PRINCIPLES FOR THE USE OF RETURN ON INVESTMENT [ROI]; BENEFIT-COST RATIO [BCR]; AND COST-EFFECTIVENESS ANALYSIS [CEA] FINANCIAL METRICS IN A PUBLIC RELATIONS/COMMUNICATION (PR/C) DEPARTMENT

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Purpose

An organization's financial performance has three drivers: increase in revenues; decrease in costs or expenditures; and cost avoidance associated with a decrease in risk (such as that associated with litigation, government regulation or public issues). Public Relations/Communication (PR/C) has long sought to demonstrate how its work contributes to these three drivers.

The financial metric most widely discussed in the PR/Communication literature, particularly the practitioner literature, as a possible link between PR/C work, the possible financial value of that work and an organization's financial performance is that of Return on Investment (ROI) The PR/C ROI discussion goes back thirty or forty years, but has accelerated greatly in the last decade (Watson 2011a). However, there has been little discussion on the use of two other financial metrics: benefit-cost ratio (BCR); and Cost-Effectiveness Analysis (CEA).

The purpose of this paper is to propose a set of principles for the use of ROI, BCR and CEA measures. The principles will address the where and how of possible applications, from the perspective of the PR/C function. In examining these three financial metrics, an argument will be made that the BCR and CEA financial metrics are more applicable and perhaps more useful than the utilization of a ROI measure.

Finally, the paper will present two frameworks. The first indicates where Chief Communication Officers (CCOs) make investments in PR/C departments (within three general categories of investments or costs: PR/C operational costs; PR/C program costs; and PR/C function costs). The second establishes where each of these three financial metrics is best utilized within each of these investments categories.

Introduction

The Public Relations/Communication function is a staff function. As a staff function, the PR/C function can be both strategic, in that it separately and equally contributes to the strategic management of the organization, and support, in that it offers services (including advice) to other functions in the organization. The function can be either centralized into a single, fully integrated, full service PR/C department or decentralized as a collective of various independent communication departments with each performing specialized PR/C activities or a hybrid of the two.

Like other staff functions such as Human Resources, Marketing, Finance, Strategic Planning or Information Technologies, the PR/C function is a cost centre, rather than a revenue-generating or profit centre. Staff functions contribute directly to the cost of the organization, but contribute only indirectly to the profit generated. As a cost centre, resource allocation originates from two areas: corporate draw; and/or the reimbursement from other staff functions or from business/production units. Occasionally, the PR/C function is a revenue-generating centre, with its own product or service line marketed externally. For example, the PR/C department could sell its communication services on the street and bring revenues back into the organization (Likely, 1998; Brody, 1985). Or, it could sell organizational products itself, such as through search engine optimization (SEO) (Jarboe, 2009).

But, direct revenue generation is not typically a PR/C business line. The PR/C function's work does not involve the direct development, production, sales or exchange of goods and services. That is, it is not directly responsible for operations that are performed by a business unit. The PR/C function is not at the heart of the operations that contribute directly to the revenue generation performance of the organization. The PR/C function supports these operations in assisting with the management of external reputational and/or brand equity, internal cultural and engagement, stakeholder relationship and communication work. These are seen as part of an organization's intangible (non-touchable; non-physical) assets, whereas line operations, Sales and Finance functions deal with more tangible assets (raw materials; production equipment; inventories; and cash and monetary assets).

The PR/C function contributes to the intangible asset accumulation of, for example: goodwill; reputation; stakeholder relationships; employee engagement; customer loyalty; and knowledge acquisition and transfer. Through its work with intangible assets, the PR/C function has an indirect link to the financial performance of the organization[1]. Because of this indirect link, PR/C's influence on an organization's financial performance is difficult to measure. The contribution of intangible assets to financial performance is more difficult to quantify than the contribution of tangible assets (Lev, 2001). Other staff functions that are supported by the PR/C function, such as Marketing (see for example Farris et al, 2010) and HR (see for example Ulrich 1997), also produce non-tangible assets. They deal with intangibles such as brand equity or customer loyalty in the first case and employee engagement in the latter.

Over and above the general discussion of whether these three financial measures, as understood and utilized by financial and accounting functions, can be applied to PR/C work or not, or whether the discussion is important only to PR/C agencies and research firms and not to CEOs, in-house PR/C practitioners or even PR/C academics (Gaunt & Wright, 2004; Gregory & White, 2008; Gregory & Watson, 2008; Watson, 2011a & b; Watson, 2005), there have been only a few attempts to understand the practical application of these metrics to PR/C. The majority of interest has been with the financial metric ROI. Both PR/C practitioners and academics have attempted to apply this measure to PR/C work (see for example: Internal Communication: Meng & Berger, 2010; Towers Watson, 2010; Shaffer, 2004; Sinickas, 2004; Gayeski, 1993 and to Marketing Communication {Marcom}: Weiner, Arnorsdottir, Lang & Smith,

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[1] A number of researchers believe that, of all the intangible assets, it will be possible to measure the ROI of relationships. "I believe that relationships are the most important of these intangible assets and that if we can show that public relations creates value in addition to financial value, we can show the overall ROI of the function. The British public relations practitioner and scholar, David Phillips (2005), also has studied the literature on intangible assets and argued that relationships are the most important of these assets. I believe this approach to ROI eventually will show the value of public relations and encourage public relations scholars to join in the study of intangible assets." (Grunig, 2006).

