The Watson Helsby Corporate Affairs Director Research Study 2003

PR Director or Chief Reputation Officer ?

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1. Introduction

Watson Helsby is a specialist executive search firm which specialises in middle to senior level appointments within the increasingly important corporate affairs / communications function, and all the key communications and reputation management disciplines associated with it. These include public relations, investor relations, media relations, internal communications and public affairs.

The corporate affairs function is now responsible for helping corporations operate successfully within an increasingly complex network of stakeholder relationships. It is the role of the function, led by the corporate affairs director, to minimise risk and enhance reputation with these stakeholders. Various trends are converging – greater stakeholder activism, the loss of trust in business, corporate governance issues, a voracious and increasingly hostile media, new disclosure rules, speed of communication, proliferation of information sources – that are helping to make this task considerably more complex, demanding and important.

This research study, focused exclusively on FTSE 100 companies, was designed to investigate the degree to which the corporate affairs director role has changed in response to this situation. In particular the study set out to assess the impact of these developments on remit, influence, status, resource, priorities and remuneration.

The report is part of an on-going research programme designed to provide insights into the communication disciplines in which we headhunt. The findings and data captured by these reports are also integrated into up-to-date job and candidate profiles for each of the key roles.

The majority of the research was conducted in the first quarter of 2003 when Watson Helsby held face to face interviews with 28 FTSE 100's. Our thanks go to the following who participated in this research:

List of interviewees:

3i	*Director of Corporate Communications*
Allied Domecq	*Director of Corporate Affairs*
Aviva	*Group Corporate Affairs Director*
BAT	*Director of Corporate and Regulatory Affairs*
Boots	*Director of Corporate Affairs*
BP	*Group VP – Corporate Communications*
British Airways	*Director of Marketing and Commercial Development*
Centrica	*Director of Corporate Affairs*
Corus	*Corporate Relations Director*
Diageo	*Communications Director*
EMAP	*Director of Communications*

EMI	*Senior Vice President – Corporate Communications*
GlaxoSmithKline	*Senior Vice President of Corporate Communications Community Partnerships*
Granada	*Director of Corporate Communications*
HBOS	*General Manager, Group Communications*
HSBC	*Director of Corporate Affairs*
Innogy	*Director of Corporate Communications*
Lloyds TSB	*Director of Group Corporate Communications*
Old Mutual	*IR and Corporate Communications Director*
Rolls Royce	*Director of Corporate Communications*
SAB Miller	*Director of Corporate Affairs*
Scottish Power	*Group Director of Corporate Communications*
Severn Trent	*Director of Corporate Affairs*
Shire Pharmaceuticals	*Global Head of Communications*
Six Continents (as was)	*Vice President of Corporate Affairs*
Tesco	*Group Director of Corporate Affairs*
Vodafone	*Group Corporate Affairs Director*
Whitbread	*Director of Corporate Affairs*

Nomenclature

The differences between the remit of the corporate affairs function and that of the corporate communications function have blurred to the degree that in many organisations the remit is all but identical. Usage of both titles is common amongst FTSE 100's and we found an equal split in the companies we surveyed. However for reasons of consistency it is referred to as the corporate affairs function throughout this report and the Director of Corporate Affairs/Communications title has been shortened to the DCA acronym throughout the report.

All quotes are in italics and have not been attributed.

2. Executive Summary

The job of a FTSE 100 DCA has changed substantially over recent years. Few other senior management positions have had to contend with so many new pressures. The DCA now sits at the heart of a critical and complex web of communication strategies. Their pay, though not yet their status as we shall see, is starting to reflect that importance and complexity. A basic salary in excess of £150,000 has now become the norm (70% of the sample).

Reporting line

In most FTSE 100s, the DCA is now one of the CEO's closest and most trusted advisors. It is to the CEO that the position now reports in the majority of FTSE 100s (85%).

Advice to the CEO

The DCA is the principal source of advice for their CEOs on their internal and external reputation and profile. They manage relationships with a frequently sceptical, if not hostile media at a time when, according to a recent survey[1], chief executives consider criticism by the media to be the greatest threat, both to their own reputation and that of their companies. The DCA also provides the CEO with insights into a broader range of key stakeholder audiences and assessments of the impact of decisions on these audiences: how they will play, the implications for corporate reputation and therefore how they should be communicated, or indeed whether they are actually communicable. It is a role that was aptly described by one DCA as "bringing the outside in and taking the inside out".

The DCA is deemed to be professionally impartial and is often used by the CEO as a sounding board. This is a privileged position that is enjoyed by few other members of the senior management team. Furthermore, DCAs are licensed to tell CEOs things that they may not want to hear (for example the view of them held by stakeholders) but that they need to hear. Their advice is often given in private one-to-one conversations with the CEO.

Status

Despite the high value that CEOs place on the advice of the DCA, a seat on the Executive Committee (the exec) is still the exception rather than the norm. The findings from this study revealed that only 30% of interviewees sat on their respective execs. This was not an issue for most interviewees; DCAs believe that the role carries sufficient authority through its association and relationship with the CEO. However, the scope to influence decisions taken at exec or board level is sometimes diminished; and this can be an issue when the potential reputational impact of these decisions (i.e. stakeholder perceptions) is not always appreciated by members of the exec. Several interviewees told us that they encountered resistance when persuading members of the senior management team to take broader reputational implications into account when taking certain decisions.

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[1]Hill & Knowlton *Corporate Reputation Watch*, Nov 14, 2002

Remit – the chief reputation officer?

Not yet it seems, since only a minority (29%) of the corporations surveyed consolidated all the strands of the stakeholder communication task through the corporate affairs function. In these organisations the DCA had a remit encompassing media relations, government affairs, investor relations, internal communication, NGOs and corporate social responsibility (CSR). But in the majority of organisations a fragmented structural approach to reputation management still predominates. When DCAs do not have responsibility for all the key disciplines and audiences, it is impossible for them to provide comprehensive reputation counsel that encompasses every stakeholder group. This means that they cannot credibly operate as the 'chief reputation officer'. More importantly they are unable to control and orchestrate the whole stakeholder communication process.

A key example of fragmented reputation management is investor relations (IR), which reports to finance in the majority of organisations (57% of the sample). Yet IR is now a key component of the reputation management task and communication with investors and analysts must be developed in the context of the broader reputation management strategy. While some DCAs maintain that it does not matter where it reports, so long as corporate affairs and IR work 'hand in glove', there is a danger that IR will be working to a slightly different agenda in finance. FDs can be inclined to regard other stakeholders as subordinate to shareholders, and fail to take into account the wider implications of some of their communications with the City, for example the impact on employees.

Reputational risk

The research confirmed that risk management, in the majority of companies, is a part of the finance director's (FD) portfolio. It therefore tends to be viewed through a financial prism, as evidenced by the fact that most group risk committees of FTSE 100s do not include the DCA within their membership. Only 22% of our interviewees had a seat on their company's group risk committee, although on a more positive note 12% of the companies we surveyed had established a Group Reputational Risk Committee. While companies appreciate that reputational risk has to be managed, most have yet to develop either a framework or the controls to assess, manage and report on reputational risk. The convergence of risk and reputation is becoming an increasingly big issue for almost all FTSE 100s and, with the introduction of the Operating and Financial Review (OFR), it is something that they will need to manage and report on more formally.

Corporate governance

The growing scrutiny and accompanying media coverage of corporate governance issues, combined with the increasing activism of investors, should have added a further dimension to the DCA's role. As recent high profile cases bear testimony, these can have a considerable impact on reputation. Yet the perspective that the DCA provides is often missing. Only 38% of interviewees said that their involvement and influence was significant and most had a more limited, "downstream" involvement, for example defending remuneration packages and explaining other deviances to the media.

Internal communication

Internal communication (IC) is now emphatically on the DCA's agenda in a way that it was not a few years ago and is identified as the biggest skill/capability gap: over 40% of interviewees reported that IC needed greater attention, skills and resources. Historically, it has been a lower priority for many DCAs who are more focused on the external environment, with which they tend to be more comfortable. This emphasis has also reflected the CEO's priorities, as it this area that has historically been perceived to have a greater impact on corporate reputation. However senior management are now looking for internal communication to deliver more demonstrable benefit to the business.

