

# PRWEEK

## All Things Considered By Burson-Marsteller

"Nobody questions a winner, but everyone criticizes a loser," says Kenny Frerichs, CEO of Network Physics (pictured left), a company that provides solutions that help IT managers optimize their enterprise application performance across their network. Such is the CEO's plight, particularly now when a rapidly changing marketplace has converged with a fragmenting media environment that is ready to pick apart every move a company makes and its leaders.

So given this landscape—and the pressure not just to succeed, but also to lay the groundwork for innovation as well as sustainability, while thinking long term and short-term simultaneously—what are the factors that help CEOs make decisions that impact their company? It is a combination of information and experience, advisors and gut instinct, and PR pros have a critical role to play in this mix.

This year's PRWeek/Burson-Marsteller CEO Survey looks less at the communications imperatives of today's business leaders and more at the matrix of issues and information that impact corporate strategy. The survey asked 252 CEOs to identify who is most influential to their decision-making, how often they adjust strategy, and what issues have caused them to change direction.

The differences between large and small companies were very apparent in the way respondents answered certain questions. CEOs from higher revenue companies rely more on their executive team and board of directors than their smaller company counterparts for help in making business decisions. Macro issues such as energy prices, healthcare costs, and environmental concerns impact business strategy more for larger companies than for smaller ones.

Research plays a critical role for every CEO interviewed for this story. "CEOs are fundamentally more research-driven today than they have been in the past; they are [also] more issues-driven than in the past," says Mark Penn, CEO of Burson. "They have to listen not just to the board of directors, but across the board to what the bigger trends are."

### BEYOND THE NUMBERS

No effective CEO is driven solely by the numbers. Frerichs, for one, is a voracious consumer of quantitative and qualitative information. But in the midst of his high-level data and advisors, he also thinks about grannies. He doesn't

want on his conscience the elderly pensioners who invest their life savings in a company without the proper foundation for success. "Business is business, but there is a responsibility." Striking the balance between the two helps inform his strategy.

That's partly a function of spending time in leadership roles during the dot-com boom. At one of his previous companies, there was a lot of pressure during 1998-1999 to take the company public, but Frerichs resisted the siren's song of easy wealth. "I looked at [the bubble] and said, 'It's not real. We're being drawn by greed,'" he says. "Some of these companies going public are not [sustainable] companies."

What might seem like a softfocus approach has solid business realities underpinning it. Few grannies will be plowing all their pennies into a specialized tech stock, and indeed most investing is institutional in nature. But a company that can't keep a granny's lifestyle afloat should never have gone public in the first place. Balancing the business realities with informed instinct is the goal.

"CEOs use research to sort out among different points of view," says Ame Wadler, Burson's chief strategic innovation and integration officer. "Making a decision is harder, and some of it comes down to intuition or gut instinct. But it is a highly informed gut." Frerichs uses a range of resources to help inform his own instincts. "When considering a disruptive approach to a preexisting market, or expanding into new markets, you have to understand the cause and effect of your actions," he says. "We subscribe to a number of analyst services that cover in great detail the markets we are considering or currently serving. We also subscribe to a service that tracks news articles and editorial pieces to keep apprised as to what our current and/or potential competitors are doing that might not be specifically covered in analyst briefings."

Frerichs also turns to a network of personal and business relationships, individuals who become a "sounding board" for him. "Over time you learn how to balance your intellectual and emotional responses regarding the decisions you make and how those decisions affect shareholders, employees, and partners."

### STRATEGIC DIRECTION

Financial performance, even for private

companies, is the ultimate measure of success for CEOs. But how that manifests itself in the CEO's priorities can vary.

"The first thing is the short term," says Larry Genkin, CEO of Larstan Business Reports, a publishing and consulting firm. "I know you should be thinking long term, but cash flow is very much on my mind – how much is it going to cost us to do this or that venture."

At the same time, however, Genkin has three basic requirements behind every decision: that it be scalable, potentially profitable, and repeatable. His main consideration: "Can we make this sale over and over again?"

Indeed, companies today are required to drive innovation, to adapt to the changing global marketplace, but with sustainable strategies that will create long term benefits. Public companies will spend a lot of time focusing on the numbers, obviously.

But corporate finance is not the cut-and-dried proposition it used to be. J.P. Donlon, editor of Chief Executive magazine, says that the investor community is increasingly looking less at GAAP revenues and earnings per share (EPS), and more at metrics such as economic value added (EVA) or market value added (MVA). He adds that most company reports are redrawn by analysts from those perspectives.

The quarterly earnings statement remains "a necessary evil," Donlon says. "It can demonstrate that the company is valid and meeting its targets, but a lot of it is pro forma. Most people don't pay that close attention unless something is very wrong."

CEOs are expected then to meet not the stated and regulatory expectations, but to understand that investors and analysts want more and better detail at the same time. Penn says that enlightened leaders have an opportunity to increase value while telling a better story.

"There's no question that the short-term [performance] and being able to predict it has a major impact, as much as there's an effort to get rid of the quarterly reporting," he says.

