

What does ROI mean? An initial investigation on the use of ‘Return on Investment’ in public relations practice

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Abstract

‘Return on Investment’ (ROI) is usually defined in management literature as a measure of financial effectiveness that is concerned with the returns on capital employed in business (profit-making) activities. In public relations practitioner parlance, however, ROI appears to be used in a much looser form to indicate the results of activity. This mixed method research using an online survey instrument investigated practitioner understanding of the term, primarily in the UK. These findings resulted: 1) Two-thirds of PR practitioners use the term ROI when planning and evaluating communication activity; 2) ROIs related to communication objectives (66.7%) are more widely used than financial-related ROIs (12.8%); 3) There is a clear difference in ROI practices between consultants/freelances and in-house colleagues. Nearly three-quarters of consultants and freelances (73.1%) offer an ROI formula to clients but only 26.3% of in-house practitioners have one; and 4) On the oft-discussed question of an industry-wide ROI formula, only 35.6% supported the proposition with 64.4% opposed. However, the survey also found that practitioner concepts of ROI are very narrowly expressed, mainly in relation to media outputs.

Keywords: public relations, return on investment, ROI, measurement and evaluation, United Kingdom

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Introduction

Management and marketing literature defines ‘Return on Investment’ (ROI) as an outcome performance measure of financial effectiveness that is concerned with returns on capital employed in business (profit-making) activities (Drury, 2007; Moutinho and Southern, 2010). The Dictionary of Public Relations Measurement and Research places ROI as “an outcome variable that equates profit from investment” but does not attempt to classify a ‘public relations ROI’, other than as a “dependent variable” (Stacks 2006, p.24). The UK professional body, the (now) Chartered Institute of Public Relations defined it as “a ratio of how much profit or saving is realised from an activity, as against its actual cost which is often expressed as a percentage” (IPR/CDF 2004, p.15). In public relations practitioner practice, however, ROI appears to be used in a much looser form to indicate the results of activity.

The term has been in public relations discourse for at least 40 years. Black (1971) commented that it was “fashionable” to measure ROI in business, “but in the field of public relations it has little significance” (p.100). In the late 1970s, ROI was sometimes expressed as equivalent to advertising value (Marker 1977). Watson (2005) found that the term was not widely used or recognised in academic discourse. However, Gaunt and Wright (2004) found that 88% of a sample of international public relations practitioners was interested in an ROI tool and 65% considered that ROI could be applied to judgements on public relations effectiveness.

Gregory and Watson (2008) also noted that use of the term ROI was extant in practice and called for greater academic engagement with practice issues such as the use of business language, including ROI, and communication scorecards.

Professional literature and practitioner discourse (cf. European Measurement Summits and the IPR Measurement Summits), however, clearly show that ROI is a term widely used, if not tightly defined. In 2004, the UK media analysis firm Metrica undertook a study for the (then) Institute of Public Relations which found that 34% of respondents considered public relations budgets in term of ROI and 60% used a notion of ROI to measure public relations in some way. It summarised the responses as, “some inclination towards seeking a form of ROI that could be applied universally” (IPR 2004, p.6) As well, Likely, Rockland and Weiner (2007) proposed alternatives to ROI with four models which each have a ‘Return on’ prefix.

Research method and instrument

To investigate the current state of attitudes amongst public relations practitioners about their notions of ROI, a scoping survey was undertaken mainly amongst UK practitioners.

Quantitative research allows researchers to generate data on a problem or concept, from which insights and theory can be deduced (Bryman 2008). Surveys provide data about the opinions and characteristics of a defined population (Oppenheim, 1992, Chisnall 2001). The survey comprising 15 questions, framed from earlier research, was distributed in an online format (using SurveyMonkey) via email to the UK-based researcher’s email network and through an internet URL on the UK PR industry e-newsletter, PRmoment.com, in November and December 2010. This convenience sample was chosen as the aim of the study was to help frame questions to be included in the annual European Communication Managers (ECM) study. It comprised five closed questions and five open (write-in) questions, as well as questions on the demographics and work roles of the respondents. This research sought to gain practitioner understanding of ROI with the aim of identifying current practices in public relations measurement of effectiveness and gaining insight into the language of public relations and corporate communications practice. The survey received 66 responses in a four-week period before it was closed.

The initial closed question was “do you regularly use the term ‘ROI’ or ‘Return on Investment’ when planning and evaluating PR activity?” Those who answered Yes were then asked “do you plan for a specific financial ROI outcome or is the ROI expressed in achievement of communication objectives” and asked to choose one option from “financial outcome” “communication outcome” and “other”. The latter was a write-in answer. Those who answered No, were directed to a later write-in question about the meaning of ROI. The following two questions asked for self-identification as “consultancy or freelance” or “in-house” and enquired separately about whom in their organisation either offered an ROI formula or applied it. Consultants and freelances were asked whether they offered clients an ROI formula or it was set by the client, whilst in-house practitioners (corporate, governmental and not-for-profit) indicated whether their employing organisation “had an ROI formula”. The aim of these questions was to obtain indications of the use of the ROI concept and formulae amongst practitioners before discussing the notions of ROI. The final closed question was “Should there be a standard ROI adopted by the PR industry?”

The open questions sought responses such as “please give a summary of the ROI formula(e) used by you or clients” (for both consultancy and in-house situations) and “what does ‘ROI’ mean to you in the public relations context?” After being asked in a closed question whether they supported the concept of a standard ROI, respondents were asked to explain why they supported or rejected the concept. They were also asked to describe the ROI methods that were applied in practice.

