

# Strategic Public Relations Center

UNIVERSITY OF SOUTHERN CALIFORNIA  
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## FIFTH ANNUAL PUBLIC RELATIONS GENERALLY ACCEPTED PRACTICES (G.A.P.) STUDY (2007 DATA)

### GAP V

#### SECTION II: EXECUTIVE SUMMARY

By

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## **SECTION II: EXECUTIVE SUMMARY**

### **A. THE SURVEY**

- The 4.8% increase in number of respondents (from 496 in 2005 to 520 in 2007) suggests that the GAP Study is gaining acceptance as an important, ongoing management resource for the public relations profession.
- Respondents to the survey broke down as follows:
  - Public 30%
  - Private 23%
  - Government agency 11%
  - Not-for-profit 36%
- The substantial response this year from non-commercial organizations, coupled with anecdotal evidence, suggests that these organizations are increasingly facing the same demands for hard data as their commercial counterparts.
- A broad cross section of the industry participated in GAP V, indicating that organizations of all size and structure are interested in having and comparing data related to the management of the PR/Communications function.
- While GAP surveys in the past have primarily focused on the U.S., differences in significant categories, such as PR responsibilities and staffing, suggest that future GAP surveys must more aggressively reach out to and include more organizations outside North America.

### **B. THE INDUSTRY**

- When compared with the hugely inflated and overly optimistic years of the Internet bubble, the erratic and generally negative conditions of 2002 and 2003 (as described in GAPs I and II), and the bounce-back year of 2004 (as described in GAP III, which reflected a great sense of exuberance across the profession), GAP IV and GAP V (conducted in Q4 of 2005 and Q4 of 2007) suggest that the industry had finally entered a period of greater stability, normalization, and modest growth.

- GAP V averages:
  - Gross revenue: \$6.7 billion
  - PR budget: \$4.4 million
  - Agency fees: 30% of total PR budget
- The bottom line: the years 2004 to 2007, bereft as they were of major destabilizing influences, may have been the first truly stable years the profession has enjoyed in some time, and the ideal benchmark year against which to gauge the profession's future progress and evolution.
- The authors are concerned that, as they write, the U.S. economy is suffering through a period of substantial economic uncertainty, and possibly a recession. While this may have a negative effect on the PR profession and its employment landscape, the GAP V data suggests that the profession is stronger than ever before, and perhaps more recession resistant (though not recession proof) than has previously been the case.

### C. BUDGETS

- In 2007, budgets increased on average by 7% in all segments.
- The near universal growth in average staff size (from 40 to 60 among the largest companies) suggests that the stabilization noted in the 2005 GAP IV survey has led to a period of notable growth across all categories of organizations participating in the survey.
- There were statistical correlations revealing that those organizations with larger PR budgets were significantly more likely to report to the C-Suite, to be invited into organizational strategic planning, to work with more than one PR agency, and to coordinate and integrate the various communications functions.
- The fact that organizations with larger PR budgets are much more likely to indicate that the communications function is well-integrated with other departments is noteworthy, in that these would tend to be the very organizations with the most complex structures. If the largest, most complex organizations see the benefits of breaking down silos and are able to do so, then certainly smaller organizations can (and should) follow suit.

- The fact that respondents from organizations with \$3.1 billion or higher revenues are significantly more likely to describe their organizations as being ethical and proactive as described elsewhere in this report is also noteworthy. It suggests a connection between greater expenditure on communication relative to organizational size on the one hand, and a greater commitment to transparency, ethical business practices, and a forward-looking perspective on the other.
- Significant budget increases anticipated by smaller organizations suggests to us that they are fighting to establish awareness in highly competitive environments, are maintaining aggressive communications postures, and are adopting public relations as a key tool in those efforts.

