

# Corporate Public Affairs

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The faculty of the 1999 Corporate Public Affairs Institute was asked "What is the Centre for Corporate Public Affairs' definition of 'public affairs'?" Participants said this was not only important for their own role identity but because of the need to explain their offering and role (actual or potential) to their own management. This article by Centre Chairman Geoff Allen is an attempt to answer that question.

## What is Public Affairs in Australia?

### The Value Proposition

The Board of a major Australian company was recently discussing organisational structures and personnel issues in the company. A highly respected former CEO on the Board got strong endorsement from his colleagues for the following comment; we paraphrase:

The company has a challenging political and regulatory environment. We have done well with governments and regulators and have been trusted by them because of how we've managed the issues and our relationships. Getting it wrong could close parts of the business down. Our reputation and work with neighbourhoods and interest groups has become a valuable competitive advantage and the investment community believes we are very competent in these areas. We've got to keep that function strong and not put ourselves at risk.

It is that sort of thinking that has led to the establishment of public policy or public affairs committees of

Boards of Directors in the USA and in Australia, and has led to a steady upgrading of the professional coterie. Membership of the function's leadership is now commonly on the Executive Committee, and a direct report to the CEO.

To set the context we draw on extensive quotations from one leading American academic and four Australian business leaders who made their comments at Centre events.

Professor Neil Jacoby, formerly of the UCLA Graduate School of Business Administration said in a seminal article in the mid 1970s:

Although intelligent corporate executives have long responded to non-market influences, such responses have not found a place in the accepted theory of the firm. Received theory does not take into account the rise in political pressures exerted on enterprises by stockholders, consumers, ecology, civil rights, and other interest groups ...I propose, therefore, a new theory of enterprise behavior, which I call the social



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**The Centre for Corporate Public Affairs is the knowledge centre supporting the strategic development of the public affairs function within Australian business and government.**

The Centre was established in 1990 and aims to provide mutual exchange within the profession's leadership, excellent professional development programs and

information resources that allow senior public affairs practitioners, senior executives and line managers to:

- Better interpret their social, political and economic environment;
- Contribute significantly to the way their organisation relates to its internal and external stakeholders; and
- Strengthen the role of corporate affairs staff as key advisers to management.

environment model because its central tenet is that the enterprise reacts to the total social environment and not merely to markets.

The most novel and important characteristic of the social environment model is the explicit recognition that corporate behavior responds to political forces, public opinion, and governmental pressures. Whereas both classical and managerial theory ignored the impact of political forces, the social environment theory analyzes corporate behaviour as a response to both market and non-market forces because both affect the firm's costs, revenues, and profits. It has been the pressures of public opinion, the demands of stockholders, the urgings and threats of legislatures and bureaucrats, and the proddings of such enthusiastic ombudsmen as Ralph Nader – all non-market forces – that have induced large companies to allocate resources to social purposes. Whether their motives were defensive or offensive, corporations made these allocations basically to enhance their profits in the long run, perhaps also to defend existing profits against erosion.

Among the benefits may be a reduction in the costs of defending the firm's actions before the legislative or executive agencies of government, an avoidance of onerous governmental regulations, or a reduction in property damage at the hands of activists. When viewed in the perspective of my model, there is no conflict between profit maximization and corporate social activity.<sup>1</sup>

Sir Arvi Parbo, launching the Centre in 1989 said:

Performance [in dealing with the social and political environment] must have increasing weight in the way in which managers are recruited, trained, evaluated, and rewarded, because of the critical nature of these issues to the success of our enterprise. We can do our sums, be great at production and marketing, fine-tune our cash flows – we can do all those things well but fail badly if we haven't managed the social and political issues.

Mark Rayner, then a senior executive at CRA, now Chairman of National Australia Bank, Mayne Nickless and Pasminco, introducing the first Centre Oration in 1994 said:

In my experience Public Affairs means many different things to different Australian managers, whether it is

performed in companies or in industry associations. Perhaps influenced by the team in my own company, with which I have worked very closely, I have come to accept the view of Public Affairs that seems to be the model adopted by the Centre.

