

Influence at the top

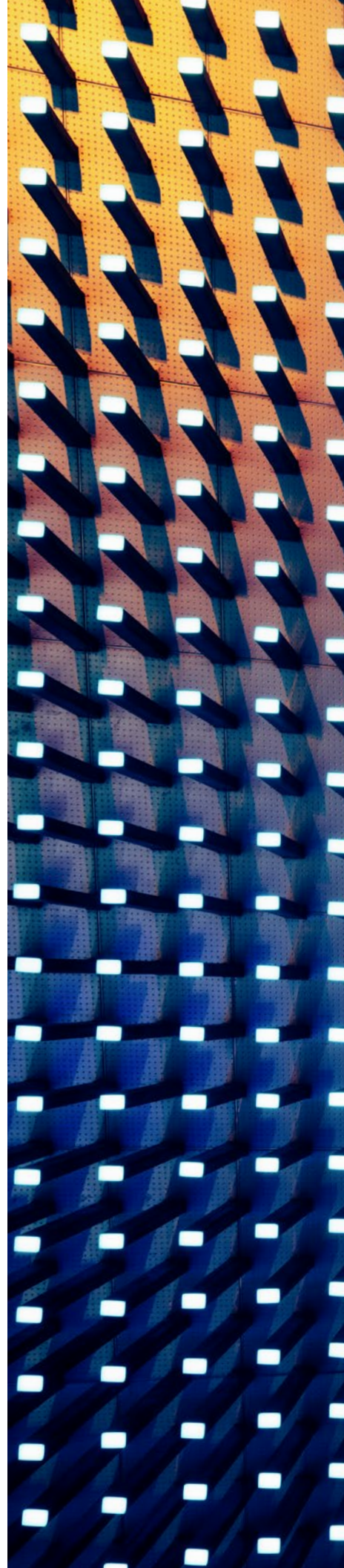
The expanding role of the corporate affairs leader

Disruptive change has engulfed the world and gathered pace in recent decades. Rapid digital and technological advances have driven greater access to information and interconnectivity, and social media has given people a public forum to express their opinions, including those driven by a distrust of companies, politicians and institutions in general.

More recently, sustainability issues, underpinned by concern about climate change, have come under the spotlight. There is increasing pressure on companies to improve environmental and social performance and report in more detail on the impact of their activities on society. State intervention has stepped up accordingly, generating a more complex and tighter regulatory framework.

The increased public scrutiny and shifts in societal expectations have raised the profile of reputational risk management and how it supports business activities. We talked to the corporate affairs directors of thirty FTSE 100 and twelve EURO 100 companies about how these challenges have fundamentally changed the exposure, scope and responsibilities of the function. We also conducted eight follow-up interviews on the impact of Covid-19.

This report explores the growing status and influence of corporate affairs directors, their ideal background and skills, and the expanded scope and structure of the function. Building on the work of our 2013 study titled “A Seat at the Table: The growing influence of the corporate affairs function in FTSE 100 companies”, it demonstrates how a well-resourced function is a vital business asset.



Paradigm shift

“Communications need to be purpose-driven, led by a consistent narrative and clear principles, and adapted for different stakeholders, markets and cultures.”

Our research shows that our rapidly changing and more complex world has led to increased responsibilities for corporate affairs directors and greater recognition of the role. Covid-19 accentuated this trend. It “shone a light” on corporate affairs’ vital role of engaging with external and internal stakeholders that will outlive the crisis itself, according to the directors we spoke to about the pandemic.

Almost half of the 42 corporate affairs directors we interviewed identified greater responsibility for sustainability as one of the main changes to the role in recent years. This goes beyond the concept of corporate social responsibility to cover environmental, social and governance (ESG) accountability and how this relates to the company’s purpose. “Broader societal commitment is a must have for the new generation of employees and consumers,” one commented.

A similar number highlighted how the function has had to increase the frequency of communications and adopt a more sophisticated approach, including a more strategic use of owned, digital media channels. Social media implies two-way dialogue that is more difficult to control but which offers opportunities if used skilfully. In particular, the focus of internal communications has shifted to give employees a “raison d’etre” and connect them with the company’s purpose, ensuring their voice is heard and highlighting issues that have not traditionally been on the top of the priority list such as mental health and wellbeing. In addition, corporate affairs directors are making an important contribution to thinking through the future of work agenda which is front of mind for employees.

Covid-19 caused a “shift of the tectonic plates” in terms of employee engagement, according to one director. Corporate affairs was called upon to “feed a hunger” from employees to understand what was going on, what the executive committee (ExCo) was grappling with and how its deliberations might affect the workforce. Many of those interviewed had seen an increase in the frequency of internal communications, the use of new channels and the rapid deployment of virtual town halls to larger audiences in place of more traditional forms of cascading communications.

