Corporate Affairs – fit for purpose in a downturn?

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Background

For obvious reasons there is little research published on the role and value of the corporate affairs function in a downturn. Watson Helsby has produced two previous reports on the role of the director of corporate affairs/communications (DCA). But both were published when the economy was buoyant, the outlook for business broadly positive and reputational challenges very different from what they are now.

The credit crunch and the recession it has precipitated have clearly had a profound effect on the environment in which many companies now operate and inevitably on that in which the corporate affairs team itself is required to operate. How, we wanted to discover, had these changes affected the role and contribution of the corporate affairs director and his/her team? To explore this subject in more depth we conducted interviews with over 40 corporate affairs/communications directors, specifically focusing on two related issues:

(i) The impact of the recession as seen through the lens of the corporate affairs function;

(ii) How the corporate affairs function is, and should be, adapting to the current environment. What new challenges and issues does it face? How have these influenced plans and priorities? What has been the impact on budgets and expenditure? Is the function 'fit for purpose' in this fast changing, multi-dimensional reputation environment?

This report provides insight into: key issues and priorities; reputation hotspots; budgetary issues; PR agency usage and expenditure; skill and competency priorities; organisational and structural refinements.

Methodology

Over a period of three months (December 2008 – March 2009) we conducted face-to-face interviews with over 40 corporate affairs/communications directors in both FTSE100 companies, Fortune Top 300 and major public sector organisations, to obtain a broad sector perspective on the manner in which the downturn has impacted the function.

Nomenclature

We interviewed directors of corporate affairs and directors of corporate communications. Although the remit may vary, the titles have become almost interchangeable. We found an almost equal split of titles within the companies we surveyed. However for reasons of consistency we have referred to the corporate affairs function throughout this report and the Director of Corporate Affairs/Communications title has been shortened to the DCA acronym.

Participating organisations

Our thanks go to the corporate affairs and corporate communications directors of the following companies, all of whom kindly participated in this study:

| BA plc
| BAE Systems plc
| Barclays Global Investors
| BBC
| BP plc
| BSkyB plc
| BT Group plc
| Cadbury plc
| Capita plc
| Carphone Warehouse plc
| CBI
| Centrica plc
| Clifford Chance LLP
| Deutsche Bank – Global Banking
| Diageo plc
| eBay Europe
| Friends Provident plc
| FSA
| Goldman Sachs Europe
| GSK plc
| Hammerson plc
| ITV plc
| John Lewis Partnership
| J Sainsbury plc
| Land Securities plc
| LOCOG
| McDonald's UK
| Merrill Lynch
| Mitchell & Butler plc
| Network Rail
| Orange UK
| PepsiCo
| PricewaterhouseCoopers
| Prudential plc
| Reed Elsevier plc
| Rio Tinto plc
| Serco plc
| Smith & Nephew plc
| Standard Chartered plc
| Thomas Cook plc
| Unilever plc
| Vodafone plc

2 | What are the key challenges and issues?

We first asked participants to describe the key issues and challenges they are facing in the current environment. These inevitably varied, but there is one challenge that is common to all of them and that is the speed and intensity of the downturn and its impact on performance and reputation – combined with greater levels of scrutiny and an accompanying decline in trust in big business and its leaders. As one interviewee remarked:

"For communications professionals this is a tough time to get a message across – telling your story to a sceptical audience amid a force ten economic gale is difficult."

Furthermore companies, and the corporate affairs teams within them, are having to adjust to the demands of dealing with what is the first recession of the Digital Age. The manner and speed at which news travels and opinions are now formed is unprecedented, a situation that was summarised by two interviewees as follows:

"We have never had a recession in the internet age and in the era of 24-hour news flow. Rumour and innuendo spreads fast and from all directions."

"We are now in an era in which opinion is being set much faster than ever before."

Several corporate affairs directors referred to the communications challenge presented by the "nerviness" and volatility of both the media and the financial markets, and the ease with which the latter can be 'spooked', a situation exacerbated by a voracious 24/7 media that is hungry for news, can disseminate it within seconds and is less rigorous about checking what it prints and broadcasts.

"No sudden movements, you have to move very gently. Any hint of bad news will be murdered. You could have a stock market run on any company. In the current environment share prices fall 30% on the suspicion of bad news, not 10%."

"Everybody is looking for the next story to take it forward. You have to be careful about the way you introduce new facts and the way that they are likely to be treated."

"You have to be crystal clear on funding capacity, funding strategy, cash flow and costs etc."

"The media now shoot first and ask questions afterwards – they don't have time to check sources."

Because the credit crunch, and the recession it has helped precipitate, has become a household issue, business stories as well as business personalities have transcended the business pages and now appear as consumer interest stories.

"Our story will run across all the business and consumer pages because we are a barometer for the health of the economy. We have to be very measured because it is an extremely volatile environment."

The fact that many of the key newspaper editors are ex. business/City editors who are instinctively attuned to the wider ramifications and resonance of a business story has further reinforced this trend.

Trust in business

The collective collapse in trust in big business and its leaders and the scepticism about whether companies are telling the truth has focused attention on the way in which business conducts itself, or is perceived to conduct itself. All companies are now facing greater levels of public scrutiny and they have to tread extremely carefully in this febrile atmosphere. Judgements will be faster, criticism sharper and headlines bigger. Trust can only be won back through greater transparency, honesty and accountability, and to a large extent this hinges upon communications and dialogue. This is seen as an opportunity for the corporate affairs function to demonstrate leadership. But it also imposes substantial demands and pressures:

- It is an incredibly tough and unforgiving environment in which to communicate and manage reputation;

- Anticipating and responding to both the shifting mood of stakeholders and the emergence of new reputation issues, a key aspect of the corporate affairs function's role, requires constant vigilance as well as some very fine and complex judgement calls. How for example should a company respond to the executive pay issue which has again become a newsworthy and controversial subject?

"There has been a fundamental shift in the attitude to money and pay. People are now more attuned to the wider social responsibility agenda. Conspicuous consumption is out. The link between money and success has been replaced by a link between money and disgust."

