SUMMER 2020

Cayhill partners

WHAT PRICE REPUTATION:

An investigation into corporate reputation management in the FTSE250

Contents

1.

Introduction

"It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently." Warren Buffett

BACKGROUND & OBJECTIVES

Corporate reputation can be a major contributor to shareholder value. Research shows it can represent around 25% of the FTSE250's market cap[1.] But it doesn't appear on a balance sheet and can be all too easy to neglect.

Recent events emphasise why reputation matters in the FTSE250. We conducted our research before COVID-19 took hold in Europe but the pandemic has amplified, not displaced, the reputational risks identified. Having a 'Black Swan' disruptor of such magnitude turn so many norms upside down emphasises the significance of managing what is manageable. When markets are in unprecedented waters, when employees, customers, investors and other stakeholders are looking for reassurance, the spotlight is on companies and their leadership as never before. This demands effective, specialist reputational oversight - and understanding in the C-suite of its value.

This research was undertaken to explore the extent of corporate reputation management in the FTSE250: how, why and when firms take on specific communications capability and what changes as they move through the indices. It examines the risks FTSE250 firms identify to their reputations and how they resource and measure their capacity to manage those risks. We uncover the extent to which FTSE250 CEOs understand corporate reputation management, what corporate communications leaders' roles really involve, and how they differ from similar positions in the FTSE100.

METHODOLOGY

During 2019 and the early part of 2020, Cayhill Partners carried out extensive research across the FTSE250. This included face-to-face interviews with approximately 50 directors of corporate affairs, CEOs and selected PR agency heads, resulting in over 150 hours of in-depth discussion. This qualitative insight was supplemented by a comprehensive quantitative study across the entire FTSE250, as well as an analysis of Cayhill Partners' proprietary database. This combined to provide a unique insight into how corporate reputation is perceived, resourced, managed and assessed in the FTSE250.

To ensure that contributors to the research felt able to give their unabridged and honest opinions, Cayhill Partners committed to ensuring that all comments contained in this report would be non-attributable.

NOMENCLATURE

In contrast to other corporate functions, there is no universal job title for corporate communications leaders, many of whom go under an array of different titles. Throughout this report we have used the term corporate affairs director, corporate communications director and communications leader interchangeably to denote the most senior group communications practitioner in any given organisation.

[1] *Reputation Dividend 2020 report,* www.reputationdividend.com

PARTICIPATING COMPANIES

The research focuses on the FTSE250 (the 101st to 350th largest companies listed on the London Stock Exchange) and within those, the group corporate affairs & communications functions that are responsible for plc communications. The research excluded companies that are funds or investment trusts, those with fewer than 10 staff, or those whose main corporate HQ is outside the UK. Some participating companies have since exited their public listing or are no longer members of the FTSE250.

We would like to thank all the communications leaders, CEOs and PR agency heads that gave of their time and insight so generously.

CAYHILL PARTNERS

All Cayhill Partners' research is carried out personally by its principals. This ensures that clients have direct access to the people who actually undertook the research, giving them a primary source of intelligence and insight.

Cayhill Partners is a specialist executive search, capability benchmarking and research consultancy focusing on the corporate reputation management disciplines. The firm helps organisations find, recruit, develop, benchmark, build and retain their senior corporate affairs, internal communications & PR teams. Run by a former FTSE100 corporate affairs director, the organisation offers a deep, first-hand understanding of the senior communications world.

2.

Executive summary

Even before COVID-19 shook the world, the perfect storm had been gathering for companies in the public eye. The days are now long gone when reputation was built on performance alone. Activist employees and shareholder revolts are focussing attention on corporate behaviour, with perception amplified by unprecedented levels of scrutiny from social and mainstream media. Add in climate change, geopolitical turmoil, a global pandemic, mounting regulatory controls and potential trade wars, and it's no wonder many organisations are struggling to navigate in new waters. These increased threats are weighing heavily on the C-suite, compounded by awareness that the personal reputations of CEOs and their boards are now inextricably linked to the reputation of their organisations.

How are FTSE250 companies responding to these challenges? How many of them have the capability to manage their corporate reputations and what may be changing as COVID-19 pans out across the globe?

Reputation matters in the FTSE250 – but is not always understood. The vast majority (98%) of FTSE250 companies have some level of dedicated corporate communications provision, ranging from using a small financial PR agency on an ad hoc basis through to in-house setups akin to FTSE100 companies. However, employing resource doesn't necessarily equate to understanding its potential. A remarkable 73% of the corporate communications professionals interviewed believe that their CEO (or client CEO) doesn't appreciate what good corporate reputation management is, nor understand its role in delivering the organisation's broad objectives. In a time of unprecedented uncertainty, it appears not all FTSE250s are controlling all that's within their remit to control.

From the snapshot of this research, the clear indication is that there's a gap in reputation management. The reputational risks identified by CEOs and communications leaders are widespread, ranging from activist employees to 'chairman contagion', but communications resource is largely focussed on what 'financial PR' can deliver. The opportunity to influence a broader perspective of corporate reputation is not widely understood, and for many companies, may continue to go unchallenged as fewer than half of the FTSE250 directors of communications are members of the executive committee. There is also limited communications expertise among NEDs.

This focus on investors is partially evolutionary. Many FTSE250 CEOs have come up the finance route themselves and most employ their first investor relations (IR) or communications resource for impending IPOs or acquisitions. And as the first seed sown, the IR capability often has the strongest roots. Nearly two thirds (68%) of FTSE250 firms employ inhouse IR compared with just over half that have a dedicated group-level inhouse communications resource.

For the 54% of companies that have a group corporate communications leader, the responsibilities, seniority and extent of roles vary hugely, often heavily dependent on the CEO and their understanding of, or support for the discipline. The in-house communication directors with combined investor relations and corporate communications roles report greater internal credibility – dealing with the tangibility of ‘numbers’ clearly being of benefit in a corporate function which remains frustratingly difficult to measure.

The overwhelming majority of FTSE250 firms retain a PR consultancy, with just under half entirely reliant on their agency for corporate reputation management. The services and fees vary significantly, from around £30,000 to approximately £750,000 per year. Most PR consultancies provide their FTSE250 clients with group corporate & financial communications services, with around 17% also being responsible for investor relations activities.

In terms of assessing value for money of these activities, there is still no commonly agreed industry-wide metric to demonstrate the Return on Investment (ROI).

Around three fifths (62%) of FTSE250 firms interviewed have KPIs for their communications functions, ranging from loose objectives to highly structured externally measured goals. The criteria range from share price valuations, reputational risk assessments, the profile and reputation of the CEO and executive team, through to employee engagement statistics and investor and media satisfaction surveys.

For companies on the cusp of moving to the FTSE100, the basics of corporate communication are broadly similar but the role of a FTSE250 communications leader can differ quite substantially. Smaller and less specialised teams, more varied reporting lines, fewer senior staff, a less experienced executive committee and board, limited team succession plans, smaller budgets and a lower public profile means that FTSE250 communications leaders often need to work harder to generate interest in their organisation. But the flip side is that these communications heads can enjoy more autonomy, can have significantly wider remits and more responsibility, a better work life balance, less bureaucracy and a shorter line to decision makers.