Proactive engagement with decision-makers has also stepped up to keep ahead of a more restrictive regulatory environment. The latter has been particularly important to stay on top of developments and ensure operational continuity during Covid-19. Increasingly, companies are expected to ‘do the right thing’ before regulation catches up.

Traditionally, corporate affairs has focused on identifying and protecting companies from reputational risks and strengthening the brand by one-way external communications. But the role has grown in strategic importance, according to around a quarter of the corporate affairs directors we interviewed.

There is a deeper understanding of the strategic value of reputation and how the function can act as an enabler of growth and performance. Companies increasingly depend on corporate affairs directors’ insights on stakeholder perceptions before making critical decisions. In a nutshell, the role is becoming more embedded in driving strategy development than simple execution.

Growing influence

“You’ve got to be able to influence decision-making as it’s nothing less than crucial to mitigate against unintended consequences but also to really shape the brand.”

The broadened scope of the corporate affairs function is reflected by its steadily growing influence and muscle. Only five of our surveyed corporate affairs directors did not report directly to the CEO, instead reporting into the finance function or human resources. It is regarded as critical to report to the CEO, or have good access as a minimum, to be across all the business issues and enable strong CEO communication on the company’s narrative and strategic priorities. In a few cases, the corporate affairs director even operated as the CEO’s chief of staff.

Of more significance, two-thirds of those surveyed were members of the ExCo. This was considerably more than the 42% who declared their ExCo membership in our 2013 report. Even when not members, many corporate affairs directors still attend meetings or do so regularly on an as-needed basis. Despite the heavy time commitment, those surveyed emphasised the importance of having a seat at the table in their role as the stewards of reputation. In particular, they highlighted the ability to influence decisions before they are made, as organisational decisions ultimately define the required communications. “It is not enough to just issue communications afterwards,” said one. “It is vital to be in on business decisions as we convey stakeholders’ points of view,” said another.

A seat at the table also builds credibility with other senior leaders, providing corporate affairs directors with the “licence to operate”, one interviewee commented. A commercial understanding of the business inspires confidence in the corporate affairs director, increases their ability to challenge and helps to ensure their contributions on reputational impacts are relevant. Working with fellow leaders as a peer enables relationship-building with other areas and supports the cross-functional nature of the role.

From a communications perspective, sitting on the ExCo gives corporate affairs directors a “helicopter view” of the business; it allows them to hear first-hand, and advise on, emerging issues that may need internal or external stakeholder management, so they can help shape the solution from the outset. In one case, after the role was removed from the ExCo, the board asked for it to be brought back in. “The voice in the room was missed.”

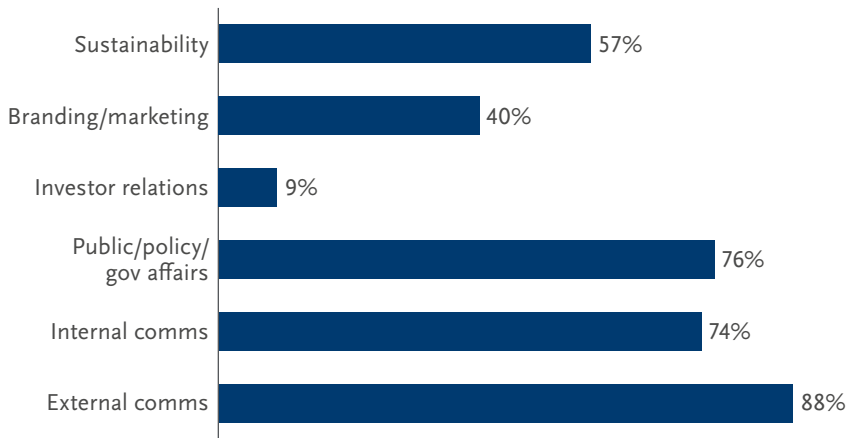
Likewise, most corporate affairs directors reported good access to the chair of the board with meetings at least once a quarter and when critical issues arise. Over a third met with the chair at least once a month. Only a handful did so rarely.

Functional scope

“The role is more of a conductor than the lead violinist.”