"Sarbanes-Oxley has brought even greater emphasis on the numbers." But Penn maintains that there is a need for CEOs to articulate their strategies beyond the numbers and announcements, as he found when working with one CEO on the growth story of the company. The CEO gave a key speech that had no "news," but focused on

strategy. The company's shares rose as a result.

"That's the value of telling your story better," Penn says. "Nothing is going to change your story 100%, but you can have an impact that is substantial by just communicating what you are doing better."

Some leaders aim to dovetail their financial objectives with their workplace culture. Home-Banc, which went public in 2004, was ranked 14th in Fortune's Best Places to Work in America scorecard in 2006. For CEO Patrick Flood, this metric helps the company articulate not just its values, but the success of its model.

"One of the things that gets lost in the process of business is the long-term value of the reputation you have," Flood says. "Shareholders would love us to say we think about shareholders first. But our way of thinking is based on the best success formula for business."

That includes, particularly for a service-based industry, attracting and retaining top talent to meet business goals. "At the end of the day, the people that are here, and the commitment level they have to do everything they can, that ultimately yields the best shareholder return."

Even so, HomeBanc is ultimately a mortgage company. In its third quarter, the company's report cited the difficulties that the mortgage and housing market currently face as a factor behind its updated earnings guidance.

### TECHNOLOGY'S IMPACT

The survey asked CEOs to rate the degree to which certain major issues have impacted their strategy. The challenges created by new technologies ranked high on the list for both small and larger companies, followed closely by energy prices.

One matter on a lot of people's minds is the CEO compensation issue that has roiled such companies as UnitedHealth Group and The Home Depot. When perception of a CEO's pay does not meet the public's expectation of company performance, the resulting PR furor can be painful.

"[It's] a big topic," says Flood, "as is the value and ethics in the boardroom. Ten years ago, the board had isolation from the media. Today, you have no place to go. Everything that can be public is public."

Terrorist threats and global politics also scored high as impactful issues for larger companies.

"We have the concern—as everyone does today—about terrorism," says Dominique Schurman, CEO of Papyrus, a chain of retail stationery stores. "It's one of those things that is totally out of our control that could have a huge impact on our business." But Schurman's day-to-day focus is firmly on the growth of her business, which expanded its store base by 50% in 2006, and is committed to further expansion in 2007. The store redesign has also been a big part of the strategy.

"We have a sense of urgency about getting our brand out there and securing a lead position for our product category," she says.

Schurman works with an executive team of eight and conducts weekly meetings to refine strategy. But an overarching vision guides the company's global strategy throughout the year. "Unless we get a major signal that something is wrong, I think it's important to stick to the plan," she says. "The wonderful thing about retail is that your customer tells you what they like with their pocketbook. You can see almost overnight whether a change is effective or not."

Schurman also focuses a lot more on her own company than what competitors are doing. "A lot of retailers worry too much about what's going on down the block."

When asked how often his company reevaluates strategy, West Shell III, Healthline Networks' CEO, says, "Constantly. In a high growth, early-stage company, you must constantly adjust your business plan to take advantage of opportunities in the market."

Shell's goal is to make the company the largest provider of healthcare information within the next 12 to 24 months. "When you have as bold and broad a vision as we do, you need to diversify market opportunity... meaning customer segments, addressing the needs of the market—making sure you have a diversified product and business model," he says. "I'm always adjusting different parts of the plan on where we are putting precious human and financial resources to grow the company."

Donlon says that most public companies will do a strategic deep dive once or twice a year, possibly in a three-day exercise including board members and executives. Every six months or so, they review progress to determine whether a mid-course correction is needed.

"Surprisingly a lot of discussions are on the tactics, though, not the grand strategy," he says. "It can be very easy to confuse the two. It's up to the CEO to keep the difference straight."

#### DIGITAL INNOVATION

One of the biggest changes to the corporate world in recent years has been the proliferation of digital media. Ironically, while CEOs surveyed did not

rank new media especially high on their list of strategy-changing challenges, a large percentage, particularly from big companies, cite digital or online strategy as "extremely important."

Penn says that CEOs know that the new-media landscape is important, because of both the opportunities and vulnerabilities it presents.

"I see some leaders really looking ahead to where they [will] be five years from now and what that means for the whole selling and communications apparatus," he says. "I think they almost have a better sense of where it's going than where it is now."

Even a company like Sabian Cymbals, with 25 years of selling its products to drummers and finding ways to connect with customers through hands-on experience with the products, has embraced a digital strategy.

"We monitor blog sites a lot to find out what people are saying," says CEO Andy Zildjian. "We also have one guy here who will correct mistakes that appear on blogs." For example, when blog postings were claiming that the company had misled people about its manufacturing practices, the company was quick to respond with video evidence."

Zildjian is also launching an online Q&A session to enable him to answer consumer questions in a dialogue format.