This view stresses that the function should:

- contribute significantly to the way business relates to its internal and external stakeholders;
- interpret the current and future social and political environment for strategic commercial planning; and
- encourage the integration of responsibility for dealing with social and political matters with other aspects of direct line management.

More and more, the role of Public Affairs executives ought to be about driving and managing that integration.

The more that work becomes an integral part of the strategic, commercial and operational aspects of your organisation, the more professional that organisation will become.

John Prescott then CEO of Australia's largest company BHP, bringing the Centre's 1995 Oration to a conclusion, said:

I spoke of the community's licence to business, and the notion of legitimacy so essential to survival. To maintain this legitimacy, and to ensure a positive environment in which to operate, requires skills and approaches which are as important as the financial, technical and marketing capabilities which we have traditionally valued.

Public affairs people play a vital role in the process, which is reflected in BHP's support for the Centre for Corporate Public Affairs, and for a more sophisticated development of public affairs specialists. They have the communication skills, the community contacts and the understanding of different audiences – internal and external – which are important to the firm's future.

In essence, they are the acknowledged authority on the social and political environments and their effect on our business. As such, they are playing an increasingly strategic role in planning, issues management and the creative use of public policy to further company goals.

The public affairs role is also evolving in other ways. It's my belief that forging closer partnerships with our communities involves changing the thinking of our managers.

Dealing with social, political and industrial issues

<sup>1</sup> Neil H Jacoby, *The Corporation as Social Activist*, S Prakash Sethi (Ed), in *The Unstable Ground: Corporate Social Policy in a Dynamic Society*, Melville, LA 1975.

has to be part of the normal line management role, and part of the company's culture. Performance in this area is fast becoming a core function of managers.

Shifting prime responsibility for external relationships to the line means that the public affairs people become the specialists. They define the need, have the primary expertise, and can still be the conscience and coach where necessary. This evolution of the role fits in with our efforts to bring community interests to the decision making table at every stage of our planning.

Finally, Tim Besley, Chairman of the Commonwealth Bank and Leighton Holdings, in the 1998 Oration said:

In many Australian companies, public affairs is contributing in a new way to corporate strategic thinking by its analysis of the socio-political environment in both domestic and overseas markets.

The profession is instrumental in contributing to the effective management of the changing relationship between business and government on the one hand, and business and the community on the other.

In fact these are the most demanding challenges confronting business today.

Ok, that's its value and positioning, what about its content?

## Its Content

The function most commonly called 'public affairs' in private sector companies in Australia now normally combines two clusters of historical development.

The first cluster emerged from communications/public relations activities focused on media management, other external communications, internal communications, publicity, events and publications. At its early phase these functions were oriented to solving communications problems, lifting corporate profile and giving 'spin' to corporate messages. In consumer market industries such as food and banking – where corporate brand and image sells products – there was a close relationship and sometimes overlap between public affairs and marketing/corporate brand or image advertising.

The other cluster emerged from government and regulatory affairs activities by which companies monitored legislative and regulatory arrangements and sought where appropriate to pursue their interests – for example on tariffs and dumping, sales tax schedules, licensing and so on.

These two streams of communications/PR on the one hand, and government/regulatory affairs on the

other, have been increasingly integrated into a holistic approach. This has come with the realisation that political analysis and action, communications strategy and new public affairs orientation to interest group dialogue and grassroots communications are all an integral part of the same process of winning social and political mandate from the community. At the same time the focus has shifted to 'messages in' as well as 'messages out' – external relations specialists using their boundary spanning role to coach management and influence corporate planning and activity so as to best align corporate and community interests.

At current best practice, the public affairs function combines both sophisticated communications and influencing strategy and processes (internal and external) with analysis and management of the external social and political issues that affect a business – by doing so it contributes at a high level to the achievement of the company's business imperatives.

