

The Changing Face of Public Affairs



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1 | Introduction

(i) Context

A Global Survey by McKinsey¹ on “how business interacts with Government” concluded that “Government is likelier to affect companies’ economic outcome than any other set of stakeholders except customers.” The results also showed that most executives expect Government involvement in their industries to continue increasing.

The recent economic downturn has clearly had a direct impact on the degree of Government involvement and interest in the performance and behaviour of a wide range of industry sectors – not just, although perhaps most obviously – financial services. But there are other developments and trends, which we investigate in this report, that are also likely to increase the importance of building and maintaining strong relationships with government(s); and in turn to raise the profile of a company’s public affairs function, along with the expectations placed on it.

(ii) Purpose

This research study set out to:

- Provide an in-depth analysis of the developments impacting the role and contribution of the public affairs function together with the environment within which it operates;
- Provide an informed view of how and where the function needs to evolve in order to enhance the value it brings to an organisation;
- Explore the impact of the above on skill set and competencies and to formulate a blueprint of the public affairs practitioner and function of the future.

(iii) Methodology

In early 2011 Watson Helsby conducted face-to-face interviews with over 30 senior practitioners (ranging from Heads of UK Public Affairs through to Global External Affairs or Public Policy Directors) in FTSE 100 companies, to obtain a broad sector perspective on the issues described above. We also interviewed owners of public affairs agencies, as well as a number of Ministers and Special Advisers.

The global in-house practitioners were less concerned with the UK political situation than their UK counterparts, and their issues and priorities therefore are very different.

(iv) Nomenclature

For the purpose of consistency, throughout this report we use the term “public affairs”. We recognise that some companies use different terminology, for example, “government affairs”, “government relations” or “external affairs”.

1. “How business interacts with government”, McKinsey & Company, 2010

2 | Executive summary

The overriding aim of this research was to map out the shape of the public affairs industry of the future and the implications for those who want to build or extend their careers in this field.

Over the past five years the political, regulatory and societal context within which public affairs operates has changed substantially. The developments and changes in the landscape which have had the greatest impact on the role and the contribution of the public affairs function and, by implication, the capabilities it needs to build or strengthen, are:

- The fact that public policy issues and wider societal issues are no longer just the concern of politicians. Interest groups have multiplied and the influence of indirect stakeholders has grown enormously. While backbench MPs, Select Committees, think tanks and NGOs have always been influential, the advent of social media has facilitated the growth of a much broader and more vocal political commentariat, with the means to get their opinions known on a global scale and almost instantaneous basis. A phenomenon we describe as stakeholder diversification and connectivity – it means that public affairs professionals have been able to understand and influence an increasingly complex network of influencers, and influencers, on the ultimate decision-maker; and highlights the importance of integrated, joined up communications;
 - The proliferation of on-line media outlets along with web-based participatory media has changed the rhythm of public affairs as well as the public policy landscape. Public policy issues now move quickly across markets and are picked up and accelerated by external organisations such as NGOs. Anti-business coalitions and lobbying groups can come from nowhere overnight and organisations need the capacity to offer speedy analysis and responses;
 - The requirement for senior executives to be more politically-savvy and engaged in public policy, if only because government and regulatory involvement in their industries can have a significant impact on commercial outcomes. This is coupled with a growing awareness that reputation and trust, both with government and the wider public, can be enhanced through, for instance, job support initiatives, or damaged through a 'shifty' performance at a Select Committee appearance.
- CEOs also recognise that they and the organisations they lead are now expected (by interest groups, the media and politicians) to have a coherent view of the world and the economy they would like to operate in. This means that not only do they have to have a good grasp of politics and policy making, but also the societal issues that are relevant to their sector;
- Contagion – the globalisation of legislative agendas and frameworks, driven partly by the increased influence of global organisations such as the WHO and WTO and partly by national authorities who are increasingly sharing knowledge and best practice with each other. Governance and a coherent global policy, along with an effective in-country public affairs capability, have therefore become key priorities for many multi-nationals. Moreover, many companies' growth potential resides in emerging economies. They therefore need to understand how global policy trends are likely to affect their sector in these economies;
 - A distinct mood-change in the way in which politicians interact with business, borne from calls for tighter regulation and an appetite for greater transparency. This requires a more meaningful, sophisticated and business-like interaction with government. Influence used to be determined by quality of access but now it is quality of evidence and analysis that determines influence. The call for a new type of politics, in turn, calls for a new type of public affairs;

- The blurring of the edges between public affairs and commercial objectives has helped raise the function to the status of strategic partner;
- As one interviewee remarked, “public affairs is not public affairs anymore”. The boundaries between political communications, lobbying, corporate communications, issues management, public interest, corporate responsibility, social/digital media and consumer awareness are becoming increasingly blurred. The public affairs/consumer agenda, with consumer issues ‘washing across’ regulators as well as companies’ media campaigning, is particularly important. The effect is that public affairs often broadens out into public policy work with NGOs and consumer groups.

There are certain sectors and companies that will not as yet recognise all these developments, or at least will be less affected by them, but they will be familiar to many public affairs practitioners.

It was interesting that a number of respondents from global companies reported that the organisation of their public affairs functions is currently under review or in the process of being restructured. Companies are recognising that fresh structures are required to deal with the complexities of a rapidly-changing geo-political and socio-political world.

One of the key consequences of these developments is that there is a higher degree of board level engagement, in both directions – public affairs with the board and the board with the public affairs agenda. Our research found a general trend towards greater involvement of the public affairs function in strategy and business planning. In the more highly regulated industries, where the bottom line impact of regulatory activity can be significant, business strategy is increasingly informed by political and regulatory issues.

The contribution and value of the function to an enterprise is reflected in the fact that, in sectors such as healthcare, financial services and energy, it now reports in at the highest levels.

In some emerging markets where the focus is on opening up markets and encouraging liberalisation, public affairs is now playing a much more proactive, commercial role as an enabler of growth by, for instance, supporting the market access teams. This transformation of its role – from mitigating impact of policy on the bottom line to an enabler of future growth – has undoubtedly had a very positive impact on the perceived value and status of the function.

These advances in its contribution and status mean that the public affairs function is having to learn to behave and operate like a business discipline and strategic function (rather than a specialist practice area) with implications for leadership and management skills, processes, systems, KPIs etc. Political understanding and relationship building skills, along with the intellect and interpersonal skills to engage effectively with external stakeholders, will remain important, albeit with a demand for a higher level of sophistication. But the function needs to expand and strengthen its capability if it is to deliver the business benefits that will increasingly be expected of it.

The most significant additional attributes we identified were:

- (i) Business knowledge and connections into the business. Many interviewees spoke of the need to invest time in building networks throughout the company – strong internal relationships, together with a deep knowledge of the business, not just the policy issues affecting it, are critical;
- (ii) Leadership and management skills are becoming increasingly important as the practice matures into a critical, senior-level function and teams grow in size and geographical spread. Successful teams are cohesive, coherent and motivated and are not easily built on a global scale. Achieving this requires strong leadership, and this is not traditionally a core attribute of a public affairs profession;

(iii) Rigour – there is now an expectation from Government and regulators for a more sophisticated and business-like interaction. Relationships and access will only get a company so far – what is now required is data, evidence and robust analysis. Internally, Boards are increasingly looking for a more rigorous analysis of the political and regulatory risk to which their organisation is exposed. Different tools and skills are now required such as scenario planning, forecasting, geopolitical risk analysis and economic modelling;

The role and contribution of the public affairs function, and that of its external advisors, has evolved quite markedly over the past five years and the practitioner of the future is as likely to have a business background as a purely political one. This may well have implications for the routes that new graduates take to enter a career in the public affairs industry. It also presents a challenge for those who are more established in the industry, as they seek to find effective ways of updating their skills base to meet the changing requirements of the sector.

(iv) A broader understanding of the external environment and the stakeholder ecosystem which grows ever more complex. The public affairs function of today and of the future has to possess a spectrum of knowledge and awareness that extends well beyond the purely political. CEOs, depending on their industry sector, will expect to be well briefed on broader geo-political and socio-political issues that they may be required to discuss on public platforms. As one interviewee observed, “as strategic advisors we are being moved in a new direction”;

(v) Campaigning skills, partly to counter the issue of stakeholder proliferation and connectivity but also because of the decline in direct lobbying activity and the fact that campaigning can be more effective at keeping the pressure on politicians and policy makers. Some companies would benefit from the corporate equivalent of an election campaign team, with everything from a defensive rebuttal unit to a proactive publicity team and strategic stakeholder and coalition building team.

3 | How is the public affairs function changing and what are the drivers?

We first asked participants to describe their perceptions and experiences of how the public affairs function is changing, and what they believed the drivers of these changes to be.

The caveat to our findings is that, as several interviewees pointed out, there is a wide variation in the interest in, and expectation of, the contribution of the public affairs function within companies, often determined by the nature of the sector and the closeness of its relationship with or dependence on Government. As one interviewee said: “There is a spectrum of seriousness with which public affairs is viewed, from ‘barely interested’ to ‘heavily engaged’”.

Overall, however – as would be expected – there has been a general “maturing” of the public affairs industry. This is reflected in the calibre of individuals filling these roles, the wider expectations being placed on the in-house public affairs function and in the increasing sophistication and diversification of the public affairs agency sector offering, with companies increasingly being provided with support on more strategic communications issues.

“The job of a public affairs consultant is 70% understanding the business and 30% understanding politics.”

