in Chart 3.5, most respondents believe that financial resources allocated to communications technologies have been spent either “very efficiently” or “somewhat efficiently” (note that respondents may have been particularly biased for this part of the survey, as they were asked to evaluate the efficiency of their own corporate spending). However, when asked whether the spending in this area had resulted in either productivity gains or cost reductions, or both, only half of them could with confidence affirm this. The remaining respondents stated that the spending had not resulted in gains or that they did not know whether this was the case. In essence, when asked to pinpoint the results of this spending in terms of cost reductions and productivity gains, many companies were unsure or unable to do so, indicating that they do not have a clear view of the tangible impact of communication technology expenditures on the business. This observation was underscored by a number of qualitative comments made during the phone interviews:

“We have no way of tracking this information—communications in our company are far too dispersed. We have to believe that these tools increase our productivity and save us some money in the form of travel costs, but we don’t really know.”

“We do have a corporate communications department, which handles both internal and external communications, but their internal function is mostly to disseminate information from top management to employees—they don’t track or manage usage of the various tools. There is no one overarching department that comprehensively tracks costs and benefits.”

“Our data is mostly anecdotal—our latest national meeting was conducted virtually, for example, which had to save us several million dollars in travel expenses at least—but how much of that was offset with decreased productivity, how much did foregoing the normal face-to-face interactions that normally accompany the annual meeting cost?”

COMMENTS ON THE EFFECTS OF INITIATIVES AND SPENDING ON BUSINESS RESULTS

Stunningly, many organizations in the U.S., Europe and Asia are spending a considerable sum on communication projects and technologies designed to improve internal communications, but it appears that in many cases they do not even try to measure their success with respect to corporate communications behavior, cost savings and improved productivity. These organizations often have no rational, systematic way to prioritize internal communication initiatives to make sure they deliver economic value.

4. Implications for executives: The time is right to develop and implement a comprehensive communication strategy to reduce costs and improve productivity

The survey results reveal that a quiet revolution—a substantial increase in new ways of communicating based on new communication technologies—is taking place in many companies. While these new communication modes have not yet started to significantly displace traditional ways of communicating, the trend is calling into question the effectiveness of many traditional communication patterns. Many executives are asking themselves:

Why do I spend so much time in meetings? Why do I travel so much? Why do I receive all these e-mails? Is there a better way of doing it?

Underlying these questions is a more fundamental one:

Is the traditional way employees communicate and interact still the most effective?

Clearly, an appropriate internal communication strategy will include a proper role for both traditional communication channels, such as face-to-face meetings, and new modes of communication, such as online communities and Internet-based meetings. The challenge lies in devising a strategy that optimizes the usefulness of each communication mode in order to improve employees' interaction patterns, thereby improving productivity and reducing overall costs. To achieve this, executives need to develop a comprehensive business-to-employee (B2E) strategy that goes beyond the more narrow set of interactions among employees that were the focus of this survey research. Based on work with a number of companies, The Boston Consulting Group has gained significant insight into how such a comprehensive approach can be developed and implemented to realize cost savings and efficiency gains. In this section, we outline three aspects of a framework: identification of interactions that can be targeted for improvement, levers that executives can use to improve these interactions and thereby realize cost savings and efficiency gains, and an approach for implementing change.

IDENTIFYING INTERACTIONS AMENABLE TO CHANGE

A comprehensive effort to improve interactions in a company needs to start with an identification of areas amenable to new communication technologies. To identify areas of potential improvement, however, it is important to first know with whom

employees interact and why. In principle, an employee has three fundamentally different types of interaction:¹

Employee-to-Company. Employees often interact with support functions such as HR, finance and IT to obtain information and resources to perform their jobs. For example, they interact with the company to fulfill necessary administrative procedures, such as submitting bills for reimbursement, and seek and obtain information about the company's latest plans and strategies. These interactions have, over time, become fairly burdensome and are ripe for change. To identify opportunities for change, executives need to take a step back and ask some basic questions, such as: How do employees interact with HR? How do employees make sure their personal records are correct and are changed in a timely and efficient manner? How do senior executives pass on important decisions to a broad group of employees and explain them in motivational ways? Such questioning often reveals taken-for-granted interactions that can easily be improved by new communication technologies.

Employee-to-Job. Employees interact with others in the company, and with customers, to get their jobs done. Many of these interactions concern core business processes, such as when sales managers solicit input from each other to prepare a sales bid. Questions for executives to ask here include: How can employees identify the right experts in a global company and ask their questions directly? How do maintenance engineers or other mobile workers access spare-parts manuals and inventory records remotely? How do employees interact with customers, and do they have the appropriate information for these interactions? By targeting basic business processes, executives often uncover interactions that can be improved by applying new communication technologies.