2010; Smith, 2008; Likely, Rockland & Weiner, 2006; Weiner, 2006). In a number of cases, the application of the ROI concept has been introduced in conjunction with other concepts, such as versions of compensating variation (Ehling, 1992; Internal Communication: Shaffer, 2004; Sinickas, 2004) or of marketing mix modeling (Weiner, Arnorsdottir, Lang & Smith, 2010; Smith, 2008). Regardless of the validity of any application of the ROI concept to PR/Communication, a clear consensus does not exist on the standards or the principles that should be followed when utilizing the concept as a PR/C measure (Watson & Zerfass, 2011). The same is true for Benefit Cost Ratio. The term ROI often is employed when the actual situational calculation is that of a BCR (see for example: Brody, 1987; Lacopos, 1997).

Definition of Terms: ROI; BCR; and CEA

The terms investments and costs are used interchangeably in the discussion that follows, but it is noted that costs seem to be given a more negative connotation – as an expense – in the literature whereas investments are treated as a positive – an endowment. Costs can be viewed as sunk (costs that have already occurred) and incremental or prospective (costs that will occur once a go-ahead decision is made). Costs also can be viewed as either fixed (they don't change regardless the levels of production or number of outputs), variable (they vary directly with the level of production and number of outputs) or mixed (a combination of fixed and variable). Sunk/Incremental and Fixed/Variable cost ratios must be included in any determination of costs or investment. For the purposes of this paper, net present value or the time value of money – what the investment money is worth in the future – for investments that carry over multiple fiscal years is recognized as a concept that must be considered in the various calculations, but is not discussed in detail in this more general description of the three terms.

Return on Investment

Return on Investment is a financial term, one that refers, in general, to a financial return from any financial investment.[2] In an organization, that investment may be in a monetary asset, in a physical asset (office space; web site; equipment), in a program, campaign or project (for example: marketing program; employee change management program), in a process or a practice (approval processes; research and planning practices), in a function or department (PR/C function; Corporate Communication department), or in employee performance (reward systems; learning plans and training programs for instance). It should be noted that all financial investments are organizational investments, in that they originate from a single corporate pot and are allocated from there. That allocation could be in the form of a permanent, ongoing budget allocation or as a one-time, one fiscal year only allocation.

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[2] Though Watson and Zerfass (2011) defined the term more precisely as "expressed as a ratio of income or earnings divided by the costs that had been applied to generate the income or earnings," before going on to state that their research showed that the term is usually misapplied within PR/C, the more generalized definition will be employed here.

The definition for Return on Investment offered in this paper is: ROI (%) = Net Financial Return (net return: gross financial return minus the financial investment) divided by the Financial Investment x 100 (Friedlob Jr. & Plewa, 1996). A ROI metric is expressed as a percentage and the calculation is made after the actual returns, all actual returns, are realized.

$$\textbf{ROI} = \frac{\textbf{Net Financial Return}}{\textbf{Financial Investment}} \times 100$$

For example, a gross financial return ($15,000) minus the financial investment ($5,000) equals the net financial return ($10,000). This is divided by the financial investment ($5,000) equaling 2. The number 2 is then multiplied by 100 to equal a ROI of 200%. In this example, ROI is: $15,000 - $5,000 = $10,000 ÷ $5,000 = 2 x 100 = ROI of 200%.

A financial return is calculated only at the organizational level (Friedlob Jr. & Plewa, 1996; Rachlin, 1997). As Rachlin (1997) states: "Return on investment (ROI) is the culmination of all activities of a company" (p. 3). That is, ROI is not calculated at an activity level, a program level, a function or unit level. It is calculated as a sum or result of all those contributions. First, it is the sum of all investments made, be it a single investment or investments to a number of cost centres across the organization that concern the same capital asset, process or program. Second, it is the net return or net income, calculated at the level of the organization after all factors that impact on costs are considered, including the length of project life (single or multiple fiscal years), the capitalization policy and the depreciation rates. The importance of ROI as a financial metric at the level of the organization is its primacy: " … ROI is the most commonly used management indicator of company profit and performance" (Friedlob Jr. & Plewa, 1996, p.8). Therefore, ROI can only be analyzed at the level of the organization – after the work and the investments of all applicable functions have been taken into account.

Walsh (2008) further explains the calculation of ROI, at the level of the organization, by saying that ROI is: "A term that is very widely used in connection with the performance of a company or project. It is calculated in many different ways. Usually a pre-tax profit figure is expressed as either the percentage of long term funds or total funds in the balance sheet" (p. 387). That is, organization level ROI is "derived from the two major financial statements, namely, the statement of income and the balance sheet" (Rachlins, 1997, p.39).

There are other more specific return on investment metrics (Bragg, 2009) – more specific in relation to how the investment is qualified - that an organization can utilize, including return on equity (ROE), return on assets (ROA), return on capital employed (ROCE) or return on sales (ROS). Return on Investment is used in this paper in its most general and generic sense, since "the definition of ROI depends on the investment base used … therefore, ROI must be considered a generic term and must be specifically defined before calculations can be made" (Rachlins, 1997, p.6). These more specific ROI metrics, though, do not have a direct bearing on a single function such as the PR/C, Marketing or HR.

Benefit-Cost Ratio

Benefit-cost ratio (BCR) or cost-benefit analysis (CBA)[3] calculations are somewhat similar to a ROI measure, where BCR = Benefits (or financial returns) over Costs (Mishan & Quah, 2007). That is, a BCR of 2:1 means that for every $1 invested, the financial benefit or return is $2. This translates into an ROI of 100% - for every $1 invested, an organization receives an additional $1 back.