"We have to make sure we remain in step with, if not ahead of, the public mood."

This concern is more prevalent amongst those who were employed in banking, for obvious reasons.

"We are going to have to be very thoughtful about how we make the case for our contribution to economic growth and prosperity."

- Ensuring that senior executives are not only sensitised to stakeholder issues, sentiment and behaviour, but convinced of the case for transparency and engagement.

"There has never been a more important time for the CEO and the board to understand what stakeholders are thinking."

With a media storm breaking around them, the challenge for corporate affairs directors is to ensure that senior management sensitivity to stakeholder behaviour and opinion does not lead to their companies adopting a bunker mentality and a subsequent withdrawal from stakeholder engagement. This is what has happened with some of the banks who, subjected to a relentless and seemingly endless barrage of criticism and scrutiny, have decided to withdraw from any proactive engagement with the media.

"Since the crisis began we have taken a low profile stance and pulled back on meetings with editors."

"We are not arranging meetings for any business heads and no one is ready to talk to the media."

"We have preferred to be out of the press – no one is going to write a positive story about a bank right now."

With a media storm breaking, the DCAs must ensure that senior management does not withdraw and adopt a bunker mentality.

Communicating in a downturn

Managing communications and advising on the often delicate presentation and positioning of announcements and decisions, at a time of worrying performance issues and a constant stream of negative news, is a challenge that few of today's corporate affairs directors have had to face before.

"How do you manage the reputation of a business not performing as it has been for the last few years and that is laying people off?"

Two specific issues emerged around this subject:

i) The importance of providing total clarity and an explanation of the wider context in which decisions and performance were communicated. In the current environment (volatility, 'nerviness', relentless scrutiny) communicators have to be extremely alert to the potential interpretation of every piece of communication the company disseminates. The consequences of any unintended ambiguity or potential misinterpretation are likely to be severe. There is absolutely no leeway for error and this imposes considerable pressure on the function and the advice and judgement it proffers.

"Investors and analysts are reading things into all communications, so you have to be absolutely sure there is no scope for ambiguity."

"Every piece of information matters and contextualisation of newsflow is key. It is almost as if a new communications paradigm has been created."

"You have to be crystal clear on funding capacity, funding strategy, cashflow and costs etc."

ii) The challenge of maintaining the morale of employees while simultaneously being open and transparent about the current situation and the prospects of the business. A number of the companies included in the research had made, or were in the process of making, employees redundant. Keeping staff, particularly frontline employees, informed about what is happening, and why, is a sizeable internal communications challenge. Given the fact that employees often get their information from external sources (and are more inclined to believe these) the need to get external and internal communications aligned is paramount. As will be seen later, corporate affairs directors are allocating more of their time to internal communications challenges than they have ever done.

"Managing bad news, but keeping focus on the future of the business. Can't tell everyone that everything is rosy in the garden because it's not, but at the same time the business is not going downhill."

"A lot of bad news and it is very easy for people to get distracted by the bad news and to get apocalyptic feelings about the business."

"Keeping staff engaged is going to be a real challenge; exacerbated by the fact that the new senior team are not natural communicators."

Ironically those companies that continue to perform well are also having to think very carefully about their employee communications.

"We want to keep a lean cost base even though performance is good. This means that internal communications has to be key in getting out that balanced message."

"We are putting out good results and at the same time going through some internal consultations which presents a tricky communications challenge. Communications always has to be consistent and aligned, but this year we really do need to be subtle."

Government and regulation

The credit crunch and the collapse of confidence in the financial markets, and the market economy more generally, has turned the spotlight onto the relationship between business and government/regulators. This is not just a concern for the financial services industry, where regulation is inevitable, but for other sectors as well – regulation, it is feared, will fill the void created by the perceived malfunctioning of the free market.

"The shockwaves will be felt beyond the financial services sector."

For those companies that are already heavily regulated, the need to ensure that regulation does not become even more onerous is a priority. For those companies in sectors that could become the next target, the challenge is to convince politicians and regulators that their house is in order. This will require greater transparency, openness and honesty as well as a more intense, time-consuming and proactive engagement programme.

Either way the challenge, as articulated by those DCAs we interviewed, is ensuring that they are getting the highest quality advice on the direction that the public policy agenda is taking and an accurate perspective on how it affects them. And then, as one DCA put it, "extending tentacles into the process itself". It is crucial that they work with politicians, policy makers, regulators and others to ensure that the long-term implications of shorter-term political and economic solutions are understood and given due consideration.

"We have a 'license to operate' issue. Previously dealing with government was done on an opportunistic basis, now we have no choice but to engage."

"With a possible seismic shift in the public policy agenda, we need a better perspective on what policy makers and regulators are likely to change. And we need much better engagement."

Where public affairs and communications are not integrated into one function (a number of companies interviewed) then it is critical to ensure that public affairs is effectively and seamlessly joined up with other components of the communications strategy.

Internet and social media

Although this was not singled out by many interviewees as one of their key challenges, as the quote at the beginning of this report ("the first recession in the era of the internet age – rumour and innuendo spreads fast and from all directions") indicates, it is no longer possible to control the flow of information and many new online opinion formers are gathering a significant following. There is also an immediacy to online which requires a speed of response different to that required for traditional media.

"The big shift is online. Opinions are increasingly formed online by online influencers, which then act as a feeder to traditional media."

A move to centralisation

The need to control both message and cost has prompted some FTSE100 corporate affairs functions to pull back decisions/activity to the centre and to reorganise the corporate affairs function, both at group level and within the businesses, accordingly.

"It is time for command and control. I will be doing a lot more directing than building consensus, despite the fact that I am a devolver by nature."

"I am centralising to get greater line of sight, tighter control and so that we can present one face, not multiple faces."

"Though it is a challenge it is also the best opportunity to restructure and rationalise the function since I joined. My formal authority has been extended from group to businesses."

"I am looking at gaining greater control and leadership over communications across the group and I have created teams to explore and audit communications around the businesses and regions to assess resource duplication and wastage."