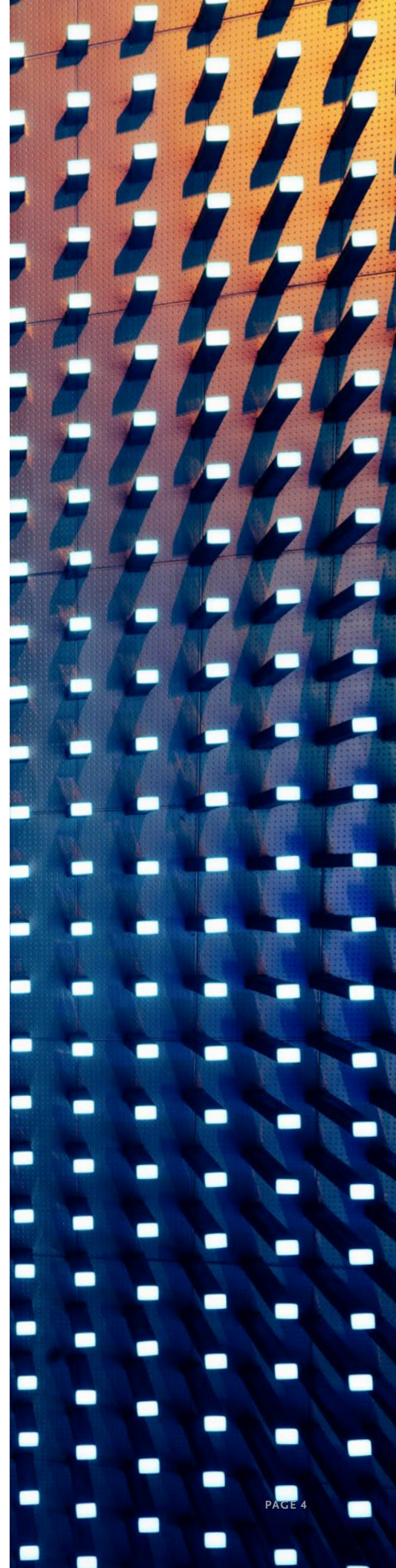
No one corporate affairs department is alike. Its scope depends partly on the company’s global reach and business sector but also the corporate affairs director’s experience, level of importance placed on the role by the CEO, and claim that other functional heads have on aspects of the function. In our sample, we identified six main areas of potential responsibility: external communications, internal communications, public affairs and government relations, sustainability, marketing and branding, and investor relations (see chart). Strategy and planning, labour market communication, technology and human resources were other responsibilities mentioned by the corporate affairs directors we surveyed.

The most common areas of responsibility for corporate affairs directors



Whether in the lead or secondary role, corporate affairs typically has to coordinate closely with other areas to manage cross-functional issues and align communications. These include compliance and regulatory issues with the legal area, internal communications with human resources, external communications with investor relations, sustainability with the health, safety and environment (HSE) leads, and annual reporting with the finance function.

The focus of the role shifts according to the organisation’s needs whether it be a merger or acquisition, a hot topic like climate change, the launch of a new product, or a reputational crisis. In 2020, the global Covid-19 pandemic has taken up most of corporate affairs directors’ time. We have been “living, eating and breathing our response to this crisis”, said one. The role was a key pillar of operational continuity through its engagement with government



and regulators, suppliers, customers, employees and investors. “It was like a marathon being run at a sprint,” said another.

Even prior to Covid-19, almost half of our sample mentioned internal communications as one of their main tasks. This reflects corporate affairs directors’ growing involvement in shaping and communicating the company’s culture and purpose, rather than simply issuing communications. Some organisations are transitioning towards a focus on employee advocacy to speak about the organisation in an authentic and credible way. This will continue to evolve given governance requirements for board directors to factor the ‘voice of the employee’ in their decision making.

Over a third of the sample identified strategy development and implementation as a current focus. The work ranges from preparing discussions with decision-makers, to leading discussions on the company’s purpose and social impact as well as, in one case, resetting an industry’s reputation. Increasingly, corporate affairs directors are used as a sounding board to flesh out strategic decisions and sometimes lead the strategy discussion.