A number of issues around IC were highlighted by DCAs, including the difficulty of getting full 'buy in' from a leadership team, who may recognise its importance but are nonetheless reluctant to give it their full commitment. DCAs of global corporations with a diverse and dispersed workforce, have the difficulty of developing effective internal communication activity that will engage and connect employees across different time zones, countries and cultures. Recognising that the internal communication team at the centre is often far removed from the actual businesses and employees themselves, some DCAs are focusing their communication effort on the senior management population, making this group responsible for providing contextual information to their teams within the business units.

Corporate Social Responsibility (CSR)

In 70% of our sample the DCA has assumed functional responsibility for CSR, particularly the communication and reporting of it. This has broadened the remit and added to workload. The obsession with metrics has led to "questionnaire overload" and a box ticking mentality that some feel has become more important than the story itself. The value of CSR tended to be evaluated in the context of the financial community's view of its importance. On this point opinions were sharply divided. A large proportion of DCAs believed that it was of little interest to the City. Others, normally employees of corporations for whom the business case is more compelling (environmentally sensitive sectors), felt that the City was now taking it more seriously.

Most DCAs are generally satisfied with their existing CSR resource and expertise (73%), and are not looking to strengthen the team. For the many people who are looking to get into CSR, and become "CSR specialists", this may be a somewhat salutary finding.

Use of consultancies

DCAs have become more confident in their own in-house capability, partly because they have upgraded skill levels, and partly because they have brought in more resource. A higher proportion of media relations, particularly, is now managed in-house. As a result there has been a clear shift away from retained relationships towards engaging consultancies on a project basis. The one exception to this trend is financial PR with 82% of interviewees stating that they retained a financial PR consultancy. But downward pressure on fees has been significant, which in some cases have almost halved for basic financial calendar work.

The value of the larger international full service PR consultancies to the needs of FTSE 100's was particularly questioned. Certainly it is clear that consultancies generally need to review the relevance of their offer.

3. Our View and Recommendations

The job and candidate profile of the DCA has evolved significantly over the last ten years and it is difficult to think of another senior management position whose value to the CEO has increased to the same degree. Every successful CEO understands the impact that stakeholder perceptions and behaviour can have on reputation. And none need to be reminded of the importance of the media in framing perceptions of a company and its CEO.

While the calibre of practitioners has changed to reflect this, a story emerges from this research of a function that has, with some exceptions, still to establish a wider legitimacy and authority, and which has some significant issues to address.

In our opinion these are priorities which together create a manifesto for change:

1. In order to cement it's status as a key strategic business discipline, the corporate affairs function needs to develop greater clarity and rigour around the following two key issues:

   – What is it accountable for and how should it be measured against this?

   – Linked to this, the function needs to demonstrate and quantify how its activities impact the business.

   If it is to defend, protect and enhance reputation, then what are the key drivers of reputation and what elements of reputation should the function be held responsible for? How will the successful management of these benefit the business and impact on the ability of the organisation to achieve its business objectives? And how will all of this be measured?

   The reputation management process has to be both measurable and accountable. Currently several FTSE 100s employ rudimentary metrics for measuring corporate reputation, and consequently the corporate affairs function is often perceived as lacking in rigour. If the function aspires to greater legitimacy and recognition, the DCA must introduce measurements which provide a more meaningful evaluation of his/her function's impact on the business, against which they can be assessed. The failure of the 'profession' to develop robust metrics that demonstrate the impact of its activities on business objectives is perhaps its greatest shortcoming.

2. The fact that the DCA is rarely on the exec confirms that many companies are still not in the habit of integrating broader reputational considerations and stakeholder issues into their thinking at the highest level. In today's world of stakeholder primacy, when corporations are under more scrutiny that ever before, this is simply not good business practice. It is the failure to consider the implications for reputation that leads to so many ill judged decisions. The case for someone to provide holistic reputation management advice that will be integrated into top table deliberations is irrefutable, and supports the case for a more formal role for the DCA in the senior forums of decision making.

3. It appears that most Footsies still operate a fragmented and increasingly outdated approach to the management of stakeholder communications and relationships. The evidence for this assertion is that less than 30% of the DCAs we interviewed had responsibility for all the key stakeholder communication disciplines. Investor relations still reports to finance more than it does to corporate affairs; internal communication sometimes reports to HR; and government affairs may report to the legal or strategy functions. Companies should now be taking a more integrated approach to communication with stakeholders, particularly as very few decisions, these days, impact one stakeholder group without having consequences for others. Which means that the DCA must have responsibility for all audiences. They do not need to be an expert in all of them, but they must be able to join up and orchestrate the resource, and to performance manage it.

   Furthermore the sources of reputational risk are more disparate and companies are increasingly coming under attack from stakeholders or outside interest groups across a number of fronts. Companies that have a fragmented reputation management structure will be more vulnerable to these attacks, and less able to co-ordinate a cohesive and coherent response.

4. IR has taken on a new significance over recent years, a trend that has been accelerated by the convergence of corporate governance and shareholder activism. It is now a key component of the reputation management job, yet still tends to report to finance, a function which does not always understand or appreciate the wider reputational context.

   The link between IR strategy and the broader corporate affairs strategy, and the interface between investors, analysts, the media and other audiences has to be managed very tightly, indeed seamlessly. This is less likely if they are located in separate functions – even if they do sometimes sit together – and it makes sense to integrate communication with the investor/analyst audience into the function that is responsible for the management of the whole stakeholder communication task. If IR is not within the auspices of the corporate affairs function, then de facto the role is not as significant as it could be. Put the two together and you have a very powerful portfolio of skills that can have a profound influence internally, and of course externally.

5. The growing activism and media savviness of investor bodies such as the ABI and NAPF, and the fact that investor dissatisfaction is now increasingly aired through the media, further reinforces the need for integrating IR and corporate affairs. They have now become inseparable. Recent events have provided ample evidence of the impact that corporate governance, for instance, can have on investor sentiment, and how this can then become a bigger reputational issue played out in the media. Companies have to ensure they have the right organistional structure in place to manage this type of risk more effectively.

6. It is the responsibility of the DCA to ensure that the concept of reputational risk is integrated into the broader risk management and audit process. Scoping out the reputational impact and risk associated with strategy and key decisions – in terms of

rigorous analysis, rather than judgement – should be the DCA's job. Since reputational risk is something that corporations will need to manage and report on more formally (OFR, Companies Act), controls will be needed that will enable them to identify, assess and manage reputational risk more effectively.

7. The broader regulatory and corporate governance developments, which will necessitate greater transparency, openness and dialogue on stakeholder issues, should further entrench the DCA's position. First, they will strengthen the relationship with the chairman, who is now obliged to take a more active role in IR and broader stakeholder engagement. As a result the chairman will need to call on the specialist advice of the DCA, and thus they will have to spend more time together. Second, Non Executive Directors (NEDs) will also need to be briefed more regularly on stakeholder perceptions, and in some cases trained to discuss the company position on stakeholder issues. Together these developments are likely to make the role less dependent on the CEO's patronage.

8. Since most DCAs direct and manage a team of specialists (media relations, government affairs etc), they rarely have the expertise to provide the "joined up" planning that is implicit in the provision of a more holistic approach to reputation management. One possible solution to this would be the creation of a communications planning role (or function). A communications strategist with the ability to analyse and interpret stakeholder data (qualitative and quantitative), industry and geopolitical issues and trends; and who can then translate these insights into a holistic and cohesive reputation management strategy, would be a valuable addition to the corporate affairs team.

9. Historically, the central group internal communication function has often lacked a clearly defined purpose, other than as a set of tools to broadcast and disseminate information from the centre. The impact and value of providing information as opposed to offering opportunities for genuine dialogue is now being questioned. Electronic communication particularly, has given managers the dangerous illusion that they can communicate effectively with far-flung empires. The internal communication function needs to think hard about where and how it can add value.