The move from a federal, decentralised structure to a more centralised model, coordinated and controlled from the centre, has considerable appeal to many companies in the current environment. This is because federal structures tend to duplicate activity and add cost and by definition involve ceding control at a time when greater control, consistency and alignment is paramount.

An issue not explored in the research (although one participant alluded to it in the context of budget cutbacks) but which would merit further analysis is:

"What is the right level of resourcing for a communications function – it is hard to measure and hard to describe."

Interestingly while some participants in group roles were talking of pulling back resource and control to the group communications function, others were more preoccupied with the opposite dynamic – that of reducing overhead at the centre, and the consequent challenge of justifying their resource and budget (along with other directors of corporate functions). Discretionary spend is an obvious target and corporate affairs still falls within that category.

"Communications is under scrutiny – we need to get better at demonstrating how we add value, particularly in tough times (metrics)."

3 | How has the downturn impacted priorities for 2009?

Key priorities are inevitably closely linked to key challenges and issues, and this relationship was clearly evident in the answers to this question.

So, in addition to the usuals (supporting the delivery of the business strategy and communicating key business initiatives), the priorities articulated by participants were as follows:

- Overall maintaining absolute vigilance on all things communications and reputation related.

"Maintain absolute vigilance on everything that is said."

- Developing and executing a programme to build the profile of the CEO/management team and providing reassurance around their vision and ability to deliver. This theme cropped up several times, partly because of its obvious importance in times of investor uncertainty and partly because of the number (18%) of interviewees who were working with a new CEO/ management team.

"Convince external stakeholders that the new management has a plan and is delivering on it. The share price is going south, so this initiative needs more focus."

"The CEO/FD have to demonstrate they are up to their job and we have to be more proactive at communicating their successes."

"Building the CEO's profile and connecting him with the results."

"I am going to demonstrate our bench strength by bringing forward senior management and putting them in front of journalists and investors."

- Launching and positioning a new CEO.

"A new CEO means a great deal of work to create relationships both internally and externally."

"Who else is going to launch the new CEO, both to employees and to the external world?"

"We have a new leader and I have to make him famous."

- With performance under the microscope, emphasising the underlying soundness and resilience and future prospects of the business is a big priority for those companies that face doubts on this point.

"We will need to position the company in the best possible light and underline our reputation for prudence and good stewardship."

"Getting the story out there and explaining how we are going to get out of the recession."

"Continuing to increase understanding of our new business model/structure and resilience of the business."

Quarterly results presentations were regarded by some as a good vehicle for keeping on the front foot and maintaining control of the agenda (although that is less straightforward if there is a preponderance of bad news).

"Setting the agenda at quarterly updates and providing a very clear roadmap."

- Addressing the requirement to recast the corporate story – to adapt the corporate story to the reality of the new trading conditions and the impact of these on business strategy and performance ("recasting the narrative").

"On a practical basis that has meant revising our internal and external strategy story, although not our overall ambition for the business."

- Public affairs – two themes emerged here.

The first was the need to work more effectively with government and regulators, partly to prevent disproportionate, knee jerk, 'something must be done' political solutions. Several DCAs view engagement with the political process as it affects their company/sector as an absolute priority in 2009.

"We have to make a convincing and persuasive case to government that competitive markets work. This has to come out of corporate affairs."

"Issues we are dealing with require a sensible government response and we have to influence that. These issues cannot be regulated out of existence."

The business case for more proactive and transparent engagement is further reinforced by the fact that government is more likely to react favourably towards a company if it perceives it "to be doing the right thing".

The second theme was the importance of building stronger links with the Conservative Party, based on the belief that there is a strong possibility of it forming the next administration.

"A whole stream of activity focused on the Conservative Party."

"There is a lot of pre-electioneering going on."

- Effective internal communications – the importance of keeping employees informed and motivated during tough times, and the need to combat their anxiety when many of their colleagues are being made redundant; what was described by one participant as the "who is going next" mentality.

"Overall communication to employees. We need to offer more context, explain why we are making decisions that may reverse previous business strategy."

"Getting the results through the business – getting better communications through the line. The communications skills of our managers are not as well advanced as they should be."

"Now employees are wanting to know more about the security of the bank they work for, so internal communications has become more important and valued."

"Internal communications is a much greater focus. Keeping morale up and ensuring that the company is a trusted source of information. There is so much noise around. And getting senior management involved, but by stealth."

"My CEO's priorities are investors and employees."

- Confronting the need to get more engaged with social media – more coherence, clarity and policy, harnessing it and monitoring it.

"We don't even know what to do with Twitter."

Companies, especially those that are targeted by campaigning groups, can no longer rely solely on mainstream media to get their message across. A number of interviewees reported that they will put more emphasis on the use of online to manage their counter messages and possibly to engage in conversations with stakeholders.

- Investment in corporate responsibility programmes divided interviewees, but with trust becoming such an overriding theme, several saw investment – or more importantly continued investment – in this area as an absolute imperative. Those companies with a strong consumer facing business were particularly conscious of the need to develop a more sustainable license to operate in the current climate.

"We need to get on the front foot, reach out where they are having problems and help them deal with their concerns."

"It is also an opportunity to develop a different kind of relationship with customers around trust."

"CSR is high on the agenda and recognised as such by everyone in the leadership. We need to make people feel good about staying with us and this is translated into a role as a carer, being trusted. It is an opportunity to enhance reputation."

"We are putting greater emphasis on our contribution to the broader community."

4 | Will directors of corporate affairs be adopting a different approach to communications?

For obvious reasons 2009 is a year when prudence, vigilance and belt tightening will predominate. Will this, we were interested to find out, require a different approach to communications and broader reputation management strategies? At least 25% of participants said that they would be doing nothing differently this year (many of these had been in the process of rebuilding/ change back in 2007 and saw no need for what one participant described as 'gear crunching'). Very few of the remainder were able to point to anything truly significant, although small changes, mostly of emphasis, were envisaged by many.

"The messaging about our values and the strength of what we do will not change."