Employee-to-Life. Employees interact with the company to manage and develop their careers and also manage personal information, such as health benefits. Employees also interact with each other for purely social reasons. Using new communication modes, such as online communities, employees can interact more efficiently and broaden their circles.

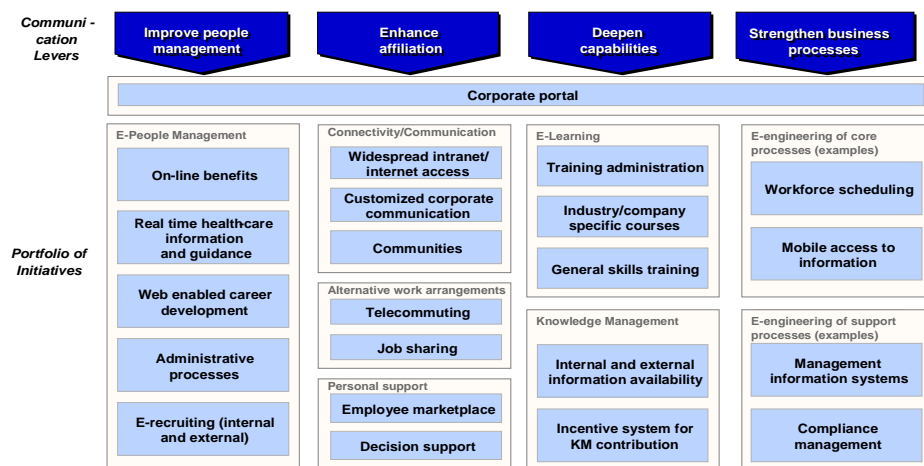
By breaking down the universe of interactions into these categories, managers can segment needs and solutions and target new communication initiatives toward each category. All communication initiatives are not relevant for all employees. A rigorous segmentation of needs followed by a set of targeted initiatives increases the chance of success and does not overburden employees with unnecessary initiatives and information.

¹ The three categories—company, job and life—were originally derived from Hewlett-Packard's framework for managing employee interactions.

USING FOUR LEVERS

There are four main levers that executives can use to improve employee interactions as outlined above (see Chart 4.1). Each needs to be developed and targeted to employees' different types of interactions.

Chart 4.1
Four levers for a comprehensive B2E program



Improving People Management. E-enabling people processes in an organization gives employees more freedom through self-service applications. When employees have easy access to and can manage their personal and career-related information, their interaction with HR and administrative departments is reduced. Such a reduction of intraorganizational interactions results in cost savings and a more productive workforce.

Enhancing Company Affiliation. Higher connectivity among employees makes it easy for different employees to interact with one another. Open and frequent communication between the company and its employees results in improved organizational responsiveness and stronger corporate identity. Flexible work arrangements made possible by online technology and online employee marketplaces allow employees to synchronize their work and personal lives, helping them achieve a better work-life balance. These activities lead many employees to form a stronger identity with and commitment to the company.

Deepening Employee Capabilities. The ability of an organization to develop capabilities quickly can increase its productivity. Just-in-time and self-paced online

learning courses help bridge the knowledge gaps of employees quickly. The ability to choose what they want to learn gives employees more control over their careers. Through knowledge-management systems, employees can make the best use of the intellectual capital of the organization and get access to the right information at the right time, resulting in faster and more efficient decision-making.

