

>>> **Companies' political influence: a necessary transformation**

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THE WEIGHT OF REGULATORY DECISIONS IN YOUR BUSINESS

In 2013, the strategy consulting firm McKinsey 2013 interviewed 2186 public affairs executives from all regions, industries, company sizes and areas. It reached the conclusion that **“around a third of a business depends on decisions taken by political decision makers.”** This statement may seem crude or exaggerated, since a business' success depends on many factors which must coincide, such as the product, the service, the sales strategy or the customer service. However, there is evidence that the impact of regulation on companies has intensified over the last years.

McKinsey's study revealed that, in global terms, **the corporate value depending on regulatory decisions is close to 30%.** In some sectors like banking, this percentage rises up to a surprising 50% (translated into euros, we would be talking about EUR 1.5 trillion in total). And this

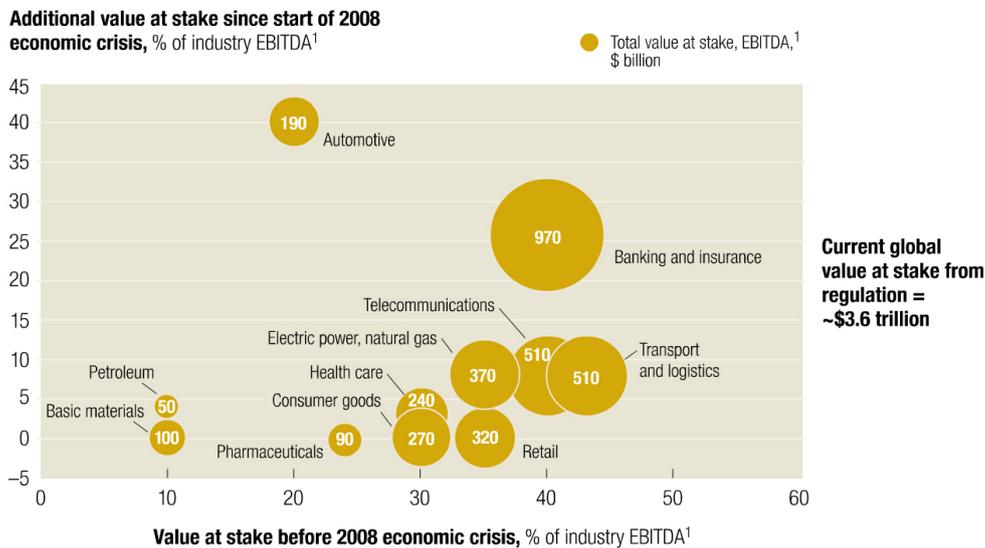
figure won't stop growing in the coming years; a recent survey by the consultancy Interel reveals that 92% of CEOs of public affairs international agencies declare that **the volume of regulation affecting the companies has increased in the last five years.**

We are therefore facing a global tendency which has been accentuated by the recent crises and by an increasing regulatory complexity and uncertainty.

If the impact of the regulation on business is so significant, one would expect that the companies would have taken action and would have started organizing their departments of public affairs or institutional relations with the same dedication and resources as the other areas. Surprisingly, this is not the case: less than 30% of the public affairs executives interviewed by the American consulting firm claimed to have the necessary structure and staff for the achievement of their objectives. And what is worse, **only 20% of them stated to be able to influence on public regulatory and political**

VALUE AT STAKE FROM REGULATION

Government regulatory intervention since the economic crisis began has increased the value at stake across industries



¹Earnings before interest, taxes, depreciation and amortization
Source: Global Insight; interviews with experts; McKinsey analysis

decisions regularly — a percentage that has not improved in the last years.

Nonetheless, there are organizational techniques and tools that have allowed 20% of companies to maximize their institutional influence, and therefore increase their corporate value. Given that today the mere access to the public authorities neither ensures the success in the institutional influence nor prepares the organizations for future issues, those companies have understood the need to implement three key organizational principles: **anticipation, systematicity and pro-activity**.

MANAGING THE PRESENT

One of the reasons why 80% of the companies do not achieve a satisfactory degree of institutional influence is because there is a “contact culture” established in them. This culture, based on personal relationships with political decision makers, is generally established according to urgency and necessity criteria. Nevertheless, the relationships with political decision makers require dedication and continuity.