But Sabian's online strategy is closely connected to its long-term efforts to engage with its customers. The company routinely tours with its latest products. In fact, when it responded to the misinformation on the blog, it found that some of the attendees of their past live events had beaten them to it.

Zildjian, like many of the CEOs surveyed, does not write a blog himself. Neither does Kirk Loevner, CEO of Epocrates, provider of handheld and Webbased clinical reference tools. But the company harnesses a network of physicians to write blogs through its Web site. But for himself, Loevner says "I don't view it as the most high-return channel for the investment."

According to the survey, only 3% of the smaller-company CEOs have their own blogs, while in larger companies 33% have them. One reason for this may be that large-company CEOs use blogs as an internal communications tool that helps them reach a broader audience. The overall perception among most CEOs is that blogs are more effective for in-house communications than for external audiences.

Whether it manifests itself through digital strategy or not, what Zildjian and Loevner share is a passion for research to drive innovation. "We use research extensively," says Loevner. "Primarily for products. If someone wants to champion a product, we will use the survey to validate the concept or not."

Zildjian has been a huge proponent of research for his company, primarily in the form of surveys, "to make sure on the

larger scheme what the needs are of the market." He says research has informed the kind of innovation that has helped his company grow in the right way.

"We put a lot of emphasis on innovation, but most importantly relevant innovation," notes Zildjian. "It all has to come down to the question: It may be interesting, but is it relevant?"

#### CITIZENSHIP AND STRATEGY

A company's position in its community—be it global, local, or both—will impact its business performance and reputation. Building local profile is one reason why it's important for David Becker, CEO of packaging and branding firm Philippe Becker Design, to be featured in the San Francisco Business Times' ranking of the area's fastest-growing companies.

"I don't know what it says about the quality of the work, but it speaks to business leaders who are asked to consider us because we're obviously doing something right," he says.

Doing something right—for the community and business—also played a role in the firm's pro bono work with the city of San Francisco on a homeless initiative, Project Homeless Connect. It was both the right thing to do and a boon for the firm, which won a local award for the campaign. "We didn't do it to win a business award, but we did," Becker says. "Those things are important for getting in front of business people."

CSR is also gaining a higher profile, says Chief Executive's Donlon, and it's naïve to think that companies merely look at it from the perspective of "doing good."

"The underlying economics are really driving decision-making," he says. "What they're really doing is driving efficiencies. The point is how far in one direction does one push this." Too far, and the cost outweighs the benefits.

It's the corporate citizenship instinct that informs Frerichs' "granny" sensibility, as well as today's corporate philosophy of finding ways to meet business and human objectives. "Corporate reputations are driven by both performance and citizenship factors," Burson's Penn says. "You can never be the Most Admired company unless you have both."

#### COUNSELING THE CEO

Decision makers need someone to talk to, just like anyone else. HomeBanc's Flood, within the confines of what he can discuss publicly, says that he will sometimes turn to his father, his wife, even his pastor, when making tough decisions. That isn't uncommon, as finding someone who you can trust is not easy when you sit at the top.

The changing role of the board of directors at public companies means the relationship is less oriented to advising the CEO, or simply supporting his or

her decisions, and more actively engaged in issues that impact the reputation and strategy of the company.

"Board members take their job more seriously than ever," says Burson's Wadler. "It's a partnership that is more engaged than it has been in the past, so there's a shared responsibility."

A large percentage of CEOs surveyed reported that "employee input" is highly influential in guiding their business decisions. At the same time, however, companies are wrestling with a very different environment of employee engagement. While year on year, the CEO survey has reflected a rise in the importance of internal communications, it is not always apparent from the employees' perspective.

"Employees in the US are getting less and less happy working for big companies, particularly as benefits have changed and people change jobs so frequently," says Penn. CEOs are seeking new ways to connect business strategy with employee motivation.

PR pros have an opportunity to play an even greater role in advising CEOs, and the rise of communications in the C-suite is well documented. But there are some areas where some CEOs would like even greater input.

Many speak of relying on "gut instinct" to make decisions, but in fact they gather information from a wide range of sources. Healthline Networks' Shell says he would like his PR counsel to take a larger role in helping him assimilate the array of content and data relevant for his company.

"One thing I would like to see PR pro do a better job at is synthesizing those diverse voices out there and take those disparate articles, briefings, and analyst reports and distill that down to some core briefing documents, and give better perspective to inform my company's business strategies," he says.

"Fundamentally, there's this mosaic being developed every day. The ability to step back and knit that mosaic together into core insights would be very valuable."

Donlon says that while many CEOs include their senior communicator in decision-making, too many still don't. In a feature Chief Executive is publishing soon about CEOs dealing with crises, most problems link back to a communications failure of some kind.

"In general, some CEOs will adopt the view, 'When I really need it, then I can hire it or engage it,'" he says. "But that senior PR person needs to be there all the time, so that when something extraordinary happens there is no education lag and they are bright enough to know and anticipate."

For CEOs who tell him that their senior PR people simply aren't of the caliber to earn that level of involvement, Donlon has one answer, "Hire someone who is of that caliber."