Below we have listed the principal adjustments or shifts in approach we identified:

i) Tone of voice and the importance of showing greater sensitivity to the mood of consumers, in the context of communications activity.

"There are sensitive positioning and tone of voice issues that need to be factored into communications activity."

"The tone of voice in our communications will be measured – how we communicate will be as important as what we communicate."

"The recession is really not making a difference to our plans, but it absolutely changes the tone of voice."

ii) Although communications strategies and frameworks were, by and large, remaining consistent, subtlety of message and the importance of getting the small nuances of communications right require greater focus and attention.

iii) The severe consequences of inconsistency of messaging, as we have already seen, have prompted a number of DCAs to pull back control to the centre.

"Control and coordination is critical. So much is market sensitive and therefore has to be controlled centrally on a global basis."

iv) A greater investment of time and effort, though not necessarily money, in internal communications. This subject has already been covered in Priorities (page 9) but it frequently cropped up during discussion of this question. It is clearly so much more of a priority this year and represents a marked change in approach. This is particularly the case for those companies that are having to explain the rationale for some very tough decisions, yet who have to keep employees motivated and engaged. And even more so for those companies that have to bring both employees and unions along with them.

"If we don't provide information, the rumour mill surely will."

"There will be a bigger than usual focus on tactical internal messages due to headcount cuts and the operational focus."

"There is a bigger focus on internal change than there has been for a long time. We are looking at innovative and effective ways to talk to colleagues and engage people at a time of great risk."

v) Doing more with less. This theme was implicit in the answers of many interviewees. They are all, in common with their management peers, expected to do more for less.

"The recession means having to find ways of doing the same amount of work with fewer resources."

"Our events will be more bare-boned."

vi) More time is being spent on scenario planning than normal and this is a change vs. previous years. Sheer uncertainty, combined with the unprecedented range of situations that a company could find itself confronted by, means that there are more scenarios, many with reputation implications, to plan against. The need to plan ahead in an environment where planning ahead has never been more difficult is a dichotomy that was not lost on interviewees.

"We are permanently trying to think three steps ahead. The need to plan further ahead has become more important just as the ability to do so has become less possible."

Two interviewees mentioned that the arrival of new CEO "casts a shadow over everything", suggesting that the CEOs in question will be looking to make changes throughout the organisation. But this is unrelated to the downturn and would have happened regardless.

"A new CEO opens new possibilities, as yet undefined. But inevitably he will look for fresh thinking and he is already challenging the function to raise its game."

5 | How is the downturn (and the environment it has created) affecting the relationship between the corporate affairs function and the executive team?

Given the speed and scale of the downturn and the mistrust and scrutiny of business that the credit crunch has propagated, sensitivity to reputation and anxiety about stakeholder reaction has inevitably heightened. A large proportion of the sample reported that the senior management team wanted more guidance and were "very open to communications counsel", cognIscent of the fact that the stakes are much higher in the current environment. Although corporate affairs is a central function in most companies these days, the potential impact of getting communications wrong is such that senior management are now leaning more heavily on the corporate affairs team for advice on what to say, how to say it and when to say it, to a degree that they have never done before.

"People are nervous and concerned and want to get it right."

"There have been times this year when our management team were heavily reliant on the communications function to manage the huge amount of attention and scrutiny that were directed at us."

"We have gone from near the centre to right at the centre."

"Senior management will ask whether they are communicating enough, too little, too much."

"In a downturn we are making more announcements to the City and the executive wants guidance on how to land these messages successfully."

In certain sectors, banking being the obvious example, there has been no shortage of panic-inducing situations and senior executives have been reliant on the corporate affairs director and his/her key team to bring calmness and to help them focus on the things that matter.

"Senior management have a fear of the media and like to be close to people who do not have that fear."

Executive teams in those companies in sectors that are heavily regulated are also more engaged in corporate affairs because of the intense levels of government scrutiny.

One of the interviewees also observed that the current environment presents an opportunity to be more explicit, honest and candid when proffering advice to the senior executive.

"It is easier to be brave and it is an opportunity to deliver some home truths."

Some interviewees saw strategic reputation management taking a back seat to short-term tactical activity, in the current environment, because of the greater emphasis on short-term operational initiatives.

"The focus of the organisation is on operational issues and initiatives, especially those that generate sales volumes, so the focus of communications will inevitably become more tactical. In that environment it will be more difficult than ever to position the reputational management and strategic communication side of the function."

The potential impact of getting communications wrong is such that senior management are leaning more heavily on the corporate affairs team.

6 | What is the impact on budgets and expenditure?

"Any spending that is viewed as discretionary is up for grabs and, frankly, that includes much that happens in communications. Solid KPIs and measurement help, but across a global company it is always difficult to justify every programme."

We asked participants whether they had been asked to go through a cost reduction exercise and, if so, in what areas they had found these savings.

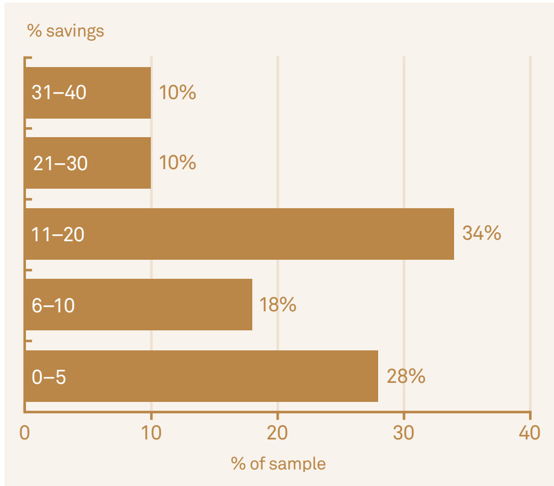
Findings are as follows:

67%	of interviewees had been asked to find savings
5%	had made minimal cuts (at the margins)
19%	had not made any budget cutbacks
9%	would not disclose

Not surprisingly there were no interviewees who had seen an increase in their budget. Everyone realised they had to take their share of the pain and it is not an environment in which a request for additional budget would be well-received.