***Budgets: Variations by Categories***

- ***Public and Private Companies:*** PR salaries ranged from a high of 50% of total budget (private companies with revenue less than \$1.6 billion) to a low of 40% (public companies with revenue \$1.6 billion+).
- ***Health Care, Manufacturing and Technology***
  - The average budget reported by respondents in the health care (+\$869,468) and manufacturing (+\$6,793,967) sectors reported substantial increases in their PR budgets in 2007, but technology respondents (- \$2,054,202) reported a significant drop.
  - Health care (+7%) and technology (+6%) have the highest expectations for budget increases in 2008, but manufacturing respondents anticipate, on average, only a 2% budget increase.
- ***Not-for-Profit Organizations and Government Agencies:*** Respondents for both not-for-profit organizations and government agencies do not expect budget increases in 2008.

***PR/GR Ratio (Ratio of PR Budget To Gross Revenue): An Increasingly Valid Indicator:*** The PR/GR ratio has emerged as an increasingly valid model for large organizations, which spend an average of \$786 on PR for every \$1 million in gross revenue.

***Anticipated Budget Changes:*** When asked about expected changes to budgets next year (i.e., 2008), respondents reported expected increases of 5 % on average. However, the actual size of the increase varied by the size of the current budget, with the very largest organizations projecting no increase at all. Obviously, the evolving economic situation may affect this data point.

## **D. EVALUATION**

- Organizations remain reluctant or unable to allocate adequate resources to PR evaluation, preferring to focus on execution. At a time when the profession is under increasing pressure to demonstrate its value in “hard” terms, this may be a dangerous, self-defeating posture.
- The fact that a score of 4.67, on a scale of 7, was the highest earned by any methodology strongly suggests to us a lack of enthusiasm for the currently available measurement techniques.
- Nonetheless, the imperative to seriously evaluate PR spending and activity now has equal footing in organizations of all sizes.
- Respondents reported (5.09 on a 1 to 7 scale) that the CEO believed that PR evaluation methods were adequate.
- Still, given the average expenditure of just 6% of budget on evaluation, the authors believe that the PR profession is not doing enough to demonstrate its value relative to other disciplines.
- The differences in evaluation metrics used in organizations reporting to the C-Suite versus marketing were striking. The former were far more strategic and organizational in nature, while the latter were far more publicity and sales-oriented.
- Statistical correlations of responses from various questions revealed that organizations that reported to the C-Suite were more likely to utilize a combination of evaluation metrics that included using:
  - Contribution to market share
  - Contribution to profitability
  - Contribution to sales
  - Influence on corporate culture
  - Influence on employee attitudes/morale
  - Influence on stakeholder awareness
  - Influence on stakeholder opinions

- However, organizations that reported to marketing were more likely to use only the total number of clips and total number of clips in top tier media.
- The absence of reliable and widely accepted tools for measuring PR effectiveness (other than those measuring media-related activities) may also lie behind the low percentages of PR budgets dedicated to evaluation.
- It is nonetheless a positive development that smaller organizations in our sample now report spending approximately the same percentages of their total PR budgets on evaluation.
- The movement continues away from the traditional quantifiable measures of clips, ad equivalency, impressions, total circulation, etc.
- Measuring reputation remains a favored methodology – this despite the lack of any widely adopted method for doing so.
- Measures that financial analysts and senior management most rely on to track progress – such as influence on stock performance, contribution to profitability, to market share and to sales – are ranked very low by respondents, possibly because of the lack of reliable tools that can measure the impact of PR on those vectors.
- Yet detachment from such traditional progress measures that mean the most to senior management may contribute to any remaining skepticism held by senior management toward the communications function.
- In sum, the authors believe that the profession is doing itself a great disservice by not directing a sufficient percentage of its resources to the development and adoption of more sophisticated forms of evaluation.
- This is particularly true when assessing PR budgets relative to their closest rivals, advertising budgets, which are (generally) carefully measured and monitored for effectiveness.
- It will be difficult for PR to get a larger share of the total communications expenditure without quantitative means that go well beyond primitive numerical counts of media clips and a hypothetical tally of impressions.