The increasing intervention of government and regulators in all areas and sectors of business, on a global scale (“regulatory creep”) is clearly a key driver that almost all interviewees highlighted. Replacing self regulation with statutory regulation is often an easy political win for any government and one which is likely to provoke criticism only from the regulators, not from consumers or politicians. The scaling back of regulatory intervention is therefore an unlikely prospect.

Specific changes (and drivers of change) to the industry that respondents flagged up include:

- A higher degree of Board-level engagement, with more input into strategy and business planning;
 - Increasing demand for CEOs and senior executives to engage in the political and broader societal agenda(s);
 - A distinct mood change in the way that politicians interact with business, born from calls for tighter regulation and an appetite for greater transparency;
 - Stakeholder proliferation and stakeholder connectivity, both a consequence of the emergence of social networks and the ease of electronic communications, which requires a more integrated, campaigning approach to public affairs;
- “You need to understand them and understand how they all influence each other.”***
- Increasing pressure on “speed of response”;
 - The globalisation of public affairs and the consequent need for higher degrees of awareness of, and engagement with, international agendas which, because of the internet, can cross borders rapidly;
 - A greater sensitivity to political risk and, with it, greater awareness of the public affairs function’s contribution and its impact on the business. Coupled with this, an expectation of a more rigorous analysis of audiences, issues and risk (in line with other business disciplines);
 - A better informed, more vocal and challenging electorate (technology and ease of access to information).

One interviewee also made the point that another driver of change is the way in which politics and policy act as triggers in the news cycle.

“A general policy development, or specific comment about our business by a Minister can trigger a sudden surge in media interest.”

(a) Board-level engagement/input into strategy and business planning

Our research found a general trend towards greater involvement of the public affairs function in strategy and business planning (“it’s about strategic direction setting, rather than issues management”). The majority of respondents commented that they have more input into Board-level activity with, for example, a regular slot at Board or senior management meetings to present context and challenges. Many respondents reported that business strategy is increasingly informed by political and regulatory issues, with businesses regarding regulation, regulatory drivers and the environment within which they operate as being integral to all strategy being developed across the business.

“So much of what we do impacts on, and interacts with, Government.”

“Business strategy is informed by political issues – for instance market access, landing rights and where you fly is all determined by government.”

“Listening to what the world is telling you and adapting strategy accordingly. We are, or should be, the early warning system.”

The economic crisis has meant more attention being paid by government to business, coupled with more opportunities for businesses to win trust and credibility with government – and the wider public – for example, through job support initiatives. This has also helped raise the level at which the function operates as public affairs has the knowledge and relationships to help sensitise senior executives to the issue.

“Companies need public affairs to help them understand their responsibilities and enhance awareness of their assets.”

Respondents identified a number of drivers behind the general trend for the public affairs function to become more involved in business planning and strategy:

- A growing recognition of the relevance and impact of government and regulatory activity on a business’s bottom line – as identified by the McKinsey research quoted at the beginning of this report. This has elevated political risk to a board level issue in those sectors that are highly regulated, since most issues are inherently political. As one respondent neatly put it:

“Public affairs is a commercial imperative now. It [PA] mitigates and avoids excessive costs being placed upon the business: it’s no longer a business development overhead but an investment.”

Anti-trust issues and M&A approval, both critical in enabling a company successfully to pursue its growth agenda, are in the hands of government and regulators who have to consider the implications of consolidation within an industry sector. Even seemingly minor government decisions have the potential to impact a firm’s bottom line significantly.

Not surprisingly the more gains or risk to the business that CEO’s see, the more they are prepared to invest time in it. While not all sectors are equally affected, many (e.g. energy, alcoholic beverages) have experienced a “radical transformation” of their regulatory environment. “It’s a big risk to the business if you don’t get regulation right.”

“Ours is a highly regulated industry so the smarter ones know they need to give it attention.”

- The fact that the public affairs function, particularly in multi-nationals, is an enabler of growth, helping to open markets or support market access.
- The heightened belief that Government is increasingly interventionist: one interviewee observed that “Government is now more hands-on and intrusive than at any time since 1979.” Another remarked that “the tentacles of Government are reaching ever wider.”

That said, although the general trend is for the public affairs function to be gaining greater recognition from companies' senior management, our research found a degree of variation in the attitude towards the function, and the extent to, and manner in which, it is involved in strategic and business planning. Of those that we interviewed:

- 33% said that public affairs had always been taken seriously by senior management. “Government relations is taken seriously at the top of the company and they spend a lot of time on it.” “It’s easy to see the connection to the business”;
- 52% said that greater interest by senior management in public affairs and political issues was a recent, or relatively recent, development. “The public affairs role has changed immeasurably: we are now viewed much more seriously.” “We have learned the lesson that government intervention is crucial to our sector.” “Internally, finally, awareness of what we can do is spreading; more people are beating a path to our door.”
- 15% said that public affairs was still not sufficiently well understood, or regarded, by senior management. “Public affairs is recognised as a specialism, but is it recognised as deserving of a place at the top table?”

“Engagement and interest of senior people is entirely dependent on events.”

So board level involvement is by no means a widespread phenomenon and in sectors that are very lightly regulated (or where government is not a key customer) this may take time to change.

As one consultancy head observed, “it ranges from strategic and game-changing to those that see it as an agreeable way for the CEO to have lunch with politicians.”

(b) Increasing appetite of, and demand for, CEOs and senior executives to be involved with the political and broader societal agenda

A new generation of CEOs have, if only for reasons of self interest, become more politically savvy. They understand the importance of stakeholder engagement and that politicians and civil servants are critical stakeholders. They also recognise that companies are now expected (by interest groups, the media and politicians) to have a coherent view of the world and the economy they would like to operate in. This means they need to have a good grasp of politics, policy making and the societal issues that are relevant to their sector. Enlightened CEOs want advice on how best to leverage thought leadership opportunities within their sphere of influence (economic, industrial, social), because competitive advantage can be gained by being seen to shape the landscape and environment within which they operate.

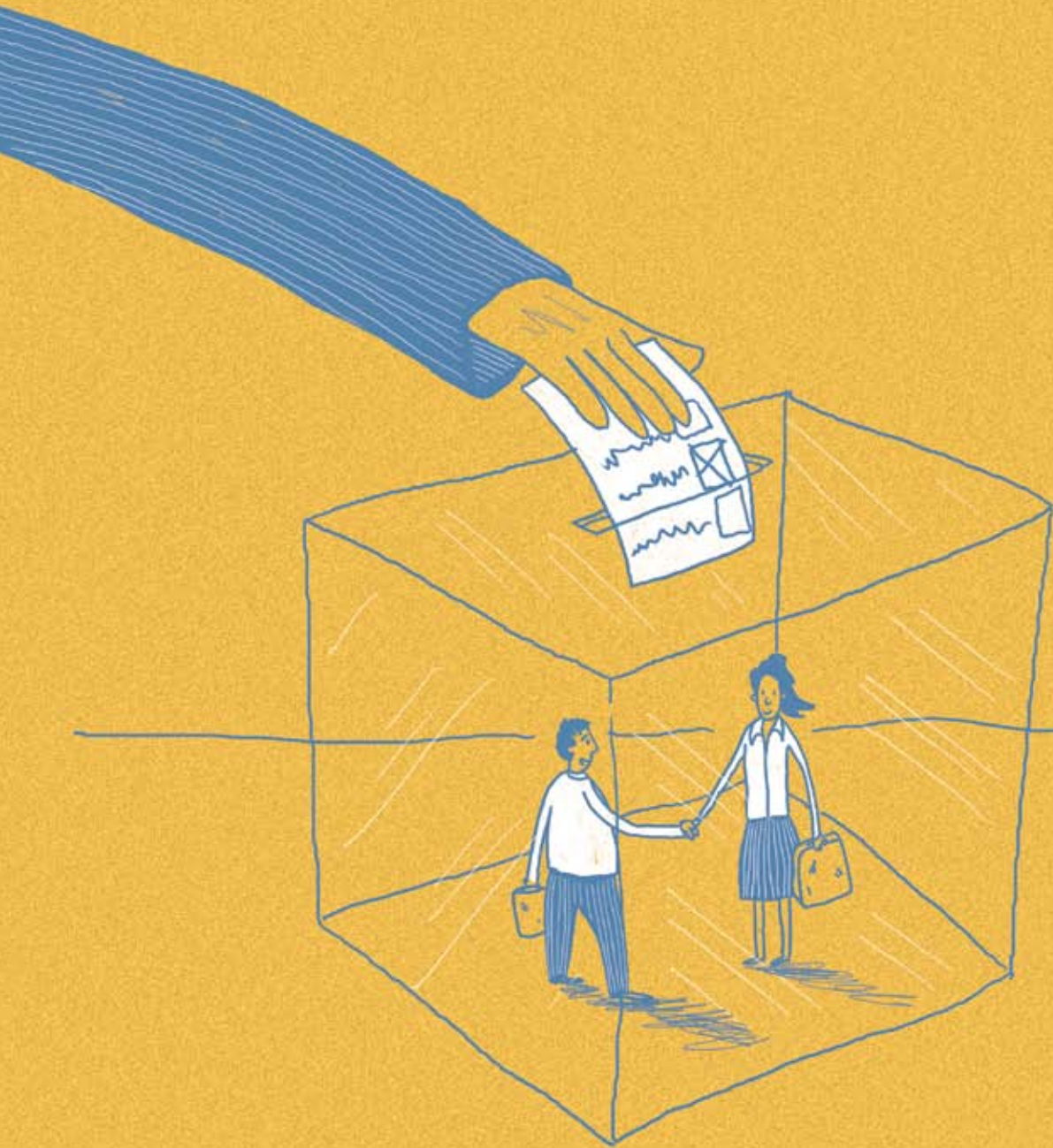
“A CEO interviewed on the Today Programme (or others) is likely to be asked about policy and CR issues as well as about financials and performance.”

