A SEAT AT THE TABLE

The growing influence of the corporate affairs function in FTSE 100 companies

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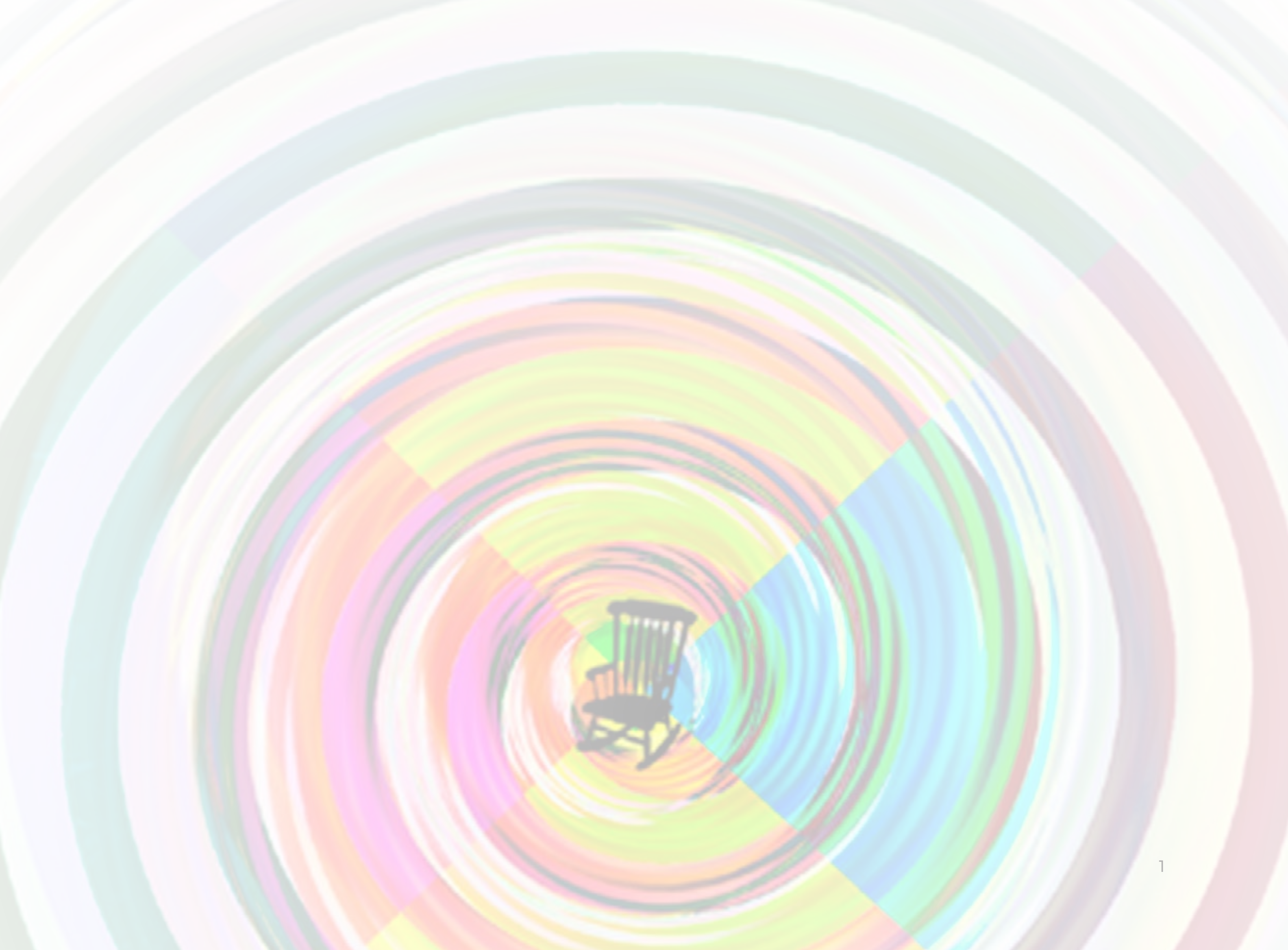
The role and influence of corporate affairs in the UK's largest listed companies has continued to grow over recent years as CEOs and boards alike recognise the critical importance of a well run function and the value it can bring to the business. The accelerating change sweeping through businesses is reflected in the broadening exposure, scope and responsibilities of the corporate affairs function as well as in the financial rewards available to high performers. As this report will demonstrate, the corporate affairs leader who once played a largely advisory role has far greater influence on the business today, as both protector and enabler.