## **E. REPORTING LINE**

- Gaining access to the top is not the issue it was just a few years ago. Today, the issue is what one does with that access.
- Increasingly the PR function reported directly to the C-Suite at 64% with 23% reporting to marketing and the remainder reporting to human resources, legal, finance and strategic planning. Those reporting to the C-Suite expressed the highest level of satisfaction with their reporting line (6.58 on a 1 – 7 scale). Those reporting to legal expressed the lowest level of appropriateness at 2.92.
- Statistical correlations revealed that those reporting to the C-Suite were significantly more likely to report that they received a higher level of support and serious consideration within the organization.
- Furthermore, PR was more likely to be included in organizational strategic planning and senior level meetings of all types.
- In addition, their CEOs believed that PR contributed to financial success and market share, and that reputation contributed to the overall success of the organization.
- While the statistical correlations make clear the advantages of reporting to the “C-Suite”, it is important to note that multiple lines, head of operating unit (only), and marketing (only) all received appropriateness scores over 5.00. This suggests to us that the ideal reporting line is situational.
- Organizations where PR reported to marketing were significantly more likely to see PR as making high contributions to sales and are anticipating budget increases next year (i.e., 2008). However, they were less likely to have senior level support or be included in senior level or strategic planning meetings.
- Taken collectively, the data and correlations make clear the very negative implications of other reporting lines, especially to HR (only), Legal (only) and Finance (only).
- Organizations where PR reported to human resources were more likely to have PR report to multiple units or functions and less likely to have the CEO believe that PR contributed to the financial success of the organization.

### ***Reporting Line: Variations by Cross Sections***

- ***Public and Private Companies:*** Among the very largest public companies (revenue \$1.6B+), a very substantial 63% of respondents report to the C-Suite, but only 37% of respondents from private companies that size do.
- ***Health Care, Manufacturing and Technology:*** A significant majority of all three categories report now to the C-Suite: health care (78%); manufacturing (64%); technology (57%).
- ***Not-for-Profit Organizations and Government Agencies:***
  - A clear majority of respondents from not-for-profit organizations report to the C-Suite, as do 70% of government agency respondents.
  - 5% or less of not-for-profit respondents report to HR, the lowest ranked reporting relationship in that group, and only 9% of government agency respondents report to HR.

### **F. OUTSIDE AGENCIES**

- This is a very different agency/client world than existed as recently as 6 to 8 years ago.
- The traditional agency of record model has become a rarity. In general, the very largest organizations worked with four agencies while mid-sized organizations worked with two.
- In general, 56% of GAP respondents worked with outside agencies. Among the very largest public organizations, 93% used agencies in some capacity.
- 76% of all respondents that work with an agency or agencies are maintaining ongoing multi-year relationships with their outside firm or firms.
- The percentage of total budgets allocated to agency fees continues to trend upward.

- The smaller the organization, the less likely it is to work with agencies.
- Among all respondents, additional arms and legs was cited as the single most popular reason for working with an agency (cited by 83%) followed closely by strategic/market insight and experience (71%).
- Overall, the larger organizations tended to be more comfortable with their agency relationships than were smaller organizations.
- It appears that agencies are enjoying trends that, if sustained, would support a period of growth and prosperity, given that:
  - The typical respondent client now works with multiple agencies
  - More respondents of all types are maintaining ongoing relationships with those agencies
  - Client budgets generally increased by an average of 3% from 2006 to 2007
  - The percentage of total budgets allocated to agency fees continues to trend upward
  - The numbers of agencies used by clients seems to have stabilized
- Within a multiple-agency relationship model, each of the outside firms must compete with the others for its share of client budgets, but this burden may be more than offset by:
  - Increasing client reliance on outside firms
  - More total dollars spread among those outside firms
  - An increased pattern of sustained, ongoing agency/client relationships
- From the standpoint of the agency industry, additional arms and legs may not be the preferred rationale for working with outside firms, because it is generic and implies no intellectual or strategic benefit.
- Conversely, the substantial increases in citation of strategic/market insight and experience and objective point of view offer strong evidence that clients are becoming more dependent on their agencies for reasons other than sheer labor.
- The continuing low rank given to ability to quantify results is further evidence of the PR profession's inability to come up with commonly accepted measures of effectiveness, and a potential competitive advantage for firms that focus on evaluation.