“Lots of CEOs don’t fully appreciate that they are now statesmen and advocates as well as business leaders.”

This trend is mirrored by the increasing willingness of politicians to comment on what might traditionally have been regarded as commercial or even personal issues (e.g. Chief Executives’ pay). The growth in the frequency of – and publicity given to – Select Committee enquiries, where questions have become increasingly personal and of a non-business nature has been a contributory factor.

“CEOs are now beginning to realise that their performance in front of a Select Committee can put their reputation on the line.”

“The trend of politicians sticking their noses into business.”



Interaction with the Government has to be transparent and business-like.

(c) Mood-change in the way in which politicians interact with business

A longer term and more enduring challenge is the mood-change in the way in which politicians generally interact with the business world. This is the result of calls for increased transparency and tighter regulation of the 'industry' and heightened sensitivity about being, or being seen to be, in hock to 'lobbyists'. Neither of these trends is likely to be reversed; the momentum is strong and is coming from a range of influencers.

The (now) Prime Minister himself claimed, before the 2010 General Election, that lobbying was the "next big scandal waiting to happen." The Public Administration Committee's report 'Lobbying: Access and Influence in Whitehall', expressed strong concern about the "inside track... who wield privileged access and disproportionate influence." Parliament itself has been critical of the new UK Public Affairs Council's register and Government has tightened the rules of lobbying through, inter alia, changes to the Ministerial code and guidance to NDPBs.

The emergence of a generation of politicians whose approach is inherently more business-driven (around one-third of MPs are new and a significant proportion of these have business/corporate backgrounds) has also had an effect. All of the Ministers whom we interviewed were critical, to some degree, of many of the public affairs professionals with whom they came into contact. As one Minister remarked:

"The call for a new type of politics has, in turn, called for a new type of public affairs."

Another related issue is the increasing complexity of the political arena: described by one respondent as "a wider web of influence". While backbench MPs, Select Committees, think tanks and NGOs have always been influential, the advent of social media has facilitated the growth of a much broader and more vocal political commentariat, with the means to get their opinions across rapidly and 24/7.

"Political interfaces are now more blurred and the impact of political decisions filters out more widely."

"NGOs, consumer and pressure groups, MPs, all coalesce."

Indeed, some of the companies we spoke to find themselves having to justify/fight for their 'license to lobby' in the face of hostile NGOs and pressure groups whose stance can best be summarised as "you cannot be a part of the solution because you are the problem."

All of these developments represent a real existential challenge for the public affairs industry. What is absolutely clear is that interaction with Government has to be transparent, business-like, more sophisticated and more meaningful. What is also clear is that organisations need to be smarter about their approach to influencing policy, hence the decline in direct lobbying activity and a greater focus on campaigning which can help to generate grass-roots support for a measure as well as ensure a more sustained campaign, which keeps the pressure on politicians and policy makers. 'Top down' pressure is often less productive, for the reasons mentioned above, but also because political leaders change so frequently with reshuffles, causing an inevitable loss of momentum.

(d) The communications revolution has significantly changed the stakeholder and reputation environment in which organisations communicate and build relationships. There are two principal manifestations of this:

(i) Stakeholder proliferation and connectivity

Public policy issues as well as wider societal issues are no longer just the concern of politicians. Interest groups have multiplied and the influence of indirect stakeholders – NGOs, commercial activists, single issue groups, online networks – has grown enormously. The advent of social media has played a large part in this, giving these stakeholders the means to get their voice heard and their opinion across as well as the tools to subject companies to wider and faster scrutiny. Anti-business coalitions and lobbying groups are able to form overnight ("stakeholder connectivity") and policy issues now move quickly across borders.

“A lobby can come from nowhere within days.”

“If you can get enough people protesting online, it changes [Government] behaviour.”

NGOs particularly have exploited this communications revolution as a number of companies have found out to their cost. For instance certain issues or behaviours (child labour, workplace conditions, wages, environmental impact) that might be acceptable in one region are often picked up and exposed by NGOs and generate outrage in another region where they are not acceptable. This brings the issue to the attention of the government in the country where the company concerned is domiciled, often triggering sanctions in that region/country for behaviour that actually takes place elsewhere.

(ii) Increasing pressure for “speed of response”

Historically public affairs has had the time – because legislation takes time to enact – to deliberate on, and work through its response to the regulatory and legislative agenda with which it needs to engage. But over the past three years the rhythm has changed quite markedly and the function has had to adapt to an accelerated timeline. “The Government is getting faster and if you’re going to shape policy you’ve got to get in early and get in hard.” It now has to work less in “silos” and much more closely with, for example, communications and media teams to offer immediate responses to (especially) social media challenges.

“The rhythm of public affairs is different – more relentless.”

“We must have an opinion on everything all the time.”

“How many [public affairs] people were tracking blogs five years ago? Who isn’t now?”

“The Coalition has demonstrated that you can be both fast and thoughtful and we [PA function] need to be just as deft. Public affairs has been the slow part of the comms function; we are catching up.”

However, a number of interviewees did sound a note of caution about the risk of over-emphasising the importance of social media in influencing policy – as one Minister remarked about Facebook campaigns: “just because you click on a button doesn’t necessarily mean you really care about the issue.” One interviewee referred to some companies’ attempts to jump on the social media bandwagon as “corporate dad-dancing”.

“We need to recognise, but not pray at the altar of, social media.”

These caveats notwithstanding, there is no doubt that social media have transformed the public policy landscape, both nationally and internationally and companies therefore need the capacity to offer speedy analysis and responses.

(e) The globalisation of public affairs and the need for greater awareness of, and engagement with, international agendas and policy makers/influencers

Many interviewees spoke of the need for a greater awareness of, and engagement with, international public policy agendas and geopolitical issues. The globalisation of many businesses, along with the fact that the regulatory frameworks for several industry sectors are being set at a global level, has resulted in public affairs teams getting involved in a broader and more global spectrum of work: for example, helping to secure market access, and providing capacity building advice and support on public affairs issues at a local level “to help to raise standards locally”, as well as increasingly monitoring and attempting to influence and engage with inter-governmental organisations at a global level (e.g. WHO, World Bank, G20). And, even for those organisations whose focus and remit is limited to the UK, the impact of Brussels is undeniable.

Drivers include:

- Social media have facilitated the transfer of international policy agendas that can now cross borders rapidly.

“Social media are driving the requirement to have a coherent global policy.”

Companies, for example, now need to have a global position on issues such as climate change: inconsistencies in policy positions in different regions can too easily be spotted. Another interviewee observed that public policy issues now move across markets and are picked up, and accelerated, by external bodies such as NGOs.

- The “globalisation of legislative agendas – policy coming out of one country will affect another”. For example, national authorities are increasingly sharing knowledge and best practice with their counterparts in other countries. One interviewee referred to the rise of “geopolitics”, with governments increasingly needing to relate to and co-operate with each other. Moreover, many companies’ growth potential lies outside the UK, so they need to be able to understand how global policy trends affect their sector and, as one participant put it, to “digest big global issues”.
- The increasing influence and activity of inter-governmental organisations and their involvement in shaping global public policy.

Globalisation has led to increased need for effective public affairs capability in-country, people who understand the local stakeholders, the conditions of local markets and the dynamics of the political situation: “communication has to happen at the coal face.” Many companies are therefore building up global capability within their public affairs function – which brings with it a set of challenges around identifying and developing people to operate in key growth markets, as well as the challenges of knowledge transfer and accessing Group best practice, training and development, linking countries into the global policy and advocacy agenda (to ensure that policy and messages are aligned globally) etc.

(f) More emphasis on the measurement of the public affairs function’s contribution

This is not the case across the board, but it is a general trend. Responses did reveal a spectrum of opinion on both the feasibility

and desirability of attempting to put a quantitative value on the output and impact of public affairs activity. Broadly, respondents fell into three main categories:

- Those who take the view that quantitative measurement of public affairs’ contribution to the business is critical to the credibility of the function (15% of respondents). Examples given of success measures included: quantifying how much money a successful PA campaign has saved the business, for example, by securing changes to proposed legislation;

“At the heart of everything we do is the question: ‘How do we support the business’s bottom line?’”

“It helps with your credibility if you make KPIs focus on the commercial outcomes (of a policy change) rather than the policy outcome itself.”

- The majority (65%) who take the “median” view that, while measurement of the function’s contribution would be desirable, the actual scope for meaningful measurement is limited by the very nature of public affairs. For example, too many external factors affect outcomes; issues can “come and go” very quickly so that it is difficult to set long-term measures; the majority of measures that can be used are qualitative and therefore subjective.

“I am responsible for reducing the burden of business rates. But I can’t control Government.”

“KPIs need to be broad to allow you to stay nimble enough to deal with events as they unfold.”

“Often the critical measure is: are we being invited to the right meetings, can we get to the right people when we need to?”

- Those (20%) who take the view that attempts to measure the function’s contribution are neither necessary (because the value of the function is inherently understood) nor even possible (because too many external factors affect political outcomes).

“Everyone gets how important it is: we don’t need to commercially quantify our contribution.”

“How do you measure the value and how do you definitively attribute it to public affairs activity? Sometimes success is defined by the fact that nothing happened.”