A number of factors have led to a growing appreciation of the need for a well-resourced, integrated and professional corporate affairs function — in particular the increased focus by boards and senior executives on reputation and the need for careful tracking and management of reputational risk. This awareness has been driven by a loss of confidence in multinational corporations and financial institutions, and the perception by the public, media, politicians and the investment community that the underlying problems have been poorly handled. Furthermore, there has been an irreversible shift in transparency and complexity due to a number of factors: rapid globalisation, increasing operational fragmentation, the immediacy of information available through the internet, 24/7 news channels, 'citizen journalism' and social media. A company's reputation can be affected by issues that go well beyond the actions of its CEO or whether the company has delivered shareholder value; a crisis in a local market can quickly escalate and have implications for the company's reputation on a global scale.

Having observed the changes taking place in the function from our vantage point as advisers to boards, CEOs and corporate affairs directors, we decided to conduct some detailed research into the corporate affairs function in FTSE 100 companies. In particular, we explored the background, experience and tenure of those in senior leadership roles, their status and influence inside the organisation, and the scope and responsibilities of the function. We also explored the correlation between each of these elements and remuneration. For our research we conducted detailed interviews with 33 department heads from FTSE 100 companies, the majority of whom operate in the FTSE 50.

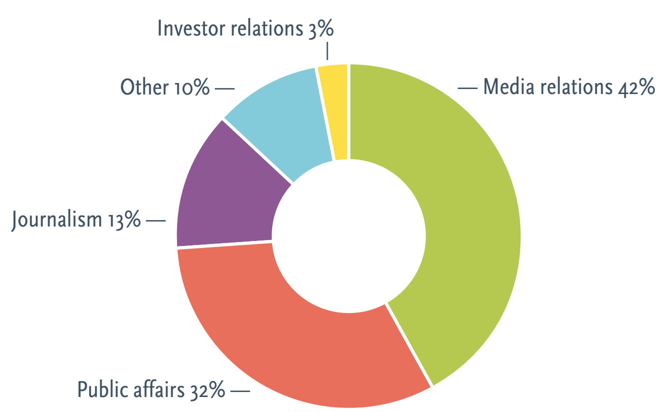
The route to the top

The corporate affairs directors in our sample had an average of 17 years experience in consultancy or in-house corporate communications; the longest-serving has 33 years experience and only five have less than 10 years. This reflects that fact that companies are preferring to hire experienced communications professionals rather than move internal candidates from other areas of the business to work in senior-level communications roles. Our research also indicates that a person's experience in the communications function carries a higher premium than whether or not they are an industry insider. The two most common career backgrounds for corporate affairs directors are media relations (42%) and government/public affairs (32%), with a few coming from journalism (13%). Those with shorter tenures in communications roles spent their earlier years in journalism, economics, law, finance, investor relations or strategic planning.

"Everything starts with government relations as the business depends on it. It is distinct from corporate communications and highly strategic. 75% of my CEO's time is spent with these contacts."

There has been a marked increase in the number of high-level FTSE 100 appointees from government and public affairs backgrounds, particularly in highly regulated industries where commercial success hinges on regulatory alignment, public perception and a holistic approach to

Figure 1: Career background of FTSE 100 corporate affairs directors



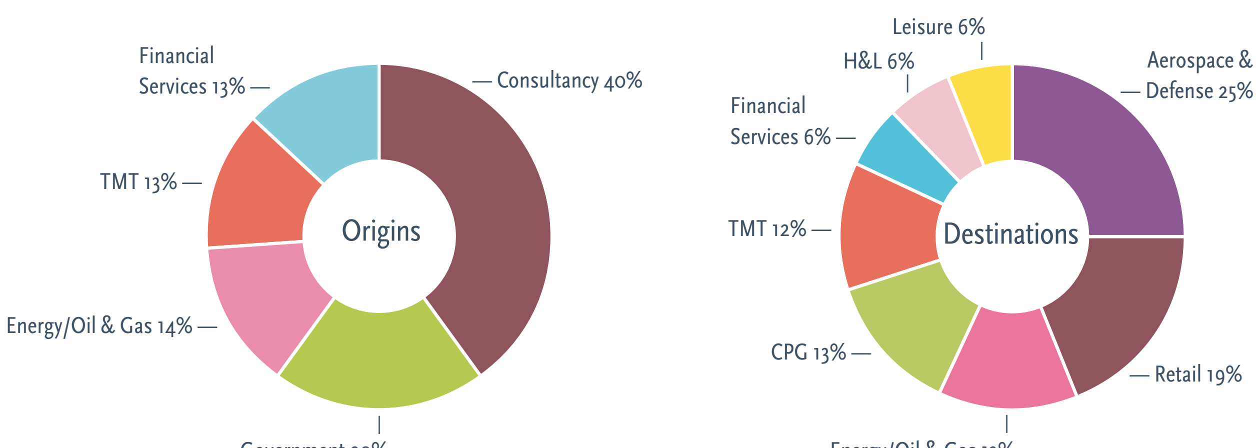
stakeholder management. The emergence of former government advisors in FTSE100 corporate affairs departments shows how critical a deep understanding of the interface between government, business and society is becoming.