## *Agencies: Variations by Categories*

- ***Public and Private Companies***

- Only a slight majority (53%) of respondents from private companies with revenue \$1.6 billion or less, and slightly less than half (46%) of respondents from public companies in the same revenue category, still use the agency of record model.
- A majority of larger companies with revenue \$1.6 billion+, public (57%) and private (65%), now prefer to work with multiple agencies.
- Public and private companies spent in the range of 5% to 7% of their PR budgets on evaluation, with the smaller companies (revenue \$1.6 billion or less), public and private, averaging the same: 7%.
- Public companies used more outside agencies than private companies.
- Additional arms and legs were ranked highest by all companies, public or private, as a reason to work with an agency.

- ***Health Care, Manufacturing and Technology***

- Manufacturing respondents reported using outside PR agencies the most (80%), followed by technology industry respondents (74%) and health care industry respondents at only 51%.
- Technology allocated the highest percentage of PR budgets (41%) to agency fees and health care the least (28%).
- A majority (56%) of respondents from health care still report using the agency of record model, but respondents from both manufacturing organizations (at 47%) and from technology organizations (at 50%) rank the multiple-agency model first.
- Manufacturing and technology companies ranked extra arms and legs as the principal reason to engage outside agency help, but health care ranked strategic/market insight and experience first.

- ***Not-for-Profit Organizations and Government Agencies***

- More than half (67%) of respondents for not-for-profit organizations with revenues \$580 million to \$6 billion use agencies, but most of the rest of the not-for-profits and government agencies do not.
- Among reasons to hire outside PR counsel, respondents for the very largest not-for-profits ranked first strategic/market insight and experience, but the remaining two not-for-profit revenue categories ranked first their need for additional arms and legs.
- Respondents for government agencies ranked first their need to complement internal capabilities.

## **G. MANAGEMENT PERCEPTIONS**

- The estimation by PR practitioners of how well management views their contributions has improved dramatically in the course of five GAP surveys executed across seven years.
- When asked about senior management's views of the contributions to organizational success of nine common functions, PR moved from number 1 in 2004 to number 4 in 2005 but was number 3 in this 2007 report. However, this must be seen in the context of the very small ranges found in GAP V that separate the top three functions: finance (5.59); marketing (5.51); PR (5.49). In any case, the profession clearly has a much-improved self-perception.
- PR was ranked as the top contributor to success among respondents at government agencies and among all but the very largest not-for-profits, suggesting that one of the benefits of working in the government or not-for-profit arena is the extent to which PR is seen as an important player.
- It is encouraging to see that, even among smaller organizations, PR practitioners are more and more involved in the important strategy meetings at which the key decisions and direction of their organizations are planned and analyzed.
- It is noteworthy that in this and the other GAP V gauges of PR's standing within an organization, the profession consistently does best among the largest respondent organizations. To the extent that those organizations represent the most successful American enterprises, this can be seen as a strong endorsement of the profession that organizations of other sizes might be wise to emulate.
- The authors also believe that results here reflect a consistently healthy degree of management support for PR that can be leveraged to expand budgets and staff.
- Given the responses to this and the previous query, the authors believe that the status of PR practitioners in their organizations as serious contributors and counselors to senior management is stable and strong.
- This and other key indicators of professional good health (i.e., budget and staff growth) suggest to us that the PR industry is better positioned to weather an economic downturn than it has been in the past.

- The conviction of respondents that CEOs value the contributions of PR is now undeniable and signifies a much improved self-image and degree of confidence within the profession over previous surveys.
- Nonetheless, the authors believe that practitioners must guard against the unhealthy flip side of that confidence – overconfidence. Still to be addressed is the evaluation-related question, “from what hard data do they (and their CEOs) derive their optimistic beliefs?”