Looking to the future, the reputational pivot of ‘people, purpose and values’ has been thrust into the spotlight by COVID-19. It could well point to enhanced recognition for communications leaders. At a time of unprecedented uncertainty, expertise should be at a premium for those able to attune CEOs to the changing external tenor of expectations, whilst ensuring the comprehensively joined-up stakeholder communication required to support corporate objectives. The personal reputations of chairs and CEOs may be won or lost, alongside those of their companies. In uncharted waters, it should pay to look to an experienced navigator


3.

Reputation matters

"My CEO is in his first plc leadership role and was previously a CFO. That means he sees the value of everything through the prism of a spreadsheet. Persuading him to embrace and understand an intangible asset like reputation is really hard." FTSE250 Corporate Affairs Director

Do FTSE250 CEOs fully appreciate the value of corporate communications in managing reputations?

In today's 24-hour, seven day a week news cycle, corporate reputation is in the spotlight as never before. But despite the evidence of impact on market cap, and notwithstanding the raft of reputational risks that our research uncovered, it appears that few CEOs wholly embrace the notion of actively managing business reputation. While the overwhelming majority of FTSE250 companies (98%) employ some inhouse or agency resource to help manage identified reputational risks *(ⓘ see chapter 5)*, there's a clear disconnect between what communications leaders think could be done by corporate communications to deliver corporate objectives and what they perceive their CEOs understand.

In the turbulent landscape of COVID-19, the distinction between the CEOs who 'get it' and those who don't may prove critical. Early indications are that corporate reputations will be won and lost on a gamut of issues – from treatment of employees to ingenuity in production - and while these case studies will surely be picked over in business school modules for decades to come, today's leaders are in uncharted waters.

The message from the interviews in our pre-shut down research is that building relationships and reputation takes time, budget and experience. Now is surely the moment for all FTSE250 CEOs to 'get it'.

"There's a greater desire for transparency on what a company is all about. Tell me what you are doing, and how, and then I'll decide whether to invest. Be honest about the risks and clear about the opportunities".

73% OF CEOS DON'T GET IT

Just over half - 54% - of FTSE250 companies employ a group corporate communications leader. Given that the decision to hire this role normally comes from the chair or CEO, it might be expected that those companies understand the function's role. But 73% of the communications leaders we interviewed believe that their CEO does not appreciate what good corporate reputation management is nor understand the crucial role it can play in delivering an organisation's strategic objectives.

Whilst much depends on the maturity of the company and the experience of the CEO and board, our interviews highlighted several interlinked factors that explain this disconnect:

- **CEOs don't know what they don't know.** Unlike their FTSE100 peers, many FTSE250 CEOs do not have first-hand experience of working with group corporate communications teams and so don't know what they're missing. This can be common amongst first time plc CEOs, particularly those that have come up via the operational or engineering route and where communications is often relegated to 'product PR'. They're attuned to a focus on tactical activities such as press releases and event management, rather than any strategic, reputational oversight.
- **It takes a crisis.** Whilst CEOs that have previously interacted with the City and markets tend to understand financial communications, many still don't see the value of broader corporate communications until they have tried to steer their company through a crisis. By then it's often too late.
- **No seat at the table**. It is very hard to promote the benefits of strategic reputation management from a distance, so if the group corporate communications function doesn't have a seat or advocate at the top table it's more likely that the CEO's lack of awareness will go unchallenged. Around 43% of FTSE250 communications leaders are members of the executive committee (ExCom) and the larger the company, the more likely this is. But their seat is sometimes viewed as 'junior', with a perception that their opinions are not valued as much as their colleagues in finance or operations, for example.

"I'm on the Executive Committee now but I was in my role for around eight months before getting on to the committee. Communications was a new function for the group, so I had to prove its worth before I sat at the top table."
FTSE250 Communications Leader

- **Outsourcing.** In nearly half FTSE250 companies, communications capability is being delivered by a PR agency with no inhouse communications resource, making it hard to state the case for effective corporate reputation management. The difficulty is compounded by the scarcity of reputation management skills on FTSE250 boards. Very few (less than 10%) of communications directors interviewed sit on boards[2] and most are pro-bono NED roles for small companies or NGOs. The further down the FTSE index the company is, the less experience NEDs are likely to have of effective corporate reputation management.
- **No clear structure.** Corporate communications functions often have ambiguous roles, making it more difficult for the CEO to see a coherent, overarching benefit. For example, media relations and financial PR can sit in separate functions or be delivered via a network of overlapping or competing agencies.
- **No objective data**. Many CEOs use their own personal experience (such as phone calls with key customers and city contacts, or what they read in their favourite newspaper) to inform their opinion on how their company is perceived rather than use objective data. This means that they can quickly become out of touch with wider public opinion.

(ⓘ chapter 7 explores measurement in more detail).

[2] *Beyond Corporate Affairs report,* www.cayhillpartners.com

"We're our own worst enemies. We don't talk about the benefits of what we do, many of us don't have effective KPIs nor do we educate the company enough about the risks of losing reputation". FTSE250 Head of Communications

27% OF CEOS UNDERSTAND

"My CEO totally gets what I do. His reaction when dealing with the tricky stuff is ideal. He knows that communications isn't at fault when the media write negative stories and understands the political minefield in which I operate. FTSE250 Director of Communications

Just 27% of the communications leaders interviewed believe their CEO is an advocate of their function and fully aware of the value it brings. Many of these CEOs have put corporate communications on the executive committee; if the most senior communications person sits at the top table, by definition, the company takes corporate reputation seriously.

Illustrating just how seriously the role can be taken, as well as being members of the executive committee, some communications leaders also sit on other committees such as the RemCo and corporate governance bodies.

Interestingly, our research suggests that having a supportive CEO can have significant impact on the success of both roles. Several FTSE CEOs commented that their role can be lonely, particularly when the nature of their business means that they can't talk about what they do to the outside world. And the pressure on a CEO when a business is failing can be immense. This is when a strong relationship between the CEO and communications leaders can be invaluable. The communications leader is perhaps the one person around the executive table that doesn't want (or is highly unlikely to be considered for) the CEO role. As a result, they can be an invaluable and supportive source of objective counsel and advice.

As one CEO explained: *"Getting stakeholders to understand your business and its investor proposition through clear communications is critical to the share price you are achieving. It's all about the communications director helping preserve and enhance shareholder value".*

From a communications leader perspective, working with a boss who understands the corporate reputation management role can make all the difference. CEOs that work in partnership with their communications teams, making themselves readily available to stakeholders, particularly the media, make a tangible difference to the success of the communications role. In a virtuous circle, communications directors benefit from the credibility of CEO endorsement, enabling access and influence amongst other leadership team members, so helping reputation become a company-wide responsibility rather than the sole concern of the corporate communications function.

