Reprinted from
scm
Strategic Communication Management
www.melcrum.com

When major corporate news is delivered to employees via the media it can lead to an "us and them" mentality among disgruntled staff. The problem facing publicly traded organizations is that they must work within the confines of securities law while attempting to keep employee morale high. In this article, Susan Stevens tells how the New England Electric System companies managed to communicate major corporate news to employees in advance of going public yet still satisfy Wall Street traders and the Securities regulators.

BALANCING SECURITIES LAW WITH EMPLOYEES' NEED TO KNOW

BY SUSAN STEVENS

Advance announcement of any material business transaction, to any internal or external audience, is strictly limited by securities law. Public disclosure through the media is one of the requisite first steps a company must take to announce material news. Yet when employees first hear important updates about the companies they work for through the media, many are understandably disgruntled.

When we at the New England Electric System (NEES) companies prepared to announce the identity of the buyer of our power generating business, we looked for ways to provide employees with information in advance of the announcement, while operating within securities law and without compromising our carefully planned media roll-out.

Bending to the forces demanding the restructuring of the electric utility industry, NEES announced in the fall of 1996 that it would sell its profitable generating business, becoming the first utility in the United States to do so. The desire to provide employees with the maximum amount of information in advance of announcing the buyer, and the mandate to adhere to the strictest letter of securities trading law, created a tricky balancing act. Prior

Susan Stevens is Corporate Communications Director for the public utility holding company New England Electric System and its subsidiaries. Prior to joining the NEES companies, she served in senior management roles at public relations agencies Agnew, Carter, McCarthy, Inc., and Copithorne & Bellows; and directed communication efforts for non-profit institutions including the Franklin Park Zoo and the USS Constitution. She is a PRSA member and a graduate of Cornell University. Contact Susan on steves@neesnet.com

to the announcement of the buyer, relations between senior management and employees were considered good by most of the rank-and-file employees surveyed in bi-annual focus groups. But among the consistent complaints was an understandable discontent with hearing major corporate news through the press before hearing it at work.

A glaring example of this was our announcement of the company's intention to sell the generation business, which went public via a late-night media teleconference when we learned of a press leak. That example aside, we always made an effort to give employees news in advance of going public when we could. When this was not possible, we hoped that our constant reminders of the restrictions placed upon us by securities trading law would counter the resentment, and perhaps even generate understanding, among employees. It became clear to us, however, that this hope was not being fulfiled.

Two Possible Scenarios

As the announcement of the buyer came closer, corporate communications lobbied hard to tell the employees something in advance of going public. Luckily, this position was backed up by the CEO's commitment to do the same. The other senior executives were split: those on the front-lines (with fresh memories of employee aggravation at recent executive/employee meetings) supported the advance notification. But the idea was controversial among another key group of executives, who felt that saying anything in advance would compromise the confidentiality of the process and pose an unnecessary risk. We considered two main scenarios (with numerous variations based on what time of day the public announcement might occur). These were:

1. telling employees everything the night before going public, after the stock market closed; or
2. giving them a "heads-up" notification the night before, saying only that the news would be announced early the next morning.

For once, in my role as Corporate Communications Director, I was not espousing option one because I thought we could get most of the benefit of that option, without the risk, through option two. Giving employees all of the details—the buyer's identity, the sale price, terms of the deal—the night before going public, would of course have been the ultimate in proving to employees that we were willing to communicate as much as we could, as soon as we could. It would also greatly reduce the likelihood of our people hearing the news first through the media. This would have produced a major upsurge in employee morale, which was critical at this important time for the company, when we were facing the continuing operation of our generation business for six to 18 months while we awaited government approvals of the transaction. The one drawback to this plan was massive: the greatly increased risk of a leak to the press from one or more of our 4,800 employees, which would result in a loss of control of the announcement, and dilution or misrepresentation of our key corporate messages. The heads-up option, on the other hand, could deliver most of the same goodwill benefits as option one, if it were recognized as a sincere demonstration of our desire to communicate to employees in a timely fashion. The news would be delivered by managers to employees via phone trees, or in-person to those employees still at work, beginning at 5:30 p.m. They would be told only that the identity of the buyer and terms of the deal were being made public very early in the morning before the stock market opened, and that they would receive full briefings from their managers in morning meetings. While many employees would still hear the details of the news through the media in the morning, the shock factor would be eliminated. That was critical: an employee who knows when the buyer is being announced feels "invested in" when s/he hears the news on the radio, or reads it in the paper on their doorstep. They felt "in-the-know," because they knew this important news was coming, before the rest of the world.

Additionally, our employees were aware from their late afternoon/early evening phone-tree calls the day before that they would be briefed first thing by their managers, and a packet of materials would be waiting for them in their offices. Critics of this option had valid concerns: they felt we would be exacerbating employee anxiety by providing minimal information roughly 12 hours in advance of releasing the full news. They felt it would put undue pressure on the managers initiating the phone trees to tell what they knew, and they feared that the heads-up—with its lack of detail—would be received as a ludicrous attempt at communications.