The difference in the use of the BCR metric and the ROI metric is that the former is used to predict benefits or returns while the latter applies actual benefits or returns. The purpose of BCR, then, "is to provide a consistent procedure for evaluating decisions in terms of their consequences" (Dreze, J. & Stern, N. in Auerbach A.J. & Feldstein, M., 1987, p.909). The metric BCR is used to assess a proposal or to choose between several alternative ones (Schmidt, 2009). It compares the total expected costs of each option against the total expected benefits, to see whether the benefits outweigh the costs, and then by how much. That is, the BCR is used to build a business case. It should be noted, though, that a BCR exercise has two stages: the first is to value the costs and benefits for each year of a project; the second is to aggregate the present value of the project by discounting costs and benefits in future years to ensure they are commensurate with actual present costs and benefits.

The BCR is expressed as a number and not as a percentage as it is with the ROI metric[4]. To date, the most extensive discussion of the use of BCR in PR/C has been by William Ehling (in Grunig, J. (Ed.) Excellence in Public Relations and Communication Management, 1992). The discussion focused on the use of the BCR measure for PR/C programming, with Ehling (1992, p.631) describing three situations for its use, as follows:

> *"The first situation involves deciding between spending resources on a public relations program and not doing so, a "go/no-go" decision. A second situation is one where a decision must be made among mutually exclusive, competing public relations programs, a decision as to which is "best" to implement. Finally, decision-makers might select from a large set of programs the best subset that will stay within a fixed budget allocation."*

The difficulty in performing a Benefit-Cost Ratio measure is in estimating the expected benefit, in monetary terms that have some rigour. Ehling (1992) proposed the use of the concept of 'compensating variation' in determining the potential monetary return. Put simply, compensating variation is a financial construct that measures how well off someone is before a change and then how well off they are after a change. It determines an individual's monetary value or the monetary value to the individual. Adapting this to PR/C programming, individuals who potentially benefited from a change must be identified and then those benefits must be assigned a monetary value. This is typically done by "assigning utilities to the various degrees of

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[3] Cost-benefit analysis (CBA) is a variation of BCR and is "distinctively developed for the evaluation of public policy issues" (Nas, 1996, p.1).

[4] It should be noted that there are alternative capital budgeting methods that work with BCR, including Net Present Value (NPV), Internal Rate of Return (IRR) and Payback. NPV, IRR and Payback define the business value of any investment. They are expressed as follows: value - how much money will be made on the investment; rate - the yearly percentage returned on the funds used on the investment; and time - when will the initial investment be made back. This level of detail is not needed for this discussion.

achievement and by converting these utilities to monetary equivalents" (Ehling 1992, p.633). The simplest way is to ask: if this change occurred, to what degree would you benefit, then to what degree is that benefit worth financially? As noted above, both academics and practitioners have employed modifications of compensating variation, such as: Shaffer (2004), Sinickas (2004), Weiner, Arnorsdottir, Lang & Smith (2010) and Smith (2008). Indeed, it was used in the Excellence Project to determine the value of communication to an organization, by asking interviewees "how much they would be willing to pay to have something." "For public relations you ask members of the dominant coalition or public relations managers how much public relations is worth to them on either a monetary or nonmonetary scale" (Grunig, L.A, Grunig, J.E. & Dozier D.M 2002, p.106).[5]

But, as with the ROI measure, an expected financial return can be calculated only at the organizational level. Again, determining the expected return must involve other functions, since the PR/C work contributes to the overall program through these other functions. PR/C costs and expected benefits are a portion of the total of each for a particular program, activity or course of action.

Of course, simply asking individuals who may benefit from a PR/C program or activity – or even of the PR/C function itself – to place a monetary value on those benefits has its limitations. The use of compensating variation within a BCR calculation has major drawbacks; the biggest of which is simply the ability of individuals to carve out the role of PR/C and its effects from within the fullness of the program. This disclaimer was applied to its use in the Excellence Project: "… the monetary value attached to an outcome represents the best thinking of those who run the organization – even if that value is "mushy" and something less than truly "objective" (Grunig, L.A, Grunig, J.E. & Dozier D.M 2002, p.133)." Compensating variation is useful within a BCR measure as a guestimate, where more solid projections are not needed or available. Certainly, it can't be employed in a ROI measure since actual financial benefits are required.

Cost-Effectiveness Analysis

A CEA metric is different again from the ROI and BCR metrics (Levin & McEwan, 2007). It compares the relative costs and the outcomes (effects) of two or more courses of action or activities. It does not assign a monetary value (financial return) to the measure of effect. This calculation compares "the costs of providing the same beneficial outcome in different ways" (Layard, R. & Glaister, S., 1994, p.21). Or, as Mishan and Quah (2008) state, cost-effectiveness calculations are a way of "discovering the lowest cost of achieving a particular objective regarded as desirable …" (p.8). Like the ROI metric and unlike the BCR metric, Cost-Effectiveness Analysis (CEA) applies actual, realized investments or costs. Unlike the ROI metric but like the BCR metric, it applies intangible benefits as effectiveness measures. BCR and CEA are "essentially similar" in approach (Nas, 1997, p.3).

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[5] It is interesting to note that with both the academic and with the practitioner references cited here as examples of the use of compensating variation, the term ROI was employed in the papers and articles and not the more appropriate term BCR.