## **H. RESPONSIBILITIES AND FUNCTIONS**

- When asked which communication-related functions the PR department had primary budgetary responsibility for, the most frequently cited was corporate communications. This top ranking has held since GAP I. Moving into the number 2 position was marketing PR/product PR (76%). Employee/internal communications was 3<sup>rd</sup> at 68%.
- Statistical correlations revealed that organizations whose PR function reported to the C-Suite were significantly more likely to be responsible for:
  - Advertising of corporate image
  - Advertising of issues
  - Advertising of product
  - Community relations
  - Corporate communications (non-advertising)
  - Corporate external website
  - Corporate image
  - Corporate intranet
  - Crisis management
  - Government relations/lobbying
  - Investor relations
  - Issues management
  - Philanthropy

- Organizations whose PR functions reported to marketing had a more narrowly defined role principally confined to:
  - Corporate image advertising
  - Issues advertising
  - Community relations
  - Employee/internal communications
  - Government relations/lobbying
  - Public affairs
  
- The fact that among global/international organizations PR is much more likely to have responsibility for various types of digital media is noteworthy. This may be due in part to the greater adoption of such media outside the U.S., the greater and more complex reputational exposures such organizations face in a global environment, etc.
  
- The many positive attributes that run in tandem with having responsibility for corporate social responsibility, digital media, and issues management are certainly noteworthy. While these organizations tend to be larger in terms of gross revenues, and therefore better able to afford the adoption of new techniques, the fact that they are doing so at a rapid clip, while also enjoying the benefits of numerous other positive attributes, is reassuring.

## **I. INTEGRATION WITH OTHER DEPARTMENTS**

- The fact that there are no noteworthy year-over-year differences suggests that a consistent level of integration with other departments has been achieved. Nonetheless, that level of consistency is far from optimal and there is much room for improvement.
  
- While some use is being made of such data, practitioners may not be making optimal use of potentially valuable information from such data driven functions as marketing, finance, and human resources when evaluating (and planning) their work.
  
- The authors suggest that rather than tolerating a limited degree of integration and coordination among departments, PR/Communications should be the champion of cross-functional cooperation because it would enhance the overall communications effort and help to achieve organizational goals.

## **J. GAP BEST PRACTICE COMMUNICATIONS**

- Statistical correlations reveal positive attributes of PR/Communication practices that tend to exist in tandem.
- Taken collectively, these positive, in-tandem attributes and our improved understanding of the PR/Communications practice are now allowing the authors to identify 13 best practices among communications organizations:

*GAP Best Practice #1: Maintain a higher than average ratio of PR budget to gross revenue (GAP PR/GR Ratio).*

*GAP Best Practice #2: Report directly and exclusively to the C-Suite.*

*GAP Best Practice #3: Optimize the C-Suite's understanding of PR's current and potential contributions to the success of the organization as a whole.*

*GAP Best Practice #4: Establish an effective social responsibility strategy for your organization.*

*GAP Best Practice #5: Establish an effective digital-media strategy for your organization.*

*GAP Best Practice #6: Establish an effective issues-management strategy for your organization.*

*GAP Best Practice #7: Optimize integration and coordination within the PR/Communications function, and between it and other organizational functions.*

*GAP Best Practice #8: Encourage highly ethical practices across the organization, beginning with communication.*

*GAP Best Practice #9: Encourage the organization-wide adoption of a long-term strategic point of view, beginning with communication.*

*GAP Best Practice #10: Encourage the organization-wide adoption of a proactive mindset, beginning with communication.*

*GAP Best Practice #11: Encourage the organization-wide adoption of a flexible mindset, beginning with communication.*

*GAP Best Practice #12: Optimize the integration of PR and reputational considerations into top-level organizational strategies.*

*GAP Best Practice #13: Measurably contribute to organizational success.*