The tendency towards any of these particular views does not appear to be sector-related. We had hypothesised that companies in sectors that are very heavily-regulated or operating on very tight profit margins might be more likely to favour the use of “commercial” KPIs, both because they may be easier to formulate for such companies, but also because there is more of a business imperative to measure the public affairs function’s contribution. But this hypothesis was not borne out by our survey.

The key drivers of increasing pressure to measure the contribution of the public affairs function (where that was declared to be the case) were identified as:

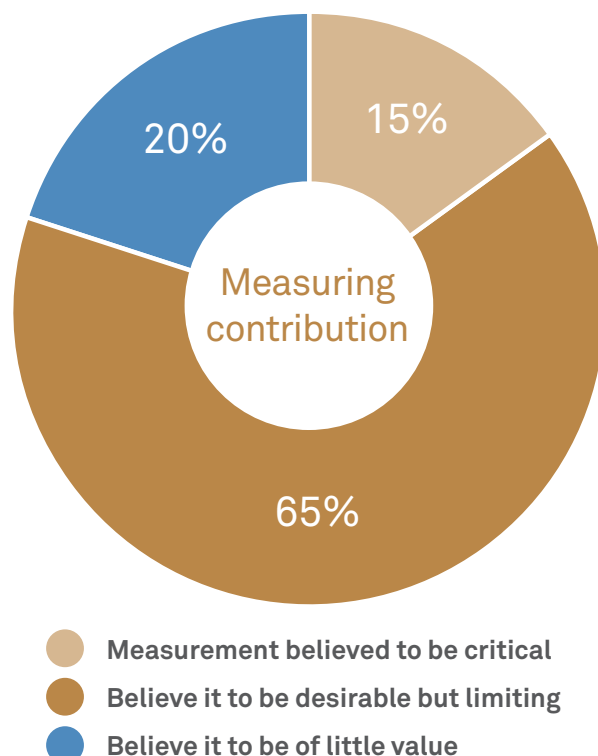
- The recent economic climate: with many companies making headcount reductions across all areas of their business, there has, in some cases, been increased pressure on the public affairs team to justify the value it adds to the business;
- A general recognition that, if the public affairs function is to “earn its place at the top table” and be taken seriously by all other aspects of the business, it needs to be able to demonstrate its value to the business using metrics that the business understands: “using the language of business helps to make us credible”;
- As a function becomes more strategic and more significant so the interest in measurement and evaluation inevitably becomes more pronounced;
- Boards, who want to know more about the level of political and regulatory risk to which their company is exposed.

(h) A more informed, challenging and vocal consumer/electorate

The trend for political parties to try to engage the public much earlier in the policy development process, an approach which one interviewee described as “co-creation” has resulted in a new dynamic and more sophisticated relationship. The effect of this is a more informed and influential consumer base (“the constituency that politicians fear and need the most”), with whom companies in turn need to engage effectively.

Coupled with this is the growing importance of corporate responsibility issues, driven not just by the current Government’s agenda, but by a new generation of voters for whom the ethical and sustainability credentials of corporates are increasingly a driver of approval ratings and, therefore, reputation.

“Reputation management is part and parcel of the role of policy and Government affairs. All these things fit together. I’m not sure I would have said that 10 years ago.”



4 | How are companies responding?

The way in which companies are responding to these developments is as important as the developments themselves. We explored this issue in some detail, focusing specifically on their impact on key deliverables, organisational structure, internal relationships and resource.

(i) Key deliverables

Here we list the key deliverables of the function as collectively described by those we interviewed. These comments demonstrate that the public affairs function has broadened and matured considerably:

- **Enabling growth** – in several companies, particularly those that are global in scale, the public affairs function now has an overt commercial role/value, acting as a key enabler of the growth strategy, helping to open markets or supporting the market access team.

“We are now being asked to do different kinds of work, for instance working direct with the market access teams to secure quick and broad access for a product.”

“It’s about unlocking value in the business, both defensively (e.g. fending off new regulation) and offensively (e.g. securing market access).”

Below we highlight four different ways in which the public affairs function supports the business(es):

- Analysing and helping the business understand the legislative, regulatory and societal environment (and the level of risk associated with it, be it political or otherwise) into which new services or products are to be launched and advising on how best to secure approval and acceptance and therefore maximise chances of success. The public affairs team will reflect back to the business, often the marketing team, the challenges of the environment into which a product is to be launched.

- Advocacy and promoting the values of the company and its contribution to the well being of a specific country to help secure favourable treatment when it comes to a government decision to award a license. This is particularly prevalent in the extractive industries sector.

“A key concept for us is the growth opportunities we might be able to access as developer of choice as a competitive advantage over others whose work in this area is less well regarded.”

- Engaging with key stakeholders, directly or indirectly by briefing the local business unit head, to help influence and shape that environment such that the chances of success of, for instance, a product launch into a new market are significantly improved. For instance, a Pharma company developing a new vaccine business in an emerging market will benefit from access to relevant senior-level government figures.
- Increasingly equipping key business managers with the skills and knowledge to interact effectively with politicians and officials in their region or country. The ability to interact with government is becoming a key competency for regional and in-country leaders of many global businesses.

“Our business leaders must be government affairs literate. We are professionalising it as a key competency across our senior management cadre and we are planning to establish a stakeholder engagement academy.”

Those companies that sell direct to the public sector and governments (defence, infrastructure) will often use their public affairs team to get close to government procurement and/or multi-lateral funders. In this situation public affairs becomes almost interchangeable with business development. Indeed some companies we spoke to have business development people sitting in their PA offices.

“Many of my counterparts in large companies now have hybrid roles with public sector sales targets attached.”

We also identified another form of activity that falls within the remit of the public affairs function that could be considered a (longer term) enabler of business growth. For many companies the third world economies, with their huge populations, represent the growth markets of the future; but in order to realise this potential it is necessary to lift the populations of these countries out of poverty. A number of multi-nationals we interviewed have, in partnership with governments and charities, developed initiatives that align their own business requirements with those of the broader development agenda, sometimes at a global level but more often at a local level. The public affairs/policy function, which focuses on building networks of key stakeholders and creating relationships with inter-governmental bodies and NGOs as well as state governments, tends to be best placed to identify the opportunities to help facilitate the implementation of the initiatives. The Corporate Responsibility and Sustainability team(s) may own some of the relationships with external partners that these initiatives require, so the two have to work very closely on these partnerships. One interviewee noted that it makes it a lot easier for companies to “have conversations” with governments if you show willingness to make a contribution to national development targets.

Placing greater emphasis on helping unlock longer term growth opportunities and less on the license to operate case can also help enhance the internal perceptions of the business benefits that the public affairs can bring.

“Linking it back to commercial success – growth in these markets – makes for a much more compelling argument. If license to operate is your main rationale it can be more difficult to link it directly to the business.”

- “Horizon scanning” – anticipating not just policy and legislative changes, but also wider trends (e.g. demographics) that are likely to influence government decisions in both the short and longer term and therefore their policy priorities; and then to advise on sectoral and business impact.

“It’s about listening to what the world is telling you... acting as an early warning system.”

“Providing a more holistic view of the world the business operates in.”

It’s also about acting as the interface (and interpreter) between the business and the outside world.

“[Public affairs] is a key partner in the internal mechanism that makes sure that the business is able to absorb what is going on in the outside world, making the company aware of what it needs to respond to, how and when it should respond, and ensuring it is equipped to respond and to make the right decisions.”

- Monitoring and influencing potential policy and legislative change: “trying as best you can to anticipate threats from Government.” Several of those we interviewed stressed the breadth of opportunity that exists to influence Government policy-making: a point reinforced by the Ministers we interviewed, one of whom put it this way:

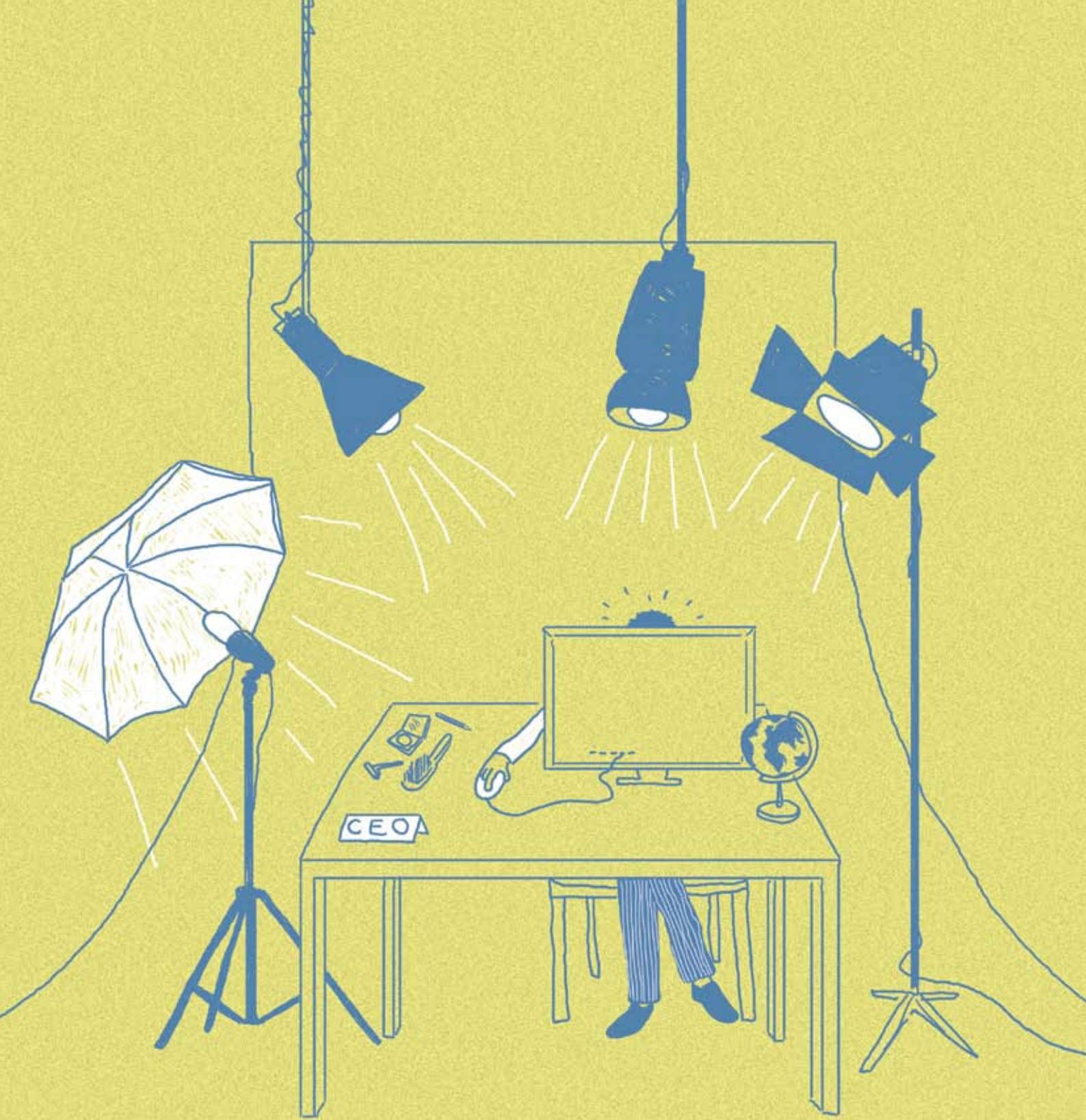
“As a Minister it surprises me how little Whitehall knows – sometimes they don’t have even quite basic facts at their fingertips. So where you can really add value is by providing civil servants with facts and evidence: if they are feasible they may well become accepted wisdom.”

Intelligent input and constructive feedback to civil servants was seen as a vital element in ensuring better policy outcomes:

“We are a benefit to them [civil servants], not a problem – it is important to make them look good – it’s a win:win situation.”

- Networking/relationship building and the ability to build partnerships.

“We need to be better at being the public face of the company in a broader set of circumstances. You have to be out there and you are failing in your duty if you are not out there making the case.”



CEOs are now under much greater scrutiny and are expected to have a coherent view of the world and economy they would like to operate in.

We identified three key manifestations of this attribute. First, although the days of the ‘little black book’ and the ‘old boys’ network’ may be over you still need to know individuals in order to advise on how best to get them to focus on your issue and how they are likely to react, so the ability to build strong relationships will always be a critical skill. The presentation of a compelling business case is the central tenet of effective public affairs, but the crafting of long-term, substantive relationships with key political players remains important in terms of winning the opportunity to present that case, as well as in terms of wider reputation management. As one Minister put it: “Who you know has always been important and always will be. I turn away hundreds of requests. I have to make decisions about [the use of] my time based on a ‘messy matrix’ of urgency, the importance of the issue and whether I know the players.” Another commented on the importance of building relationships over the long term: “We remember who took time to be with us [in Opposition]. The best operators are the ones who have taken the time to build up a good relationship with me over a long period.”

Second, we have already noted the importance for the credibility and effectiveness of the public affairs function of forging relationships within the business itself.

“Interpersonal skills are critical, particularly for building the reputation of the department internally.”

Third, the ability to build and coordinate strategic alliances with other stakeholders, including competitors, which can be vital for achieving a desired policy outcome:

“[You need] the ability to build coalitions within the industry because change on big issues is not something you can achieve on your own.”

“The ability to galvanise others to talk for you [is critical] – the more you can have others making your case for you, the better.”

- **Constructing, communicating and marshalling a compelling argument.** These are skills that are absolutely core to the public affairs function and one of the key deliverables. The ability to construct a coherent argument and present it effectively to key advocates and influencers is the sine qua non of the industry. It is analogous with the skills of a good lawyer.

“The ability to find the most compelling parts of an argument but also identify and minimise its weaknesses.”

The best communicators appreciate the importance of two-way communication: “This is an 80% listening business.”

Many of those we interviewed also stressed the critical role of public affairs in acting as a conduit between the business and political audiences, making complex information accessible and ensuring that the nuances of messages are accurately portrayed. On the one hand, public affairs practitioners need to make “political gobbledy-gook” intelligible and relevant to the business’s senior management; on the other, they need to be able to distil complex business information into a concise and compelling message to politicians and other stakeholders. One interviewee wryly noted the need for public affairs to act as a “translation” service between politicians and business.

- **Raising the profile of the CEO and other senior executives** through engagement with politicians, and providing advice to senior management on handling political issues and relationships. Several respondents noted that this is not always easy: business leaders often feel uncomfortable with what they perceive as politicians’ “fudge”, or may not readily see the value of wider political engagement.

“It can be difficult to get [senior management] to invest time in building relationships with Government. It can be quite grudgingly done, and we have suffered with that.”

(ii) Key relationships

This is an interesting subject because public affairs has historically operated as something of a silo (more a specialist practice than a business discipline), with limited interaction with other functions. In companies with seamlessly integrated corporate affairs functions, it has always worked in concert with the other communications disciplines, particularly the media relations team, who are key to effective campaigning.

The emergence of political risk as a ‘business concept’, as well as the desire to integrate public affairs into broader strategic debate and decision making, has served to deepen and broaden the range of key relationships. The quality of these relationships, and the degree of effectiveness with which public affairs interacts with these functions, was viewed as much more important than the formal organisational structures themselves: “behaviours supersede structures.”

Key relationships were considered to be:

- **Strategy function.** One of the key trends that our research identified (examined in more detail in the next section) is the increasing involvement of the public affairs function in the stress testing of business strategy, or at the very least in strategic debate. As a result, the majority of respondents (64%) cited the relationship with the Strategy function as a critical one for the public affairs team.

“When devising strategy we need to be increasingly aware of the impact of external stakeholders.”

“Public affairs is factored into strategy early on – we provide a more holistic view of the world the business operates in.”

For the remaining 36% of respondents, the degree of involvement in strategy was less, often varying according to business priorities. However, the majority of these respondents observed that the contribution of the public affairs function to the setting of business strategy was increasing:

“[Public affairs is] not yet embedded [in strategy] but we are heading in the right direction.”

- **Risk.** 68% of those we surveyed reported a strong relationship with the company’s Risk function or, where no formal Risk function exists, strong involvement in risk assessment. There is a clear trend towards companies taking an increasingly broad view of what constitutes “risk”, with a greater awareness of political and regulatory issues.

“If you look at the top 20 risks [for our company], public policy is all over them.”

“Political risk is embedded in the Board agenda – most issues are inherently political.”

A minority of respondents reported that there was no formal mechanism within their organisation for reporting on non-financial risk, and/or that reputational or political risk issues were raised at Board level only on an infrequent basis: “We don’t want to cry ‘wolf’”. One respondent observed that he had had to “push quite hard” to gain Board understanding that political risks are important even if they are hard to measure and cannot be calibrated using traditional metrics.

- **Legal/regulatory.** Most respondents (83%) reported a strong relationship with the legal and/or regulatory function(s). Unsurprisingly, this is particularly the case where industries are heavily-regulated, or where the public affairs work has highly technical aspects or strong legal ramifications. Several of those interviewed made the point that relationships between public affairs and the legal/regulatory functions needed to be strong because the public affairs team performed the externally-facing role: “Legal and regulatory is not about going out and engaging”. However, this relationship is not always viewed as desirable. A small minority of respondents (17%) observed that the legal/regulatory and public affairs functions are wholly different and a strong relationship is not necessary:

“In an ideal world, we stay apart.”

– **CSR/CR.** It is now an accepted wisdom that business has a real economic interest in, and responsibility to, the well being of the societies in which it operates. This recognition has helped blur the dividing lines between business, politics, policy and societal issues in turn blurring the dividing lines between public affairs and CR.

“You need to know more about sustainability and CR as well as policy since they are becoming indivisible.”

Corporate Responsibility needs to be more responsive to, and better aligned with, the issues that shape public policy, which means that two functions have to be more fused and integrated.

“CR needs to be more strategically linked into public affairs strategy with public affairs and policy leading it.”

Several of the Ministers and practitioners to whom we spoke specifically made the point that embracing the CR agenda is one of the best ways to engage with Government, and that this should be a key element of a company’s public affairs activity. Although the two functions are rarely formally integrated (18% of those surveyed), the great majority (94%) of respondents expressed the view that CR is an important component of the way in which companies engage with political, as well as wider, audiences:

“CSR is good business and good politics.”

“CR is a strategic enabler – reputation is a huge element of being an influential voice on policy.”

But this is not a universally-held view. A small but vocal minority in fact argued the opposite: that too close a relationship with CR could be damaging to public affairs activity:

“If the two are too closely or transparently tied that can foster cynicism around the purpose of a firm’s CSR programme.”

The overriding conclusion that we draw is that there is a general trend towards increasing the integration of public affairs and other functions in practice, if not in terms of formal structure. But more deep-seated structural change can be expected the the future.