Cost-effectiveness is cost divided by effectiveness (however defined), and then applied comparatively. In PR/C, effectiveness may be such measures as channel reach, accuracy of media reporting, length of time on a site, or number of re-tweets (Paine, 2011). CEA measures are those that the PR/C function can perform independently. A CEA measure is not calculated as a part of a larger Marketing, Human Resources, Finance or business line calculation, like it would be with ROI or BCR (for detailed CEA measures: in HR, see Fitz-enz, 1995; in Marketing, Farris et al, 2010)

Investments in PR/Communication

For the purposes on this paper, three general categories of investments or costs will be examined. They are: PR/C operational costs; PR/C program costs; and PR/C functional costs.

Operational Investments

PR/C operating costs include fixed 'overhead' costs such as office space, equipment, supplies, core managerial and administrative staffing, knowledge management and archival and telecommunication support that are typical for any department and subject to a corporate standard and an allocation agreement.

A second set of PR/C operating costs include fixed and variable physical capital, material and human resource costs for common communication department support services such as research, planning and evaluation, graphic design, writing and editing, translation and learning and training.

The third set of operating costs involves the development and maintenance of communication channels (defined as the medium for the distribution of messages). These are fixed and variable physical capital, material and human capital costs for such channels as web sites, newsletters, town halls, exhibitions, mass voice or e-mails, internal closed circuit company television, Facebook pages, blogs, YouTube channels, media release distribution and pitching or advertising. Communication channels can be direct to stakeholder or mediated through a third party, and can be categorized as paid, earned, owned or shared.

For the purposes of this paper, costs involved with the development and maintenance of communication channels are deemed permanent or sunken investments. That is, the assumption made here is that for the majority of the communication channels listed above, they are ongoing from fiscal year to fiscal year and receive a funding allocation as a regular budget line item. Certainly, channels such as media publicity, web sites, print publications and newsletters, closed circuit television, YouTube channels or advertising require continuous human capital funding for specialist expertise in their development and operation and also require on-going capital funding. But, it is recognized that the investments made each year in each channel are considered both fixed and variable costs. The fixed costs would include on-going physical and human capital expenditures as described. On the other hand, there are also variable costs that are dependent on channel usage, for example based on the number of news releases, web site postings, placed advertisements or YouTube videos made. These variable costs are dependent on the level of program activity, particularly the number and type of campaigns within each program area. Therefore, fixed and variable costs for the on-going operation of a channel are included here under Operating Investments, while the variable costs associated with the use of each channel are included in the next section, in Program Investments.[6]

Program Investments

PR/C programming costs or investments are variable costs. These material and human capital costs are for stand-alone programs and campaigns – even if they are conducted over more than one fiscal year (and if over more than one year include sunk costs as well as the new year's incremental costs). They can be funded by the PR/C function (such as corporate campaigns for organizational change management or organizational reputation) or more typically by other functions, such as Marketing, Human Resources or business units. A PR/C program is a set of campaigns and activities organized around the relationship between a particular stakeholder or strategic public of the organization, and based on issues of mutual interest and importance. Program costs include all costs associated with the maintenance of the relationship. These investments or costs in stakeholder relationship programs are not, as yet, commonly part of a ROI calculation (Paine, 2007; Grunig, 2006).

A PR/C campaign on the other hand, as part of an overall program, usually utilizes more than one communication channel (or media), each with a number of individual communication activities or products, to send and receive one or more messages to and from a defined and targeted audience over a specific timeframe, with the ultimate objective to have that audience change in some way. These may include such internal change management programs as organizational culture or employee engagement or external marketing communication, public education, community relations or government affairs campaigns or projects, to name but a few types. Regardless of the type, the ultimate goal is to induce the outcome of behavioural change. In a campaign communication plan, objectives are set for process and output measures, both for production and for dissemination (audience reach). These are project management measures, important only to the PR/C people undertaking the project. In the plan, engagement or outtake measures are also established and include measures for audience message receipt, recall and retention of the message, favourability to the message and how the message was heeded and/or responded to (e.g. was the call to seek further information or to pass on information heeded?).

Finally, in the campaign plan, objectives for audience awareness and understanding, opinion or attitude, commitment and intent and behavioural change results are established as outcome measures of the effects of communication (see Lindenmann, 2003 for a fuller description of program output, outtake and outcome measures). These measures are important for the PR/C people undertaking the project and for their direct internal clients in, for example, Marketing, HR, Operations, Legal or Finance. The final behavioural objectives and measures are tied to the first tier behavioural objectives and measures set in the client plan. First tier

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6 It is also the author's experience that this separation of channel costs, into Operating and Programming Investments, is mirrored in the PR/C department structure and capabilities. Typically, PR/C officers specialize in either a communication channel or in PR/C programs and campaigns – and these specialists are housed in different organizational units.

behavioural objectives are, for example, sales leads for marketing, benefit plan uptake for HR or cycle time reduction for operations.

Functional Investments

Financial investments at the level of the PR/C function itself are strategic management costs. Strategic management costs include those associated with PR/C policy development and regulation, with function vertical and horizontal integration, with managing internal client relationships and with the cost of transforming communication, relational and human capital data and experience acquisition into intelligence and providing that insight as advice to business line/central function clients and to the enterprise management team as part of business line/function and corporate on-going strategic management.