In order to move towards an effective model of public affairs management, **companies must leave behind this “contact culture” and advance towards a “win-win culture”** of relationships based on **mutual corporate interests** and with a **clear long-term intention**. For the implementation of this model of relationships with political decision makers, the companies must provide themselves with tools that:

- Plan the relationships with decision makers, prioritizing the long term.
- Identify the issues affecting the company, as well as their relevant actors.
- Register the “conversation” with political decision makers and its evolution.

LEARNING FROM THE PAST

The construction of a new model of public affairs management is also based on a key corporate function that makes it possible to learn from the past: the **“report culture”**.

The report culture requires that the relationships with political decision makers stop being seen as a personal activity to be considered by the company as a key function to report about in a systematic way. Any department requiring spending or generating income reports its results systematically. Why has this same logic not been applied on a large scale to the departments of public affairs or institutional relations?

Many companies have entrusted the management of the relationships with decision makers to the personal ability of those responsible for carrying them out. But this mistake has turned the institutional influence into an intangible element that is difficult to quantify and report. However, the companies that have managed to introduce a report culture by means of management tools have succeeded in building a **history of relationships with decision makers that now allow them to take decisions and define priorities on a shared basis**.

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ANTICIPATING THE FUTURE

The third and last organizational improvement to optimize the relationships with political decision makers is **anticipation**.

Political and regulatory decisions require a constant monitoring of the complex process that starts after a first decision by the regulatory body with the implementation of a long chain of decisions that end up in a legislative process. The fundamental premise of an anticipation model is that, the less maturity an issue has (when there is not a formed opinion by the regulatory body), the greater is the company's

capacity to influence.

The anticipation model requires, therefore, a **greater sensitivity and a higher degree of participation at the early stages of the conversation with the decision makers** about the relevant aspects for the business of the company. Those companies that are able to identify a political or regulatory issue when it is not mature yet and take part in the conversation with the appropriate decision makers from the beginning are those who manage to influence the regulatory and political decisions effectively.

TECHNOLOGY FOR THE RELATIONSHIPS

The introduction of these organizational improvements requires cultural changes, but also **methodological rigor**. To help the companies adapt to these new models technological solutions and collaborative tools have emerged. Their use, however, has by no means been widespread in the departments of public affairs.

In the area of marketing and sales is very common to hear the abbreviation CRM (Customer Relationship Management); it is nothing new. The CRM are the technology's response to the companies' increasing need to strengthen the relationships with their customers. Companies have understood the importance of doing a thorough monitoring of sales. The same cannot be said, however, of relationships, whether public or with political decision makers.

Public relations and institutional relationships are based precisely on relationships. Nevertheless, **the tools aimed at doing a thorough monitoring of relationships in companies have not been integrated on a massive scale**. And they represent, however, a key element in the transition towards an organizational model aimed at influencing regulatory decisions.

The **CRM adapted to the needs of departments of public affairs and communication** are one of the solutions that enable companies to do a thorough monitoring of the relationships. It is, in fact, one of the solutions that have allowed 20% of the companies that are satisfied with their work on public affairs to achieve an optimum level of influence on regulatory and political decisions.

The companies need to influence on the regulatory decisions that affect them, since these have a strong and increasing impact on their business. To do this, they need to opt for an appropriate design and implement organizational principles that maximize the political relationships. In a complex and increasingly more competitive regulatory environment, the companies being able to influence on political decisions will be the ones going one step ahead with respect to their competitors.



» **Joan Navarro** is Partner and Vice-President of Public Affairs of LLORENTE & CUENCA. He is a sociologist and PDG in IESE. He was the Director and Spokesman of Coalición de Creadores e Industrias de Contenidos Audiovisuales and has held public positions within the Public Administration, such as Head of Staff for Minister of Public Administrations (2004-2006) and Head of Institutional Relations in Sociedad Estatal Aguas de las Cuencas Mediterráneas (2006-2008).



» **Carlos Luca de Tena** is Senior Consultant in Public Affairs at LLORENTE & CUENCA in Spain. He advises various clients in the energy and ICT sectors. Prior to joining LLORENTE & CUENCA, he worked as an associate consultant at APCO Worldwide and, before that, he also worked for the French National Association of Towns as responsible of EU affairs. Mr Luca de Tena holds postgraduate degrees in Political and Social Sciences, International Relations and European Affairs from the Universidad Carlos III de Madrid, Sciences Po Paris, the University of Bath and the London School of Economics.

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