"My CEO has a busy diary, but he trusts me enough to know that if I ask him to meet a member of the press or an MP it will be worth it, and he always makes time". FTSE250 Communications Leader

4.

The risks to reputation

"Companies need to prepare for risk well in advance, not merely react to it". FTSE250 CEO

Our discussions with CEOs and communications leaders took place before the full impact of COVID-19 reached Europe. The continuing uncertainty over the fall-out from the pandemic has not displaced these threats, so much as amplified them. As one interviewee presciently identified:

"Uncertainty is now the norm".

The unknown unknowns cannot be planned for, but our research shows that companies can both identify the known risks to reputation and instil the capacity to manage what's manageable within them. The following core risks were raised in our interviews:

- **Public scrutiny of behaviour**. 62% of interviews mentioned that public perception of business can now be as much about how a company behaves as about the returns it makes. The role of business in society is being redefined as the public becomes increasingly sceptical of companies focusing purely on profits, with this direction of travel apparently supercharged by the outbreak of COVID-19. Companies' response to the challenges and opportunities of the pandemic are being benchmarked against a new set of social expectations. Those without a clearly communicated – and authentic - social purpose will struggle. Beware purpose washing.

"There's no point in doing good stuff in your company if no one knows you're doing it. But equally there's no point telling people about things that you don't really believe in. You have to be genuine as otherwise you will be found out".

"What's our purpose and why do we exist? It's now about money and meaning. Our stakeholders no longer want to just know about our profits, they want to know what behaviours drove those profits." FTSE250 CEO

- **Plummeting trust in big business**. Public faith in authority, be that government, the media, NGOs or big business was at an all time low before COVID-19, with 56% of respondents in a recent survey[3] saying that capitalism does more harm that good. Companies need to demonstrate that they can be trusted rather than assume their reputation

[3] *Edelman Trust Barometer 2020,* www.edelman.com

holds good. Publicly listed organisations providing public services are particularly affected.

"The way to counter social activism is to build trust across broad stakeholders. You have to be out in the wider community and looking in people's eyes and convincing them to trust you". FTSE250 Head of Corporate Communications

- **Geopolitical risks.** 71% of interviewees from international companies referenced the following key risks:
  - **Potential trade wars**. The integration of global supply chains means companies are seldom in end to end control of their business. Turbulence can follow from the first Tweeted hint of potential tariffs or trade wars.
  - **Brexit's continuing impact is a risk,** particularly for businesses that import and/or export to the EU. Issues around border controls, shelf life of products, agreement on standards and the use of foreign nationals in the workforce are seen as issues for many years to come
  - **Human rights records.** Companies looking to broaden their global footprint are increasingly concerned about expanding into countries with dubious reputations, irrespective of potential profit to be made.

"We identified a potentially lucrative income stream from an emerging market but in the end decided not to do business in that country because of its stance on human rights issues. Our guiding compass has to be moral not just financial. We have since introduced a series of robust 'red lines' across the business to make sure we try to do the right thing, irrespective of the pull of revenue and profits. But it's not easy and sometimes feels counterintuitive to reject income." FTSE250 CEO

- The likelihood of **reputational damage from chairmen, CEOs and their leadership teams** has increased significantly. Their personal standing is now inextricably linked with that of their organisations. **'Chairman contamination contagion'** is also on the increase amongst companies that share a chairman with another organisation, as negative fallout from one firm can seep into the other company via association.

"The reputation of the chair, independent directors and the board in general tends to send strong signals about reputation. Causality is an issue as reputable firms seek out and/or attract the better directors". FTSE250 CEO

- **Regulation,** particularly corporate governance, is upping the premium on effectively managing reputation for investors:
  - **ESG** (Environmental, Social & Governance criteria) is becoming a common assessment marker for institutional investors, as increasing numbers of funds only invest in companies with demonstratable, solid ESG credentials. It's also important to retail investors as growing numbers of high net worth individuals have high ethical requirements for investing their money. It also impacts ability to raise finance as credit rating agencies, such as Moody's, now analyse companies' ESG criteria
  - **MiFID II.** New rules affecting access to investment research means that brokers are more likely to contact companies directly for information. Many will be looking for less traditional information to include in their research, including non-financial KPIs.

- › **UK Corporate Governance Code** places greater emphasis on establishing a corporate culture aligned with the company purpose and business strategy, which promotes integrity and values diversity. Boards have increased responsibility for engagement with stakeholders, including employees

"In a world where investment decisions are increasingly algorithm-driven, active managers are differentiating themselves by incorporating analysis of non-financial drivers. If you strip out your communications function you are less able to communicate these non-financial messages and therefore less accessible to capital markets." FTSE250 Communications & IR Director

- **Employee issues** are becoming tougher to manage**:**

  - › **Employee activism.** Under 30s and millennials are far more likely to share their views with the wider world than previous generations. They are comfortable challenging their employers or going public with their grievances on social media sites that have the power to drive the news agenda. Boards need to give serious thought to how they communicate their firms' values with this specific demographic.

  - › **Misconduct issues.** CEOs are now more likely to be blamed for misconduct problems on their watch. One rogue employee's misdemeanours can travel around the world at great speed, and CEOs have been forced to resign over the inappropriate actions of an individual staff member or themselves.

  - › **Fierce competition to recruit and retain talent** particularly amongst millennials and generation X who make up around 70% of the UK workforce. These employees can be more concerned with what companies stand for than previous generations.

  - › **Drive for diversity.** Whilst the FTSE250 has made tangible progress increasing diversity, continued scrutiny ensures the gap between companies working hard to improve gender equality in their leadership teams and those companies that are doing very little has never been more obvious.

  - › **Mental health of employees.** According to the UK government[4], one in four employees in the UK will have a mental health issue at some point. The legal requirement for organisations to actively help staff means those found lacking are facing increasing reputational risk.

"I oversee social performance, which includes worker welfare and human rights on a corporate level. It could equally sit with the human resources, company secretariat or legal functions but it's been given to me as the CEO wanted it to sit with reputation". FTSE250 Corporate Affairs Director

- **The media, particularly online, is intensifying reputational issues:**

  - › **Crises are now amplified in real time.** The 24/7 news cycle means the media reports on many more stories and are on the constant look out for more news. Technological disruption has created customers and shareholders who 'want it now'.

  - › **'Negative' UK media.** Several interviewees commented on how negative the UK media can be when it comes to reporting on businesses.

[4] *Health & Safety report,.* www.hse.gov.uk

- **Fake news.** The proliferation of fake news means that companies can no longer ignore falsehoods and must actively defend or mitigate fake news. Several FTSE250 companies are creating dedicated 'rebuttal' teams in their press offices as a result.

"What was disappointing about our float was the level of vitriol from the UK media. They seemed to want to give us a good kicking and were happy to paint a distressed picture of the company from the start". FTSE250 Communications Leader

The reputational pivot of 'people, purpose and values' has been thrust into the spotlight by COVID-19. While some commentators see this signalling the coming of age of the human resources (HR) director it could equally point to enhanced recognition for communications leaders. Expertise should be at a premium for those able to attune CEOs to the changing external tenor of expectations, whilst ensuring comprehensively joined-up stakeholder communication.