This last is the cost of contributing strategic thinking and providing counsel, including such supporting determinations as: leading problem, issue and crisis solving; formulating insight through predictive, forecasting and scenario planning analytics in aiding the formation of emergent strategy; and maintaining a watch on the relationship between what the organization says by what it does and what it says by what it says. Ultimately, these contributions to the strategic management of the organization lead to changes in the attitudes, opinions and behaviours of managers and executives, both individually as unit leaders and collectively as a management team.

Summary of PR/C Investments

The following table provides a snapshot of the capital investments represented in an ideal PR/C function budget:

INVESTMENT CATEGORIES	COST CENTRES	COST CENTRE BUDGET LINES	INVESTMENT DECISIONS
OPERATIONAL	OVERHEAD	▪ Office space, furniture and equipment ▪ Office supplies ▪ Telecommunication support ▪ Travel, meeting expenses, memberships ▪ etc. Core administrative staffing	None, typically these fixed-cost investments are made through enterprise-wide costing formulas.
	PR SUPPORT SERVICES	▪ PR/C Policy formulation and regulation ▪ PR/C Function integration ▪ Research, planning and evaluation ▪ Creative: graphic design; AV; etc. ▪ Corporate identity/branding ▪ Writing and editing ▪ Translation ▪ Staff orientation, learning, training, etc. ▪ etc. Core PR/C specialist staffing	Typically, these fixed- and variable-cost investments are allocations from the corporate budget, especially for human capital costs. Variable cost material and production costs may be charged back to line or other staff departments. Make or buy decisions (contracting; outsourcing)
	COMMUNICATION CHANNELS	▪ Paid: advertising ▪ Earned: media relations (media release distribution/pitching; media monitoring & analysis) ▪ Owned: web architecture/content management; print publications; town halls; exhibitions/events; internal closed circuit company television; etc. ▪ Shared: Facebook pages; blogs; YouTube channels; etc. Core PR/C specialist staffing	Typically, these fixed-cost investments are from the corporate budget, for channel architecture and for salaries. Variable costs associated with usage may be charged back to line or other staff departments. Make or buy decisions (contracting; outsourcing) Comparative cost-effectiveness decisions based on: reach; accuracy; # of touch points; frequency; timing; etc.
PROGRAM	REVENUE GENERATING PROGRAMS/ CAMPAIGNS	▪ Marketing communication ▪ Fundraising ▪ Investor relations Account Executive/Project Management staffing	Typically, these variable-cost investments, for program development and implementation expenses, are from line or other staff department budgets. Make or buy decisions (contracting; outsourcing)
	EXPENDITURE REDUCTION PROGRAMS/ CAMPAIGNS	▪ Change management (organizational culture, employee engagement, productivity, etc.) ▪ Communication around operational process changes Account Executive/Project Management staffing	Typically, these variable-cost investments, for program development and implementation expenses, are from corporate, or line or other staff department budgets. Make or buy decisions (contracting; outsourcing)
	RISK MANAGEMENT/ COST AVOIDANCE PROGRAMS/ CAMPAIGNS	▪ Executive/Manager change management ▪ Reputation management ▪ Public education / Community relations ▪ Corporate social responsibility ▪ Public/government affairs Account Executive/Project Management staffing	Typically, these variable-cost investments, for program development and implementation expenses, are from corporate, or line or other staff department budgets. Make or buy decisions (contracting; outsourcing)
FUNCTIONAL	STRATEGIC COUNSEL	▪ Internal client relationship management ▪ Stakeholder and publics relationship management; ▪ Organization Strategic Management (corporate and business unit strategy formulation & execution; Issues management & emergent strategy formation; and organizational say/do integration Senior Executive staffing	Typically, these fixed-cost investments, for strategic thinking (intelligence; insight; analysis; advice), are from the corporate budget.

Returns on PR/Communication Investments

The returns or benefits derived from PR/C investments are not financial. That is, other than lowering PR/C salary or production costs and thus creating organizational expenditure reductions or actually generating revenue from sales controlled exclusively by the PR/C function, the returns from PR/C investments do not directly affect the organization's financial situation. PR/C returns are intangible assets - in that they are identifiable and an organizational asset but they aren't touchable or physical, they are difficult to quantify and they don't therefore, immediately, have a financial or monetary value.

Determining the return in any PR/C financial calculation is a complicated process. PR/C work typically contributes to the work of other functions directly and only indirectly to the organization as a whole. Therefore, the investment and return attributed to PR/C is a portion of the other function's investment and return contribution, for a particular activity or course of action. Adding to the complication, in the determination of an organizational return, other functions - besides the function to which PR/C 's work has made a contribution – have contributed investments towards the achievement of the return.

Here are the common results, benefits or returns for each PR/C investment category:

Operational

There are no returns or benefits associated with the Overhead cost centre, either for the PR/C function or any other function or business line. These are the basic costs of doing business. These are not subject to any ROI calculation by the PR/C function and that includes the adoption of new technologies, both hardware and software. Within the Information Management or Information Technologies literature, there is considerable scholarship on the financial calculations for the introduction and application of new technologies and we won't introduce those calculations here (see for example Rico, 2004). Do note, though, that these are BCR calculations, not ROI calculations, since they predict costs and returns.

The returns or benefits of the PR/C Support Services cost centre are tangible (communication plan; text; graphic; etc.) or intangible (knowledge transfer). These benefits are not a direct financial asset, in that in themselves they do not create revenue, reduce expenditures or avoid future costs. The metrics to be used include both BCR in building a business case for the introduction of a support service or in making make/buy decisions and CEA in determining the value associated with each service, where effectiveness could be determined through tests such as output quality, client satisfaction and/or productivity. Again, these are not a ROI calculation.