Unlike the growing trend towards internal appointments at CEO level, only 32 per cent of corporate affairs directors were promoted to their current roles from inside the company. There are two likely explanations for this, which are not mutually exclusive. First, the pace of change and the demands of globalisation are such that businesses need to bring in fresh experience and perspectives from different companies, sectors and geographies. Second, there has been an insufficient focus on the internal talent agenda, although this appears to be changing in FTSE 100 companies. Over the past twelve months, Spencer Stuart has noted a significant increase in the number of CEOs, human resource directors and corporate affairs directors seeking confidential advice on how best to adopt a more sophisticated, creative and long-term strategic approach to functional succession.

Of the 68 per cent who were recruited from the outside, almost two-thirds of these were cross-sector hires, which suggests that industry expertise is not seen as a prerequisite for top-level leadership roles. Over half of those who changed sector came from government or consultancy, reflecting a greater emphasis on integrated reputation management and the increasing role of politics in a company's license to operate. The sectors most likely to appoint from another industry were industrial and consumer goods, both undergoing ever-increasing levels of public, regulatory and government scrutiny.

Figures 2 & 3: Cross sector hire origins and destinations

The "Origins" chart shows the sectors FTSE 100 corporate affairs directors worked in before they changed sector to their current role. The "Destinations" chart shows the industries into which these moves were made.



Tenure and surviving a change of CEO

The average tenure of corporate affairs directors in their current roles was 4.2 years at the time of our research. Five had been in the role for less than two years and ten for more than five years. The longest serving director has been in place for 11 years. Average tenure is significantly higher among corporate affairs directors in FTSE 50 companies, compared with those in the second half of the FTSE.

Contrary to the general perception that corporate affairs directors are usually replaced by an incoming CEO, perhaps the most surprising finding is that as many as 42 per cent of those surveyed remained in their posts for at least 18 months following a change of CEO. Forty-five per cent of corporate affairs directors were appointed within 18 months of the arrival of a new CEO, three-quarters of these within 12 months. It is significant that 87 per cent of corporate affairs directors hired within the first 18 months of a CEO's arrival were company outsiders.

The scope of the role

From our research we could not discern any new emerging patterns in the scope of responsibilities that fall within corporate affairs departments, above and beyond traditional structures. Which roles fall under the aegis of the corporate affairs director depends on a number of factors, including their influence on revenue generation, the experience, interests and qualities of the individual director, the claim that other functional heads have on these roles, and the level of importance placed on the role by the CEO. We counted a total of 38 different types of roles reporting either directly or indirectly to the 33 corporate affairs directors we interviewed — including media relations, public policy, regulatory development, government/public affairs, investor relations, sustainability, employee engagement, digital communications, corporate brand, brand marketing, thought leadership and broadcast.

The widening scope of responsibilities placed under the leadership of corporate affairs directors suggests a growing demand for greater cohesion between the different functions to manage and protect a company's reputation, as well as a blurring of the line in some sectors between communications and marketing.

There is a great deal of variety in the job titles held by the heads of the corporate affairs function, or its equivalent, in FTSE 100 companies. Whether the role is head of corporate affairs, corporate relations, external affairs, corporate communications or something similar will often depend on the nature of the business, how the role has evolved and the background of the leader in question.

Each company has its own idiosyncrasies in the way it groups and prioritises different roles within the broad banner of corporate affairs or corporate communications, although some trends do emerge from the data.

New technologies, 24-hour news and the proliferation of social media have clearly changed the external and internal communications landscape. Corporate affairs directors, like their counterparts in marketing, are having to stay on top of these new channels and this means raising the level of expertise in their teams. Indeed, in the words of one director, "there has been a wholesale strengthening of in-house communications support, as opposed to relying solely on specialist agencies".