"When big capex projects are being cut it is very difficult for a communications director to ask for more money."

Those that had made savings were then asked what level of savings they had been asked to make:



A number of interviewees commented that corporate centre was already lean and that there were therefore few areas where significant savings could be made.

"Group centre is pretty small, so there are very few areas to cut."

"No real areas to make cuts because the function is already very lean and mean."

Over 10% of interviewees also remarked that a cost reduction exercise had been implemented prior to the recession.

"We had already been asked to make 20% savings over three years, but this is not related to the downturn and would have happened anyway."

"We took cost out last year, so the process had already begun. It is just a process of evolution this year (2009)."

"We have been in that space (making efficiencies) for some time. We have been instructed to find 5% savings each year for the past three years."

Where have the savings been found?

33%	Agency/suppliers
28%	Headcount (5–10% in most companies that had done this)
23%	Conferences/events
21%	Intranet/interactive
21%	Major projects
20%	Systems (monitoring, media evaluation, press cuttings)

Other areas where savings have been found (quite easily in several cases) included: travel; CSR; training; memberships; print; entertainment; report and accounts; party conferences.

"Entertaining fewer journalists and MPs."

"Won't do UK press in Davos."

As mentioned before, the subject of investment in corporate responsibility projects and programmes polarised interviewees. Some saw it as an obvious and easy target, since the payback is longer-term and difficult to evaluate.

"Senior management is interested in quick wins and much more likely to focus resource on immediate business priorities."

"CSR strikes me as one of the areas where there might be quite a lot of challenge about expenditure. Funds might be devoted to other areas, where there is a more obvious commercial rationale."

"A year of focusing on short term and parking the long term. CSR will be quite heavily hit – the management team does not realise the degree to which it builds good will."

But others believe CSR is an investment that has to be sustained over the longer term in order to get payback and that it should not be sacrificed for short-term commercial imperatives.

"It is a long-term payback so we think we need to sustain it over the long-term – we are not going to take our foot off it because of short-term economic circumstances."

"Not cutting back on CSR spend, though we have had to make adjustments. We have spent a lot of time building the business case over the past three years, so the senior team recognise the need to maintain investment."

Though any headcount reduction is unfortunate, it was encouraging that over 70% of the companies interviewed had not made, nor were planning to make, any cuts in headcount. Whilst the corporate affairs function is by no means recession-proof its contribution and advice is clearly more valued, and its headcount therefore better protected, than was the case during the 90's recession.

7 | Any changes to PR agency arrangements?

Interviewees were asked what changes, if any, they had made or were planning to make to their PR agency arrangements (across all specialisms). This encompassed expenditure, changes to roster and advice and support.

In a climate when everyone is being asked, or expected, to look for savings it was not surprising to learn that only two of the DCAs we interviewed were planning to increase their agency spend. However the findings were not all doom and gloom for the PR agency sector. Over half of the communications directors we spoke to reported that they were not planning to make any drastic cutbacks to agency expenditure or any significant changes to their existing roster.

The percentages were as follows:

5%	Increasing spend
53%	No significant change made or planned
35%	Reducing spend or reviewing downwards
7%	Don't use or only on project basis

Of those communications directors cutting back on spend, only 7% had made drastic reductions (up to 50%). The others were trimming back and in so doing had renegotiated a more advantageous fee with their existing roster of agencies. They had not, and were not intending to, terminate contracts.

"No real change, maybe a little tinkering around the edge."

Two key themes emerged. The first was the focus on value for money and greater efficiencies – communications directors were prepared to peg the fees but in return they were expecting 'more for the same'.

"Agency spend will remain the same, but with a keener eye on value in times like this."

"Not many agencies are looking at their clients and thinking that they have an open cheque book. But nor do you want to screw your agency. You need to work together to find better ways to do more with less."

"We might ask for savings, but have not done so yet. But we have asked for greater efficiencies."

The majority of the FTSE 100 DCAs we spoke to felt that their financial PR agency had done reasonably well out of them over recent years. Consequently they had no qualms about freezing the fee or asking for a better deal, which generally equated to the same for less, or more for the same. That said, it was also noted that it was difficult to make significant savings in the financial PR budget because of the need to keep a financial PR agency on retainer as a form of 'comfort blanket' for any unforeseen event(s) that may materialise (M&A, hostile bids etc).

"Financial PR is pretty well uncuttable – you never know what crisis is around the corner and you therefore need someone that you trust and have a good relationship with."

The second theme that emerged was that having invested in building a long-term relationship with an agency that has got to know one's business, now is not the time to be making changes. In fact now, if anything, is the time to be reaping the benefits of that relationship.

"No change to agencies – we attach a lot of importance to our long-term partnerships."

"Greater premium for agencies that really understand the business they work for. Companies are likely to want to renegotiate terms with existing agencies rather than appoint a new one."

Most of the interviewees were more focused on corporate and public affairs, so the subject of consumer PR was rarely raised. But given the cuts in expenditure on product launches and other related activity it is clear that it will be affected more than other areas.

These verbatim quotes provide a flavour of the mood and sentiment on this topic:

"We are challenging fees – the buyer is in a much stronger position."

"All countries are reviewing their agency arrangements and most are being reviewed downwards".

"No change to roster, but expenditure will go down."

"Overall agency expenditure will go up slightly, but emphasis on looking for more for the same."

"Cutting back on retainer and putting them on billed hours."

