

To Start the Year, Let's Explore This Major Challenge Together:

MANAGEMENT'S DEMAND FOR PROOF OF RESULTS & WALL STREET'S TURN TO NON-FINANCIAL INDICATORS MAKES MEASUREMENT & EVALUATION 2000's PR TOPIC No. 1

Several attempts are underway to devise *practical* evaluation methodologies that are *meaningful* -- which is vital, since both management & investors have shown a penchant for grabbing at numbers even when there's no substance in them.

■ Now being tested, in initial usage, or planned:

1. For measuring relationships, the Grunig-Hon scale ([pr](#) 10/11/99)
2. For measuring reputation, Reputation Quotient ([pr](#) 10/18/99)
3. For measuring overall pr effects, an IPR Commission on Evaluation & Measurement project funded by Council of PR Firms
4. For measuring employee engagement, Ketchum's Relationship Index ([pr](#) 6/15/98), Gallup's Q12 (same [pr](#) issue) & others

■ Their pioneering & theoretical forerunners include:

1. Swedish PR Ass'ns Return on Communications ([pr](#) 3/10/97)
2. Ernst & Young's "Measures That Matter"
3. Elaine Dixson's KeyMatrix system ([pr](#) 7/27/98)

Typically, the movement is led by publicly held corporations, since investors are demanding to know more about future prospects of the companies whose stocks they hold. But a minority of practitioners work for corporations, so methodologies must also be created for NPOs such as healthcare institutions, public service entities, schools, universities, co-ops & gov't agencies.

FIRST STEP, DETERMINE WHAT CAN BE MEASURED THAT DOES MATTER

For example, measuring reputation per se is dubious. To what extent can we show reputation influences behavior? When? Precisely whose behavior? And what exactly is reputation? How stable is it? Yet large, multi-faceted, across-the-board topics like reputation are appealing research targets for the hope of summing up a hugely complicated situation with one easy measurement.

Thinking of a Reputation That Matters method -- i.e. meaningful reputation -- one might postulate

doing Q sorts (pr 12/20/99) with a structured sample of stakeholders whose behavior can undeniably impact an organization's success, such as

- Customers ■ Stockholders ■ Regulators ■ Employees
- Neighbors & the municipality/community ■ Vendors

Reputation measurements tend to ask members of the general public how they perceive an org'n. But many respondents have no relationship with the org'n, so can hardly impact its success. It's the old mindset of treating org'ns as if they were candidates for office & everyone shows up to vote.

- You may have a very low opinion of University X for some reason, but it's halfway across the nation, you have no connection with it, are unlikely to be asked to recommend students or contribute ... so its reputation with you is meaningless
- Using Q-sorts will help bring the useful aspects of reputation into focus since it allows respondents to really participate in the data-gathering "discussion" which research is

Another factor in measuring reputation is differentiating between brands or services reputation & organizational reputation. The latter -- which includes management skill, policies, risk-taking, employee engagement etc -- is an entirely separate, but highly important, measure from the former.

FOR STARTERS, CONSIDER CUSTOMER LOYALTY A VERY USEFUL MEASURE

In every industry & sector it has been shown that customers don't begin to pay off for the seller until their 3rd or 4th purchase. Acquisition costs, setting up customer records, getting them to understand how you do business -- these eat up the gross margin in the beginning of the relationship. This is as true for schools & hospitals as for retailers & manufacturers.

- Therefore, retaining customers is one of the most cost-effective, profitable things an org'n can do -- which is why customer delight programs & other attempts to stimulate loyalty are rife
- Studies demonstrating it only takes \$1 to keep a customer vs. \$6 to acquire a new one add to the bottom-line punch of customer loyalty

Many programs have evolved to achieve loyalty -- but how to measure it is more sophisticated.

AMONG THE MANY VARIABLES THAT MUST BE CONSIDERED

Various sectors have different types of "customers". School systems, for example -- already struggling with one type of measurement, mandatory student testing -- have two levels of customers: *community residents*, all of whom support schools with taxes, so are the system's true *customers* (the ones who pay the bill); & *parents*, who pay taxes but also have an added relationship with schools & thus become *supercustomers*. But this added status ends when their kids leave school, so is a temporary variable -- an always moving target.