Satisfying Wall Street

With these two options in mind, we set about researching the viability of both as they intertwined with securities law. With the Stock Exchange advising us that even an early afternoon invitation to a late afternoon employee meeting would probably cause the Exchange to halt trading of our stock, the first scenario was unwieldy from the start. We couldn't even notify employees of the meetings until 4:30 when trading had stopped, making it unlikely

Options	Pros	Cons
Option 1 • Buyer's identity • Sale price • Terms of the deal	• Provide maximum information • Demonstrate real desire to communicate, • Virtually eliminate employees hearing the news through outside media. • Provide greatest morale boost	• High risk of leak to press • Unwieldy timing due to Stock Exchange concerns • Loss of control of announcement and dilution of key messages
Option 2 • "Heads-up" that announcement is imminent	• Demonstrate desire to communicate, earning goodwill • Eliminates shock value of employees hearing the news through outside media • Provides significant morale boost	• Exacerbating employee anxiety by providing minimal information • Undue pressure on managers to tell all
Option 3 • Communication through media alone (option not even considered at NEES)	• No Risk of Leaks	• Severely Damaging to Morale

Figure One — The Corporate Communicator's Options

we would reach the majority of our people, since the power plants, meter readers and line crews had shift changes at 3:30 and 4:00. We considered providing the news after 4:30, utilizing phone trees to reach the majority of the staff, but as we moved into the joint communications planning phase with the buyer of our generation business, their discomfort with giving employees the full news in advance (which would be well in advance of their own employees on the West Coast) sounded the final death-knell for option one.

Implementation of the Heads-Up

Option two was rolled out smoothly. Managers were advised in advance to establish phone trees if they didn't already exist. The day before going public, managers were notified at 3:00 of a mandatory briefing at 4:30. At the briefing, which immediately followed the official vote of approval on the sale at a board of directors meeting, the CEO announced the buyer and terms of the deal (no written information was provided), and managers were provided with a script with the minimal comments they needed for the phone tree calls. Those managers not already considered insiders were advised of their new insider status. At 5:30, calls to employees began, and lasted well into the night. The news itself was issued publicly early the next morning.

A Successful Solution

In the final analysis, none of our original fears transpired. Managers were not pressurized by their employees, they were not laughed at when they made their calls, and as far as we know, we did not create undue anxiety as employees awaited the morning news. Several managers who admitted skepticism at the plan beforehand gave glowing reports after-the-fact. Employees' positive reaction to the heads-up calls, and their gratitude at being told something in advance, was welcomed by the managers who had been uncomfortable with having to make special phone calls to say so little, but made the calls anyway at the CEO's request. The few managers who did not initiate the phone trees (as in any large company, the range of communications capabilities and interests among our managers varies widely) were called to task by their employees the next day, providing an ancillary benefit of pressuring managers into becoming better communicators. (According to employee focus groups conducted recently, 77 percent of those surveyed received the heads-up from their supervisors.)

Minimizing the ability for press leaks through employees was, as expected, a wise move in the end. The news that NEES was selling 18 power plants and 23 power contracts to U.S. Generating Company, an affiliate of West Coast-based PG&E Corporation for US$1.59 billion, was increasingly hard to contain in the final 24 hours before going public, and we believe one late-night press inquiry was the result of an employee talking to a local contact after being given the heads-up. Luckily, the reporter did not have details requiring confirmation. Had we provided employees with the details of the announcement, I am sure we would have had inconsistent, scattered coverage of the breaking news in the morning, instead of the organized roll-out that transpired.

"EMPLOYEES FELT 'IN-THE-KNOW,' BECAUSE THEY KNEW THIS IMPORTANT NEWS WAS COMING, BEFORE THE REST OF THE WORLD."

And the value of the heads-up notification was as great as we had predicted. The focus groups showed that 79 percent of our employees considered the advance notice a positive communications step, and discontent with the lack of information conveyed was minimal. Nearly 65 percent of those surveyed felt that the company had communicated with employees regarding the sale announcement in a manner that demonstrated concern for employees' "need to know." So in certain situations, publicly traded companies can work within securities law while practicing the best in employee communications. The ultimate benefits are of course invaluable. Investing employees in major corporate news in advance greatly reduces the likelihood of an aggravated employee giving negative comment to the press or other audiences, either on announcement day or down the road. And it keeps morale at the level necessary to continue running a business during the turmoil of transition to a new owner. scm

KEYPOINTS

FINAL ROLL-OUT SCHEDULE FOR SALE ANNOUNCEMENT

DAY BEFORE ANNOUNCEMENT

2pm	*Wall Street Journal* Interview
3pm	Top managers notified of 4:30pm meeting/conference call
4pm	Board of Directors meeting
4:30pm	Top managers briefed on full story. No materials to be distributed. Advised at outset they are now insiders
4:30pm	*WSJ* given go-ahead based on board vote
4:30pm	Managers implement phone trees to give staff heads-up only (not the news) and advise of morning meetings
5pm	Call rating agencies
5pm	FYI heads-up calls to opinion leaders including host communities
5:30pm	Brief union leaders

DAY OF ANNOUNCEMENT

2am	*Wall Street Journal* story hits in print and electronically
6-9am	Managers brief departments
6am	News release and press conference notice issued over wire and by fax
6am	Formal employee notification occurs (e-mail, voicemail, hard copy of release)
6:15am	Issue analyst teleconference notice via fax
6:15am	Calls to key analysts
7am	Calls to key media
8:30am	Buyer's analyst call
9:30am	Boston press conference
10:30am	Analyst teleconference
1pm	Providence press conference and then ongoing one-on-one interviews with media and analysts
5pm	Record message on shareholder voicemail system