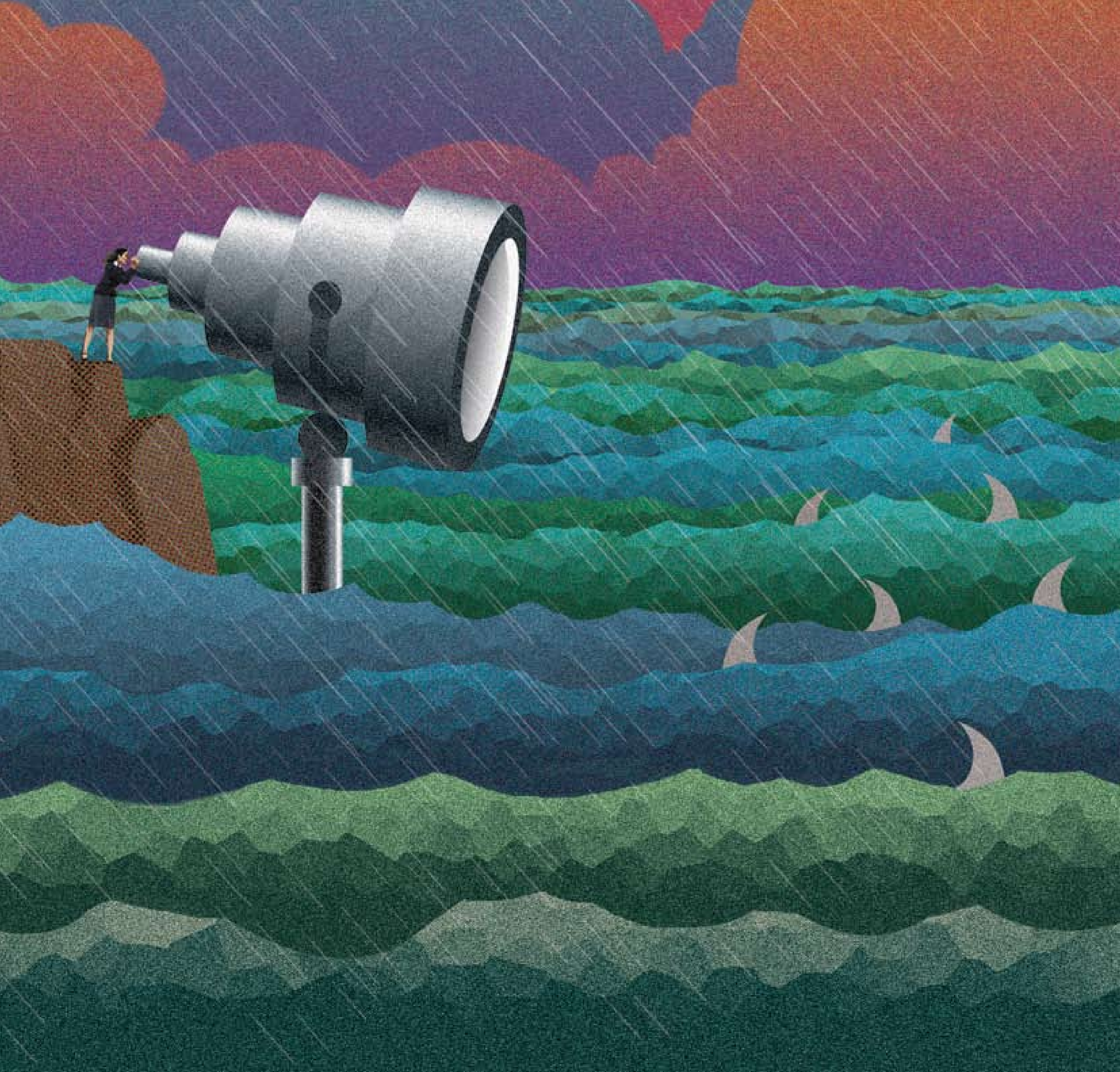
"We are always focused on buying well from our agencies."

"No change, but we have asked for more and for greater efficiencies."

"We have driven a very hard bargain on deal work."

"Not many agencies are looking at their clients and thinking that they have an open cheque book. But nor do you want to screw your agency. You need to work together to find better ways to do more with less."

A key role is to be an organisational radar and early-warning system, scanning the horizon, identifying, evaluating and managing risks.



8 | What skills and competencies within the communications/corporate affairs function will be most important to the business this year?

We used the research as an opportunity to identify the skills and expertise that will be particularly important to, and valued by, the business this year.

(i) Internal communications

The importance of internal communications is a theme that runs through most of our interviews. Not surprisingly then it is seen as the area which needs the most focus and attention. As a skill set it also encompasses the ability to provide advice on leadership communications ("making sure the leadership communicate properly").

"Leadership understand it, but want to do it on the cheap."

"Customer-facing employees need to be caring, sensitive and give good advice. Customers need to be dealt with sympathetically and empathetically – and employees need to know what they need. We have started retraining account managers to talk knowledgeably about debt management."

"Really need to get it right because there has been so much negative press."

"Because the most important audience has to be people that are going to deliver your goods for you."

"Have to demonstrate toughness to external world, yet balance this with a softer message internally."

"Banks need to get employees buy back into the vision/strategy of the brand."

"Stronger focus on IC than there has ever been before... success and engagement."

"Engaging staff and bringing them along with you when times are tough. How do you communicate pay freezes and redundancies?"

(ii) Intellect and analysis

Given the complexity of the reputation and stakeholder issues that most companies find themselves confronted by, these qualities have become more important than ever. DCAs want the intellectual firepower at their disposal to provide the service and advice that is now required of the function. Manifestations of this quality, as articulated by interviewees, included:

- Understanding of macro issues, how they impact the organisation and what the company should be doing to mitigate this impact;
- Ability to see the bigger picture;
- Issue identification, analysis and management (and the ability to advise and plan accordingly);
- Ability to simplify a complicated message;

- Skill in marshalling an argument, able to articulate it persuasively (advocacy) and possess the intellectual confidence and agility to hold one's line under pressure.

"Ability to see the big picture – look at various strands of what is happening and how it all knits together."

"Awareness of wider market and how reputation risks evolve."

(iii) Social media

Although some participants were clearly less concerned about the communications and reputation management challenge presented by the rapid emergence of social media, there were several that saw the expertise to integrate social media into the communications strategy as a gap in their armoury which needed filling. This observation was more noticeable amongst consumer-facing organisations.

"It requires companies to get into a direct, personal level of engagement, and this is not where established brands have experience and knowledge."

