

## II. EXECUTIVE SUMMARY

Following is a summary of the most significant findings of GAP II.

A. **The State of the Industry in 2003: A “Bunker Mentality” Year** – While anecdotal evidence suggests that conditions may be very gradually improving for the PR profession in the first quarter of 2004 (though the scope and sustainability of that improvement clearly remain to be seen), the collective wisdom of the 266 senior PR practitioners who responded to GAP II is that the profession suffered some serious setbacks in 2003. These setbacks, when viewed individually, may be traced to specific causes and circumstances, i.e. weak economic conditions, new regulations, corporate scandals, etc. However, when viewed collectively they suggest that American business in general, and the PR profession in particular, entered into a “Bunker Mentality” in 2003, the duration and lasting effects of which have yet to be determined.

By “Bunker Mentality” the authors mean a state-of-mind which is focused on the most cautious, short-term, defensive, low profile, non-innovative mode of operation possible – an M.O. dedicated to self-protection rather than aggressiveness; survival rather than achievement.

In the realm of public relations this “Bunker Mentality” resulted in significant reversals of both a perceptual and operational nature. For example:

**1. Budgets shrank** – Among companies appearing in *Fortune*’s “Most Admired Companies” (MAC) list, 2003 PR budgets were 5.45% smaller than those of 2002. (This continues a trend begun in 2002, when MAC budgets were reduced by an average of 3.3% as compared with 2001, meaning that *cumulative two-year reductions average 8.75% among the “Most Admired.”*) Among non-“Most Admired” (non-MAC) respondents budgets were essentially flat, though it must be remembered that MACs tend to be much larger than non-MACs, and there is a higher incidence of public ownership among MACs.

**2. PR staffs shrank** – Specifically among the Fortune 500, PR staffs shrank by an average of 15 people.

**3. PR’s self perception suffered** -- PR lost ground vis-à-vis its perceived contribution to organizational success relative to seven other common disciplines (Finance, Legal, Marketing, Strategic Planning, Security, HR, and IT). While it still remains in sixth place, its score on a 1–7 scale slipped from 5.20 to 5.09. While still in the positive zone (i.e., above 4), *any* slippage is unwelcome. And, its margin over seventh place Human Resources has dwindled to almost nothing.

**4. Management support for PR eroded** -- The degree of support given to the PR function by senior management suffered significant erosion, from a strong cumulative average score of 5.9 (on a 1-7 scale) in 2002 to a still-positive 5.23 in 2003 among all respondents, and from 6.18 to 5.35 among “Most Admired” companies.

**5. PR’s recommendations were taken less seriously** -- Regarding the extent to which PR recommendations are taken seriously, the average score (on a 1-7 scale) dropped from 5.89 to 5.28 among MACs, and from 6.02 to 5.36 among all other respondents.

**6. PR contributed less to strategic planning** – When asked to rank on a 1 (low) to 7 (high) scale the extent to which PR contributed to strategic planning within their organizations, MAC respondents replied that their contributions dropped from 4.73 in 2002 to 4.19 in 2003. Among non-MACs the cumulative answer dropped from 4.77 to 3.95.

**7. PR reported less often to the “C” suite** – Overall there was a significant year-over-year change in the data regarding reporting lines. Specifically among Fortune 500 MACs, the percentage of PR operations reporting to the Executive Office dropped by 14%, while it dropped by 15% among Fortune 500 non-MACs.

**8. The agency industry suffered** – In a sense the agency business is a bellwether for the entire profession. Concerns about working with agencies (i.e., ability to measure ROI) often reflect concerns about the profession itself. To an extent, as the agency business goes, so goes the profession. While use of agencies remained very high, a number of red flags appeared in terms of how and why clients work with agencies, and their concerns about those relationships. For example:

- a. “Extra arms and legs” was, by far, the most frequently cited reason for working with agencies. This is a significant shift from 2002, when “strategic and/or market insight” was the Number 1 reason.
- b. Among concerns about working with agencies, all possible concerns increased across the board, but the single greatest increase was in concern about “return on investment,” which leaped from 48% citations in 2002 to 80% in 2003 among “MACs,” and from 52% to 83% among all other companies.
- c. Similarly, concern about “cost” increased from 76% to 82% among MACs, and from 78% to 88% among all other respondents.