5.

Managing reputation

"Reputation should be owned by everyone in the company, not just corporate affairs." FTSE250 CEO

The vast majority (98%) of FTSE250 companies[5] have dedicated group communications support, ranging from using a small financial PR agency on an ad hoc basis through to employing large group communications teams, complemented by extensive PR agency networks, akin to FTSE100 companies.

THE INHOUSE MODEL

"You don't outsource your HR or finance director. Why outsource your corporate reputation? You need to own it. You can muddle through with just a PR agency, but your communications will always be sub-optimal". Former FTSE250 CEO

- **54% have an inhouse function[6]**

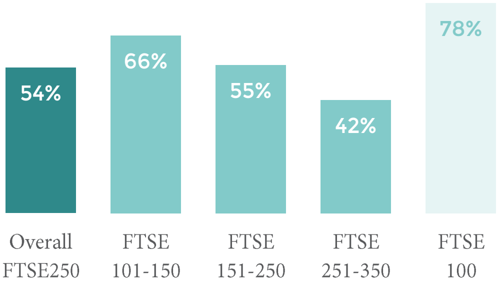
Just over half (54%) of FTSE250 companies employ inhouse, group-level communications functions, and the larger their market cap, the more likely they are to have this dedicated resource. This compares with the FTSE100 where around 78% have group inhouse corporate communications. Most FTSE250 communications functions are made up of senior staff responsible for plc communications and corporate reputation, with just 14% operating at a junior level (such as limited press office duties).

Corporate communications responsibilities in the FTSE250 are diverse and many communications leaders have broader remits than their peers in the FTSE100. Much is dependent on the CEO and their understanding of, or support for the discipline.

Almost all the FTSE250 communications leaders we spoke to are responsible for financial PR, media relations and plc/corporate communications (to include thought leadership, executive profiling etc). Around half are also responsible for overseeing public affairs and internal communications, the latter usually sitting with the human resources function if not with communications. Some have an even wider brief, successfully integrating communications as a core business function. The size of FTSE250 communications teams varies enormously, ranging from one through to over 100. The average team size is 13.

[5/6] *More details available,* hello@cayhillpartners.com

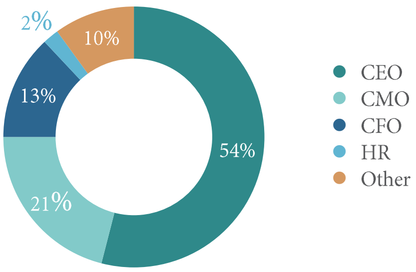
PERCENTAGE OF FTSE250 FIRMS THAT EMPLOY INHOUSE GROUP LEVEL CORPORATE COMMUNICATIONS



- **The majority report to the CEO**[7]

  The wide remit of the role makes for varied reporting lines. Some make sense, whilst others are due to personalities and legacy issues rather than any meaningful structure.

REPORTING LINES FOR FTSE250 GROUP COMMUNICATIONS LEADERS



› A small majority (54%) report to the CEO, compared with 75% in the FTSE100.

› The next most common reporting structure, particularly within FMCG companies, is into the marketing function. The 21% of communications leaders in this set-up often have marcoms responsibilities and can find their focus pulled more toward product communications than wider corporate reputation.

› Around 13% report to the chief financial officer (CFO), the vast majority of whom are responsible for both communications and investor relations. This compares with around 4% in the FTSE 100. Some respondents report to both the CEO and CFO which can cause challenges.

› Just 2% report to the human resources function. This reporting line tends to dominate when the company has a focus on internal rather than external communications.

› Other reporting lines uncovered include to the head of strategy & research, and to the executive chairman.

- **43% are members of the executive committee**

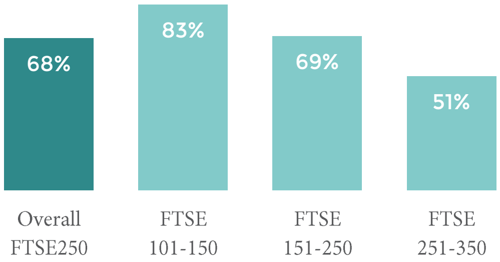
  The larger the company, the more likely it is that the communications function will be represented on the executive committee (ExCom). In many cases, the communications role did not automatically come with a seat at the top table and had to be 'earned' by the communications director either through long or good service. However, the corporate communications leader may also be the only direct report into the CEO who isn't on the executive committee, attending these meetings as a guest or observer rather than as a formal participant. And conversely, illustrating just how seriously the role is taken in some organisations, as well as being members of the executive committee, communications leaders also sit on their RemCo and corporate governance bodies.

- **68% prioritise investor relations (IR) functions inhouse**

  FTSE250 firms appear to see shareholders as their most important stakeholders. Almost two thirds (68%) employ dedicated inhouse investor relations capability, compared to the 54% that employ inhouse group corporate communications. Unsurprisingly, the larger the company the greater the likelihood of there being an inhouse IR leader.

[7] *More details available,* hello@cayhillpartners.com

PERCENTAGE OF FTSE250 FIRMS THAT EMPLOY IN-HOUSE GROUP LEVEL INVESTOR RELATIONS

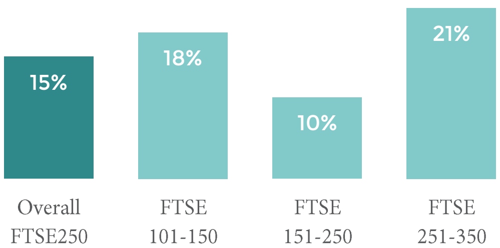


- **15% combine communications & IR functions inhouse**

  Some organisations combine the IR role with disciplines including finance (3%) and strategy (2%). But by far the most common combination is with communications.

  Smaller FTSE250 firms are more likely to merge the communications and IR roles, reflecting the genesis of investor relations as the first 'must have' for an IPO *(➁ see chapter 6)*; firms often hire an investor relations executive first and then bolt on communications to their remit. Among the 15% of companies following this model, the function is most commonly led by someone with an investor relations background. However, there are considerable variances across the indices as shown in the table below.

COMBINED GROUP COMMUNICATIONS AND IR ROLES WITHIN FTSE250 COMPANIES



The advantages to a company of this joint role are:

- easier on the budget,
- joined up messaging - the days of being able to segment audiences and the channels to reach them are fading fast so firms benefit from a single point of responsibility, and
- many FTSE250 companies are less siloed than FTSE100s and prefer hiring professionals with a breadth of skills.

  A reported downside of the shared role can be a predominant focus on investor relations activities at the expense of wider corporate reputation management, particularly if the role reports to the CFO.

  From the postholder perspective, there are clear advantages to having a joint communications & IR position. In the right hands, the combined responsibilities can make for a very powerful role with oversight of some of the organisation's most important stakeholders including investors, politicians, the media, employees and the City. The heavy focus on financial literacy gives the position additional credibility amongst CEOs and the executive team, many of whom rely on the postholder to simplify the narrative around results and add a level of expertise when speaking to senior investors and the like.