Government affairs falls within the remit of corporate affairs in two-thirds of the FTSE 100 companies we surveyed. From a corporate reputation perspective there is increasing evidence that this is the best place for it to sit. However, the large oil & gas companies tend to have a separate government affairs function, as do many industrial and defence companies — perhaps unsurprising given the combination of regulatory, environmental, social and political risks and sensitivities surrounding these businesses. Communications and government relations also often operate within a more siloed structure in these sectors, where government is both a key sales channel and an important factor in the management of operational risk and corporate reputation. In such companies, government affairs is often decentralised, sitting in autonomous business units or local markets/regions where the general managers lead on key stakeholder relationships.

The corporate affairs team structure

The total size of the corporate affairs function varies enormously among FTSE 100 companies. Teams tend to be smaller further down the FTSE, however even among the top 30 companies there are huge differences — from 20 staff in the smallest department to 600 in the largest. There is a substantial difference in the average size of departments in FTSE 30 companies (266 staff) compared with companies in the lower half of the FTSE (40 staff). Interestingly, there is no clear correlation between the size of a department, the number of direct reports and the remuneration levels of the corporate affairs director.

With such large departments, it is inevitable that corporate affairs directors spend the lion's share of their time with their own teams, managing the function and its activities. Three-quarters of the corporate affairs directors surveyed dedicate 60 per cent or more of their time working directly with members of their team.

> "I do not hire anyone unless they can "think digital". They needn't be an expert, but at least they should be open-minded."

The average number of direct reports for a corporate affairs director is six and the highest we found is 12. The most commonly occurring direct report is media relations, followed by internal communications and public affairs. Surprisingly, given its growing influence on reputation and public opinion, social media rarely finds its home within the corporate affairs function. Only seven per cent of the corporate affairs directors we surveyed have the specialist running the organisation's digital/social media as a direct report. This capability is more often found within marketing or customer services.

Investor relations normally sits in the finance function, however as the interests of different stakeholders converge, a strong relationship between investor relations and corporate affairs requires more consideration and closer alignment.

In many companies with a large global footprint functional teams are spread over several continents. Some of these companies operate a matrix whereby the group corporate affairs director leads on strategy but has a number of dotted-line reports, for example where local market heads of communications report to their country presidents — similar to other functions in which strategy is set at the centre. Increasingly, corporate affairs directors are centralising the function as far as possible in order to avoid the ambiguity and lack of control that can characterise matrix management.

“Employee communications has moved up the agenda significantly, as industry has moved on from fighting single problems to addressing the underlying issue of culture.”

In general, while there are some talented young candidates for roles within the corporate affairs function, there is a dearth of experienced professionals with a broad business background. Several corporate affairs directors commented that they find it difficult to persuade internal candidates to move into corporate communications, which is seen by many as a limited career despite the fact that corporate reputation has never been more critical to a company’s valuation.

Many functional leaders have also found it particularly challenging to find high-quality people to take on the internal/employee communications brief. Our experience would indicate that one of the best ways to recruit talent into this function is to hire exceptionally smart and broad-based communications executives with high potential and give them access to the CEO. This enables them to focus on executive and internal communications and to benefit from exposure to a range of functions as well as to the executive committee. Such people are more likely to raise the profile of internal communications from being a 'backwater' position to one that provides leaders with a platform to articulate their vision, strategy, culture and values. This is particularly critical when a business is undergoing change due to a leadership transition, performance challenge, an unpredictable macro-economic environment or market consolidation.

One corporate affairs director remarked that in the three years after the onset of the recent financial crisis, companies were looking for highly competent media and public affairs people and were less concerned about marketing. "At that time, people who understood the difference between brand and reputation were highly valued. Since 2011, change management and employee communications have moved up the agenda, as companies have moved from fire-fighting mode to dealing with underlying issues of corporate culture. More of a premium was placed on finding senior heads of communications who had a feel for strategic employee engagement."

Growing influence

Since the start of the financial crisis, companies have had to deal with far more intense scrutiny from all quarters. Society's confidence in business is at a low ebb and the rise of social media has meant that many companies are increasingly having to defend themselves from attacks on their reputation from anywhere and at any time, unsure which of these might escalate into a full-scale crisis. In recent years, the role of corporate affairs has evolved in line with these shifting priorities and new pressures.