Sample

The sample was 55% female and 45% male. Their workplaces were 44% in-house, 44% consultancy, 12% freelance or other and they mainly held management roles with 42%

identifying as a director, 39% manager and only as 11% executive. The residue was freelance or did not identify a role title. The sectors in which they worked were diverse with a preponderance of corporate (39%) followed by 22% product, 19% services, 16% government with the residue in not-for-profit or giving no answer. As could be expected from the researcher's UK base, 83% of the sample came from the UK of which 50% were from England (outside London), 27% London and 3% Scotland, with no responses from Northern Ireland or Wales. Some 17% of respondents identified themselves as coming from outside the UK, mainly Europe. Despite being a convenience sample, it does have validity as 55% of respondents were female, which aligns with the trend of increased female employment in UK public relations (CIPR 2009). It is also strongly (81%) weighted towards management roles which should have indicated knowledge and use of ROI and effectiveness measures. It also has a strong presence in corporate and governmental sectors (55%) where longer-term communication planning is more evident than products or services.

Results

Asked whether they regularly use the term 'ROI' or 'Return on Investment' when planning and evaluating public relations activity, there was a strongly positive response. Two-thirds (66.7%) answered in the affirmative and 33.3% in the negative. Those who answered 'yes', again gave a decisive response when asked which form of ROI outcome was used for evaluation, with 66.7% identifying 'communication objectives', followed by 19.0% for 'other' and 14.3% for 'financial outcome'. There were 12 write-in responses to describe 'other' which were thematically grouped as "it depends on the campaign/client" (5), a combination of financial and communication objectives (4) and a 'mix of inputs and outcomes' (efforts and results).

ROI formulae were offered predominantly by consultancy and freelance respondents to clients (67.7%). Few clients, however, applied ROI judgements (12.9%). Some 19.4% did not apply any form of ROI. The methods offered, however, showed that advertising value equivalence (AVE) lives on an ROI form with six respondents using it including one who provided this formula: “PR spend to AVE = ROI”. Other methods were ‘negotiate measurements with client’ (6), ‘meet media volume targets / media ranking’ (3) and ‘relate press activity to outcomes, sales, and enquiries’ (2). Most in-house practitioners reported that their organisation did not have an ROI formula (78.3%), with only 21.7% doing so. The methods used included an AVE-based formula (2), sales link to public relations activity, tonality of media coverage and a media ranking system.

The first major open question asked of all respondents was “what does ROI mean to you in the public relations context?” Using thematic coding (Schroder, in Jensen 2002) of the 58 responses, the leading “meanings” were ‘demonstrate outcomes; show value of PR’ (11) and ‘return on expenditure or effort’ (9), which could possibly be combined into a new theme of ‘demonstrable creation of value’. These were followed by forms of AVE (6), contribution to organisation’s success (5), sales generated (5) and measurable financial gain (4). Both ‘contribution to organisation’s success’ and ‘measurable financial gain’ might also be added to ‘demonstrable creation of value’, although ‘contribution to organisation’s success’ does not necessarily include financial outcomes and could be related to achievement of non-financial goals.

The second major open-ended question, “should there be a standard ROI adopted by the PR industry?” had been prompted by Metrica’s 2004 research for the CIPR which raised this prospect. The feedback from 61 respondents was a strong 64.5% rejection with 33.9% in favour and one no-answer. The written comments also give strong shape to that rejection with 32 arguing ‘one size does not fit all’ and a closely aligned further three saying that ‘PR is not

like business and finance'. The latter comment was also mentioned as secondary factor in several 'one size does not fit all' responses. Amongst the other rejection comments were "too much is measured already" and "it's a waste of time." The case in favour of a standard ROI was composed of themes such as 'yes, we need it but I don't know what it will be' (7), there should be 'broad or flexible parameters, coupled to best practice information' and a version of AVE (3).

Discussion and conclusion

The use of the term, Return on Investment (ROI), is widespread in public relations practice. Although this study had focused on the UK, it a term is used in many public relations markets. Some two-thirds of those who took part in this short-term study claim to regularly use ROI, especially in relation to communication objectives. As the sample is made up of mid- and senior-level practitioners who mainly work in consultancies or in-house workplaces, with a strong emphasis to corporate and governmental sectors, it would be reasonably expected that they could (and should) be able to clearly express notions of ROI. This usage of ROI should be strategic and in relation to objectives and outcomes, yet the study gives evidence of mainly publicity-oriented tactical thinking and few respondents could demonstrate a process or methodology. It can be induced from the responses that many practitioners still conceive public relations as equated with media relations. The single most-mentioned ROI metric, although not dominant, was AVE and indicates the limitations in practice methods and lack of practitioner exposure to more robust research methodologies.

Future research

The survey responses on the main open-ended questions offer guidance for future direction of development of theory and best practice on ROI. In addition to the intent of practitioners to

use ROI, as evidenced by their claims to use it, the notions expressed in the 'what it means' question leads discussion toward exploration of how 'demonstrable creation of value' may be expressed especially in non-financial forms. It is also obvious that practitioners reject a single ROI formula (e.g. 'no one size fits all'). So should ROI in public relations have a foundation in management theory in order to give it credibility and should future research explore a broader guidance on methods by judgement can be made on PR's contribution to organisational success? Watson (2008) found, in an international delphi study, that the two leading research priorities for public relations were: "Public relations' role in contributing to strategic decision-making, strategy development and realisation and organisational functioning" and "The value that public relations creates for organisations through building social capital; managing key relationships and realising organisational advantage" (p.115). These priorities relate closely to ROI concepts in their references to the contribution of public relations to organisational efficiency and the creation of non-financial value. Along with the outcomes of this small sample survey, they will be the focus of future research amongst practitioners across Europe.

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