(iv) Crisis management

Not surprisingly, crisis management is seen as a critical skill and one that the communications function is uniquely equipped to provide in the current environment. This skill is not just technical – it has to be underpinned by qualities that include good judgement, common sense and a calm/wise head.

"You need someone around who knows what to do when the storm breaks."

"An ability to exercise judgement in interpretation and response."

(v) Public affairs and policy

With the increasing focus on the relationship between business and government touched on earlier in the report, along with the need to understand and influence the policy agenda, a requirement for strong public affairs expertise was deemed essential by a number of companies we interviewed. Companies, particularly those in regulated sectors, want advice and insight into shifting political sentiment as well as counsel that identifies the real issues; and that helps predict political and media reaction to potential business initiatives. They also want public affairs expertise to open up and facilitate communication with Downing Street, government departments and MPs.

"Most businesses are feeling very concerned about their relationship with government. Government wants to be seen to be taking control."

(vi) Versatility and multi-stakeholder expertise

The ability to work across a variety of stakeholders and to develop multi-stakeholder campaigns is an increasingly important skill.

"I want people who are comfortable in media, public affairs and internal communications."

"I would prefer to have more versatile generalists in my team – fewer people doing more roles."

9 | Is the corporate affairs function 'fit for purpose'?

Given the dramatic developments over the past year, and the impact that these have had on the communications landscape, we were interested in finding out whether participants believed their corporate affairs function was 'fit for purpose'.

The response was as follows:

42%	Yes
13%	A qualified yes
8%	Journey of continuous improvement
37%	No

At least half of the interviewees felt that their function was in reasonably good shape, possessing both the confidence of senior management and the expertise and resource it needed to make an effective and valuable contribution to the business. Some of this group (13% of sample) qualified their response with caveats such as:

"Not sure about our social media expertise."

"Yes, but would like some better people."

"We will be a little stretched around the edges."

"Yes it's ok, but there has been no recruitment for some time, so the team has not been refreshed."

Those that believed their team was not yet fit for purpose based this observation on the following factors:

- Significant reduction of headcount/ headcount freeze;
- Pockets of inconsistency/inefficiency – most were in the process of addressing this via restructuring;
- Lack of intellect and influencing skill.

They did not base it on the emergence of any new communications challenges that they were not currently resourced, in terms of skill-set, to address.

10 | Conclusions

The economic downturn, and the reputation environment that organisations now find themselves in, has underlined the importance of the corporate affairs team, in that it has helped demonstrate the crucial role that the function plays in both protecting and advancing the interests of the company. Although the purpose of the function has not changed, its perceived value has. Anticipating, judging (the level of seriousness and how best to act) and responding to the fast-changing moods and needs of stakeholders, whose expectations and actions can rapidly affect a company's fortunes, requires acute insight, first class judgement, a steady nerve and strong leadership.

Senior executives are acutely aware of how serious today's reputational challenges are and have consequently become much more sensitised to stakeholder sentiment and behaviour. Or, at least, demonstrated a willingness and desire to become more sensitised. This has helped elevate the status of the corporate affairs function which has, in many companies, become the 'go to' source of information, expert advice and help on substantive stakeholder issues.

A unique blend of skills

With trust, scrutiny and the changing expectations of a much broader set of stakeholders dominating much of today's business agenda, it is worth highlighting some of the key components of the corporate affairs team's role, because in this environment there is no doubt that these can deliver some clear business benefits:

- Providing insight into the mood and attitudes of key stakeholders, based on the regular dialogue that the function maintains with them. Equally importantly, sensitising senior management to any shift in sentiment, so that this is built into their deliberations and decision making;

- Acting as a credible, authoritative and empathetic advocate for the organisation, ensuring its strategy and its position on key issues is, at worst, reluctantly accepted and, at best, actively supported and endorsed;

- Advising the business on the best way to engage with stakeholders and what to say – not just messaging, but tone of voice, potential nuances etc – when it does communicate and engage;

- Acting as an organisational radar and early-warning system, scanning the horizon, identifying, evaluating (in terms of impact on not just reputation, but business strategy, sales, share price) and managing risks to reputation. These will not always be trust related, but in the current environment there will frequently be a trust angle;

- Crisis management – the company's response to a crisis will often have a significant impact on trust. Is it reacting with an appropriate sense of urgency? Is it being open and transparent in its response? Is it engaging willingly or reluctantly? All of these are, or should be, shaped by the advice and input of the corporate affairs team;

- Although the corporate affairs function does not act as the 'corporate conscience', it can help ensure that corporate and senior executive behaviour is aligned with values and reputation goals and aspirations. It should also alert senior management, and others, to potential inconsistencies between behaviour and values and the likely consequences in terms of stakeholder reaction and response.

Irrespective of how long it takes for the economy to recover, there has been an underlying shift in the reputation environment (trust, scrutiny, 24/7 news flow, citizen journalism, new web-based platforms etc) that will undoubtedly affect the role of corporate affairs professionals for some time to come. We now live in an era in which opinion is being communicated, shared and influenced in a way that is impossible to control. This new paradigm, along with the accelerated timetable that accompanies it, has profound implications for how organisations communicate and engage.

Capability gaps

Is the corporate affairs function appropriately skilled and resourced to meet these new challenges? Judging from the answer to the 'fit for purpose' question, interviewees are divided on this matter, some believing that their team is suitably resourced and skilled and others of the view that they are underpowered in certain areas.

Our view, based both on the findings of this research and on our perspective as headhunters in the field, is that there are certain skill set gaps that some DCAs will be looking to address in the near future. These will either broaden and extend the capability of the function by augmenting existing communications specialisms or strengthen and add rigour to existing disciplines. They include:

- Head of Strategy & Planning

Hesleden, a reputation management consultancy, has observed that the journey towards strategic reputation management, territory to which the corporate affairs function is laying claim, "requires significantly more robust frameworks and management systems. This call for rigour is a function of corporate affairs' increased profile on the corporate agenda and reflects demands for greater accountability, both from the CEO and the Board, as well as other department and business unit heads". Hesleden further observed that "data is often retrospective and of questionable integrity, rendering interpretation and strategic planning more difficult, and engagement with the Board and senior executive less convincing than it should be".