For schools, & probably other public institutions & NPOs, customer loyalty is not defined by **longevity of purchase** but by **involvement**. Residents who pay taxes but don't become engaged in school affairs are dangerous customers -- the ones who vote down bond issues & improvement initiatives. Parents -- who would appear to have a naturally limited span of interest as supercustomers -- must also be engaged, but then a longevity possibility opens up. Can schools keep them engaged *after* their own kids have left?

SCHOOLS MAY BE A SPECIAL CASE, BUT BIZ IS NO LESS COMPLICATED

- Measuring businesses' customer loyalty levels must be tailored to each **type of purchase**
- Assume a measure of loyalty is **repeat purchase**; how else can loyalty be evaluated *behaviorally*?
- The evaluation purpose is to discern how **stable** the customer base is likely to be

Consider these purchase cycles -- & don't confuse *choice* (when the purchase is decided) with *use*:

- a) Soft drinks = daily choice & use, or very regular purchase cycle whatever the interval
- b) Long distance calls = daily use but infrequent choice (how often do you want to change vendors?)
- c) Cars = daily use, 3 - 10 yr choice (new car every year buyers have mostly disappeared)
- d) Real estate = very infrequent choice

Take car buying as a case. The implication is that loyalty here needs to be measured in multi-year cycles, or this is at least one variable to be considered. (For real estate, in contrast, measuring the extent of word-of-mouth recommendations that stimulate referrals could be the item to evaluate.)

To determine repeat car purchases, state auto registration records may be the key. If John Jones bought Oldsmobiles in '89, '94 & '99, that's a trustworthy indicator. If neither he nor anyone of the same surname at his address registered any other brands, that's pretty good proof of loyalty.

How to structure the audit of these records is another nuance, but since non-financial indicators may be part of the annual financial audit, the big accounting firms can figure that out.

APPLY THIS BREADTH OF THINKING TO HEALTHCARE, EDUCATION, UTILITIES ETC

Drag out your old marketing text to review purchase decision models & the other variables involved -- e.g. high social & ego involvement vs. low. It may guide you in designing customer loyalty & similar evaluations for your specific org'n.

Immediately another variable pops up: does the consumer *have* a choice, as a practical matter? If not, loyalty is not a meaningful measure. Even with **electricity** dereg, the T&D utility (transmission & distribution, or the company whose wires come into your house or business) will not change in the

foreseeable future. You may have a choice of Gencos (companies that generate power & put it into the grid) but they're apt to be miles away &, depending on the billing system, you may have little contact with them (pr 11/29/99).

In healthcare, you can usually choose a PCP (primary care physician). As a rule, however, the doctor will send you to a facility of her choice for special tests, in-bed treatment, surgery. Then there's the issue of how to predict how many people will need which treatments, when. There are epidemiological statistics giving averages, but usually they're years old & not necessarily relevant to Hospital X. So perhaps an involvement measure of some type will be the loyalty measure for healthcare, since repeat "purchases" omits many variables.

Final point: while the state of customer loyalty may be a critical non-financial indicator for execs, investors & trustees/directors, for practitioners there remains the issue of the extent to which pr activities contribute to this state. For what will we -- never mind *can* we -- be held responsible?

RESULTING RULES FOR MEASURING CUSTOMER LOYALTY (FIRST DRAFT) :

1. To measure customer loyalty, or any similar characteristic, you must first
 - (a) Establish a list of all the *variables*, then
 - (b) List the *influencing factors* on each variable. This means
 - (c) Walking step-by-step thru a *psychological & behavioral model* of the purchase environment
 - This type of incisive, scientific thinking has not been standard operating procedure for practitioners. It is hard intellectual work. BUT -- if we don't do it & set our own standards & procedures, someone else will -- with results we may find onerous.
2. No method can be applied universally, but must be tailored to each type of purchase, e.g.
 - (a) A *spur-of-the-moment* purchase, like a soft drink or candy bar
 - (b) A *discretionary* purchase, like a set of golf clubs or extra clothing
 - (c) *Essential* purchases like an automobile or a house (and note that the line here between essential & discretionary must be marked, since one may have a perfectly good car but want to use funds in a discretionary way to get a new, or better, or different car)
 - (d) *Repeat or habitual* purchases, like food items
 - (e) There may be *other types* (Check your marketing text to see if it offers such a list.)

OTHER ITEMS THAT NEED TO BE MEASURED

All this covers only one measure, customer loyalty -- i.e. the probability your org'n will remain a viable entity by having a willing market for its goods & services. While it will most likely be included in whatever evaluation protocol evolves, there are other items to be measured.