The influence of the corporate affairs director has grown steadily, although it would appear that those in the top 50 companies are a more integral part of the inner management circle: 88 per cent of the FTSE 50 corporate affairs directors surveyed attend executive committee (ExCo) meetings, compared with 71 per cent of those in FTSE 51–100 companies. Across the FTSE 100 as a whole, forty-two per cent of those we surveyed are members of the executive committee (ExCo), 36 per cent are not members but are invited to attend meetings, and the remainder do not attend.

Several corporate affairs directors emphasised that it is becoming critical for the reputational dimension of both strategic and operational decisions to be considered at an early stage. "Communication issues need to be front of mind when making business decisions," said one. "I could not do my job without being on the ExCo," said another.

> "The most progressive companies know that corporate affairs elevates the importance of reputation. If you want to be active in shaping strategy and implementing decisions, you have to report to the CEO and be at the ExCo table, otherwise your influence is affected."

Eighty-one per cent of FTSE 100 corporate affairs directors we surveyed report directly to the CEO, which shows the significant nature of this relationship. There are however, examples of highly rated corporate affairs directors reporting elsewhere, for example to the group HR director, the general counsel or the CMO. This is a divisive subject and one which triggers healthy debate. A significant proportion of those who participated believe that they spend more time with the CEO than any other member of the senior management team — a quarter of their time, on average.

> "I'd rather be on the ExCo and integrated into the senior management team than insist on reporting to the CEO, which is not critical providing you have a good relationship, clear access and regular contact."

To measure the level of influence that FTSE 100 corporate affairs directors have inside their organisations, we analysed a number of variables, including their reporting line, time spent with the CEO, access to the ExCo, the scope of the overall function, the breadth of direct reports, and time spent with the chairman and the board. We found that one-third of corporate affairs directors have a high level of influence inside the organisation, 22 per cent have low influence, with the remaining 44 per cent having a moderate influence.

What is most surprising is that more corporate affairs directors do not have a seat on the executive committee. Earning the respect of the CEO and building credibility with the senior leadership team clearly takes time and effort. However, in future we would expect more corporate affairs directors to be bridging the gap between advising the CEO and contributing to broader management decision-making. Indeed, the most influential corporate affairs director is likely to be consulted on the merits of a decision, rather than merely how it should be presented to the outside world.

Recently, there have been examples of the corporate affairs director position being removed from the executive committee. Crises or changes in government policy have resulted in the role being reinstated, with the CEO and the board recognising the need for high-level strategic advice on reputation and stakeholder management and the importance of having an open channel to and from the world outside. The corporate affairs director can provide a powerful and objective 'sanity check' on potential strategic decisions that may play out well in the short term for commercial operations, shareholders and the bottom line, but could have deep and lasting negative ramifications on the corporate brand and reputation over the longer term.

Figure 4 shows how the corporate affairs directors we surveyed are allocating their time inside the organisation between the CEO, the chairman and their functional team. Our experience suggests that corporate affairs directors are spending more time with the chairman and the board, something that is likely to continue as corporate governance, risk and corporate reputation become even more closely intertwined. For example, corporate affairs directors are increasingly being consulted by remuneration committees on the highly controversial topic of CEO remuneration and how best to articulate short-term and long-term reward structures. Other areas of involvement with the board include sustainability and responsible business, risk and the AGM.

Figure 4. Time spent with internal stakeholders

	Lowest	Average	Highest
CEO	10%	26%	55%
Chairman	0%	8%	20%
Team	33%	66%	87%

Remuneration

As with any senior executive running a key function inside a FTSE 100 company, the annual compensation of the corporate affairs director is determined by a range of factors. The corporate affairs directors who contributed to our study gave us detailed access to their reward packages. While we do not know the exact basis on which individual remuneration decisions have been made, we have identified some interesting patterns and connections between pay and many of the factors we have discussed in this paper, such as tenure, career path, level of influence, proximity to the CEO, the scope and size of the function, the type of company and its position in the FTSE. Correlation, of course, does not imply causation.

We analysed remuneration in terms of base compensation, on-target bonus, stretch bonus, total cash compensation and LTIPs. On every measure and on average, the highest rewards are available to FTSE 30 corporate affairs directors, with the LTIP category showing the most pronounced differential. This general picture is predictable, although even allowing for outliers, the gulf between the top and the bottom of the FTSE 100 in terms of average total cash compensation is significant. The total cash compensation of the highest-paid corporate affairs director we surveyed in the FTSE 100 is 5.6 times that of the lowest paid.