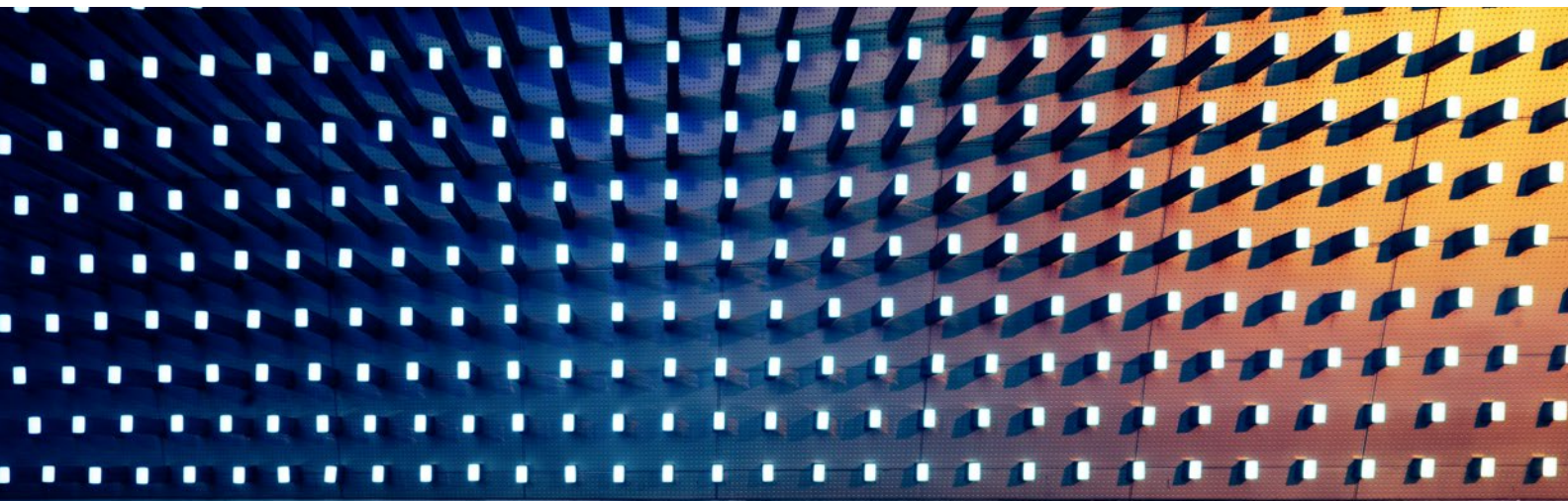
Sustainability was highlighted as a focus area by a third of those interviewed. It is regarded as an essential part of the brand narrative in terms of how a company engages with stakeholders and manages its socio-economic impact. ESG performance, the decarbonisation of the business, supply chain

governance, diversity, equality and inclusion, and transparency about remuneration are common material issues. Greater disclosure about companies’ sustainability ESG practices is regarded as vital to overcome society’s declining trust in big business.

Corporate affairs directors are also spending more time on the development of “top-of-the-class” digital tools and skills to effectively communicate in an era dominated by social media and a more tabloid style of journalism. “It is hard to get interest in thoughtful longer pieces,” one commented. Many are pushing for a more integrated approach to communications covering media, social media, investor relations and government relations to fully align messages.

Around a quarter of our sample identified government relations as one of their main roles. Proactive early engagement with government on regulatory changes on issues such as digitalisation, climate change and taxation are necessary to enable business activity and drive performance.

Underlying these key activities, corporate affairs directors are acting as the external eyes and ears of the company and keeping abreast of emerging issues and trends. “The only way to be ahead of the curve is to think things through beforehand and to see issues that might arise early on,” one said.



Functional structure

The structure of corporate affairs departments depends partly on their scope and the company's business sector, size and global reach. There is no one size that fits all. Even the name of the function varies across companies — Corporate Affairs, Corporate Relations, External Affairs and Corporate Communications are just a few. There is a tendency for corporate communications to come under the corporate affairs umbrella, rather than vice versa, and occasionally they are separate functions.

Overall, however, those surveyed expressed a preference for greater integration of the role to better align communications and strategy implementation across the business. “We increasingly live in a joined-up world so alignment and connectivity is critical,” one commented. For companies with a large global footprint and functional teams spread over several continents this is a challenge. In these cases, local communication and corporate affairs leads often report directly to country or regional presidents and indirectly to the group corporate affairs head. Some interviewees said they are building an integrated system for global corporate affairs to replace today's “jigsaw puzzle” approach.

Due to the greater influence and recognition of the importance of corporate affairs directors, there is an urgent need to focus on succession planning. Nonetheless, of the 30 corporate affairs leads that answered this question, nine had to give one year's notice, six half a year's notice and two just three months' notice, reducing the risks of being left with no one at the helm.

Spotlight on the UK

The size of corporate affairs teams in the UK varies enormously. In our sample, two FTSE 30 companies from different sectors had global corporate affairs teams of around 500 people. At the bottom end of the sample (excluding outliers), another FTSE 30 company had a team of 24. There was no clear correlation between the size of a department and the industry sector or FTSE ranking.

The average size of global teams from our FTSE 100 (and EURO 100 samples), excluding outliers, was 144.

The number of direct reports for corporate affairs directors ranged from two (for a FTSE 30 company) to 12 for two FTSE 100 companies. The average number of direct reports for our entire sample was six.