While public relations is a legitimate title to describe a group of these activities, it is now uncommon to see 'public relations' as the name of the relevant organisational unit or in the title of the senior practitioner. Public Affairs and to a lesser extent External Affairs (or Relations) is becoming more common also at the expense of 'Communications' to describe the function overall, although 'Communications' is also an appropriate nomenclature to describe a number of the sub-functions. It is not uncommon to find 'Corporate Affairs' used to describe the function; this is more often used, however, as a catchment for a bunch of head office functions, including public affairs.

Because old habits die hard there is a tendency in some companies to retain the language 'Communications', or 'Public Relations' when the reality of the function has gone beyond that to include sophisticated socio-political analysis and deep engagement with corporate strategy.

This may not be important; in the final analysis the key issue is the competence of the function and the standing it can win in any organisation. But language can influence perceptions, and has not infrequently constrained the credibility and therefore potential contribution of the function.

While the maturity of the function varies greatly across companies in Australia, an understanding of its role in sophisticated public sector firms can be gained by an exploration of its various sub-functions. We examine some of these below.

## Contribution to planning

Public affairs specialists in some companies are playing an increasing role in business planning through a variety of ways including stakeholder and issues analysis and general monitoring of future socio-political environments. This is to inform planners and line managers of the context for their decision making and the socio-political impact or acceptability of various product, investment or process options. Accordingly the function is increasingly 'at the table' when these decisions are being made.

In one Australian company medium (5-7 years) and short-term (1-3 years) corporate plans have traditionally had introductory chapters on the economic/market environment and on the product/ technology environment for the plan period. It has recently added a social/political/regulatory environment chapter, prepared by public affairs specialists to provide a context for the plan. In another the strategic plan was submitted to rigorous testing against social/ political/regulatory scenarios developed by public affairs specialists before adoption. In yet another company the function provides international economic and political risk analysis, using internal and external resources, to evaluate and inform decision makers about foreign business environments and as a mandatory step in investment decision making.

A key tool of sophisticated public affairs – a structured approach to issue analysis – has led in some cases

to companies abandoning currently profitable lines of business, and discovering new ones.

The other key link to strategic planning is the primacy of the plan and plan imperatives in prioritising and shaping the public affairs objectives and program. One consequence is the shift from a sub-functional focus in public affairs planning (i.e. operating independent communications, media, government and community relations, stakeholder relations plans) to a focus on using each of these 'tools' of public affairs as instruments in pursuit of the key strategic imperatives for the business and the management of issues that might threaten their attainment.

## Being Proactive

While routine monitoring of issues created by others (such as regulatory and taxation) will always be important tasks, some companies have become more proactive, seeking to put issues onto the public agenda and change the policy environment to facilitate the achievement of corporate goals. In doing so they use a combination of the various public affairs tools (such as media, community relations, leveraging industry association involvement, influencing and mobilising opinion leaders, employee communications, etc) to build their strategy. Where companies are highly affected by public policy outcomes (for example, resource companies by native title, chemical companies by environment policy, banks by financial regulation, and utilities by price

## Public Affairs roles

### Core Sub-functions

- Public policy and advocacy
- Government relations
- Industry Association co-ordination and strategy
- Media relations
- Stakeholder analysis and relations
- Other external communications (speeches, publications etc)
- Issues analysis and issue management
- Interest group strategy and relations
- Internal communications
- Community relations and 'risk' communication
- Corporate sponsorship/events
- Community involvement and sponsorship
- Aboriginal affairs
- International public affairs
- International political risk

### Boundary Sub-functions

- Investor relations (sometimes separate report to CFO)
- Brand/image/corporate marketing (often in separate marketing function)
- Regulatory affairs (where technical sometimes in separate structure)
- Consumer affairs (sometimes in marketing or where technical in separate structure)
- Strategic planning (plays important role, with overall accountability usually in separate structure)
- Self regulatory mechanisms and strategy (depending on the nature of the industry and nature of regulation)
- OH&S and environment in relation to communications, neighbourhoods and public policy (sometimes in HR or separate structure)

regulation) commitments to analysing the drivers of public policy and influencing its outcomes can be deep.