These agency usage data seem to clearly indicate that in 2003, as compared with 2002, outside PR firms were relied on more for “arms and legs” support as an alternative to adding internal staff, and there was far greater concern about the financial aspects of agency client/ relationships.

When viewed collectively the issues cited above can easily be seen as a significant setback for the manner in which the profession is perceived and valued by some of its key stakeholders (i.e. the C-suite, clients, etc). This would be especially troubling given the progress the profession appeared to be making in prior years.

Nonetheless, while acknowledging the possibility that the profession regressed in 2003, the authors believe that it is essential to step back and take a broader, more contextual look at the situation, for these reasons:

1. 2003 was a year of great economic uncertainty.
2. The relatively recent advent of new regulations regarding various aspects of communications (Regulation FD, Sarbanes-Oxley, etc.) created an environment of caution, the scale of which has yet to be accurately assessed.
3. Likewise, *Kasky v. Nike* raised the specter of new legal threats to what had previously been seen by many as fairly routine communications strategies.
4. Numerous corporate crises and scandals rocked corporate America, adding to the air of uncertainty.
5. The corporate world was scrutinized like never before by the media and interest groups.
6. Talk of terrorism against “soft targets” posed an altogether new, unprecedented cause for concern.
7. The war in Iraq contributed to the overall sense of disquiet confronting all elements of American society.

*Given all of the above, it can easily be hypothesized that Corporate America did indeed, function in a sort of “Bunker Mentality” in 2003, focusing on dealing with the issues at hand and taking a very cautious approach to communications. It was not a time to spend more money, raise the organizational head far above the crowd, do anything remotely controversial, or think far ahead. 2003 was a year for survival, rather than strategic, visionary thinking. In such an environment, is it any wonder that PR suffered while more defensive functions (Finance, Legal, etc.) thrived?*

**B. What it takes to be a “Most Admired Company” (MAC)** – Characteristics shared by companies appearing on the MAC list as compared with non-MACs include these:

1. While responses to a question specifically asking about the degree of support from senior management suggested that MACs respondents garnered no greater support than non-MAC respondents, queries about certain specific indicators of support suggest that they did at least receive greater financial support. For example, in the all important budget category, MACs had somewhat larger PR/GR ratios than non-MACs, meaning that they allocated more dollars to PR budgets per million dollars in gross revenues (\$588/\$1 million) than did non-MACs (\$564/\$1 million).
2. MACs perceived themselves as being significantly more democratic and homogeneous.
3. When evaluating PR, MACs utilized the following measures more frequently than non-MACs: crisis avoidance, influence on business rankings, influence on market share, influence on corporate culture, and influence on employee moral.

4. MACs were significantly more likely to use outside PR agencies than non-MACs, possibly due to their larger size, likely public ownership, and complexity. Specifically among the Fortune 1000, 81% of MACs used outside agencies as compared with 72% among like-sized non-MACs. PR agency duties among MACs were significantly more likely to include executive communication, internal communication, and online communication.

**C. Shifts in the characteristics of MACs** -- An examination of how the characteristics of MACs changed from 2002 to 2003 reveals this:

1. They rated Legal as ranking significantly higher in terms of its contribution to success, as compared with seven other common corporate functions;
2. They were less likely to be involved in community relations than in 2002 (probably as a result of the difficult economic times);
3. They were significantly more likely to use “influence on stock price” as a gauge of PR success, and
4. Most importantly, when compared with 2002 they indicated that PR garnered less support from senior management, was less involved in strategic planning, and its recommendations were taken less seriously.

**D. The Salary/Budget Relationship** – Among Fortune 2000 respondents, MACs allocated 45% of total PR budgets to salaries while generally smaller non-MACs allocated 33% to payroll.