(iii) Organisational structure

Not surprisingly, we found significant variations in the way in which the companies we surveyed structure their public affairs function. That said, there appear broadly to be three main organisational approaches:

– Public affairs team based within, or reporting to, the wider Corporate Communications / Corporate Affairs function (68% of those we surveyed reported this structure). This is most commonly the case where the organisation tends to view the role of the public affairs team as part of the communications “spectrum”, and where its remit is clearly seen as largely about political engagement and reputation management.

“[The role is] about how best to handle political issues and relationships.”

“[We are] the political eyes and ears for the business to make sure messages land well.”

– Public affairs function reports direct to UK or European Chairman or CEO, sitting alongside other functions such as Communications already covered above, Strategy and Legal (20% of those surveyed);

– In a smaller number of cases (12% of those surveyed), the public affairs team sits within, or reports to, the legal or regulatory function, sometimes for “historical” reasons, and sometimes because of the heavily-regulated nature of the industry concerned. However, there is a clear dividing line between the role of policy/public affairs and the role of regulatory/compliance: one respondent explained that their public affairs function covers “all policy from a glint in a think-tank’s eye to the point where it receives Royal Assent, and becomes an issue for the regulator to implement”, at which point it becomes the responsibility of the compliance team.

Where a company has a global presence with in-market regulatory and political issues, structures and reporting lines – as would be expected – are more complex. Again, no single organisational model is predominant. Some companies operate a devolved system, with the public affairs function country-based, supported by a small central team. Others will organise around the three key political centres – the UK, Brussels and Washington.

Even within a single company, the public affairs set-up often varies by country; for example, in some instances the public affairs function is fully embedded in the operational unit; in others it is separate. In countries where a company has a smaller presence, the public affairs function is typically merged with others, or is the responsibility of the country manager or regional director. Markets tend to be “tiered” according to their size, importance and the degree of political complexity, with public affairs resource allocated accordingly. However, a common theme among those we interviewed was the importance and difficulty of building and supporting public affairs capability at a country level:

“We have staffed up in Africa with finance specialists coming from government (the Ministry of Finance in Kenya).”

“We need to cosmopolitanise the public affairs function, otherwise we will get the politics wrong.”

“Global capability building is a big issue for us – finding people with the right skills.”

At an international level, the public affairs resource is often still organised around the “traditional” political hubs – Brussels and Washington DC, (though several respondents reported that they did not have a physical presence in Brussels, but relied on agencies). Others, though, were firmly of the view that a physical Brussels presence was important. Despite the importance of a Brussels presence, several companies (with a dedicated Brussels team) reported that the percentage of time spent on specifically Brussels-focused activity had declined in favour of other European hubs/markets.

It was interesting that a number of respondents from global companies reported that the organisation of their public affairs functions is currently under review or in the process of being restructured. Companies are recognising that fresh structures are required to deal with the complexities of a rapidly-changing geo-political and socio-political world.

Attention also needs to be paid to how the in-country roles fit into the overall career planning and progression framework. It can take time for public affairs heads to develop credibility, build a network of trust and get fully embedded, but some companies are inclined to rotate and move their key people on before they become ‘established’. As one interviewee observed:

“One thing that my company does, and which I think has a negative impact on our capabilities, is that for development purposes they frequently move or rotate public affairs people in the markets.”

Overall, it’s fair to say that few of those whom we interviewed felt that they had identified the ideal structure for the public affairs function. More than anything else this reflects the growing importance and value of the function to more aspects of the business (see below), increasing the complexity of relationships and reporting lines.

“The dotted lines are endless.”

(iv) Resource

We asked respondents about the level of resource allocated to the public affairs function in their organisation. Team size and budgets vary quite dramatically, although the average size of a UK public affairs team, FTSE or otherwise, is around four (at the centre).

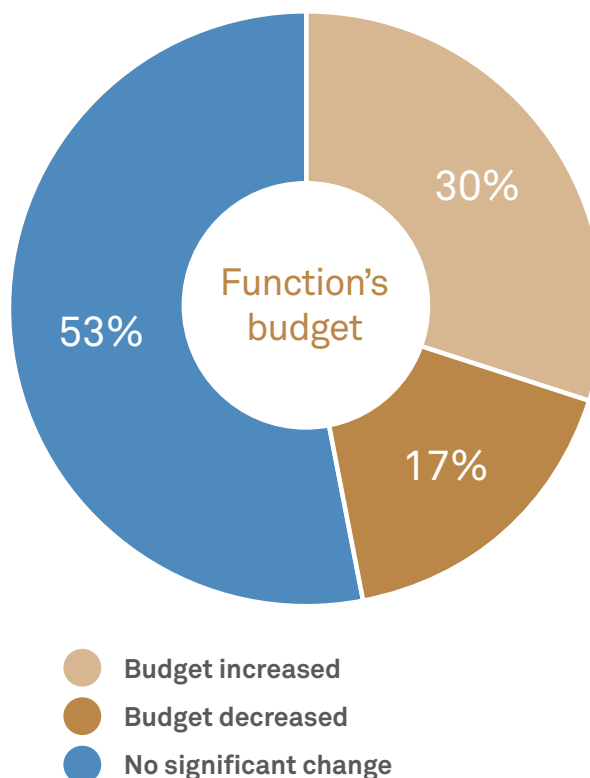
The Brussels team, which in several cases was based in the UK working alongside the central team, varied in size from two to fourteen. The multi-nationals we interviewed had a larger UK based team ranging from five to thirty plus in-country resource which, depending on the number and size of markets concerned, averaged twenty but could be as much as two hundred.

Budgets (excluding salaries) range from £200k up to £1 million or more in some cases; main elements of expenditure include agency support, specific projects, events, membership of trade bodies and support for think tanks. In terms of changes to budget and/or size of team:

- 30% of respondents said that they had experienced, or anticipated, an increase in their function’s budget. “We are listening more, which means we may need more of us”;
- 17% reported the opposite, saying that budgets had been, or were likely to be, cut. “We have had to cut our coat according to our cloth”;
- 53% expected no significant change. “We are not a significant drain on resources. No one is looking to saving money by cutting the [public affairs] team.”

It is worth noting that, where budgets had been cut, or were likely to be reduced, the consensus was that this was a reflection of cost-cutting across the board, rather than any explicit – or implicit – commentary on the importance or perceived value of the function.

Indeed, evidence suggests that the value of the public affairs function, in overall monetary terms, has grown significantly. A 2007 Hansard Society report¹ estimated the industry’s worth at £2 billion, compared with £6.5 billion for the PR industry as a whole. We would posit that the public affairs industry’s worth is significantly higher than this figure, given the significant increase in public affairs activity in which companies have had to invest; an inevitable response to the increasing intervention of government and regulators in a wide range of sectors. Also many people involved in this type of activity will not be captured by the employment figures because, for example, their public affairs activity is not always explicitly described as such. It would probably not be unreasonable to suggest that the value of the industry in 2011 is in excess of £2.5 billion.



5 | How does the public affairs function need to evolve and why?

Given the changes, and their drivers, discussed above, what are the implications for the future of the public affairs function and, allied to that, the skill sets that will be required?

Overall, there is a trend towards increasing “professionalisation” of the industry. The key drivers for this, discussed above, include the changing relationship between business and politics; increasing recognition at the top of organisations that political and regulatory risk has both reputational and commercial ramifications, and that the public affairs function is a key stakeholder in identifying and managing these.

“We have reached the point where it would be as inconceivable for a company not to take public affairs advice as it would be for them not to take legal advice.”

“It would be as ridiculous for a CEO to say he has no interest in politics as it would be for him to say he had no interest in investor relations. What politicians think is as important as what investors think.”

Coupled with this is an increasing recognition by companies that public affairs is a specialism in its own right, and not simply an adjunct to other communications roles.

“HR didn’t previously recognise PA as a specialism, but are now much more aware of this.”

This increasing professionalisation is reflected in the new generation of PA professionals coming through: people who understand business, regulatory and political challenges.

What are the requirements of the public affairs function and what role does it need to play in the future. Our research suggests several key developments. In summary, we would describe these as the need for the public affairs function

to cultivate a broader understanding of the wider world, and to develop a more sophisticated relationship both with Government and with the business within which it operates. Greater sophistication means more rigour and more analysis/data, both to support internal decision making and to better influence external stakeholders.

(i) Strong connection to the business

A common theme of the responses to our research was the increasing requirement for the public affairs function to demonstrate a deep understanding of the business within which it operates and which it represents to external audiences. The importance of this was stressed not just because of the need to engage with politicians in a more sophisticated way, but because of the need to get “buy-in” for the public affairs function across the company as a whole; there was a general recognition that not all areas of a business fully appreciate the role of the public affairs function:

“They all have their day jobs.”

“Most parts of the business are impacted by Government policy but it’s not fully understood by everyone. The next evolution is that everyone in the business gets it.”

Many interviewees spoke of the need to “invest time in building networks throughout the company”, and the increasing requirement for integrated company-wide responses to issues: “we need to offer a total solution to a problem”. The public affairs function was also seen as having an important role in ensuring that the business is “speaking with one voice” – for which strong internal relationships were regarded as critical.



(ii) Broader understanding of the world – advisor on geo-political and socio-political trends

The point most strongly emphasised by those we interviewed was the need for today's public affairs practitioners to have, or develop, a spectrum of knowledge and awareness that extends well beyond the purely political: "You can't trade anymore on only knowing about politics". This requirement is being driven by a range of factors, not least the ever-closer relationship between business and politics ("there's more 'outside-the-box' engagement, not just on business issues"); the growing complexity of the stakeholder map; the blurring of the lines between business, politics, public policy and societal issues; and the fact that "the world is getting smaller".