The Communication Channels cost centre is similar. The benefit stemming from the costs expended on each channel is the quality of targeted audience message receipt as determined by channel reach, frequency, timeliness, accuracy, touch points, etc. As the vehicle or medium for PR/C programs and campaigns, communication channels contribute to the return generated from each program, campaign and project. But they, in themselves, do not create an organizational financial return. Channels may be compared: any comparison is not a ROI or BCR comparison but a cost-effectiveness comparison. The comparison is the effectiveness of the channel or the quality of the channel in relation to a targeted audience, particularly when comparing the communication benefits of reach, timeliness and target audience characteristics between and among channels. In summary, ROI can't be calculated for PR/C Overhead, Support Services and Communication Channels, though BCR and cost-effectiveness can.

Program

The result of a PR/C campaign is to place people at the door of the Marketing, Human Resources, a business line, etc. and then allow these functions to convert the foot in the door to an actual sale, a signature on the dotted line of a benefit plan or a reduction in the number of steps or acts in an operational process. That is, the intent of a PR/C campaign is to address behaviour, either to get people to stop what they are doing, to maintain what they are doing or to change what they are doing to a new desired way. These are not financial results; they are communication outcomes or effects.

The PR/C campaign changes levels of awareness, understanding, commitment or intent prior to addressing behaviour change (note that research shows that this four-stage linear progression is not always necessary or true). Once at the door, it is then up to another function to perform the conversion and support the actual second behaviour or action that results in a financial effect. The number delivered to the door is not generally the number that actually behaves in a way that can be measured financially.

For example, PR/C delivers leads for Marketing/Sales. Marketing/Sales must qualify those leads, make the sale (dealing with such risks as product life cycles, product availability, salesperson availability, competitor price reactions, existing baseline sales, price changes, etc.), close the sale, receive the monetary exchange and deal with customer product returns and changes of mind. The effectiveness of Marketing/Sales can enhance or negate the effectiveness of the PR/C campaign. Or for example, a PR/C campaign can deliver employee behaviours, such as getting employees ready to sign up for a new benefits program that will cost the organization less and thus reduce organizational expenditures. Again, while the PR/C campaign delivers leads to HR, it is up to HR to qualify those leads (does the employee qualify or not?), make the sale (what options do you chose?), close the sale (employee signatures on required paperwork) and receive the monetary exchange (permissions for payroll deductions). HR must also deal with the risks involved, similar to those of sales. Finally, for example, for an Operations department, a PR/C campaign can deliver employee behaviours ready to change a production process. As in the other cases, it is up to Operations to qualify those leads, make the sale (dealing with such risks as the process change has to be seen as win-win for all departments; hesitation to deal with new supervisors; hesitation to deal with less discretionary actions, etc.), close the sale and receive the monetary exchange (in time and effort).[7]

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[7] It is important to distinguish between baseline behaviour change and incremental behaviour change, to ensure the proper assignment of behavioural change results to PR/C. Whether the PR/C communication campaign is part of a Marketing, HR or some other function's program, it should be noted that people will change their behaviour without knowledge from a communication campaign. In the Marketing program example, the generation of some leads (and ultimately sales) would have happened without any communication campaign –

The first behavioural change was getting the individual to the door; the second was the actual sale, signature or new process action. It is this second tier of behavioural change that is then subject to a ROI calculation - against the organization's financial status. Did the change, collectively, increase organizational revenues, decrease expenditures or reduce risk (and thus potential costs)? These client objectives and measures have a place in the scorecards for the various functions (HR; Marketing; etc.) and in the overall scorecard for the organization. The Human Resource literature does cover the ROI of human capital (McCann, 2011) and of various human resource programs, particularly that of learning and training programs (for example: Fitz-enz, 2009; Phillips, 2003; 2002). As well, the Marketing literature covers the ROI of marketing programs (for example: Farris et al, 2010; Lenskold, 2003; Frieswick, 2001). Both have methods to track the incremental reduction in organizational expenditures or the incremental organizational revenues attributed to a program. A PR/C program can't determine an ROI metric for its campaign contribution to a client function's program by itself, without the second tier behavioural change work of another function. As well, since ROI is only calculated at the level of the organization, an all-in net revenue calculation (gross revenues minus the costs of all functions involved in the program) is needed.

The PR/C function can measure the ROI of a PR/C campaign, be it for customer sales, stakeholder engagement or employee cultural or performance change – but only as part of a larger program conducted by another function. There is no such thing as an ROI for the PR/C campaign per se. As stated by Grunig (2008, 101) (these PR/C program) "measures cannot be used directly to conclude whether public relations programs contribute to the effectiveness of the organization at the organizational or societal levels – the levels at which the return on investment (ROI) of public relations must be measured."

With a PR/C campaign, practitioners may be satisfied with the communication outcomes of awareness, understanding or engagement - but what's needed is a behavioural change outcome in order for PR/C or the other function to be able to measure ROI. To truly show PR/C's contribution to a ROI metric, it is necessary to show the progression from communication outputs to outtakes, to immediate outcomes (cognitive effects: changes in awareness and understanding), to intermediate outcomes (affective outcomes: changes in attitudes, opinions, feelings, intent) to longer-term effects (conative or behavioral outcomes: adoption of required first tier behaviours). There is also the need to differentiate between baseline and incremental behavioural changes.