A related element of government affairs is building and maintaining constructive relationships with politicians, public servants and regulators. The establishment of comfortable familiarity and respect is a conventional goal. For clever companies, the steady flow of useful information and feedback to better inform government of market place realities in an environment free of controversy is seen as most valuable. Helpful information and marketplace insight is seen as the currency of exchange in building mutual understanding, trust and consequently informal influence with government on legislative and regulatory issues of significance.

A number of public affairs teams have managed sophisticated programs to build relationships with community-based opinion leaders and 'issues drivers'. Stakeholder consultation and the establishment of dialogue is seen as a means to break down barriers, find common ground and, by better understanding and adjustment of expectations/actions on both sides, build closer alignment of goals and activities between business and opinion makers.

Whole new approaches are being developed to relate with corporate critics and issues adversaries – motivated in part by the perceived lack of political leverage corporations have on issues of public sensitivity, the huge collateral damage that conflict with activists can have on corporate reputation, and the consequent desire to avoid high profile win/lose conflicts. The development of strategy and facilitation of dialogue with these groups is a clear accountability of modern private sector public affairs.

## Dealing with Communities

Community relations as a corporate activity is normally managed as a sub-function of public affairs. It includes community consultation but will often extend beyond that to include various forms of community engagement with strategic purposes such as local community/aboriginal employment programs in mining communities, financial contributions to local organisations, community development or welfare programs and employee voluntarism. An important extension of community relations has been meeting the demands for greater transparency and involving communities, where necessary, in business decision making processes. Given the failure of the dominant management paradigms of science and economics to win local political

support, a whole new set of principles and processes around risk communication has been developed to win and maintain a local community licence to operate.

Significant changes have taken place in recent years concerning what was once known as corporate philanthropy. While levels of giving vary over time a strong trend has been to move away from 'cheque book philanthropy' to a more strategic approach in order to align giving and corporate community involvement with the strategic objectives of business. More strategic uses of corporate giving are, for example, to enrich key community relationships, establish better dialogue with adversaries, and deepen the company's standing with staff as 'employer of choice'. In general terms the choice of engagement will be relevant to the nature of the business. Accordingly McDonald's sponsors children's causes; mining companies support Earthwatch; Telstra's sponsorship is strong in rural and remote areas; consumer goods companies sponsor causes that enable high brand visibility; infotech and engineering companies are prone to support educational institutions where their equipment is showcased or reputations as potential employers are relevant. This amounts to an increasingly considered approach to 'enlightened self interest'.

While in most firms there is a distinct functional separation between public affairs and corporate marketing, some major companies (e.g. Telstra, BHP) have recently moved to integrate them organisationally. The link is the inter-related concepts of corporate image, corporate positioning and corporate reputation. This development appears to be based on the increasing acknowledgment that reputation or image is a non-tangible asset of considerable value, affecting the attitude of customers, suppliers, employees, investors and regulators (actual or potential).

And these organisational linkages, where they are made, also stem from the overlapping communications skill set, and the interdependence of brand and reputation generally with the management of issues, corporate behaviour and general external relationships. This organisational linkage between public affairs and marketing communications also brings together most elements of the sponsorship-philanthropy continuum that goes from product market sponsorship (e.g. sports events) through cause related marketing, image building sponsorship to corporate philanthropy.

There may be a case based on morale and camaraderie at the workplace level for socially oriented



employee communications (Susan's had a baby, Charles caught a big fish). The emphasis however has shifted strongly to meeting three interconnected objectives:

1. To win a positive attitude to work and the attainment of the organisation's objectives (hearts and minds). Employees who understand and buy into an organisation's philosophy, operational policies and strategic directions are more likely to be satisfied, productive and equipped to do their job effectively.
2. To enable the projection of a cohesive view of the business imperatives of the firm and the implementation of organisational or cultural change.
3. Effective communications are essential to equip employees with necessary knowledge of products, procedures and other information needs for effective performance.