   The function/role may well have to be reshaped in the light of this thinking. In which case DCAs will need to look hard at their functional expertise to ensure that they are equipped to provide the insight, innovation and impact that corporations increasingly require.

10. DCAs must ensure that their team is truly plugged into the business at all levels so that it can more effectively do what it is meant to do – take the inside out and bring the outside in. It has to be as well networked inside the business as it is outside the business. Stakeholder issues must be integrated into the strategic management of the company at all levels.

11. The value that PR and other communications-based consultancies provide is being subjected to more critical scrutiny than it has been for some time. DCAs are now looking more for specialist advice than they are for representation, and other than financial PR (and sometimes public affairs) they now see less need for retained relationships. Consultancies

therefore need to focus on developing either specific industry sector expertise, or expertise that cannot be developed or accessed economically internally.

12. There is a distinction between someone who runs a function that manages communications, and someone who provides leadership around stakeholder management and communications, both externally and internally. Making this transition, for those that have not yet achieved it, should be the goal of all DCAs, and the requirement of all organisations.

Outlook for the future

Wider developments in the regulatory landscape would suggest that the expertise of the corporate affairs function, is likely to become more important. In the wake of Enron, new rules and codes from the US are coming over here, and are imposing a legal framework that necessitates greater openness and transparency in companies' dealings with their shareholders.

From 2004 companies will have to publish an Operating Financial Review (OFR) which will detail non-financial indicators of company performance. These will include stakeholder relationships, environmental impacts and risk management procedures.

The new Companies Act, into which the OFR will be incorporated, will make it clear that for company directors to fulfil their duties to shareholders, they must take account of the views and concerns of reputation and risk posed by stakeholders where these are material to the business. This again underlines the fact that investor relations and corporate reputation are becoming inseparable.

Lastly the Combined Code of Corporate Governance, within which many of the Higgs recommendations have been incorporated, will, as already noted, lead to more contact between the DCA and the Chairman/NEDs.

Together these developments will encourage corporations to be more cognisant of what their shareholders think of them, and to communicate with them in a more structured, consistent and open manner – all of which will point to a more pivotal and influential role for the DCA.

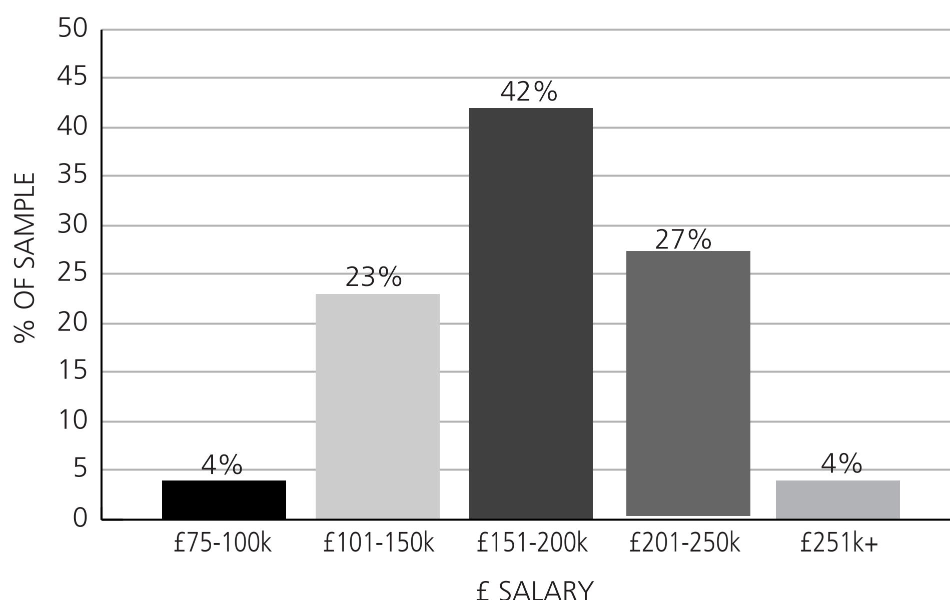
4. Key Changes

We asked interviewees how their role had changed over the past two to three years. While responses varied according to each individual's circumstances, some common themes emerged which are summarised below:

- The role is much bigger: the rapid development of stakeholder audiences, the increasing activism of investors, the emergence of CSR, the proliferation of NGOs, the range of communications channels through which people both receive and disseminate information, the internationalisation of issues. There is just much more of everything, and it all matters more. Consequently most DCAs feel over committed and short of the thinking time they so badly need.
- Financial PR is more time consuming than it was, since the financial media and the City are now more interested in corporate governance, accounting standards and other related issues, than they were. Consequently the line of questioning is very different.
- The role is therefore becoming increasingly professionalised and the expertise and knowledge required is much more demanding than it was: new codes of practice, new regulations from the FSA and the SEC, new accounting standards, etc. Today's DCA has to be able to engage intelligently in debate about all the components of financial reporting.
- The short termist approach of the capital markets is placing enormous demands on the corporate affairs function. Reporting every three months to the market creates significant pressures, as does the City's need for more information, more meetings and more reassurance, on everything from financials to governance.
- To compound this, the new FSA disclosure rules of 2001 (which require corporations to broadcast information simultaneously to all stakeholder audiences) have made the task of reporting results considerably more complex, particularly if there are employees, shareholders and an interested media, across different time zones. Companies have to broadcast information instantaneously to all. The logistics involved can be daunting, and old briefing practices have had to be discarded.
- More time is spent working with the CEO on issues relating to his or her image and reputation, both externally and internally. This is partly a coaching role, and partly one of providing advice and feedback on stakeholder expectations and perceptions. The arrival on the political scene of the communications role has served to push the subject of professional communication and presentation higher up the corporate agenda.
- The decline in the quality of journalists who, according to one interviewee, no longer feel that they need to understand the company in order to write about it. They are also less diligent about the accuracy of their reporting.
- The government has become more obtrusive, more regulatory and is increasingly trying to use business as an instrument of social policy.
- For a minority of the DCAs we interviewed, the hedge funds were creating major headaches. They have effectively forced some companies to avoid indicating, where possible, specific dates when it is believed that certain events or milestones might be reached.

- The CEO's reputational shelf life has been shortened by a fickle and highly judgemental media, and at the same time the fortunes of the DCA are increasingly tied to those of the CEO. It is very difficult, though not unprecedented, to straddle two chief executives in the same company.
- Since issues or situations with significant reputational implications can flare up so rapidly, DCAs have to be more forward thinking and more attuned to the ripple effect endemic in these situations. It is now much more of an anticipatory practice.

5. Remuneration



Within FTSE 100's a base salary in excess of £150,000 has now become quite normal (70% of sample). Indeed, over a quarter of the sample earned a base salary in excess of £200,000.
In addition to the experience and calibre of the individual, the factors that influence the remuneration scales are:

- Market capitalisation
- Global operations/reputation
- Size and importance of function

Bonuses, paid mostly in cash rather than cash and shares, ranged from 15% to 125% but averaged out at 50%. For those whose base salary was in excess of £200,000, bonuses frequently added another £100,000 (or more) to their total package.

Overall this is now a properly remunerated role, reflecting the increasing recognition of its importance both to the organisation and to the CEO.

6. Relationships, status and influence.

In most organisations the DCA is now one of the CEO's closest and most trusted advisors and invariably a direct report. The responsibility for advising the CEO on his/her reputation and profile and protecting him/her from a hostile media tends to make the relationship a close one. The chairman's increasing involvement in stakeholder relationships has also brought the DCA and the chairman into closer contact. However a seat on the Exec is still the exception rather than the norm, and the high regard that the CEO has for the advice of the DCA is not always shared by other members of the senior management team, for whom it lacks rigour.

The DCA is a key advisor to the CEO and a valued member of his/her support network. A direct reporting line to the CEO is now very much the norm, with 85% of DCAs interviewed for this study reporting to their respective CEO. In the instances where this was not the case, the reporting line was either through the company secretary, CFO, chairman or the chief of staff.