"Our staff sharesave scheme means that everyone from the shop floor through to the board is interested in how our company is doing financially and what is driving the share price. I can help them understand that by telling them what the outside world is thinking of us". FTSE250 Investor Relations & Corporate Communications Director

- **<5% have no corporate communications or PR agency support**

  There is a handful of companies (fewer than 5) in the FTSE250[8] that appear to have no group or plc communications support at all, either via an agency or inhouse. These companies, predominately in the consumer goods/services sector, offer a very limited corporate communications service (reactive media relations, press

[8] *Excludes investment trusts/fund, and non-UK HQ organisations*

releases etc) either via their marketing function (mostly product & trade PR) or their finance function (limited investor relations and financial PR activities). Whilst this can work for some organisations, it does mean that these two functions can be overloaded. Where finance or treasury are responsible for communications services, activities tend to be 'spreadsheet driven', with little or no focus on distilling financials into a coherent and simple to understand narrative.

"My CFO is creaking at the corners trying to deliver financial PR support along with his day job". FTSE250 CEO

- **>91% also have a retained PR consultancy**

Only a tiny minority (~2%) of FTSE250 organisations have an inhouse group corporate communications capability with no PR consultancy support. In the hands of a talented communications team this can work, but it can be difficult to ensure ready access to an external, objective perspective on reputational issues and may result in the inhouse team focusing on tactical delivery of campaigns at the expense of the strategic.

The vast majority of FTSE250 companies with dedicated inhouse group communications also retain a PR consultancy. These provide group corporate & financial communications services, with around 17% also being responsible for investor relations activities. Most FTSE250 firms use one agency to cover both financial and corporate PR although there are some that use separate agencies for each.

"Having good senior inhouse people that the CEO can trust is crucial, whilst also drawing on the skills of an agency. I'm a big fan of having a mixed model, i.e. inhouse with agency support".FTSE250 Communications Leader

THE AGENCY MODEL

Size matters when it comes to deciding whether to have inhouse resource or PR agency support. Smaller FTSE250 firms often don't have the budget to appoint both and need to decide between the two options. The decision can be part of a broader philosophy about how the company uses external agencies, or it could be a matter of getting headcount down (or not increasing it). But that choice is often preceded by very little discussion about what corporate communications should be delivering for the organisation. The consequence is that companies can often end up spending more on agencies than they envisaged or would have done if they appointed someone inhouse. For bigger companies with larger budgets, there is tangible benefit to having both inhouse and agency support. PR agencies can add real value, particularly on a regional and local basis where it is not practicable to employ local communications staff.

"Thinking that an agency hire is more cost-effective than hiring inhouse can be an error, as is thinking that communications & PR is just about sending out a few press releases. Once you make the decision that you need group communications support, commit to the best inhouse communicator you can get". FTSE250 CEO

- **45% rely on agency support alone**

Just under half (45%) of FTSE250 firms rely entirely on PR agency support and have no dedicated group communications capability inhouse. The appointment of a PR consultancy to oversee financial and corporate PR is often the first step in an organisation's move towards implementing a dedicated corporate reputation management capability. But it can bring its own challenges. Since there is no inhouse communications team to report to, these PR agencies are typically managed by the chief financial officer, chief executive, chief marketing officer or human resources director. Managing a PR agency can be a full-time role in itself. Time pressures, a lack of understanding of corporate reputation management and an inability to set clear communications objectives means that PR agencies can be frustrated by these reporting lines and are often, in the absence of regular and relevant information from the company, unable to deliver value for money.

"Using only a PR agency you can limp on for a while, but you need a clear point of responsibility inhouse in order to manage the relationship. And in order to manage the agency adequately, that person needs to understand corporate communications". FTSE250 Communications Leader

WHAT PRICE COMMUNICATIONS?

AGENCY FEES

Retained PR consultancy fees across the FTSE250 range from about £30,000 a year (£2,500 per month) to over £750,000 per year (£25,000+ per month). The average monthly fee is £10,625. Higher monthly fees (£20k+ per month) tend to be paid by FTSE companies that were previously FTSE100 organisations but have since dropped down the index (with no corresponding drop in consultancy fees), or that have complex consultancy needs such as cross-border briefs or a requirement for intense work due to high levels of public interest. Those FTSE250 organisations paying lower fees (sub £7k per month) are typically using smaller, boutique consultancies and have more simple requirements, usually focusing on calendar work and quarterly reporting.

PR CONSULTANCY FEES IN THE FTSE250

From	Average	To
£30,000 per year	£127,500 per year	£750,000+ per year

INHOUSE COMMUNICATIONS LEADERSHIP COSTS[9]

FTSE250 companies have markedly different budgeting models for their corporate communications functions and so it has not been possible to include comparable figures for departmental expenditure apart from salaries.

- Base salaries for group communications leaders in FTSE250 start from £75,000 to £275,000+ per annum. This wide range is understandable, given the breadth of responsibilities and various reporting lines of the individual post-holders.
- The average base salary for FTSE250 communications leaders is £158,000 per year. Unlike in the FTSE100 where there tends to be a much closer correlation between base salary and market cap, in the FTSE250, this is much less so. Salaries are more aligned to the complexity of the organisation, the breadth of the remit, the seniority of the role, geographical footprint and the organisation's or CEO's belief in the importance of the role. Some industries pay more, such as technology and financial services.

INHOUSE CORPORATE COMMUNICATIONS SALARIES IN THE FTSE250

From	Average	To
£75,000 per year	£158,000 per year	£275,000+ per year

Base salaries in the FTSE151 to 250 are higher than in FTSE111 to 151. This is due to factors such as the inclusion of some complex organisations with high profiles and heavy regulation issues that warrant more sophisticated levels of communications expertise.

[9] *More details available,* hello@cayhillpartners.com

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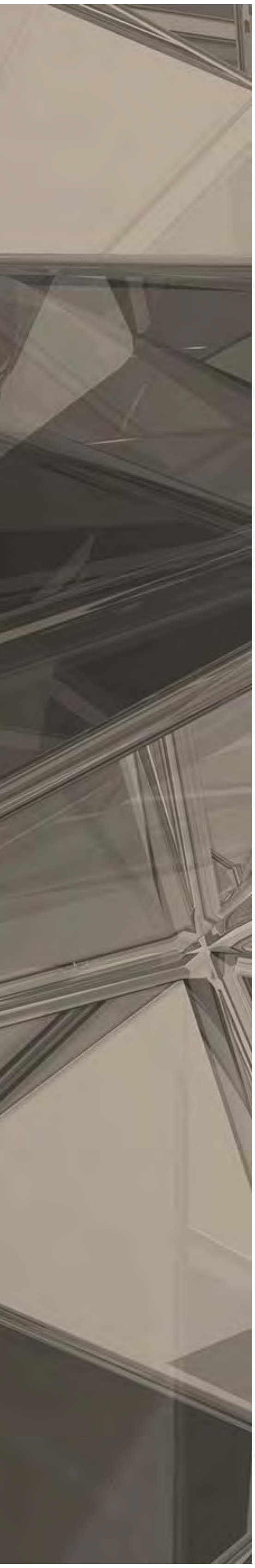


Developing corporate communications capability

Deciding how and when to build corporate communications capability can be a challenge. The decision to move from agency-only support to developing a dedicated and effective inhouse resource requires a solid understanding of what good corporate reputation management is as well as knowing how communications can best deliver the organisation's broad objectives.