## Organisational Issues

Accordingly the old adage 'information based on the need to know' is giving way to 'two way communication based on the will and ability to perform'. With the emergence of a more strategic function there has been a growing tendency for the most senior public affairs practitioner to sit on the Executive Committee of large companies. Sometimes these executives have more than one function, especially public affairs grouped with human resources, and (the preferred positioning) with strategy. Some examples are:

- Director, Corporate Affairs & Strategy (Eli Lilly)
- Group General Manager, Corporate Affairs & Human Resources (ANZ Bank)
- Director, Public & Consumer Affairs (American Express International Inc)
- Director, Regulatory and Public Affairs (Cable & Wireless)
- Group Managing Director, Public Affairs & Corporate Marketing (Telstra)
- Executive General Manager, Corporate Affairs – includes public affairs, planning, OH&S, aboriginal affairs and environment (Pasminco)

Relationships with line management have been changing over time. At an early stage of maturity the function is a 'problem dump'; distant from decision making and necessarily reactive in focus; at its most strategic level the role is concerned with reputation building and relationship management by crafting messages for stakeholders.

Out of this, accompanying a shift to decentralisation of decision making and accountability to line management there emerged the concept of public affairs as an internal consultant to line management. As the function matures the practitioner relates to line management as a peer with a leadership role in his/her specialisation. Of course in the day to day management function there remains aspects of necessary reaction to unanticipated problems, consulting functions of support for the line, as well as the higher order strategy leadership on external political, reputational and communications issues.

Practitioners in the private sector come from a variety of fields. At more junior levels it is still predominantly from journalism/communications. There is a shift, however to recruiting from line management, particularly at more senior levels as the function becomes more strategic and the availability of recruits from the function with enough experience and higher level management competence thins out. The capacity at higher levels for business acumen and professional skills in this area is in short supply and is commanding a premium in the executive labour market.

In some major companies a period in the function is part of career rotation for high potential executives, because of the increasing external focus in the roles of managers as they grow through the organisational hierarchy. Some line managers have been very successful in the function, being quickly able to grasp its professional imperatives. Others, have been less so!

These developments in private sector public affairs have been accompanied by an increase in company resources, against a general restriction of staff function budgets generally through the 1990s.

Of great interest has been the growth of public affairs activity in government, including even central agencies.

## Public Affairs in Government

The organisational context for the practice of public affairs in the non-commercial public sector and the private sector differs significantly. In particular:

- Whereas in the private sector analysis of the social and political issues is used to facilitate the achievement of organisational objectives (such as production and profit) they are core activities in the government sector. A significant part of the skill set and activity of the private sector staff specialist is deeply embedded in, and performed by, line management in government.

- Whereas the private sector firm operates autonomously within the law and guidelines established by its board and on a relatively narrow agenda, the government agency operates within the complex framework of political (Ministerial-Cabinet) leadership, parliamentary accountability and complex multiple agendas. Analysis of the socio-political environment and relationships/communications with key stakeholders and interest groups is at the sharpest end of this complexity. In these areas where the role of the Minister, ministerial staff and even political party ends, and where that of the public service agency starts, is moveable, often contestable and frequently controversial.
- While there are rapidly rising expectations and demands for accountability on the private sector (leading to some convergence in this area) account-

ability in the public sector still exceeds that of the private sector, and levels of acceptable risk are lower.

That being said, there is an increasing appreciation that the skill sets, organisational constructs and opportunities for the public affairs specialisation to assist in achieving organisational objectives are in common.

Leaving aside the political stuff in Minister's offices, most agencies have specialist functions with titles ranging from 'public information', through 'corporate communications' to 'public affairs'. In some cases these functions are being performed at a high strategic level, reminiscent of those in best practice firms. In addition however new jobs have sprung up with a variety of new titles and organisational forms to support, for example, strategic stakeholder analysis and issues management in government. ■



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The website is a key resource for members and includes a professional development calendar, searchable library, online discussion forum, member case studies, Internet resources, past Corporate Public Affairs Orations and recent research and reports.