Reporting line:

CEO	85%
Others	15%

The professional life of CEOs is played out in full view of the public and much trust is inevitably invested by CEOs in the person who is responsible both for managing their reputation externally and internally, and for advising them on their profile and relationship with a frequently hostile media. The latest Corporate Reputation Watch[1], a survey produced by Hill & Knowlton, revealed that CEO's consider criticism by the media to be the greatest threat to their reputation, with more than half (58%) citing it above the risks attached to unethical behaviour (33%) and operational disaster (45%). Most CEOs now realise that a considerable proportion of a company's reputation and therefore shareholder value, is attributable to the reputation of the CEO.

So it's not surprising that the DCAs we interviewed stated that they had a good and, in several cases, a very close relationship with the CEO.

"I can say anything to him, and he will listen. It feels very comfortable."

"I am probably his closest direct report."

In addition to media advice, the DCA provides the CEO with insights into a range of key stakeholder audiences, as well as an assessment of the different impact of decisions, such as an acquisition or a shift in strategic focus, on these audiences; how they will play and therefore how the decisions should be communicated or indeed whether they are actually communicable. The DCA is – or ought to be – better positioned than anyone else within the organisation to offer advice and insights into this area.

[1]See footnote on page 3 of report

"You are in a unique position to know internally and externally what people think and it is our job to play it back. No one else can play this role."

"He will often run something past me that he has not discussed with the execs. So much of what we do has a reputational impact."

Range of Advice to the CEO	
Stakeholder insight	Insight into the sentiment and mood of key stakeholders – how they view what the company is doing, how messages will be received, how things will play.
Reputation risk & issues management	Identification of potential risks to reputation, and the proactive and reactive management of big issues.
Messaging & positioning	Positioning the business in the eyes of stakeholders by developing and crafting messages for both external and internal audiences. Ensuring the strongest and most coherent story about the business is told.
AGM & results	Managing and positioning around results – positioning the company with financial markets and the press.
Internal communication	Acting as a barometer of the corporate mood and providing feedback on perceptions and potential reputational risks from employee sentiment.
Reputation management	The communication implications of big decisions as well as their impact on corporate reputation.
CEO positioning & profile	Managing the positioning, profile and image of the CEO (and the senior team), internally and externally. This includes personal advice about presentation.
Stakeholder engagement	Political advice (government and regulators), ensuring that the interests of the company are protected in the public arena. Advice on how best to influence government and regulators.
Stakeholder engagement	Who the company should be talking to (investors, journalists, government NGOs etc.) and how we should talk to them and how we should influence them.

The role in many ways shadows that of the CEO, since the DCA is the only other person who has to understand and view the business in its broadest context; internal and external, soft and hard.

"You have to know everything, see everything, hear everything. Basically you have to be the alter ego of the CEO".

A particularly important aspect of the DCA's role, and one that is enjoyed by few other members of the senior management team (perhaps the company secretary), is that of acting as a sounding board for the CEO. This facet of the role, little remarked on, has come about because the DCA is perceived to have no axe to grind and is therefore professionally impartial.

Being seen to have the ear of the CEO can enhance the perceived influence of the DCA. Interviewees spoke of the instances when members of the senior management team (below the exec) used them as a conduit to the CEO, or sought their insight into the dynamics of the relationship at the top of the organisation.

"You do know more than most people. You have to be careful not to abuse that."

Equally the closeness of the relationship between the two can sometimes isolate the DCA, since it is a privileged position that is not shared by others.

The findings from the research also indicate that the increasing importance of communication and presentation are bringing the DCA and the chairman into closer contact. For instance the importance of getting the 'set pieces' right, the positioning around the annual report etc. Though not yet a widespread phenomenon, it is likely to become so, the key drivers being:

- The prominence of corporate governance issues, their growing impact on corporate reputation, and the recommendations contained within the Higgs report, even in their watered down form.
- The growth of shareholder activism and the increasing involvement of the chairman in IR. Linked to this, the need for the chairman to be attuned to all areas of reputational risk and any disquiet amongst stakeholders.
- The increasing volatility of the tenure of the CEO – although this can also act to the detriment of the DCA – and the need to discuss both the positioning and the announcement of a new CEO. It is not uncommon for a search for a new CEO to be played out in the public domain.

As yet, the stakeholder relationship issues around corporate governance and Higgs do not seem to be bringing the DCA and the non-executive directors into closer contact. It seems that NEDs do not feature highly on the DCA's agenda, although some will be more interested than others in talking to the DCA.

"Corporate reputation matters – I don't have to fight for their attention."

However despite the high value that the CEO places on the advice of the DCA, a seat on the exec or the board is still the exception rather than the norm. Only 30% of interviewees sat on their respective exec and none on the board. Given the CEO's personal dependency on the advice and assistance of the DCA, and the occasional confidential nature of this advice, it is possible that the

CEO prefers to keep it that way. It does mean though that the role sometimes lacks a wider, more formalised legitimacy and that its credibility is sometimes questioned by the sceptics amongst the senior executive team, for whom the financial and business impact of the role remains unproven.

Status:

On the Executive Committee	30%
On the Group Management Board / Committee	15%
No formalised representation	55%

Membership of the higher councils is not regarded as an issue by the majority, since they often attend meetings or receive the papers. But it clearly affects their scope to influence, at the highest level, those decisions that are likely to have some impact on corporate reputation (which nowadays is most of them) is sometimes diminished.

"Had I been on the exec I might have been able to influence the communications around the CEO issue."

"There is a place for a strong voice that says if we take this course of action these are the consequences, and it is easier if you are an official part of that group."

It also makes it more difficult for DCAs to get their advice heeded by members of senior management, particularly business unit heads, who do not always take into account the broader reputational implications when taking certain decisions. Several interviewees spoke of the difficulty of getting their voice heard and, of getting the value of what they do better understood.

"Getting your voice heard around the boardroom table, being compelling in your arguments, when senior managers are fighting you with financial data."

"Decisions are taken that fail to involve the reputational implications. Working out a way to get senior management to see reputation as something much bigger is a key challenge."

"My issue is more with the barons. Mine is an easy area in which to be disobedient."

"Getting the business unit leaders to treat it as important and to treat it as real work – that doesn't get sacrificed when you don't have time."

The challenge for DCAs is working out a way to get senior management to see reputation as something strategically significant and relevant to business progress.

The perceived lack of rigour in the DCA's arena (metrics, ROI etc.) and the inability of corporate affairs to demonstrate the impact of its activities on business objectives does not help in this

regard. Their's is an exercise in judgment, and senior managers sometimes find it difficult to understand or give credit to it.

"So much of what we do comes down to judgement – there is little science to it."

Our View

The fact that the DCA is rarely on the exec confirms that many companies are still not in the habit of integrating broader reputational considerations and stakeholder issues into their thinking at the highest level. In today's world of stakeholder primacy this is poor business practice, since it is the failure to consider the implications for reputation that leads to so may ill judged decisions.

There is no doubt that the role has moved some way up the value chain and now has considerable influence, in part derived from being a key member of the CEO's support network, but it seems that the role still lacks a wider, formalised legitimacy and authority. Some reasons for this:

- Much of the DCA's influencing is done behind the scenes, in private dialogue with the CEO, and sometimes the Chairman, which means that some members of the senior management team do not fully understand what the DCA does. Or indeed how he or she helps the business achieve its objectives. This is not helped by the fact that some of the DCA's work is not only unmeasurable, but invisible. The effect of good corporate affairs is sometimes no effect at all – it is allowing the company to do well without interference, helping maintain the license to operate.
- The difficulty of evaluating the impact of both the DCA's role and the corporate affairs function on the business. What is it accountable for and how should it be measured? Several FTSE 100s employ rudimentary metrics for measuring corporate reputation, and the absence of more robust metrics is a key issue since it suggests both a lack of rigour and accountability. The core skill of the DCA is judgment, and while this may be underpinned by experience and expertise, it is still seen as subjective (and therefore a matter of opinion) and neither scientific nor measurable.
- Many traditional executives do not understand reputation, or the things that affect it, which they regard as being outside their normal business objectives and parameters. They tend to believe that if a company puts in a good performance that is all that should be expected of it. Hence they can be inclined to undervalue the role of the DCA.
- An historic perception that the people leading the corporate affairs function are not the intellectual peer of those in other areas.