**E. PR/GR Ratios** – Because the public relations profession lacks standards for establishing overall budgets the USC Annenberg Strategic Public Relations Center has developed the PR/GR ratio, which gauges the number of dollars dedicated to total PR budgets (including salaries) for every million dollars in gross revenues. While it needs further study and refinement due to the effects of variances in company size, limited reporting of gross revenues, etc., the PR/GR Ratio is a useful starting point. Among Fortune 2000 GAP II respondents, the PR/GR Ratio was \$588/\$1 million among MACs and \$564/\$1 million among non-MACs.

**F. PR Reporting Lines** – Overall, among the Fortune 2000, PR reported to the Executive Office 49% of the time among MACs, versus 57% among non-MACs. (*This may be attributable in part to the generally smaller sizes of non-MACs, even within the Fortune 2000.*) Likewise, within the Fortune 2000, PR reported to Marketing 23% of the time among MACs, versus 17% among non-MACs. Specifically among Fortune 500 MACs, PR reported to the Executive Office 48% of the time, and to Marketing 10%, versus 56% of the time to the Executive Office and 6% of the time to Marketing.

**G. PR Staff Size** – Among the Fortune 2000, on the average, MACs have larger PR staffs than non-MACs: 42.7 people vs. 21.6. The PR staffs of Fortune 500 MACs are substantially larger than those of Fortune 500 non-MACs: 66 people vs. 40. (*Note: These and some other differences between MACs and non-MACs may be attributable to the relatively larger sizes of MACs, the greater likelihood that they are public companies, and the additional communications responsibilities that come with public ownership. In short, MACs must place a greater emphasis on communications.*)

**H. Use of Outside PR Agencies** – Use of outside agencies appears to be considerably greater among Fortune 2000 MACs than non-MACs, though this must be viewed in the context of the MAC-specific factors previously cited. Specifically among Fortune 500 respondents, 94% of MACs, and 79% of non-MACs, used agencies. “Agency of record” remained the most common type of agency relationship, though use of agencies on a project basis increased. The most often cited reason for working with agencies was “additional arms and legs,” while the most often cited concern was “cost,” with “ROI” a close second. Among Fortune 2000 respondents, MACs and non-MACs allocated 15% and 16% (respectively) of their total PR budgets to agency fees.

**I. PR Evaluation Methods** – Evaluation appears to have made little or no progress. “Influence on corporate reputation” remained the most commonly cited metric, despite the lack of a generally accepted methodology for that approach. MACs scored a total of 10 possible evaluation metrics above 4 (neutral) on a 1-7 scale, while non-MACs scored only 5 above neutral, suggesting that MACs are more aggressive about evaluation. MACs ranked “influence on employee morale” second, while this was a distant fifth among non-MACs, and MACs placed less emphasis on media-related measures (“clips,” “media impressions,” “ad equivalency,” etc.) than did non-MACs. Fortune 500 MACs, which represent the biggest, most successful companies (at least by the MAC measure), ranked their top five metrics as follows: (1) “influence on corporate reputation,” (2) “influence on share of voice,” (3) “influence on stakeholder attitudes,” (4) “influence on stakeholder awareness,” and (5) “influence on employee morale.”

As was the case in the 2002 GAP I study, those “hard” measures potentially offering the greatest degree of support from senior management (“contribution to sales,” “contribution to profitability,” “contribution to market share,” etc.) were at the bottom of the rankings for MACs and non-MACs alike.

**J. Senior Management’s Views of and Support for PR**

1. Among all respondents, the perceived degree of support from senior management (5.35 for MACs and 5.50 for non-MACs on a 1 – 7 scale) were positive but undoubtedly far from where the profession would like them to be. However, the “news” was in the previously cited decline in the level of support.

2. When asked how they think senior management would rank PR's contribution to organizational success relative to those of seven other typical functions, PR was ranked sixth out of eight functions, ahead of HR and Security. PR's cumulative raw score (on a 1-7 scale) amounted to a still positive 5.15 among MACs and 5.11 among non-MACs, suggesting that the profession still has a fairly positive self-image.
3. When asked about the extent to which PR's recommendations are taken seriously by senior management, MACs answered with a positive, cumulative average raw score of 5.35, while the non-MAC response was 5.50 (on a 1 - 7 scale). Here again the "news" was in the previously cited, precipitous, year-over-year decline in this measure.
4. When asked about the extent to which PR contributes to organizational strategic planning, MACs answered with a (perilously close to neutral) cumulative average score of 4.19, while the non-MAC response was a slightly negative 3.95. The year-over-year decline in this metric, too, was alarming.
5. The findings are only slightly more positive regarding the extent to which PR is included in organizational decision-making. MACs responded with a cumulative average score of 4.97, while the non-MAC response was 4.74. (Year over year comparative data not available.)