Career background

There is no clear training or career path for a corporate affairs director. Traditionally, the role has mainly drawn people from a journalism or media relations background due to the function's communications emphasis. However, as the role's scope has expanded to increasingly include government relations, sustainability and now corporate strategy, so too has its entry routes. Some of the most highly skilled corporate affairs leaders, started their careers in the agency world where they learned resilience, dexterity and the ability to balance the demands of multiple stakeholders. Almost a quarter of those surveyed noted the importance of broad experience in a variety of positions to succeed in the role, as well as international exposure. The days of appointing soon-to-be-retired business leaders to run the function are over.

Around a third of our sample highlighted the importance of political experience acquired from government and civil service positions. Experience in public affairs can be a significant advantage and prepares corporate affairs directors to assimilate and summarise large amounts of information and helps them to "read politics" and navigate today's more complex regulatory and stakeholder environment.

Over a quarter mentioned a background in journalism as useful training for the role. It prepares people to synthesize information and communicate complex issues in a simple way. The pace of the newsroom also hones fast decision-making abilities, response mechanisms and awareness of societal perceptions.

Others emphasised how in-depth knowledge of the industry sector helps to deliver convincing arguments, a legal background produces strategic thinkers and a previous career in banking or finance contributes to understanding how reputational issues need to be balanced with business objectives.

In our view, the most effective corporate affairs directors are those who have had exposure to more than one highly regulated industry sector. In large multinational companies general management capabilities are also critically important.

Broad skills set

“People who do well in this role are diplomatic: they seek compromise, work through competing interests, and see conflict ahead of time, around corners and several moves down the chess board.”

Corporate affairs directors require a broad set of skills to cover their numerous responsibilities. They must have a keen intellect in order to be accepted on the executive committee, as well as the ability to contribute to decision making beyond their functional remit.

The following 10 attributes were mentioned by at least a fifth of our sample, with the first two named by over half of those surveyed.

1. **BUILDS RELATIONSHIPS:** building, coordinating and engaging teams and networks across geographies and functions, both externally and internally.
2. **DIPLMATIC:** able to consult, listen, empathise, collaborate and influence, internally as well externally.
3. **RESILIENT:** the Covid-19 pandemic and speed of change pushed resilience to a top-three place. Backbone is also required to deal with distasteful tasks and conflicts.
4. **PERCEPTIVE:** aware of global trends, sensitive to societal change and forward-looking.
5. **CALM:** remains unruffled by a crisis which is often learnt from experience.
6. **ANALYTICAL:** able to provide strategic insight, advice and clarity based on sound business knowledge.
7. **ADAPTABLE:** Covid-19 has emphasised the importance of being able to improvise and change with the times as well as being comfortable with ambiguity.
8. **INSPIRES TRUST AND CONFIDENCE:** credibility, honesty and transparency are vital to win the trust of internal and external stakeholders, not least the CEO, enabling directors to do a good job.
9. **GOOD JUDGEMENT:** able to reach sensible conclusions, often quickly, and “speak truth to power”.
10. **TECHNICALLY SKILLED:** Technical writing, speaking, presenting and media skills (although these could be delegated when the role has a corporate communications head as a direct report).

Remuneration

The greater influence and responsibilities of corporate affairs directors is reflected by high financial rewards, notably in the UK. As would be expected, FTSE 30 corporate affairs directors obtained the highest returns in terms of base salaries, target bonuses and LTIPs. There was not a marked correlation with tenure in the role. The total cash compensation of the highest-paid corporate affairs director on the FTSE 100 is 6.3 times higher than the lowest paid. The big differential in pay relates to membership of the executive committee. In

these cases, 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 rewards need to be more heavily geared towards business performance.

Conclusion

“The function is a financial lever for the company front and centre.”

Corporate affairs directors clearly have more responsibilities and influence than when we conducted our last research on the function in 2013. They are more likely to report to the CEO, sit on the ExCo, be directly involved in the development of strategy, company purpose and culture, and play a key part in unlocking growth and economic performance. It has increasingly become an upstream contributor rather than a downstream receiver.

It is likely to become more important as citizens become more aware and active. Sustainability and broader social responsibility have rightly gained a firm foothold on the corporate affairs agenda and this will increase given its reputational impacts. Coming out of the Covid-19 crisis, businesses have realised that mobilising employees around a common purpose benefits company culture, brand reputation and business performance and drives a higher degree of employee satisfaction.

Five years ago, the role was primarily seen as one that managed reputational risk and issued communications. Today, it is widely recognised as a driver of business performance. Companies that invest in this vital function will continue to reap the benefits; corporate reputation is an invaluable asset with significant impact on an organisation’s bottom line and its ability to retain and attract the best talent.

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