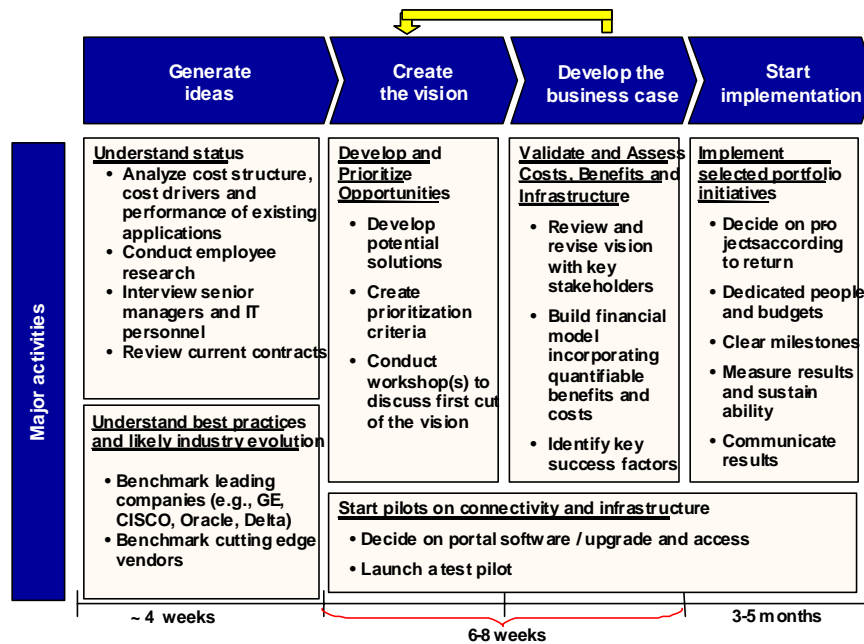
Strengthening Business Processes. Automation and e-enabling of business processes increases the efficiency of the company through reduced cycle times, reduced cost and efforts associated with employees' interactions, and quicker information searches.

HOW TO GET STARTED AND DRIVE A B2E STRATEGY PROJECT

Based on BCG’s work with a number of large companies in this area, we have identified a work plan that works well for getting started with, crafting and implementing a B2E strategy. The four-step approach is depicted at a high level in Chart 4.2. First, a brief four-week diagnosis of a firm’s current status is needed. This first phase should include a proper evaluation of all possible employee-centric interactions, as outlined in Chart 4.1. The second phase includes developing a list of priorities—although it is tempting to use new communication technologies for many things, the effort needs to focus on those important interactions where new communication technologies can have the most impact. During this phase, it is also useful to launch pilots to test what may work or not. The third phase—developing the business case—involves testing and verifying the economics of each of the efforts. This is where most IT-led communication efforts fail—the technology, not the business case, often drives the launch decision. In the fourth phase, an even more stringent prioritization is needed: executives need to decide which initiatives to launch first based on the expected returns. When properly managed, such an effort can move quickly. The more discipline in prioritizing the various efforts, the sooner the gains can be realized.

Chart 4.2
A high-level change approach to B2E

OUR APPROACH FOR A FULL B2E PROGRAM



In following these steps, it is important to make sure that the following three elements of a B2E strategy are properly managed. In our experience, getting these three parts right counts for a lot in developing a successful B2E program.

Employee Portal. An employee portal gives employees one place from which to obtain not only information, but also services. It can be personalized to take into account what function the employee performs and thus what resources he or she needs. Since the portal is the B2E initiative's interface with employees, it is imperative that it should meet if not exceed the employees' performance expectations. Getting it almost right the first time is therefore extremely important. Otherwise, employees will abandon the new online process and continue to get things done the old way.

Central IT Infrastructure. Although many companies take the existence of an IT infrastructure for granted, it is important to make sure that employees experience it as robust. That means that employees have uninterrupted access to various online tools in a safe and secure environment. In addition, as the workforce is becoming more mobile and volatile, it is important to follow open modular architectures that support the quick processing of data in multiple forms and that are compatible with multiple access devices.

E-Culture. The greatest challenge lies not in the technology but in the required behavioral changes employees need to make. Such changes will require a concerted effort from a change team that should be drawn from across the organization and be spearheaded by highly visible and involved senior managers. Furthermore, creating proper mechanisms for measuring results and holding people accountable are critical steps for changing behavior and installing a proper culture.

As an example, consider the implementation of a B2E strategy for a European utility company. Implemented by Platinion (a 100%-owned subsidiary of BCG), the main purpose of the portal strategy was to provide employees with a single, role-specific and self-explanatory user interface to all necessary applications. Prior to the change effort, employees faced a fragmented and burdensome IT environment in which they became increasingly disoriented between the different IT environments they had to handle (different groupware systems, ERP applications, portals, intranets, document-management systems, etc.). This non-integrated IT landscape made it difficult to find, access and exchange information and files. By following the four-phased change plan, the team working on this effort successfully developed and implemented a portal, resulting in expected direct savings of between \$6 million and \$10 million and indirect savings, in the form of time savings, of more than a million man-hours.² The costs for this effort were approximately 30 cents per employee and will be paid off in less than two years.

² Potential cost savings relate to savings caused by the overall portal and B2E initiative, but they do not include savings deriving from improved core and work processes.

Experience shows that an overhaul of a communication strategy of a global company can take years in order to be effective. Nevertheless, in BCG's experience, there are many initiatives that show a shorter payoff horizon. The better-managed programs yield bigger and quicker payoffs.