Measures That Matter lists 8 categories, including

- Strength of organizational culture
- Quality of management
- Quality of investor com'ns (read donor com'ns for NPOs, taxpayer com'ns for gov't)
- Level of customer satisfaction (loyalty is a better measure since it's behavioral)
- Quality of products & services

PR has a role in each, so pr activities will be a factor in measuring them.

THANKFULLY, WE'RE NOT STARTING WITH NOTHING

1. Some behavioral measures naturally exist --

e.g. who shows up at an event pr was responsible for, or which opinion leaders were persuaded to support an issue campaign. Also whether employees demonstrate engagement by volunteering to be ambassadors, participate in community or trade relations efforts & similar.

But these are not necessarily **outcomes**. 20% of your employees can be active in structured community efforts, and still you can't get support to improve the road to your loading dock.

- **Question:** to predict likely future success for an org'n, is it enough to show that it has relationships with opinion leaders, has engaged employees? After all, stakeholder publics may deny an org'n something it feels it needs even tho they are generally supportive of it. So must measurement show that processes led to outcomes?
- Remember, outcomes *is* the rule we apply to counting clips. "So what?" we ask, seeing your big publicity scrapbook. Did anyone *do* anything as a result? Is consistency necessary, or "the hobgoblin of little minds"?

2. **Measuring outputs & the awareness they create has long been standardized**, tho quicker, cheaper methodologies are needed -- e.g. dipstick research using mathematical models or structured samples vs. the time-consuming, costly "pure" statistical sample

3. **Demonstrating likelihood to act in certain ways is possible** -- tho again, more trustworthy & simplified methodologies need to come into standard use

- **IPR's 3 volumes describing existing methodologies ought to be in practitioners' libraries.** They are:

- a) *Guidelines & Standards for Measuring & Evaluating PR Effectiveness*
- b) *Guidelines for Setting measurable PR Objectives*
- c) *Guidelines for Measuring Relationships in PR*

(Order from Institute for PR, 352/392-0280, www.instituteforpr.com)

CONCLUSION

It's reasonable to believe ultimate evaluation protocols will feature:

1. **Objective measures** -- elements that can be planned for & then measured without too many caveats
2. **A review of processes & systems** -- are the org'n & its pr staff organized along best practice lines
3. **Have these systems delivered positive outcomes**, given the industry or sector & the current environment; here such caveats are essential to accurately evaluate pr
4. **Are relationships established** that will ease the org'n over the inevitable bumps in the road

SOME PREDICTABLE BARRIERS

A. **Refusal rates.** As more research on stakeholder groups is conducted, more

resistance to responding is occurring. Refusal rates are reported from 30% all the way to 70% -- and the written response rate is abominable, by & large. E-mail surveys may ease this situation -- but it is becoming a major source of overcommunication itself, so maybe not (pr 11/29/99)

- B. **Survey weakness.** Measurement research will be far more critical to org'ns -- & practitioners -- than any other. Programs, jobs, paychecks, position in the org'n will be at stake. Skewed response situations, or low response rates, cannot be permitted. Question: **To what extent can measurement be done without having to conduct surveys?** This may be the ultimate solution, since objective databases & behavioral outcomes are far less subject to researcher error.

In fact, the thought arises that any surveys done for evaluation demonstrate a weakness in the system, because it indicates no objective or behavioral measure is available (or possible). Take strength of relationships is a key measure. How might they be measured without having to ask a sample of stakeholders?

- C. **Privacy vs. transparency.** While org'ns strive for transparent com'ns with stakeholders as a vital element in earning trust, stakeholders are greatly concerned about their privacy. This is demonstrated behaviorally in refusals to respond to surveys, in the high rate of unlisted phone numbers, and in opposition to access to databanks. But it could also manifest itself in a general antipathy to all the number crunching & testing or measuring now flooding society. People are tired of being treated as demographic statistics & constantly being rated or evaluated.

If key stakeholders don't care whether mgmt or investors or whomever can get accurate evaluation data, the M&E thrust could be hindered.

PEER REVIEW A POSSIBILITY ?

Research institutions & university dep'ts have long been evaluated by peer review teams, made up of

acknowledged experts in the subject matter. There's usually some objective data available to the team -- e.g. enrollment statistics, course completion rates, publications & citations. But basically the team sits with staff & mgmt and delves into all the topics covered here -- & more. Could it work for pr?