DCAs must demonstrate what their function is accountable for and ensure that the impact of its activities can be measured and therefore understood. Thinking in this area is still embryonic and many organisations are only just beginning the process of identifying, mapping and quantifying the key drivers of their reputation. A more robust and structured approach to auditing corporate reputation and its impact on the achievement of business objectives should be a key element of the DCAs role. They have to be held to account in the same way that other directors are and this would help ensure that the role is more rigorous and its value better understood and appreciated.

It seems obvious to even the most casual observer of the business world that most of what a company does has some impact on stakeholders. Indeed, it is the failure to consider the implications on an organisation's reputation that leads to so many bad decisions - a lesson that is frequently learnt through painful experience.

"It is clearly coming through that value is tied to reputation – we are learning the lesson at the moment – in that our reputation for strong, capable management is being undermined publicly and is strongly reflected in our current share price."

7. Remit

There is little consistency amongst FTSE 100s in the ways they approach, resource and structure the activities of reputation management. However, there is one thing that many have in common and that is that they have not yet adopted a holistic and integrated approach to managing their reputations. Of the companies we surveyed 57% keep investor relations separate from corporate affairs and only 29% of interviewees have a broad reputational remit that encompasses all the key disciplines. In this section we have also looked specifically at three key areas – investor relations, internal communication and CSR – which all, for different reasons, cropped up regularly in discussion.

The essence of the DCA's role is still managing the perceptions of key stakeholder audiences – 'bringing the outside in and taking the inside out' – and the impact that these have on corporate reputation. If the DCA is to be the custodian of reputation (or the chief reputation officer of the future), he or she needs to have responsibility for all audiences/disciplines, since they all need to be linked up and integrated into a holistic reputation management strategy.

However our research shows that over 70% of FTSE 100s do not consolidate the whole stakeholder management/communication task through one function. For historic reasons companies tend to take a more fragmented approach to reputation management, with different departments having responsibility for different audiences. Our research revealed that only 29% of interviewees had responsibility for all the key audiences, comprising the following:

- Media relations (also called Press and Media)
- Internal or employee communications
- Government affairs (and elements of regulatory affairs)
- Investor/Analyst relations
- Corporate Social Responsibility (into which community investment now tends to be subsumed)

And within these:

- Issues and crisis management
- Corporate Brand (image, corporate i/d)

- Financial reporting and shareholder communications e.g. Annual Report and Review/AGM
- Website and Intranet
- Events
- Sponsorship (corporate not brand)

Despite the strong rationale for taking a more centralised and holistic approach to reputation management, it is a concept that is, to a degree, counter cultural. People are territorial and functions are protective of their stakeholder relationships.

The communications disciplines that are not universally regarded as part of the DCA's remit are:

1) Investor relations – Less than half (43%) of the sample had IR as part of their functional responsibility. It is still more likely to report through the finance function. We look at IR more closely in the next section.

2) Government affairs – in 20% of the organisations we surveyed government affairs did not report into corporate affairs, but into legal/compliance or strategy. Regulatory affairs is slightly different in that it has a strong legal dimension and will therefore almost always be shared with legal or company secretariat to whom it tends to report. It is certainly rare for the corporate affairs function to have full responsibility for both government and regulatory affairs.

"In engaging with regulators, you need both government affairs skills and legal skills. Both come into play at different stages of the process."

3) Internal communication – although most of the sample had responsibility for it, critically 15% did not. In these instances it reported either to HR or marketing.

4) CSR is increasingly part of the DCA's remit, but 30% of interviewees did not have it within their remit.

Aside from the addition of CSR the remit has not changed that much. What has changed is that the scale and breadth of the role has grown – the job is a lot bigger:

"The whole area has grown exponentially – it is almost unrecognisable."

Inevitably some parts of the role have become more important, and others have become less important:

On the way up:

- The international dimension of the role, which has significantly added to both the complexity and the workload. First, the addition of new stakeholders (regulatory authorities in the US for example). Second, the internationalisation of issues. Third, the communications

around the range of corporate development activities (acquisitions, disposals, partnerships) that are integral to those FTSE 100s with international scale and ambitions. Fourth, the difficulty of managing communications in a multi-national organisation across different time zones and cultures. Lastly, the travel that comes with all of this.

- The growing importance of CSR reporting and managing NGO relationships.
- The growth in the power of regulatory authorities has pushed regulatory issues up the agenda.

"We talk more about NGOs and regulatory matters than we do about media. Media has not become unimportant, it's just that there are more things to talk about now."

- The increasing prominence of internal communication.

On the way down:

- Event management, which some companies are trying to outsource.
- Community affairs, which to a degree has been subsumed into CSR, but which now tends to have less resource.
- Sponsorship seemed to be a smaller part of the remit. It only received two unprompted mentions.

Our view

It is quite evident that a centralised and integrated approach to stakeholder communications and reputation management is still far from commonplace. At a time when reputational risk is growing and companies are increasingly coming under attack from stakeholders and interest groups across a number of fronts, this is surprising. Companies that have a fragmented reputation management structure will find it more difficult to deal with this problem. It also makes it more, rather than less likely, that their individual stakeholder programmes will fail to 'join up' effectively.

There is also considerable value in having someone at a senior level who can provide integrated reputation management advice across all stakeholder audiences. After all there are few big decisions/initiatives taken by FTSE 100s these days into which the following two considerations are not factored:

– What will be the likely reaction and ripple effect amongst key external and internal stakeholder audiences?

– How should decisions therefore be positioned and presented to these audiences?

It is now generally recognised that companies which take a more holistic view of their stakeholders and succeed in managing them together through one function (which should be corporate affairs) will find it easier to build and sustain strong stakeholder relationships.

7.1 Investor Relations – the preserve of finance

IR has taken on a much greater significance over recent years. The increasing activism of investors has become a reputational risk in itself, and it is essential that IR is seamlessly integrated into the broader corporate affairs strategy. The interface between investors, analysts and the media is a particularly critical one, and needs to be managed very tightly. But IR still reports into finance in the majority of FTSE 100s, a model that does not promote integration, and can lead to inconsistency in communication.

Investors and analysts are now arguably a company's most influential stakeholder audience, whose perceptions and behaviour can have a massive impact on value and reputation. Now that investors are restive and beginning to take their ownership responsibilities more seriously, IR has become an increasingly important part of reputation management. Indeed the escalated level of shareholder activism that we are now seeing is a reputational risk in itself.

"IR has gone into the ascendancy, and there is a noticeable shift away from a media-led philosophy. If you get the IR wrong it is catastrophic; if investors lose confidence you may as well pack up and go home."

As such there is a compelling case for integrating the management of this investor/analyst relationship into the broader reputation management job handled by corporate affairs.

- Investors, analysts and the media talk to each other constantly, and what a sell-side analyst says about a company will frequently influence a journalist. If a company has not got the City behind it, then the media will reflect that position. Another issue is different messages going out to these audiences. It is therefore critical that this interface is managed effectively, indeed seemlessly. This is more difficult if IR and media are separated.

"If a journalist wants to write something, he or she will go straight to a sell side analyst."

- Investors and analysts are now more interested in a broader range of reputational issues, from the potential impact of a specific regulatory enquiry through to the governance of a company.
- In an era when more and more employees hold shares in their companies, IR and employee communication particularly need to be more closely integrated.

But as we have seen, less than half the sample (43%) has IR as part of their remit.

Our view

Some DCAs would argue that it does not matter if IR reports to finance, so long as IR works hand in glove with corporate affairs, and the strategies for both dovetail together. This may well be the case, but it has to be recognised that IR/ finance will not always be working to the same agenda as corporate affairs. For instance finance are unlikely to take the initiative to make a presentation to ethical investors, since this group do not yet move the stock. It is also not unknown – in fact

the research confirmed it – for the FD and the head of IR to regard other stakeholders as subordinate to shareholders and so fail to take into account the broader reputational impact, (e.g. impact on employees), of some of their communications with the City.

