A longitudinal analysis of mergers and acquisitions patterns of U.S. public relations agencies between 1984 and 2004

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ABSTRACT

This study was designed to examine the trends of M&As (mergers and acquisitions) in the public relations industry from 1980 to 2004. The results revealed that although M&A activities in the public relations industry increased in the decade between the early 1980s and early 1990s, they began to drop in the early 1990s. Also, it was found that public relations firms acquired or were acquired by other public relations firms.

A Counselors Academy survey in 2002 indicated that mergers and acquisitions were viewed as one of five major public relations issues (the others were economic perturbation, consolidation, globalization, and perpetual changes) (Gable, 2003). The number and scale of mergers and acquisitions (M&As) in the public relations industry has been continuously increasing during the last couple of decades due to the high demand of global public relations business. The M&A phenomenon has been especially prevalent among large public relations firms that tend to acquire independent companies to support their public relations practices. For example, in 1999, Porter Novelli, a multinational public relations agency with more than 100 offices in 50 countries, acquired Copithorne & Bellows Public Relations, a global high-tech specialist, and in the same year, purchased Nelson Communications Group, a well-known public relations firm (Deemer, 1999). On the other hand, smaller agencies tend to merge with larger ones to gain access to larger agency networks and reach new clients.

Despite the popularity and increase in M&A activities in the public relations industry, there has been little research done in public relations scholarship to assess this phenomenon. This deficit might be due to the lack of attention paid this industrial phenomenon by public relations scholars, although this industrial phenomenon changes do influence public relations practices. This research attempted to contribute new knowledge as well as call attention to this industrial phenomenon not addressed in traditional public relations studies by analyzing M&A patterns and trends in the industry.

1. Methodology

The population of this study is all M&As completed by U.S.-based public relations agencies and all M&As targeting U.S.-based public relations agencies between 1984 and 2004. This study used the SDC Platinum database compiled by Thomson Financial Securities Data as the primary data source for mergers and acquisitions. The following M&A data of public relations

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firms were analyzed: (1) the year in which the merger or acquisition was announced; (2) the acquiring company’s name, nation, brief business description, and SIC code; and (3) the target company’s name, nation, brief business description, and SIC code.

In order to analyze the extent of sector relatedness of the public relations agencies’ M&As, this study categorized all public relations M&A cases into three categories (identical sector, related sector, or different sector) based on the distances between the service markets in which the acquiring and target firms were located. The concepts of Broad Spectrum Diversity (BSD) and Narrow Spectrum Diversity (NSD) were applied for the categorization.

2. Findings

A total of 365 M&A cases were used for analysis. M&As conducted by public relations agencies made up 165 of the cases (45.2%), while M&As targeting public relations agencies made up the remaining 200 cases (54.8%). This indicates that investments in the public relations industry were comparatively higher than investments made by the industry. The yearly trends of both types of M&As were closely related to each other according to the Pearson correlation coefficient between the two types ($r = .99, p < .01$). This indicates that when the M&As conducted by the public relations industry became active, the M&As targeting the industry also became active, and vice versa.

The trend analysis of the total M&As displays conflicting results. During the early 1980s and early 1990s, M&A activities in the public relations industry continuously increased. However, during the early 1990s, the activity trend began to decrease. This result was found in both types of M&As—those conducted by public relations agencies as well as those of other companies targeting the public relations agencies during the period. However, from the middle of the 1990s to the early 2000s, the M&A activities steadily increased, with the exception of a few years: 1996, 1998, and 2001.

Regarding the trends of sector relatedness for mergers conducted by the public relations agencies, the identical sector (public relations industry sector) comprised a majority of M&A activities (50.5%) closely followed by different sectors (43.0%), while activities of related sectors were relatively low (6.5%). This result indicates that a majority of M&A transactions in the public relations industry were conducted between public relations agencies. This implies that the M&A activities of the public relations industry are performed to increase market power. The yearly trend analysis showed that the number of different sector M&As increased between the mid-1990s and early 2000s.

The above finding differed slightly from the finding based on the analysis of M&As targeting public relations agencies. The identical sector (public relations industry sector, SIC 8743) comprised a majority of M&A activities (51.2%), while related sectors (10.3%) and different sectors (28.5%) were relatively low. This result indicates that a majority of M&A transactions in the public relations industry were made among public relations agencies.

Sector relatedness was also analyzed in terms of individual industry. In cases of M&As made by the public relations industry, the advertising industry sector (SIC 7311) showed the highest incidence ($n = 40, 20\%$) followed by the investment and commodity industry sector (SIC 6799) ($n = 12, 6\%$). In M&As targeting the public relations industry, the advertising industry sector was also most frequently involved ($n = 19, 11.5\%$). The remaining industries each demonstrated five or fewer transactions in M&A activities.

Acquiring nations by or targeting the public relations industry was investigated. In both cases, the United States was the most frequently found acquirer nation ($n = 166, 83\%; n = 128, 77.6\%$). This result indicates that most M&A activities in the public relations industry took place in the United States. After the U.S., the United Kingdom was the second most frequently found acquirer nation in terms of M&A activities targeting public relations agencies ($n = 21, 10.5\%$, followed by Canada and France ($n = 5, 2.5\%$ for each). In the cases of M&As conducted by public relations agencies, the United Kingdom was also the most frequent acquirer nation, followed by Canada (35 cases, 21.2\%; 2 cases, 1.2\%).

3. Discussion and conclusion

The current study examined the trends and patterns of M&As in the public relations industry. Specifically, this study analyzed both M&As conducted by public relations firms and M&As targeting public relations firms. Analyzing both the external factors and internal factors associated with M&A decisions.

Analysis of M&A frequencies indicated that although M&A frequencies increased from the early 1980s to the early 1990s, they began to drop in the early 1990s. The increase of M&A activities during the 1980s may have resulted from the relaxed anti-trust policy of the Reagan administration. This policy is often regarded as the mergers-for-efficiency doctrine (Auster & Sirower, 2002) because it fueled M&A activities by permitting U.S. firms to compete better internationally. This trend tended to propel public relations industry M&A activities as well. Following the decrease in activity in the early 1990s, however, M&A cases started to increase again from the mid-1990s to the early 2000s, with the exception of a few years in the late 1990s. One partial explanation for the drop in M&A activities in the early and late 1990s could be the general economic downturn.
that a major internal rationale for M&As in the public relations industry might be to increase market power. The trend was also shown to be somewhat consistent over time.

This study also found that among different sector industries, advertising service firms participated most frequently in M&A activities both targeting and conducted by public relations agencies. This finding confirmed the strategic alliance of pairing public relations and advertising agencies in an effort to meet the needs of corporate clients who want the full gamut of integrated marketing services. Regarding this phenomenon, industry experts have bemoaned the incursion of these mammoth alliances between public relations agencies and advertising agencies.

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