The inhouse corporate communications role can vary hugely. What works for one firm won't necessarily work for another. FTSE250 firms need to clearly define the responsibilities and remit of the position as well as allocate sufficient budget. What are the key deliverables of the role? What is the appropriate reporting structure and level of seniority? What skills and experience should the postholder possess? How important is sector experience? What personal attributes are important? How to measure success in the role?

There is no 'right time' to appoint inhouse resource. The decision will vary from organisation to organisation and depends on several interlinked factors such as the company's size, its sector and levels of scrutiny, its strategy and plans for growth, its reputation and the CEO or chairman's understanding of and belief in corporate reputation management.

"Pressure came from the board pretty early on in the company's development. They thought that our organisation had a negatively low profile and was missing opportunities in the media. They were keen for us to hire a group communicator to raise awareness of the firm to directly impact on customer awareness".
FTSE250 CEO

Some corporate happenings tend to fast-track the decision to hire in inhouse communications resource. These include financial transactions such as IPOs, mergers or rights issues, changes in strategy or business transformations, diversifying or increasing the shareholder base, stalling growth, an incorrect market valuation, increasing growth, positioning the company as a unified entity, a new CEO or chair, a misunderstood company strategy, or a crisis.

The decision to hire most often comes from the chair at the top, followed by the CEO and CFO, usually driven by advisers such as brokers and NEDs[10]

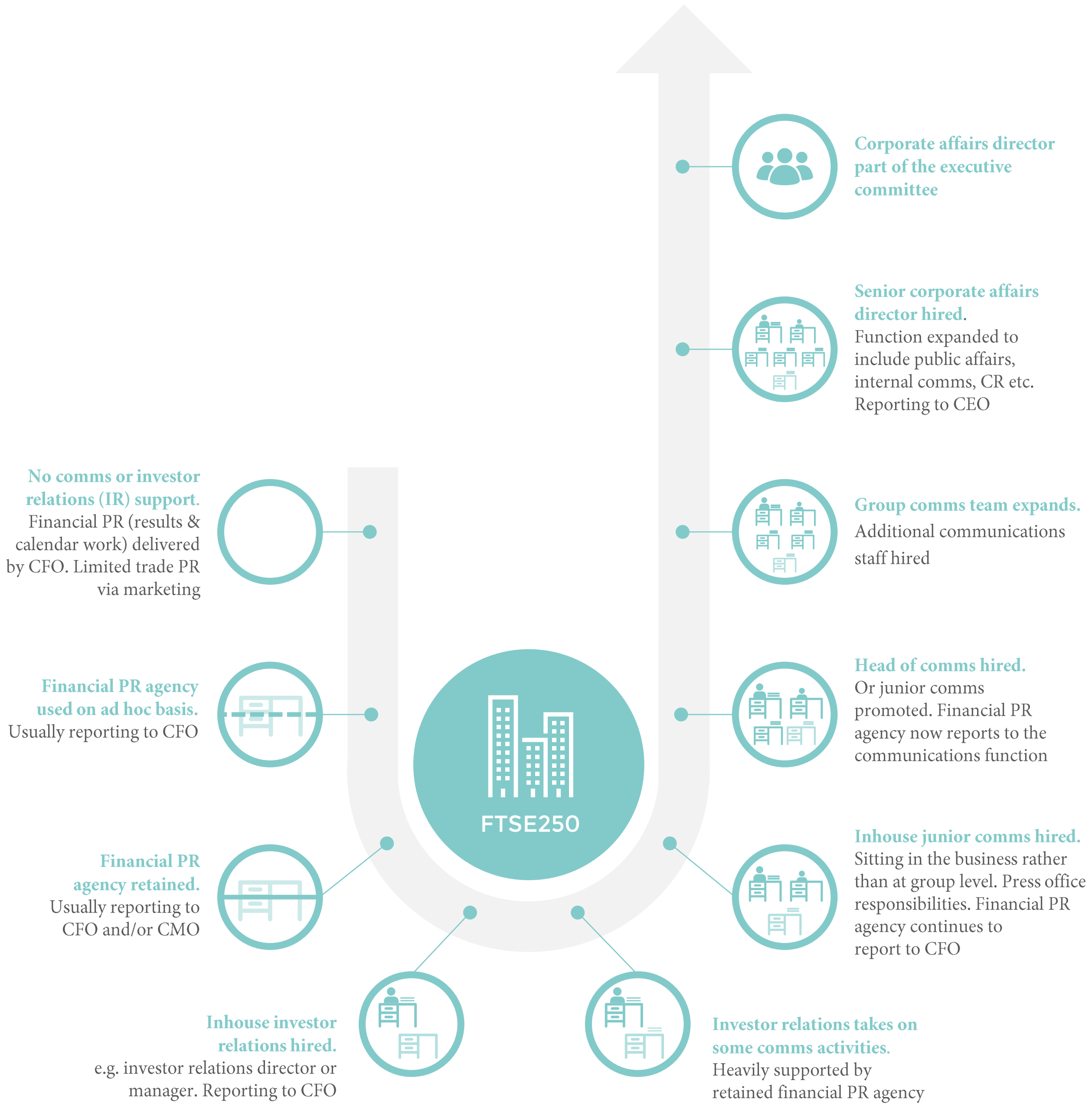
"Our shareholders had talked to our chairman in a pretty robust way and he had a clear mandate to change the way things were being done. Appointing an inhouse corporate communications specialist was top of the list". FTSE250 CEO

[10] *More details available,* hello@cayhillpartners.com

THE STEPS TO BUILDING COMMUNICATIONS RESOURCE

Most FTSE250 firms seem to follow a reasonably well-worn path when bringing in specialist corporate reputation management capability. This usually starts with the use of a PR consultancy on an ad hoc basis, through to the appointment of a senior inhouse corporate affairs director that reports to the CEO and is a member of the executive committee.

EVOLUTION OF CORPORATE COMMUNICATIONS AND INVESTOR RELATIONS CAPABILITY



THE MOVE TO FTSE100[11]

What changes as a FTSE250 company prepares for the FTSE100?

Generally, the imperative to step up communications comes from the level of external interest in a company, rather than its market cap per se. Indeed, for some high-profile organisations, it makes very little difference which index they sit in. However, smaller companies will generally not need the more sophisticated elements that much better-known FTSE 100 companies require.