A DCA does not need to be an expert in IR, but he/she must understand the concerns and priorities of top institutional investors, and be able to articulate these to the board. They must also be able to see the bigger picture and oversee the integration of IR activities into the broader stakeholder communications programme. It is something that DCAs should be campaigning for since there is no doubt that, without IR, the job is not as important or significant as it could be. But put the two together and you get a powerful portfolio of skills that can have a significant influence internally. IR practitioners themselves (who do not always look favourably on a reporting line into corporate affairs) would also benefit in that it would provide them with the potential prospect of running the corporate affairs function, an unlikely outcome if they report to finance.

7.2 CSR – compliance or conviction?

In most companies the corporate affairs function has assumed functional responsibility for CSR (70% of interviewees), particularly the time consuming task of communicating and reporting on it. DCAs were divided in their views about its real value, some stating that it was important but time consuming and of limited interest to the City. Others, normally employees of companies for whom the business case is more compelling, were highly committed and took it very seriously. One thing they all had in common was questionnaire overload, which, as Tomorrow's Company[2] pointed out, is in danger of creating 'compliance CSR'.

As the natural custodian of reputation and stakeholder management, it is logical that the corporate affairs function will be tasked with the communication and reporting of CSR, as well as sometimes the development of policy, and this is what is now happening in most organisations.

Responsibility for CSR:

Functional responsibility for CSR	70%
No functional responsibility, but involved in communicating/reporting	15%
No functional responsibility or involvement	15%

Responsibility for CSR is also shared with other departments within the company, and in those organisations that take it seriously – where every effort is made to embed it into the behaviour and the operations of the company – it tends to be managed in a matrix with the operating businesses that implement policy.

[2]Redefining CSR, author: think-tank director Mark Goyder, Tomorrow's Company

In those cases where CSR did not report to corporate affairs it reported to the company secretary, legal, or HR (diversity, employment practices etc).

Several DCAs stated that their CEO, and in some cases, chairman, were extremely committed to CSR and that it featured highly on the board agenda.

"He takes it very seriously".

This view was perhaps more pronounced within those companies that have a greater impact on the environment and therefore a greater commercial need for it.

The CEO frequently chairs the CSR steering committee or policy group, which is encouragingly a standard feature in most FTSE 100s (78% of sample). The DCA will in most cases be a member of this group.

There is no doubt that responsibility for CSR enlarges the workload of the corporate affairs function:

- It has to be reported on and there is a huge task in collecting information and metrics (if they exist), and then producing the CSR or social and environmental review.
- Relevant and meaningful metrics have to be developed – such as quantifying the social and economic impact of corporate activities – and this is a complex and time consuming business.
- There is time and effort involved in getting the company accepted by the new listings such as FTSE 4 Good and the Dow Jones Sustainability Index.

But the most time consuming and frustrating part of CSR, is the sheer volume of form filling that has to be done, described by one DCA as 'questionnaire overload'. CSR reporting requirements have created a matrix of complicated criteria and measurements that continue to expand almost by the day. Several DCAs complained that these were becoming more important than the actual programme of activity itself, an end in themselves.

Tomorrow's Company[2] looked at this issue, observing that the amount of box ticking that companies were being asked to do was inevitably creating a mentality of 'compliance CSR'. This observation was echoed by several interviewees.

"NGOs are more interested in the measurement than the story. Their main focus is tables, targets and ticks in boxes."

"It's all about box ticking. It's not right to bend over backwards to be politically correct."

As far as resource is concerned, the research indicated that most companies are either satisfied with their existing resource or have none and don't require it (either because it reports to another function or because they just don't need it). This finding may surprise some, who believe that CSR is in the ascendancy, but the fact is that most organisations currently see no reason to recruit additional CSR specialists.

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[2]See footnote on page 21

Satisfaction levels with the existing resource available to carry out responsibilities in the CSR arena:

Satisfied with current resource	50%
No resource and not needed	23%
No resource but want it	8%
Need more resource	19%

A minority believe that CSR is now very important to the financial community, again a sentiment more likely to be expressed by those companies that have a strong commercial imperative to embrace CSR.

"I defy anyone to say that it is not important to the investment community".

Dedicated CSR road shows to investors, of which we found a few examples, are further evidence of this. But others were less sure.

"I don't think the City is going to be wowed by great CSR performance. The market does not reward us nor is it particularly interested."

"But never in ten years have I been in an IR meeting where CSR was mentioned."

"Only once in the past year have I been asked about CSR by the investment community."

This view was substantiated by some recent research conducted for the Communication Directors Forum[3] (based on interviews with eighteen of the top institutional fund managers) which revealed that two thirds of investors do not consider CSR issues when making investment choices.

Our View

The findings from this study confirmed that:

- The business case for CSR will always be more compelling – and therefore require greater investment – for those companies with a high profile that operate in emotive or environmentally sensitive sectors, such as energy and tobacco. These companies have to take it seriously and therefore place it at the core of their activities. It is much, much more than box ticking, since it is a huge area of reputational risk.
- Global companies, will give it greater prominence than those that are UK focused. They will have more issues, particularly relating to supply chain, and therefore more potential reputational risk areas.

[3]Communication Directors Forum 2003, *Turbulent Times in IR*, Cubitt Consulting

- If the NGOs aren't interested in you, and the investment community don't raise it as an issue, then it will probably take a back seat.
- The obsession with box ticking, and the pedantry of the CSR industry regulators and critics, has actually served to diminish its value and relevance.
- Very few companies are looking to strengthen their capability, in terms of numbers and calibre of people.

There is much here to support the view that CSR, for many industry sectors, is a bull market phenomenon, whose relevance and value diminishes in a bear market when the focus returns to fundamentals. That said, the overall impression from the research is that most companies are taking it seriously and are aware of the wider benefits of CSR, such as the role it can play in attracting and retaining employees.

The NGOs will make sure it stays anyway, and while there may still be a lack of compelling evidence that good corporate behaviour contributes to the bottom line, it is a brave – or even foolhardy - organisation that will take the chance that it doesn't. Any company that neglects CSR could find itself unexpectedly facing a major reputational risk; a sentiment that is neatly captured by the following quote from an interviewee:

"If you get it right it won't add much to the bottom line, but if you get it wrong, it will take a lot off."

7.3 Internal Communication – coming out of the shadows

Internal communication was highlighted as the most glaring skill/capability gap, with over 40% of interviewees making specific reference to it. This is partly because it has historically been a lower priority for many DCAs who tend to be more focused on, and more comfortable with, the external environment. The shift of attention to internal communication has exposed shortcomings, in both resource and thinking, that are now causing concern. DCAs must demonstrate that the value of good internal communication can be maximised under its leadership.

The findings from the research indicate that internal communication is now emphatically on the DCA's agenda in a way that it was not a few years ago. Employees are of course a key stakeholder audience, but there is no doubt that communication with external audiences has historically been a bigger priority. That is where resource, effort and expertise has been concentrated – to the detriment of the internal audience.

"Sadly it gets thought about last."

(This was investigated by Watson Helsby in a report published in 2002, *The Rise of the Internal Communicator*).

There seem to be two explanations for this:

- First, the CEO and therefore the DCA, has historically been more preoccupied with the external environment, which is always more pressing and perceived to have a much greater impact on corporate reputation.
- Second, the DCA's level of interest and expertise in internal communication is generally lower than it is in external communications/ affairs, with which they feel more comfortable. It also tends to have been their route to the top job.

But because it has been a lower priority for so long, it has now become an area of relative weakness. In terms of resources and capability gaps, internal communications was identified as the biggest problem area, with over 40% of DCAs reporting that it needed greater attention.

"Internal communication – we haven't got it right."

"Suddenly coming into its own, but we have under-invested in the past."

"It's done appallingly here."

"We are screaming for resource in internal comms."

"The area in which we are least strong is employee communications."

"I just don't think that we're at the leading edge of internal communications and believe that there are new tools, techniques and skills that we are, as yet, unaware of."