Any measurement attempt to show a PR/C ROI that uses marketing mix modeling, pilot studies, control studies or compensating variation ("just ask the participants for the financial return they believe PR/C contributed") is inadequate. It is either incomplete or improper – and does not employ this financial metric in the same sense as does Finance or Accounting (Watson & Zerfass, 2011). There are so many factors that influence the path from lead to sale or first tier behavioural change to second tier that a ROI calculation can't be properly done on the number of first tier behaviours generated by the campaign. At best, through multivariate regression

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with incremental leads/sales representing the additional volume based on the campaign. This distinction applies to the HR and Operation department examples as well. Only incremental behavioural change should be measured.

analysis and pattern recognition - such as are employed in the concept of Marketing Mix Modeling or Media Mix Modeling - a correlation can be determined. But, all this analysis would show is that the PR/C campaign was successful in getting people to the door – and with some of those people a sale was closed. It does not isolate the effect of the second tier behavioural change and thus can not show cause and effect between campaign and the close of the sale and therefore between financial investment and financial return. Pilots or control groups, based either on geography or on timeframes, do not address this difficulty, since the vagaries of second tier behavioural change remains outside of the control of the PR/C function. Also, the use of a compensating variation analysis (in general, asking those involved in the behaviour change how much credit they would give to the PR/C campaign) is a BCR metric and not a ROI metric, since it predicts returns and doesn't count actual returns. However, two other financial metrics have value at the PR/C Program investment level.

The PR/C department can conduct a cost effectiveness analysis of the various channels that make up the campaign. Which channel best met the communication outcome or effects objective of the campaign? Which channel was best at raising awareness in the target audience? Which channel was best at raising awareness in the target audience, at the least cost? As well, PR/C can conduct a BCR analysis predicting the financial return from its contribution, if the analysis includes benefits and costs for the full program.

Functional

The returns or benefits from an investment in a strategic counsel cost centre are similar to those provided by executives of other business or functional areas. These are the expected subject matter expert contributions to the strategic management system for the organization. They include: intelligence; insight; analysis; strategic thinking; strategic planning; relationship management; and advice. Certainly, they are intangible assets. There is not a direct financial return and thus do not create revenue, reduce expenditures or avoid future costs. They may be subject to a cost effectiveness analysis, which may be thought of as a component of a performance review. ROI or BCR measures do not apply here.

Returns Summary

The next table summarizes where the BCR, CEA and ROI metrics can be properly applied:

INVESTMENT CATEGORIES	COST CENTRES	BENEFIT COST RATIO METRIC	COST EFFECTIVENESS METRIC	RETURN ON INVESTMENT METRIC
OPERATING	OVERHEAD	No (though possibly by other functions prior)	Yes	No
	PR SUPPORT SERVICES	No	Yes	No
	COMMUNICATION CHANNELS	No	Yes	No
PROGRAM-ING	REVENUE GENERATING PROGRAMS/ CAMPAIGNS	Yes	Yes	Yes, but only as part of larger Marketing, HR, etc. program.
	EXPENDITURE REDUCTION PROGRAMS/ CAMPAIGNS	Yes	Yes	Yes, but only as part of larger Marketing, HR, etc. program.
	RISK MANAGEMENT/ COST AVOIDANCE PROGRAMS/ CAMPAIGNS	Yes	Yes	Yes, but only as part of larger Marketing, HR, etc. program.
FUNCTIONAL	STRATEGIC COUNSEL	No	Yes	No

Principles to Follow When Attempting to Employ Financial Measures in PR/C

There has been much discussion in PR/C trade and practitioner literature - though not in the PR/C academic literature (Gregory & White, 2008; Watson, 2005) - on the need to measure ROI. Only a small part of that discussion has focused on the principles that need to be applied when attempting a ROI financial measure in PR/C. The discussions on BCR and Cost-Effectiveness principles are even more limited.

Based on the discussion thus far in this paper, sets of principles are presented below for the proper utilization of each of these three financial metrics.

A Set of Principles for the Use of a ROI Metric for a PR/C Program or Campaign

The only place in which a PR/C investment could be measured for the financial return on that investment is in the Program/Campaign Cost Centre. These principles should be applied when attempting to use a ROI metric with PR/C programs and campaigns.

1. The PR/C campaign must establish baseline behaviours before it sets objectives for incremental behavioural change. Regardless of the overall program, be it a Marketing, HR, corporate organizational change, Community Relations or Investor Relations program, it should be noted that the desired behaviour is probably already exhibited by some people or will be regardless of a campaign. For example, in Marketing, there is the concept of baseline sales. These are expected leads and thus sales in the absence of any measured marketing activity. People will find the product before the product promotion will find them. The same understanding is there for employee change: some employees already exhibit the desired behaviour desired for all employees or will make the change without being influenced by the PR/C campaign. Therefore, any PR/C campaign objective must recognize the baseline and set a target of incremental change from the baseline upwards.

2. The PR/C campaign must track its targeted audience through all stages of cognitive, attitudinal and conative or behavioural change, to ensure that the same people who received the original communication in the first place are the same people who placed their foot at the door as a lead to be converted by another function. The targeted audience must be tracked through message receipt (outputs), message engagement (outtakes) and communication effects (outcomes: awareness, understanding, intent and behaviour change). That is, audience members must be monitored at each communication touch point. There will be drop off along the way but the PR/C campaign must demonstrate that those at the door came from the original targeted audience.