"We've been in the FTSE100 and FTSE250 and because the nature of our business is large, high profile with government funds, it means we're always going to be under very high levels of scrutiny. Our investors are the same whether we're 250 or 100." FTSE250 Corporate Affairs Director

There is an obvious distinction between an organisation moving up to the FTSE100 through organic growth versus a business getting there via a large merger or acquisition. If a FTSE250 organisation is knocking on the door of the FTSE100 through steady growth, any adjustments that need to be made will likely be incremental rather than tectonic. Conversely, those firms suddenly landing in the FTSE100 as a result of an acquisition will often have immediate challenges to wrestle with and a much bigger corporate reputation management transition to make.

"In FTSE250 firms you need to be a bit more of a street fighter and a lot more hands-on compared with FTSE100 communications leaders who can afford to be more remote from stakeholders". Former FTSE100 Communications Head

In summary:

- **Profile:** increased scrutiny from media, shareholders, government, customers and the public at large, particularly if the company is consumer-facing.

"You can be left a little bit more alone in a FTSE250. The benefit is that you have more time to develop a campaign, but the downside is that it's harder to get airtime". FTSE250 VP Corporate Communications

- **ExCom/board experience:** The ExCom of a FTSE100 firm is typically populated by executives with previous leadership roles under their belt, with similarly experienced boards.

"I was the first communications director that my firm hired, and I had to spend the first six months of my tenure educating the executive team and board about what corporate reputation management was and what is wasn't". FTSE250 Head of Communications

- **Reporting lines:** The larger the organisation, the more senior the communications reporting lines tend to be. In FTSE100 organisations, two thirds (75%) of communications leaders report to the CEO, compared with just over half (54%) in the FTSE250.

- The reporting lines in the FTSE250 are more varied, often reflecting the wider remit of the role. Just over one fifth (21%) of FTSE250 communications leaders report to the chief marketing officer (CMO) though these often have marcoms responsibilities or focus more on product communications. Around 13% report to the CFO reflecting the higher numbers of FTSE250 communications leaders that have investor relations responsibilities.

[11] *More details available,* hello@cayhillpartners.com

REPORTING LINES IN FTSE250 VS FTSE100

	CEO	CMO	HRD	CFO	OTHER*
FTSE100	75%	6%	8%	4%	7%
FTSE250	54%	21%	2%	13%	10%

* *Strategy, legal, chairman etc*

- **Size, structure & responsibilities:** The average FTSE20 team is around 300 strong, the average FTSE51 –100 around 35 and the average FTSE250, around 13, with many more generalists and 'one-man bands'. FTSE100 teams can house heads of media, financial PR, internal communications, corporate responsibility & sustainability, and public affairs and digital. FTSE250 teams tend to focus on hiring 'strategic doers' to lead the function.

"FTSE100 communications directors tend to be a little more presidential with big teams that deliver a lot." FTSE250 CEO

- **Succession planning & recruitment:** Larger FTSE100 communications teams means that there can be three or four senior executives who are able to deputise for the communications head. By contrast, in the FTSE250, there can be a significant gap in terms of seniority between the communications leader and their direct reports. Most of these firms look outside their organisation when it comes to replacing their communications leader.

- **ExCom membership for communications:** Formal representation of the corporate communications function on the executive committee is relatively similar across the two indices; in the FTSE100 around 50% are on the ExCom whilst in the FTSE250, it's around 43%. Generally, the bigger the company, the more likely it is the communications function will be represented on the executive committee.

- **Communications leaders' salaries:** There is a big gap between base leadership salaries in the FTSE100 (£300k) and the FTSE250 (£158k). This reflects the 'premium' often ascribed to FTSE100 roles. In the FTSE100 there is a direct correlation between market cap and a communications director's remuneration. This is less so in the FTS250.

- **Budget and resources:** More communications staff, meatier annual reports, larger events (more media & analysts attending financial results), and increased number of international investor roadshows mean more expenditure in the FTSE100. Corporate and financial PR agency fees tend to be higher for FTSE100 firms, albeit that many communications directors are sceptical as to whether there's more work to be done in a FTSE100 than in a FTSE250.

"There seems to be an automatic premium paid to advisers when a firm gets to the FTSE100. And if that company then drops out of the 100 into the 250 like we did, the fees almost always stay the same rather than reduce". FTSE250 Communications Leader

- **EQ (emotional intelligence) can be more useful in the FTSE250**: Some FTSE250 communications leaders observed that they often need higher levels of EQ than their FTSE100 peers. Having smaller teams, they argue, entails having to get more things done by influence than by mandate.

7.

Proving the return on investment

The adage is that if 'it can't be measured; it can't be managed' and the intangible elements of reputation remain hard to pin down. As one FTSE250 CEO commented, *"Despite how deeply they measure and how often they report, there always seems to be an element of 'smoke and mirrors' with the way my corporate affairs team quantifies their successes."*

Our research found almost universal frustration amongst FTSE250 communications leaders – and their bosses – about how best to measure corporate reputation and demonstrate ROI on communications programmes. Most struggle to identify the best way to show value to the business and agreed that buy-in from the top is essential to ensure that reputation measurement is a key part of risk management and supports business strategy.

MEASURING IMPACT

Most communications directors are keen to make corporate reputation less abstract and show how their activity can impact business objectives. However, this measurement still lags most other functions. It appears that new technology and the resulting increase in available data have made things harder; communications leaders can drown in a sea of statistical information whilst not nailing necessary measures for corporate behaviour.

Exacerbating the problem, there is no commonly agreed, industry-wide metric with which to gauge effectiveness. This is not surprising given that delivering an objective such as 'shareholder value' will differ from company to company depending on what the business and its stakeholders most value. Another difficulty is that reputation metrics sometimes need to be altered to reflect changing circumstances, such as an acquisition, affecting year-on-year comparisons. Lastly, the corporate communications function typically has relatively small budgets, which will be hard stretched to allocate to meaningful measurement. CEOs commented that their communications functions frequently focus too much on measuring outputs rather than outcomes or impact. There is also some frustration amongst senior communications leaders that some of their peers still use vanity metrics such as AVRs or 'likes & followers' on social media, which don't show how engagement is delivering against core business objectives. This, they believe, devalues the function. In certain FTSE250 companies, CEOs need to shoulder some blame for the lack of credible corporate reputation management metrics.

Many CEOs have their own reading lists and private networks (e.g. their contacts at Davos, their neighbours, their favourite newspaper etc) and however objective they may think they are being, will rank these opinions ahead of what contradictory data may show.

"What the company needs to track and measure, and what the CEO wants us to track and measure, are two completely different things". FTSE250 Communications Leader

THE ROLE OF KPIS[12].

Around three fifths (62%) of FTSE250 companies with inhouse group communications use key performance indicators (KPIs) to monitor the effectiveness of the function. These range from relatively loose, evolving objectives which are monitored occasionally, to highly structured, externally measured goals that are assessed regularly and consistently drive the activities of the department and the senior leadership team. Those that use them believe they add credibility to the function.