Not surprisingly, given its historical status and its position in the pecking order within most corporate affairs functions (at or near the bottom), it has not attracted enough high calibre individuals.

Now that internal communication is being subjected to greater scrutiny, in terms of the value and business impact it provides, certain issues and shortcomings have been exposed. The principal issues highlighted by interviewees were as follows:

- It is not really perceived as having any positive impact on business issues. In most companies the contribution of the internal communication function tends to revolve around channel management and message dissemination, leading to a greater emphasis on output rather than impact. E-mail particularly has given managers the dangerous illusion that they can communicate effectively with far-flung empires.
- Many global organisations are just beginning to get to grips with the challenge of developing effective employee communication across different time zones, countries and cultures, with operations that vary enormously in size and sophistication and who frequently only have a tenuous connection with the corporate centre. Thinking in this area is still in its infancy.

"This remains the Holy Grail… how do you connect 110,000 people so they understand group, regional and local context?"

- Getting the leadership team's full commitment, particularly when they do not, as a rule, recognise the business benefits, is not easy. They need to consider the employee angle at the very beginning, just as they (sometimes) factor in the IR and media approach early on. Internal communication is generally not thought about at the beginning. It requires an investment of their time that they would rather be concentrating elsewhere.

"The problem with internal communications is that to be done well, the exec has to sign up to it, and put themselves up for it."

- Establishing priorities. The internal communication team at the corporate centre is often far removed from the actual businesses themselves. So, can the internal communication team at the centre be expected to add value? Some organisations focus communication effort on the senior management population who are then responsible for providing context to their teams.

Our View

The key challenge for the DCA is to demonstrate that the value of internal communication as a business tool can be maximised within the corporate affairs function, where it has frequently been given low priority status. Historically internal communications, at group centre, has often lacked a clearly defined strategic purpose. It is often used as little more than a tool to broadcast and disseminate information from the centre (and therefore doing little more than informing). Yet the role is more than just messaging, channel management and 'crafting and drafting', important though these might be.

The function therefore needs to think hard about where and how it can add value. Otherwise there is a risk that it will cede control of internal communication to another function. If this happens the corporate affairs function could end up managing the channels and the production process, neither of which are perceived to have real strategic value.

Perhaps the same techniques, thinking and goals that are applied to the external audiences should be applied to the internal audience: providing insight (feeling the pulse, 'how things will play') and helping influence perceptions or effect change to attitudes and behaviour. The communication activity itself should then focus on delivering a desired outcome – a change in perceptions, minimising a specific reputational risk – just as it would with external audiences.

What is indisputable is that the internal communication function needs to operate at a higher level and increase its impact, both on perceptions and performance. In certain cases it will mean taking a hard look at the existing resource, which will not always be capable of operating at a higher level. As DCAs themselves rarely have expertise and experience in culture and change management, so they need to ensure that they have someone that can provide them with heavyweight advice in this area.

Overall the priority is to ensure that the corporate affairs function is equipped to capitalise on the fact that leadership teams – except in die-hard command-and-control cultures – are looking for more innovative thinking and business impact from internal communication.

8. Corporate Governance

Despite the well publicised impact that corporate governance can have on corporate reputation, the influence of the DCA over governance decisions is limited. Governance tends to be driven by the company secretary and the board, while the DCA tends to have a more 'downstream' involvement, focused on reporting, communicating, as well as defending or explaining deviances from recommended practice. However the Higgs recommendations and the OFR should have a positive impact on the scope of the role, since both developments will force the CEO to involve their DCA more.

Recent events have provided ample evidence of the impact that corporate governance decisions can have on corporate reputation, particularly if mishandled. Investors, who along with their representative trade bodies have historically shied away from confrontation and activism, are now more willing to voice their displeasure in the public domain, encouraged and supported by a receptive media.

In so far as shareholders can pose a risk, corporate governance should be regarded, and therefore managed, as a reputational risk. As such there is a strong rationale for integrating the likely reaction of key stakeholder audiences into both the positioning and communication of governance decisions and the decision making itself. This underlines the necessity of bringing the DCA, who is equipped to offer valuable insights into the expectations and behaviour of these groups, as well as the likely reactions of the media, into any discussions at the very beginning.

However this is rarely the case. The findings from the research suggest, with some exceptions, that the influence of the DCA is, as yet, quite limited.

"A lot of involvement, little influence".

Interestingly we did not pick up any frustrations about this – none of our interviewees felt marginalised, or that their advice was ignored. Most of them said that it was the job of the company secretary – with whom they often now have a close working relationship – to "make sure we keep on the right side of corporate governance." It is also not a sufficiently big part of the role, and surprisingly not everyone agrees that it is as big an issue in the City as many contend it is.

"I have never had a question about corporate governance from the investment community."

Overall we identified three distinct levels of influence over corporate governance issues.

(i) Significant

The DCAs in this group, though not actively involved in policy making on an ongoing basis, certainly had some considerable influence – not formalised – over potentially controversial decisions and therefore indirectly over policy. A role that could perhaps best be described as mid-way between policy and presentation. DCAs in this category had been privy to sensitive decisions regarding executive and non-executive appointments, dividend levels, board composition and executive director remuneration packages.

"I am one of the small number of people consulted about senior exec pay packages, even before it is discussed with the individual… so as to try and avoid controversy."

"I am part of the remuneration decision making process."

"I get sounded out about the reaction to certain decisions, for instance the choice of the new CEO."

(ii) Downstream

The DCAs in this group primarily limit their involvement to the reporting and communication of governance. They do not seek to be experts, but they endeavour to ensure that the board and exec understand how decisions will be regarded. This level of involvement can, at times, be frustrating, since while they may have little or no influence over decisions, they are nonetheless at the sharp end and are expected to explain or defend deviances from recommended practice. Defending remuneration levels is the most obvious and emotive.

"Defending remuneration packages. Always one of the tricky parts of the job."

Other responsibilities would include preparation for the AGM – Q&A's, getting the positioning right etc. DCAs are also involved in identifying risk areas of governance by bringing the concerns of the outside world into the organisation and flagging up the areas that the board should be worrying about.

"The question that the corporate affairs director needs to raise at board level is: are we going to be the next target?"

(iii) None

11% of interviewees said they had no involvement in governance issues.

"I am very happy not to get involved. I am too busy and leave it to the company secretary. He drives it… he and the board."

Our View

DCAs who do not have IR in their remit tend to be less involved in governance thinking, since they are less able to provide insight into shareholder sentiment, and it is this insight that will help inform this thinking. By the same token this further strengthens the case for giving responsibility for IR to corporate affairs, since recent events have highlighted the broader reputational impact of governance decisions, as well as the importance of taking a more holistic approach to the management of stakeholder issues and communications.

Looking forward, the ramifications of Higgs and the OFR will force DCAs to become more engaged with the governance process. The chairman, who is having to become more involved in IR and broader stakeholder engagement activity, will increasingly seek the advice of the DCA. This is likely to strengthen the relationship with the chairman since they will inevitably have to spend

more time together. Higgs is also likely to have a similar impact on the role of NEDs who will be expected to get a clearer idea of shareholder's concerns. They will need to be briefed regularly, and in some cases trained to discuss the company position on stakeholder issues.

Both these developments should have a positive impact on the standing of the DCA. It will also be interesting to see if they make the DCA less dependent on the patronage of the CEO.

9. Reputational Risk

Despite the fact that the convergence of reputation and risk is now a significant concern for most FTSE 100s, risk is still predominantly viewed through a financial lens. It tends to report to finance, (sometimes to legal), and only 22% of interviewees had a seat on their company's group risk committee or equivalent. As few as 12% of the corporations we surveyed had established group reputational risk committees. Although DCAs felt that there was a greater acceptance amongst the key directors that the markets are more concerned with non-financial data than they were, this was no more than a marginal development.

"Key audiences are still dominated by financial analysis. They don't really take much notice of non-financial measures. The market does not reward us, nor is it particularly interested."