3. The subsequent function charged with converting the foot at the door into a sale, signature or some other act must track these same people through all stages of the conversion process. Again, there is a drop off rate. This may go on for some time, since there will be customers who return a purchase, employees who change their minds or people whose behaviour will change and then change back again. Net conversions, at some future date, are the only meaningful numbers.

4. All investments must be accounted for, including PR/C's and a subsequent function's investments. These investments will include fixed and variable costs for both, as well as a percentage of sunk costs as appropriate.

5. Most probably, the timeframe for any overall program, with a PR/C campaign within, will overlap more than one fiscal year. Therefore, it will be necessary to look at the investment that will be risked with the new program and examine hurdle rates (what's the minimum acceptable rate of return on this investment?) opportunity costs (what if the money risked on this program was invested somewhere else?) and diminishing returns (when do you close the program in the face of stragglers?). This examination would be at the level of the overall program by Marketing, HR, etc. and within the PR/C campaign by PR/C. The time value of money – investment moneys will depreciate over the course of the program –

should also be taken into account.

6. The financial return is the financial value for each closed sale, each closed signature or each final action. Therefore, these are net financial returns or benefits, taken after all sale returns are made, all changes of mind are made.

7. With any ROI calculation, there is no estimating of PR/C intangible outcomes and then trying to give them a financial value. There must be clear evidence that communication behavioural outcomes were realized. There must be clear evidence that another function's conversion outcomes were realized from the communication outcomes. There must be clear evidence that organizational financial benefits were realized from the other function's conversion outcomes. For the ROI calculation, organizational financial returns or benefits are compared to organizational financial investments.

A Set of Principles for the Use of a BCR Metric for a PR/C Program or Campaign

1. The projected campaign must have a clear path to its expected end state. That end state includes both first and second tier behavioural change, as well as the number of individuals affected. Therefore, it includes the actions of other functions.

2. All potential investments must be accounted for, including PR/C's and a subsequent function's investments. These investments will include fixed and variable costs for both, as well as sunk costs as appropriate.

3. There must be an expected sum of money as the benefit or return from each individual. That is, the financial value for each possible closed sale, each closed signature or each final action is required. Therefore, these are net financial returns or benefits, taken after all sale returns are made and all changes of mind are made.

4. When utilizing compensating variation to assign monetary benefits, accuracy in the identification of campaign effects and accuracy in the valuation of those effects are necessary. Objectivity is required.

5. A positive benefit cost ratio means that expected financial returns will exceed financial costs. If not, the program needs to be altered. Or, an alternative program should be proposed.

6. Proposed programs can be examined based on a comparison of benefit cost ratios. At the same time, a baseline ratio should be established first. The baseline is the minimum ratio acceptable for the introduction of any and all new programs or campaigns.

A Set of Principles on the Use of a Cost Effectiveness Metric

1. All potential investments must be accounted for. These investments will include fixed and

variable costs, as well as sunk costs as appropriate.

2. An effectiveness benefit must be identified, one that is universal to ensure a solid comparison. For investments in Overhead, the benefit may be for the effectiveness of meetings, with comparisons for example between the effectiveness of face-to-face, Skype or video teleconferencing. For investments in PR Support Services, the benefit may be writing quality control, with the comparison among writing effectiveness if in-house versus if left to the internal client versus if contracted out. For investments in Channels, the effectiveness benefit may be reach, with comparison among various paid, owned, shared or earned channels in reaching a specific audience. For investments in Strategic Counsel, the effectiveness may be the timeliness or quality of the intelligence provided, with comparisons across various strategic advisors/account executives in the PR/C department.

3. The effectiveness benefit must be quantifiable, and be quantifiable across the comparison. Then the ratio of cost to effectiveness benefit may be determined and compared across all contenders.

Conclusion

The purpose of this paper was to define and describe three common financial concepts, explain where investments are made in PR/C, and then consider where and how each of these financial metrics can be applied by a Chief Communication Officer in her or his PR/C department to the financial returns or benefits from these investments. To ensure that the application of these financial measures provides value to the CCO and is accepted by other functions and by Finance executives, their use must follow accepted and long established practices.

As Ehling (1992, p.633) stated years ago, the PR/C function needs to be much more rigorous in applying financial measurement principles. Certainly, PR/C needs to use common metrics like ROI, BCR and CEA as they were designed. If the PR/C function is to employ a financial term such as ROI that has a specific meaning and a long history, then PR/C should have the professionalism to use it appropriately.

ROI (and BCR) are - and should be - measured at the level of the organization itself. In particular, ROI is a measure for organizational financial 'risk' investments and for organizational financial 'net profit' returns on those investments. The PR/C function can only measure ROI of communication campaigns if that measurement is part of a larger program ROI measure and if that program ROI measurement exercise includes all attributable costs from across the organization and a net financial return at the level of the organization.

BCR and CEA financial metrics have the possibility of greater utility in providing valuable financial measures for the many categories of investments - than does the utilization of a ROI measure. These two are underused currently. The PR/C measurement consultants - not PR/C CCOs - are the primary promoters currently of the use of the ROI metric (Gaunt & Wright, 2004; Gregory & White, 2008; Gregory & Watson, 2008; Watson, 2011a & b; Watson, 2005). The PR/C CCO should find additional value by introducing BCR and CEA measures in the department.

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