"Reputation can be quite abstract. I don't think anyone has a good answer to defining the perfect KPIs in corporate communications. But it's important that you have them as you can't properly manage what you don't measure. My advice is to work out what your stakeholders want and start from there". FTSE250 Group Communications Director

Our research revealed the following methodologies and metrics employed by FTSE250 organisations;

- Ascribing a monetary value (via an external company) to the various aspects of corporate reputation and then monitoring its rise and fall.
- Using internal data: monitoring key media messages, holding regular staff surveys.
- Correlating communications campaigns with share price.
- Analysis of company reputational performance versus the sector.
- Regular analysis of the external reputations of the CEO & leadership teams.
- Investor, analyst and media satisfaction surveys.
- Company-wide corporate reputation platforms which inform the long-term strategic decisions for the organisation

Some firms are introducing 'performance contract' KPIs that underpin behaviour and value sets and directly link behavioural metrics with achievements. This, they say, ensures that KPIs recognise and reward behaviours that are consistent with the company's values and vision.

Whatever company reputation metric is used, there is universal agreement that the results should be regularly presented to and monitored by the executive committee and board, to ensure that reputation measurement is a key part of risk identification and in line with the business strategy.

"Reputation should be owned by everyone in the company, not just corporate affairs." FTSE250 CEO

The 38% of FTSE250 companies with in-house resource who don't use KPIs are generally unfazed by the lack of metrics and have no immediate plans to introduce them. In these businesses there is no downward pressure from their CEOs to perform to specific numbers or validate communications activities with data.

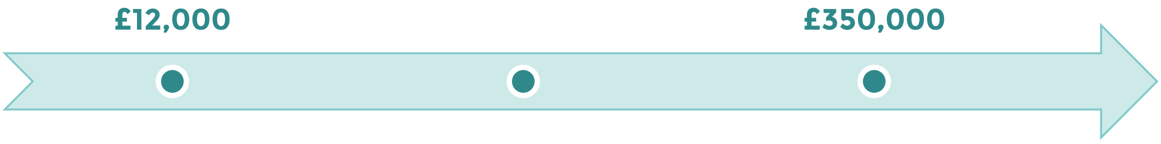
"I shouldn't have to justify my existence. My CEO and CFO know the good work I do, which is often done behind the scenes and can't really be measured in any meaningful way. For my CEO it's all about the share price going up and new sites opening rather than anything more nuanced." FTSE250 Communications Leader

[12] *More details available,* hello@cayhillpartners.com

THE PRICE OF MEASUREMENT

The measurement of corporate reputation in FTSE250 firms ranges from simple media clipping services through to bespoke reputation monitoring & assessments delivered by specialist companies. Corporate communications functions are spending as little as £12,000 through to over £350,000 per year to measure reputation. This figure may not reflect all expenditure as sometimes the budget for reputation measurement can sit in other functions such as strategy or marketing.

FTSE250 EXPENDITURE ON REPUTATION MEASUREMENT




8.

Conclusions

The health of the FTSE250 is often viewed as a weathervane for the UK's economy. More companies are in the earlier stages of their lives, with more growth potential. They are generally more UK focused and so more exposed to domestic risk factors. Those risks have been amplified in the uncertainty unleashed by COVID-19; business reputations are being won and lost as companies respond.

Do FTSE250 leaders understand the value of corporate reputation or are they still missing a trick when it comes to managing this asset? Our research suggests they are. Too many appear to be overlooking the wider benefits of actively managing a core part of their market value, and not understanding the importance – and fragility – of their reputational whole.

Why is this important now? At the time of publishing this research, the only certainty of COVID-19 is continued and unprecedented uncertainty. Business leadership and corporate behaviour are in the spotlight as never before and the composition of the FTSE250 will undoubtedly look very different in six to 12 months' time. As our interviewees explained, it can take a crisis to awaken CEOs to the fundamental importance of corporate communications. And with no 'new normal' on the horizon, controlling what is controllable has additional significance.

Many FTSE250 companies are focusing their communication resource on investor relations or financial PR. The explanation may be evolution, in that it's the 'must have' when listing and so has the CEOs' attention from the start. Thereafter, the absence of robust, or respected, measures for broader aspects of reputation mean that 'investor sentiment' may be allowed to prevail as a proxy for 'reputation'. Is this important? Oiling the hinge that squeaks loudest risks overlooking the constituent parts of corporate reputation that ultimately impact value. Our research uncovered a wide range of perceived reputational risks, but unless there is a voice at the top table, or a NED on the board with the expertise to champion and challenge the role of communications, reputational management may take a back seat until a risk materialises as a crisis.

COVID-19 may be the necessary wake-up call. It would beggar belief to report that three quarters of CFOs, or HRs, thought that their CEO didn't understand the value of their function. Yet 73% of the corporate communication leaders we interviewed said just that. If companies are to come out of the COVID-19 crisis stronger, our research suggests it is time for them to actively manage their corporate reputation alongside the tangible assets on the balance sheet. The consequences of inadequate controls have severe ramifications for investors, employees, customers and wider public opinion.

For chairs and their boards, this means embedding top down buy-in to the notion of reputation as a competitive asset. This has probably never mattered more. As the UK – government and citizens alike – grapples with new notions of collective and personal responsibility, corporate responsibility is firmly in the frame. It can take just one misstep in communication for immediate and ruthless comparison to be made between the corporate 'demon' and 'angel' of the day. The chair's personal reputation is inter-twined with the company: public expectation of both is 'do good' and 'do well'.

For CEOs, the unsurprising finding from our research is that their role is pivotal. Hiring in and managing sufficient resource for corporate reputation management is crucial, as is ensuring there is a clear understanding of what it can and can't deliver.

For communications leaders, a key finding from our research is that roles within FTSE250 organisations are no longer a stepping-stone to a FTSE100 position but a career aspiration in themselves. They typically enjoy more responsibility, wider briefs and more involvement in the running of the business and can be a true powerhouse in an organisation.

FTSE250 leaders may have little time to consider such issues while dealing with the day-to-day firefight of the COVID-19 crisis, perhaps battling for survival, but there has probably never been a more important moment for the C-suite to reflect on who and what is now driving their corporate reputation and how they can take control.

"Do CEOs think the market is reflecting the true value of their company in the short, medium and long term? Do they think there are any risks to the way the market perceives the organisation? If not, they have got some serious work to do in telling the company story better, and to tell that story needs professionals. You want to inspire people to trust your company and invest in it". FTSE250 Chairman

Cayhill Partners is a specialist executive search, capability benchmarking and research consultancy focusing on the corporate reputation management disciplines. The firm helps organisations find, recruit, develop, structure, benchmark, build and retain their senior corporate affair teams. Run by a former FTSE100 communications director, the organisation combines a deep, first-hand understanding of the senior communications world with a flexible and professional search and research consultancy.

As important as what we do, is why we do it. We are passionate about corporate reputation management and see our role as not only supporting clients and candidates, but also the wider corporate reputation management community. That's why we pro-actively engage across the entire PR and reputation management industry, from consultancies, trade associations, academics, inhouse practitioners, opinion formers, industry bodies and the like; promoting the unique capabilities of today's senior communications practitioners.

To discuss this research further or to find out how we can help you with your executive search, capability benchmarking or career plans, please contact:

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