"The stakeholder map used to be straightforward. Now it is much more multi-faceted, variable and unpredictable."

One respondent described the public affairs function as having become more of a "commercial advisor" role – advising on issues affecting the business landscape, and where, when and how the business is likely to be impacted.

The fora at which politicians and businessmen meet have also multiplied, whether this be international summits such as Davos, or the policy workshops/meetings/breakfasts organised by politicians or their advisors as well as third sector organisations, to which Chairmen and CEOs are invited. With senior management in many businesses now engaging with politicians not only on national and international issues affecting their business, but also the wider corporate responsibility and societal agenda, some respondents described the public affairs function as developing into more of a "Chief of Staff" role: keeping senior executives briefed not just on the political environment but also on other issues of interest to politicians and their advisors, preparing them for summit type meetings, briefing them on relevant geo-political and socio-political trends, particularly if they are appearing on public platforms. All this helps engender a better appreciation of the broader environment in which business operates

and also ensures that they are more likely to engage effectively.

"As strategic advisors we are being moved in a new direction."

Furthermore the global economic crisis has meant more attention being paid by Governments to business, as well as greater demands being placed upon it. They are tasked with a broader set of expectations, from combating climate change through to raising people out of poverty.

"There are calls from international organisations such as the ILO for business to contribute to creating jobs to address the significant number of young people unemployed around the world and the societal impact that may have on economies, societies and businesses."

(iii) Relationships with Government

The influx of new Members to Parliament following the 2010 General Election, and the establishment of the coalition Government, have presented challenges to public affairs practitioners as they seek to build new relationships and navigate a different Government landscape. As Ministers pointed out to us, though, these changes present opportunities, not least the chance to build relationships with new, ambitious politicians eager to make a name for themselves: "A good advocate with a good case can help an MP make their mark."

But at the same time there are more and more calls for tighter regulation and greater transparency of the industry and a heightened sensitivity on the part of politicians around political and public affairs activity. At the very least, politicians expect a strong and rigorous business case to be made. Influence, it seems, is now determined more by quality of analysis and evidence than it is by quality of access.

All of these developments represent a real existential challenge for the public affairs industry – what it does and how it does it. Interaction with Government has to be more meaningful, sophisticated and business-like; business acumen, policy nous and a

deep-seated understanding of how Whitehall and Government works in practice are more important criteria for successful public affairs work than contacts or networks, though these remain the bread and butter of the industry. Of course relationship-building will remain important: several Ministers acknowledged to us that, in trying to juggle what one called the “messy matrix” of the demands on his time, access was, understandably, more likely to be given to those whom they knew. (And, as one interviewee acknowledged: “A lot of people still like stardust”). But the ‘little black book’ along with a contact programme is no longer sufficient. As one Minister summarised it: “What we want from you is information, evidence and honesty.”

Public affairs is undoubtedly adjusting its modus operandii to meet these challenges but the comments of the Ministers to whom we spoke suggest that this is not happening quickly enough.

(iv) Greater rigour

The need for a more meaningful, sophisticated and business-like interaction with government and regulators is referred to above. We have also spoken of the fact that quality of analysis is superseding quality of access as a means of influence. Policy nous of the highest quality along with the ability to develop well argued, evidence-based policy recommendations are essential attributes of the function. One interviewee spoke of the capability in his function to econometrically model the fiscal implications of different policy options, which gives his company a distinct advantage when negotiating with, for instance, officials in emerging markets, who do not have this data at their disposal.

“Regulators want to talk to someone who can engage cerebrally and they love the complexity of an issue and talking about unintended consequences.”

“You have to be able to do more than talk through a position paper and deliver message points to these people.”

One minister we interviewed also underlined the importance and influencing power of information, evidence, data, analysis.

“As a minister it surprises me how little Whitehall knows – sometimes they don’t have even quite basic facts at their fingertips. So where you can really add value is by providing civil servants with facts and evidence: if they are feasible they may well become accepted wisdom.”

The need for greater rigour and analysis also applies internally: to influence the business to help it understand the commercial and operational implications of different policy options, and therefore to help direct it to the most appropriate decision. It also needs to be able to give a more rigorous analysis of the particular risk that an organisation might be exposed to, particularly when reporting to the Board. To do this the public affairs function has to employ new skills and tools such as scenario planning, econometric modelling and geopolitical and risk analysis.

“Showing them different evidence based options – you have to be evidence literate at every level.”

“The more rigorous it becomes the more respect you get – it helps you get taken seriously.”

“You can’t give a strong political and regulatory risk assessment unless you are very strong on policy.”



6 | How should public affairs agencies respond?

All the developments we have highlighted in this report hold quite significant implications for the future of the mainstream public affairs agency model. The demands made of agencies are likely to become more extensive and different, particularly the demands made by global companies in highly regulated industries, who need their agencies to have a deep understanding of their regulatory environment in order fully to appreciate the difficulties and issues they face.

But the best public affairs agencies have already recognised this and the model is undoubtedly changing, though some agencies will continue to operate in the low added value space where they will be little more than “dating agencies”. It is also worth pointing out, as one interviewee remarked, that “knowing decision makers, policy makers and opinion formers, and how to engage them effectively will always be a major part of the role.” Consequently, developing a network and picking up insights and intelligence – the bread and butter of public affairs – will always be a critical asset to a client and this requires regular interaction with key stakeholder audiences.

But as clients become more sophisticated and savvy (and many are ex-consultancy advisors so they know what they want and the price they should be charged for it) they are demanding greater insight and analysis of political and public audiences, along with an understanding of how this analysis will impact their business. So, on the spectrum of ‘dating agency’ to strategic advisor, the industry is moving towards the latter. The public affairs consultancy scene has certainly seen some changes. There is now, for instance, a group of consultancies who label themselves as strategic communications consultancies, set up over the past few years by individuals with strong political communications backgrounds, that offer a breadth of expertise across political communications, corporate communications, issues management, corporate responsibility, social and digital media. These provide a broader campaigning offer in recognition of the fact that broader, integrated campaigns can be more effective than traditional lobbying.

Less evident, but it seems increasingly in demand, are consultancies that provide the skills and expertise traditionally the preserve of the management/business consultancy sector. For instance scenario planning, geo-political risk analysis, future forecasting and econometric modelling.

Since the investment in resource capability to deliver both of the above offers (strategic communications and risk analysis/modelling) would be significant, consultancies may elect to focus on one or the other. But a combined offer would be quite an attractive proposition, for there is undoubtedly a client interest in high value analysis, combined with strategic communications programmes that together deliver tangible business benefits and commercial value.

What remains to be seen is whether a standalone public affairs offering – providing a service that includes contact programmes, parliamentary events and policy seminars – will be able to survive on sufficiently healthy margins in the future.

7 | Building capacity – the key competencies of the public affairs function

Given the predictions and trends that this report identifies, what are the implications for the future of the public affairs function, and the skills/competencies that the function will need to contain within it?

Skill set/competencies

We have identified six core competencies that we believe will increasingly be expected of the successful public affairs function:

(i) Real understanding of how the business works

This was seen as important not just in terms of being able to present a credible business case to politicians and other stakeholders, but also in terms of gaining credibility, and therefore traction and buy-in, within the business itself. Public affairs practitioners add real value when they a) understand the business imperatives and b) understand how to translate these into effective political dialogue. The majority of interviewees remarked on the increasing need for public affairs practitioners to have an “inward as much as an external focus”: a need to understand the business’s strategy, processes, internal dynamics and operational issues. And to know, and be taken seriously by, the main internal stakeholders. The public affairs role is increasingly being seen as about the provision of insight and advice around the political and other external factors affecting the business and the environment it operates in. But there are always a lot of potential issues on the horizon. In-depth knowledge of the business is critical when it comes to sorting through these issues and deciding which ones may become future issues of importance for the company.

“What does a certain policy change mean for the targets of the MDs in the businesses. That’s what they want to know.”

“Good relationships will only get you so far; relationships need to be underpinned with industry knowledge.” “We need people who can engage with business leaders in their language.” “This is a business, not a political operation.”

“Bonhomie is secondary to someone who understands business, regulatory and political challenges, and is credible both internally and as an ambassador.” “You need to be on the money with the figures and sound as much a part of the business as anybody else.”

(ii) Leadership and management skills

Leadership and management skills, in a function that has historically not placed a great premium on these attributes, are becoming increasingly important as the practice matures into a critical senior level management function and the size of the team grows. Directors of public affairs in some global organisations now have to provide leadership to global functions of over 50 people, sometimes considerably more. This involves strategic leadership, capability building, governance, team building (successful teams are cohesive and coherent and this is not easy to achieve on a global basis) and other leadership and management tasks. In many multi-nationals it requires reporting at Board level with the same level of rigour and analysis as other corporate functions.

Being a line manager is a significant responsibility and in most careers you cannot progress beyond a certain level if you are not a good manager. But all too often it comes second to the perceived day job – standard public affairs activities – which can affect functional coherence and prevents leaders from getting the extra discretionary effort out of people. HR functions, which now pay more attention to the leadership capability within the public affairs function, are increasingly intolerant of people who are poor managers. And, when recruiting for a function lead, proven leadership ability has now become a key selection criterion.

“If you are, or want to be, at the top of the business, you can’t afford to be managerially clueless.”

(iii) Campaigning Skills

Campaigning skills, for obvious reasons, originated within classic campaigning organisations such as NGOs, charities and, of course, the main political parties. They are less prevalent in the private sector, principally because the silo mentality found in most companies discourages a multi-stakeholder mind set and skill set, a feature of good campaigners and political communicators.