It was therefore not surprising to learn that most companies have yet to develop both a framework and the controls to assess, manage and report on reputational risk. However given that:

- reputation is now a significant component of business valuation. According to whose view you believe, between 30-60% of a company's value lies in its reputation;
- the new Operating and Financial Review (OFR), will require companies to take account of, and report on, the reputation risks posed by stakeholders, where these are material to the business;

corporations will have to ensure that the concept of reputational risk is integrated into the broader risk management process, as well as into the reporting process.

While this will undoubtedly add to the workload of an already over-committed DCA it should be seen as a positive development. The need to assess, manage and report on the risk associated with key stakeholders will force DCAs to engage with more rigorous measurement.

10. Resource & budget

While scope of the role of the DCA may have expanded, most were experiencing a freeze on headcount and are having to meet expectations with the same or smaller budgets than last year. We did not detect any encouraging signs as far as the future is concerned, with headcount freezes unlikely to be lifted this year.

The job of the DCA may have expanded but headcount hasn't. Indeed research findings suggest that they are being asked to do a bigger job with fewer resources.

Recruitment Plans:

Headcount Freeze (Explicit)	31%
Headcount Freeze (Implicit)	35%
No Freeze	19%
Recruiting	15%

Two thirds of organisations we surveyed were experiencing a freeze on headcount. This was either explicit in the form of an official headcount freeze, or implicit in that any request for an increase in headcount would in all likelihood be turned down.

"A headcount freeze is not explicit, but the message is pretty loud and clear."

"No freeze, but you've got to be able to make a bloody good case."

DCAs have an acute awareness that the corporate affairs function, in common with all group functions, is seen to be a cost, and therefore has to be highly cost effective.

"At group level we need to take out cost."

In one particular instance, the cost taken out had been dramatic, the DCA had to reduce headcount by 40%. In another of the organisations surveyed, a multinational with considerable reputational issues, the DCA, whose remit included media, public affairs, internal communication and CSR, had a central function consisting of only two people.

The majority of the sample (73%) are having to contend with similar or smaller budgets to last year.

Budget levels:

Up vs 2002	27%
Down vs 2002	31%
Level	42%

Again, there was a general acceptance that in these tough times some sacrifice has to be made, and that the corporate affairs function has to shoulder its share of the pain.

The bigger functions – not surprisingly – tend to be found in the bigger, higher profile multinationals. With their global scale and presence, their range of stakeholders is broader and their reputational issues are obviously more international and often considerably more complex. The major retail banks tend to have large functions, as do companies in industry sectors where there are thorny reputation issues e.g. energy, telecoms and pharma. The three biggest functions identified in this study were in BP, Vodafone and GlaxoSmithKline.

Size of function:

1 – 10	30%
11 – 20	11%
21 – 30	11%
31 – 40	15%
41 – 50	18%
51 – 60	15%
60 +	4%

The economic downturn has clearly had a significant impact and the research did not detect any particularly encouraging signs as far as the future is concerned. Headcount constraints, whether official or unofficial, are unlikely to be relaxed before the end of 2003. Those DCAs who stated that they were recruiting, or planning to recruit (15%) had, in most cases, recently moved into a new position. Having inherited an existing function the decision to recruit was partly a result of the 'new broom' effect.

11. Use of Consultancies

While most FTSE 100s are likely to retain a financial PR consultancy, downward pressure on fees has been significant, almost halved for basic financial calendar work. Overall there is a clear shift away from retained relationships towards engaging consultancies on a project basis, either for specialist external advice and insight or to provide extra arms and legs. DCAs are much more confident of the calibre of their in-house team, and it is the full service multi-national consultancies, whose relevance and quality of product was questioned, who are particularly at risk.

The headcount freeze discussed above, combined with the greater scale of the role, has not increased demand for consultancy services. Any potential benefits have been far outweighed by the impact of budget pressures, and more importantly, by a growing shift towards an in-house DIY culture. Many DCAs reported that they had become more confident about the calibre of their in-house team, and naturally see less reason for seeking external support and advice.

"Out of total budget, agency spend will be 10%. Down from 15-20% last year. Probably been one of the biggest sources of reduction in the budget."

"The way to go is self reliance and it has served us well – there is no reason to change it."

"We use them sparingly."

"We don't use agency resource. We would rather have good in-house people."

Spend on consultancy support vs. previous year:

Spending more money on consultancy support	23%
Spending less money on consultancy support	38%
No change	39%

What % of resource (budget and time) do you allocate to consultancy relationships?

1 – 5	50%
5 – 10	33%
10 – 15	14%
Over 15%	3%

A small proportion of the sample (under 15%) still favoured an outsourcing model because the team at the centre was so small that external support was a necessity.

Clearly consultancies do have a key role to play and are needed to do some core things, namely:

- Acting as a sounding board and providing intelligence and advice. Consultancies offer an external perspective, and help organisations understand how others see them.

"People working in big organisations can become very insular and there is a real danger in that."

- Delivering 'arms and legs' capability and support when under pressure, or for those corporate affairs functions (most) which have to contend with uneven workloads and intense spikes of activity. It would not be economic to have a full in-house complement which matched needs at peak work periods.

- Consultancies can be a valuable source of information. Journalists and analysts will tell the consultancy things that they will not tell the clients.

- Offering niche experience and expertise.

Most FTSE 100s (82% of sample) still retain a financial PR consultancy to provide external advice and support for their financial communications. However, there has been a significant downward pressure on fees (sometimes halved) with fees for standard financial calendar work, which used to be approximately £10,000 per month, often now nearer £5,000.

"I have kept the financial PR agency, but halved the fee. The government affairs agency I have let go."

Several DCAs also have a jaundiced view of financial consultancies, questioning their strength in depth and therefore their ability to deliver value beneath the top management tier. It was also noted by a minority of DCAs that the relationship is more valuable to the CEO, who wants to be able to call on the advice of an independent sounding board – an alternative view to supplement the advice of the DCA.

Also on retainers are public affairs consultancies (less than 20% of companies surveyed) and investor relations consultancies, but again this arrangement is less widespread.

Only in two instances were the larger international full service PR firms on a retainer.

"The days of retaining a large agency for a blanket task have long gone – you just don't get the quality."

Other factors are also playing a role in driving this swing towards greater self-reliance:

- ◆ The wish to own the dialogue with external audiences, rather than have them partially managed through a third party. This particularly applies to media relations activity.

"We should be talking to the press. Agencies should not be the first port of call."

- The in-house team is (or should be) more conversant with the business and its issues, and should understand 'the story better'.
- Managing a consultancy or a roster of consultancies is very time consuming. It undoubtedly requires a time commitment that not all corporate affairs directors can make.

"Never underestimate how much management time you have to put in to get value out of them."

Now that the in-house resource is capable of providing the required expertise across a much broader range of activities and issues, there is less need for keeping an agency on a retainer. The financial PR agencies, who often have a close relationship with the CEO, are likely to remain an exception to this trend.

We are therefore seeing a clear shift away from retained relationships towards project-based relationships. This gives clients the best of both worlds; support, advice and niche expertise, when they need it, but only when they need it and for less money. Although not a new trend in itself – companies have often used consultancies to help out with special situations such as a crisis or a bid – it is clearly hardening. It is an arrangement that suits those corporate affairs functions (the majority) that have to contend with uneven workloads.

While project based work is not an ideal business model, it is obviously better than no work at all. One interesting finding from this research was that 11% of the DCAs we interviewed did not use an agency at all.

"They're good cultivating the CEO, chairman, but they don't deliver."

"We don't need them, I have a jaundiced view of consultancies."

Our View

This trend towards a greater reliance on in-house capability seems unlikely to be reversed. The move away from retained relationships, except for financial PR and IR support, seems set to continue. The large, full service multinational consultancies are particularly at risk. With no obvious IR/financial PR capability, and with specialist niche practices that are generally not perceived as offering the same value or expertise as the niche consultancies themselves, they are slowly being marginalised by the corporate affairs directors of top UK listed groups.

Consultancies generally must look closely at their offer. DCAs are now looking more for specialist advice rather than representation and consultancies have to provide something (in addition to a third party perspective) that companies cannot access or resource economically internally.

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