As things currently stand measurement, impact analysis and management reporting is an Achilles heel for many corporate affairs functions and there is therefore a need to think about a skills base that includes process management and strategic planning.

Furthermore most DCAs manage a team of specialists (media relations, internal communications, public affairs etc) that do not always have the expertise to provide the "joined up" planning that is implicit in the delivery of a more cohesive and holistic corporate affairs strategy. In theory this is the responsibility of the DCA but they increasingly need additional support and expertise to help them with this task.

There are two types of role that would help address these gaps. The first is that of a traditional planner responsible for developing and implementing:

- A long term (global) corporate affairs strategy;

- An annual reputation management planning process (across all operating companies if a group role) which is integrated into the broader business planning process;
- Reputation risk evaluation and reporting systems;
- Stakeholder mapping and auditing, both to understand their issues and to classify how powerful they are in terms of reputation impact;
- Reputation measurements/KPIs that are aligned with the business strategy and business goals;
- Functional competencies and people development strategy for the corporate affairs function.

The other is a big strategic thinker, able to bring the outside in, horizon scanning, interpreting the zeitgeist and anticipating and providing insight into emerging issues and trends and their likely influence on stakeholder perceptions, attitudes and behaviours.

- **Campaigners (political style communications)**

This type of role/practitioner already exists, but is more likely to be found in the consultancy sector. Multi-stakeholder and versatile, politically and media savvy, these communications practitioners are able to develop and run integrated campaigns which will often be issues-led. These issues will often have a political or public policy angle so these campaigns will be designed to influence both the policy-making communicators plus those that influence and exert pressure on policy makers (NGOs, think tanks etc).

During the course of the research one DCA remarked:

"We are good at big announcements, but less good at winning long term strategic arguments".

The point here is that good campaigning skills, allied to strong strategic thinking (the planning role referred to earlier, unless both qualities are embodied in one person) can help influence the environment within which stakeholders form their opinions and reach decisions. Multi-stakeholder expertise and the ability to develop campaigns with cut through will therefore become an increasingly important skill.

- **Digital communications expertise**

Digital communications and the need to resource it is another area where opinion is divided. Some see it as just another communications channel which can be readily resourced (albeit with some level of expertise) within the existing team, others as a whole new skill set. What is beyond doubt is that digital communications has fast become an extremely powerful medium that requires a different mode of engagement. As such any corporate affairs team that lacks an understanding of digital communications, and how to integrate it into the broader communications strategy, is not only missing an opportunity but potentially putting their company at risk.

The internet allows special interest groups to form quickly and cheaply, to mobilise and coordinate support around the world, and to organise campaigns that can have a rapid and dramatic impact on both businesses and individuals. These campaigns cannot be countered through traditional media – instead success will be a measure by how a company manages its messages online, mobilises its third party support and engages directly with its critics online. It represents a change in expectations, demands and behaviour of audiences and a shift from centrally-controlled messages to direct, real-time engagement.

To illustrate the impact of social media on corporate communications, hundreds of journalists now use Twitter as a resource. As a result, top-trending topics on Twitter quickly make their way into mainstream media.

Changes of this magnitude need some kind of resourcing response. At very least it requires a corporate affairs team to be comfortable with – and plugged into – the digital environment and to be able to interpret online opportunities and threats and the initiatives or responses required.

• Internal communications

Internal communications may well be an established component of the corporate affairs team (there are exceptions where it is still regarded as an HR discipline), but the benefits is delivers to the business have not always been readily apparent. In good times this has mattered less but in the current environment, where levels of demotivation and disillusionment amongst employees are much higher than they were, it clearly does matter.

This is evidenced by the research which shows, indisputably, that internal communications has become an absolute priority for DCAs, a development that represents a marked change of approach, since internal communications has historically played second fiddle to external communications.

Business leaders therefore need a strong internal communications function to support and advise them on some very exacting employee communications issues and challenges. For example recent research by YouGov revealed that only 28% of employees trust messages from their CEO 'more than a little'. These worryingly low levels of trust echo the wider collapse of trust in business. Linked to this, there is an increasing tendency amongst employees to regard external media, both traditional and online, as a more trustworthy source of information than internal channels and sources.

Although there are internal communications practitioners who have the intellect, insight and experience to provide this support, overall it is a function that needs upgrading, perhaps even a fundamental re-think. An agenda for change would include: more thought about objectives and outcomes; more sophisticated understanding and tracking of audiences; more creativity; fewer campaigns and less 'noise'; smarter exploitation of social media.

Yet the possibilities are exciting because there is a bigger agenda to deliver and a lot more potential to be realised.

To conclude

Whether the corporate affairs function is 'fit for purpose' will of course depend on that purpose. That said there are broader, more generic developments applicable to almost all organisations – new issues and reputation risks, proliferating media technologies and outlets, unprecedented access to information and the scrutiny of an increasingly diverse and cynical stakeholder base – that call for new thinking, better listening skills, more sophisticated data and analysis, more rigour and greater creativity. So, though the function may be 'fit for purpose', there is certainly scope for it to become fitter for purpose.

About Watson Helsby

This research was devised and conducted by Nick Helsby, Managing Director and founder of Watson Helsby. Nick has over fifteen years experience of conducting corporate communications/affairs related assignments. Prior to establishing Watson Helsby he worked in the corporate communications practice at Norman Broadbent, one of the UK's leading search firms.

Founded in 1999, Watson Helsby provides executive search counsel and expertise across the following disciplines: corporate communications; financial PR; media relations; public affairs; internal communications; crisis and issues management; investor relations; corporate social responsibility and communications strategy and planning.

In addition to our core offer of search, we regularly publish Watson Helsby industry reports. These examine the latest thinking, practices and issues in the disciplines into which we recruit. In so doing, they provide a contemporary view of the direction in which specific roles are evolving as well as the competencies that leaders of these disciplines require to be successful.

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