However, the emergence of social media and the networks and communities these have helped create – many of them quite influential – has changed the dynamics of the external environment and underlined the value of campaigning skills and a campaigning mentality. Two trends that particularly stand out are:

- a) Stakeholder proliferation – social media has spawned new categories of stakeholders and communities (citizen journalists, bloggers, tweeters etc), some of whom are collecting substantial followings. It also generated new tools with which to subject companies to wider and faster scrutiny;
- b) Stakeholder connectivity – these stakeholders are able to connect with each other across boundaries and this enables groups to form spontaneously, quickly and cheaply to mobilise opinion and organise alliances, campaigns and movements that can have a profound impact. The recent ‘Arab Spring’ provides a vivid illustration of its power and speed, as do the recent riots in London. As one interviewee remarked:

“The rise of social networks and the ease of electronic communications have begun to favour David over Goliath. The opposition are able to mobilise even more quickly (because they are more streamlined) and force politicians to support them through what is, effectively, electoral blackmail.”

These two developments have had less impact on companies in the B2B space, but many consumer brands organisations have found, to their cost, what it is like to be on the receiving end of campaigns that have originated online. Indeed, one interviewee noted that he might soon be looking to hire an online communications specialist to develop and coordinate global digital public affairs campaigns.

“I will soon need someone to globally plan campaigns in this space.”

Those companies who operate within a complex network of stakeholders need to adopt more of a campaigning mentality and work with more of a campaign focus. If they don’t they will risk ceding advantage to others (‘adversarial’ groups) that are more adept at campaigning. In order to do this they will have to break down organisational silos, re-scope roles and job descriptions and create roles for practitioners with multi-stakeholder expertise. Most corporate affairs/communications functions still have a tendency to hire specialists (i.e. media relations, public affairs etc.) and although these teams are quite capable of working seamlessly together to develop integrated, joined-up campaigns with specific public policy or public affairs objectives, they tend to be the exception.

As headhunters in this field, we are acutely aware of the existence of a considerable number of practitioners (often in consultancy) who are politically and media savvy and individually capable of developing integrated (often) issues-led campaigns. Many of them would like to move in-house but cannot find roles that exploit their versatility and campaigning abilities. They are not seeking a dedicated media relations or public affairs role; what they would like is a broader multi-stakeholder, campaigning remit. Whilst the in-house sector has access to these people when/if they hire them as external consultants, they are not getting full use of their talents.

The responsibilities, skills and attributes of a good campaigner are difficult to define but they include some of the following:

- The ability to construct a powerful and compelling argument;

- An understanding of how to attach that argument to an issue or a policy debate
 - how do you find a way in?
- An ability to think about an issue from a politician's point of view, not that of your organisation's;
- Good understanding of what drives media agendas (how to get them behind an issue) and what sort of stories/outlets will advance the corporate agenda. Also an understanding of how to frame an argument through the media to bring pressure to bear on policy makers is part and parcel of campaigning. But doing it with subtlety is key; it mustn't be too intense, backing them into a corner;
- Stakeholder mapping (because of social media the network now often extends far beyond the traditional view and definition of stakeholders);
- Understanding of the relevant stakeholders (could be NGOs, online communities, civil groups) and their agendas and knowing what might get them onside. Doing business with them is not straightforward since there is a fine line to tread between partnership and confrontation. The interests of business and these stakeholders tend both to overlap and collide;
- Planning and pacing – what does the campaign look like – the narrative arc. What are the milestones, what are the points of intense activity and what goes on in between?
- Knowing what it is likely to cost.

This knowledge and expertise maybe spread across different disciplines and functions, but it is rarely integrated and 'joined up'.

"You have to be media savvy and you need to understand how media impacts the people that a company wants to influence."

Effective communication to an audience (politicians) who are already overwhelmed with information is a task that requires creativity and flair and good campaigning can be often be the answer:

"Good campaigning can be a way of creating cut-through."

Organisations have to be more imaginative how about they engage and make their case and the skills of a talented campaigner, as opposed to a 'lobbyist', will become increasingly prominent.

(iv) Issues radar

Public affairs, like corporate affairs, is an anticipatory discipline and requires its practitioners both to detect and analyse the changes in the broader environment – political, social, environmental – in which a company does business. The PA function has to act as a key internal partner ensuring the business understands and is able to absorb what is going on in the outside world, making it aware of what it needs to respond to, how and when it should respond, and then ensuring it is equipped to respond and make the right decisions. This competency requires a much broader range of knowledge and insight and has come about as a result of the blurring of the lines between politics, policy and societal trends.

"You have to anticipate with a fair degree of prescience how the landscape is unfolding in front of you."

Alongside this the skill of synthesising a complex and wide range of issues into a one-page brief is equally critical.

(v) Political sophistication

Knowledge of how Westminster and Whitehall works (the policy making process and the sociology of public policy) has always been, and will of course continue to be, critical. Nor should the importance of this knowledge be underestimated: one Minister commented that even apparently minor mistakes (for example, asking a Minister to sign an EDM) can damage a company's reputation with political audiences. Practical experience of politics was seen as a "hygiene factor": "You wouldn't take legal advice from someone whose expertise was based on the fact that they used to watch Crown Court and Columbo!"



The emergence of social media has facilitated the growth of a much broader and vocal political commentariat.

But many respondents noted that the increasing complexity and sophistication of the political arena means that there is a growing need for a wider skill set, encompassing both broader and deeper knowledge. “How does the system work, what influences strengthen your case, who influences the influencers, what is the best way of engaging with politicians who receive hundreds of demands?” Nor is being politically well-connected any longer enough on its own. “It’s obviously critical for public affairs people to understand politics, but the nature of that understanding has changed: it’s no longer just about who you know.”

Understanding the ‘levers’ is one thing, but knowing when to use specific ‘levers’ is equally critical. For instance knowing when to make a case privately and when to take it public. There is, as one interviewee remarked, “a danger of going public too early.”

A key point – discussed in the previous section – is the need to have a “helicopter view” of political, societal and broader issues. For example, as political and policy issues become increasingly multi-jurisdictional, public affairs practitioners need knowledge not just of Westminster and of Brussels, but of the wider world and emerging markets. “You need an understanding of macro geo-trends”. “Ability to understand ‘platform shifts’ around the world early and accurately.” “Increasingly, you need a broad understanding of a wide range of issues: international agendas and other cultures.” “[You need] the ability to navigate new cultural relations.”

Respondents also commented on the need for public affairs professionals to be able to contribute to – and in some cases, help to set – the policy agenda, as opposed to merely responding to it. Several of those interviewed noted that, in the current political climate, with a Government keen to make an early impression of effectiveness, there is often considerable scope to drive, not just influence, the policy agenda. “When Government needs ideas, there is scope to feed them those ideas.”

(vi) Influencing upwards

The ability to influence upwards, since the public affairs head now has to report to the board on, for instance, political and regulatory risk issues. CEOs of big multi-nationals are now expected to act as statesmen and have a view on political and broader societal issues. They need to be briefed prior to international summits such as at Davos, Select Committee appearances and other fora of a political of international affairs nature. Credibility, gravitas, wisdom and insight are all critical aspects of influencing upwards.



8 | Conclusions

The public affairs function has now assumed a position of strategic importance that has significant implications for both its organisational structure and the firepower/range of skills it has at its disposal. Fresh structures are now required to deal with the complexities of a rapidly changing geo-political and socio-political world. Equally organisations need the capability to understand, build relationships, provide insight into and influence an intricate network of stakeholders that are inherent in this more complex world. These attributes must be underpinned by sophisticated management disciplines and processes along with leadership and management capabilities commensurate with that found in other functions.

Executive teams and Boards alike will inevitably have to pay more attention to the impact of this complexity on their ability to operate freely and profitably in their chosen markets. They will need to ensure that the rigour of the analysis they receive, along with the capability to help shape the political and business environment to their advantage, is of the highest calibre. In many multi-nationals the public affairs function is now expected to report at Board level with the same levels of rigour and analysis as other corporate functions. Which means that that the capability of the public affairs function, along with its contribution and advice, will inevitably come under greater scrutiny.

It is more than conceivable that companies will start to nurture their own public affairs people and recruit from within. Just as period of time in investor relations is now regarded as stepping stone for potential FDs, so a short tenure in the public/external affairs function may become part of a potential GM's development plan; particularly as the ability to interact and engage with political stakeholders is becoming a key competency for in-country leaders of many multi-nationals.

Those people pursuing a career in public affairs will continue to come from the politics since an understanding of policy and the political world will always be an important attribute. But it is clear that the industry will increasingly recruit from a wider gene pool and the public affairs professional of the future is as likely to have a business, legal, analyst, campaigning or policy background as a purely political one. This may well have implications for the routes that new graduates take to enter a career in the public affairs industry. And it also presents a challenge for those who are more established in the industry, as they seek to find effective ways of updating their skills base to meet the changing requirements of the role.

About Watson Helsby

The research was devised, conducted and written by Nick Helsby and Jenny Ungless. Nick has over fifteen years experience of conducting corporate communications/affairs headhunting assignments. He is also the author of several research reports including “*Corporate Affairs – fit for purpose in a downturn?*” and “*Internal Communications – more to deliver*”.

Jenny has extensive experience of the political world, having spent the early years of her career in the Civil Service. She has also worked as Head of Government Relations for a leading trade association and as Chief of Staff to the Leader of Her Majesty’s Opposition (at the time, the Conservative Party).

The Watson Helsby industry reports are designed to 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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