**K. Functions for Which PR is Responsible** – MAC PR organizations were more likely to be responsible for corporate communications, executive communications, on-line communications, issues management, and philanthropy, while non-MACs were more likely to be responsible for marketing PR, community relations, public affairs, corporate image advertising, product PR, and product advertising. MACs and non-MACs were roughly equally likely to be responsible for internal communications, crisis management, investor relations, issues advertising, government relations, consumer affairs, and lobbying.

**L. Degree of Integration/Coordination** -- When asked about the extent to which the various communications-related functions within their organizations are integrated and coordinated, the cumulative average scores for MACs and non-MACs alike were only somewhat positive – 4.95 for MACs and 4.63 for non-MACs. Interestingly, MACs did, however, report a somewhat greater degree of internal integration and coordination than did non-MACs. (Year-over-year comparative data were not available.)

## **M. Public vs. Private Companies –**

1. **Budgets** -- The average PR budget (including salaries) among Fortune 2000 private companies was \$3,091,000 as compared with \$7,104,000 among Fortune 2000 public companies. However, once salaries were deducted, the average PR budgets of the two types of companies were not extraordinarily different: \$2,063,000 for private companies and \$2,745,000 for public companies. Interestingly, private Fortune 2000 companies allocated an average of 33% of their PR budgets to salaries, vs. 61% for like-sized public companies.

Among Fortune 2000+ companies, the average PR budget among the private was \$551,000, while among the public it was \$681,000. The former allocated 48% of budget to salaries, while the latter allocated a comparable 54%.

2. **Budget changes** -- While the data regarding budget changes were somewhat limited due to reluctance among private companies to answer the question, it appeared that private companies reduced their budgets by considerably less than public companies. This may be due to the fact that private companies are under no pressure to meet the cost and profit expectations of Wall Street. (Unfortunately private companies failed to provide sufficient data on which to base PR/GR ratios specifically for that category of organization.)
3. **Reporting lines** -- Among private companies PR reported most often to the Executive Office (as was true of public companies). However, PR was far more likely to report to Marketing in private companies than public. NO respondents in private companies of any size reported to Legal or Finance, while a few among the public companies did. Despite the fact that PR reported to the Executive Office most often, the percentage of respondents from both private and public companies who actually reported to the EO decreased in 2003, though this reduction appears to be less pronounced among private companies.
4. **Staff size** -- It appears that large private companies may have actually held their staff levels flat or enjoyed slight increases, which corresponds to the earlier findings about PR budget changes. Similarly, in both 2002 and 2003, the PR staffs of Fortune 2000 private companies were about half the size of those of Fortune 2000 public companies.
5. **Use of agencies** -- Across all revenue categories, private companies were less likely to use PR agencies than public. Roughly 46% of all private respondents did not use agencies at all and the most significant decreases in agency usage took place among private companies. Nearly 30% fewer private companies used agencies in 2003 than did in 2002.

6. **Reasons for using agencies** – Private companies indicated that they turn to agencies most often to “offset the limitations of internal staffs” and for “additional arms and legs,” as did public companies. However, Fortune 2000 private companies did turn to PR agencies for their “objective points of view” and “unique expertise” more often than public companies of comparable size.
  
7. **Concerns about working with agencies** – Private companies expressed the same concerns about working with agencies as did public companies, with the emphasis on “cost,” “ROI.” “junior level of staff” and “lack of knowledge/insight into our business.”
  
8. **PR evaluation** – As with public companies, there was no standard approach to evaluation among the private. Private companies continue to rank “content analysis of clips” as the most frequently used measurement technique.