The LTIP element is significant in two ways: first, the role it plays in retention and second, since the corporate affairs director is now considered in many cases to be a business enabler, financial reward needs to be more heavily geared towards company performance (see Figure 5).

Figure 5. LTIP as a percentage of salary

This chart shows the minimum and maximum LTIP for the corporate affairs directors we surveyed. Results are divided according to different groupings within the FTSE 100. We have excluded one outlier judged an anomaly relative to FTSE100 peers.

	Minimum	Maximum	Max/min multiple	MIN MAX
LTIP (FTSE 1–30)	142%	333%	2.3x	
LTIP (FTSE 31–50)	80%	162%	2x	
LTIP (FTSE 51–100)	70%	140%	2x	
LTIP (FTSE 100)	70%	333%	4.7x	

We examined all the factors that contribute to a corporate affairs director's influence inside the organisation in the round (see Growing Influence section starting on page 10), yet we did not find an obvious correlation between the overall remuneration packages of those who score a high level of influence and those who score low. We did, however, find marked differences in two specific measures that have a bearing on the influence of corporate affairs.

First, corporate affairs directors with a formal seat on the executive committee receive an average total cash compensation 65 per cent higher than those who are merely invited to attend meetings or who do not attend at all. More often than not this is because they benefit from the same performance-driven packages as other ExCo members. This is unrelated to the other principal correlation noted earlier (namely, the relationship between a company's position in the FTSE 100 and the total cash compensation of the corporate affairs director) since those who do sit on the executive committee are just as likely to come from the bottom half of the index as the top half.

Second, corporate affairs directors working in heavily regulated industries (for example alcoholic beverages, oil & gas, defence, pharmaceuticals and financial services) are paid an average of 28 per cent more than those from less regulated industries, indicating that the highest rewards are commensurate with the greatest levels of corporate risk, scrutiny and complexity.

Tenure — either in the role or in the company — does not appear to have a strong bearing on remuneration, nor does the length of time an individual has worked in communications. FTSE 30 corporate affairs directors do, however, have more experience in the field (19 years on average) than those from FTSE 31–100 companies (16 years). Across all FTSE 100 companies, those corporate affairs directors who came from government and public affairs average the highest total cash compensation.

Risk, reputation and the corporate affairs director

The corporate communications landscape has changed beyond recognition over the past 15 years. Today's corporate affairs director has a hand on more of the levers controlling corporate reputation as well as having growing influence on a company's licence to operate, via government and regulatory stakeholders. Corporate reputation, for which the corporate affairs director is arguably the steward, is now firmly on most board agendas.

This influence derives in part from a closer relationship with the CEO and a presence on the executive committee, where functional leaders are expected to make a contribution beyond their own sphere of operations. The corporate affairs director needs to have a strong business brain and the ability to understand and appraise geo-politics, political and economic risk, corporate strategy and financial statements, as well as engage effectively with CEOs and boards. It is interesting to note that in some companies, the role of corporate affairs director has evolved into that of chief of staff or consigliere. It is quite possible that in certain cases the role may even be a stepping stone for future operational leaders, as seen at GSK, Pearson and SAB Miller.

Succession planning for the corporate affairs director is just as critical as it is for any other business leader. We are seeing more companies continuously evaluating internal talent as potential successors for top roles, as well as actively benchmarking their people against potential external candidates. These assessments often take place up to two years from a transition date to ensure that the best decisions are made at the appropriate time and that early contingency plans are put in place if necessary.

Despite the elevation and the importance of the function, all is not as rosy as it might appear. As discussed earlier in the paper, a recent and worrying trend has been the decision not to replace departing corporate affairs directors at the executive committee level. Experience has proven that when denied the same level of access to decision makers, the high-potential number two is rarely successful stepping into the leadership role. In these cases, the role is often reinstated following the mishandling of a crisis. This results in a costly exercise to reshape the function and the need to recruit from the outside.

Some major FTSE 100 companies' reputations are suffering as they still do not recognise the need for an integrated corporate affairs function, despite the fact that the legal and regulatory environment has altered the communications landscape to the point where it is becoming almost impossible for departments to operate successfully in silos.

With the need for active and sophisticated reputation management becoming more deeply established in FTSE companies, and as suspicion and anti-business sentiment ferments across society, the corporate affairs function will inevitably become more important. Companies that reduce their investment in this vital function will do so at their peril.

Authors

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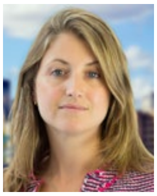

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