

The Communication Value Circle

How Communication Contributes to Corporate Success

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Drawing the ‘big picture’

One of the most basic findings in corporate communications research and practice is that communication professionals need to work closely with top executives to achieve excellence. Outstanding communication departments ensure a close alignment of communication objectives and business goals. However, several studies prove that top executives and communication professionals seldom share a consistent understanding of the supportive role of communications. It would be short-sighted to blame the executive level for this. Communication professionals themselves use numerous rationales to explain the value of their work. These range from building reputation and brands to gaining thought leadership or boosting sales and employee motivation. The multitude of stories told by the professionals themselves creates uncertainty among business leaders and hinders the institutionalisation of the communication function.

At the same time, the variety of theoretical concepts which explain the contribution of communication to organisational goals has never been analysed, summarised or combined in order to draw a ‘big picture’ of communication value. In order to address this research gap, we have systematised the academic knowledge published from the year 2000 onwards. The literature review identified 815 publications in 36 international journals across several disciplines (public relations, marketing, management, etc.), which explain value creation through communication. Moreover, various concepts of value creation in business were explored and integrated into a new generic framework for value creation through communication called the *Communication Value Circle*.

Communication as part of the value chain

The notion of ‘value creation’ describes the transformation of resources into goods or services with a higher financial value. This supports the foremost goal of every corporation – to work efficiently and effectively to create financial value today and enable value creation in the future.

Value-based management is a well-known concept in business theory and practice, as explained in the works by Michael E. Porter and other management scholars. It states that all corporate decisions should focus on increasing the overall value of the company and not only short-term objectives. Corporate value was traditionally equated with *shareholder value* and only measured in economic terms like ROI (return on investment). From this point of view,

communication contributes to the overall value merely by positioning a company in the marketplace or creating a favourable corporate image among investors.

However, it is common knowledge today that corporate success depends not only on shareholders, but also on sustainable relationships with employees, politicians, regulators, customers, mass media, social media influencers, and many others stakeholders. The concept of *stakeholder value* proposed by R. Edward Freeman expands the notion of value-based management by integrating the expectations and legitimate interests of those stakeholders. Thus, the corporation has to be positioned in the marketplace as well as within its social and political environment.

In our understanding, strategically managing and measuring this positioning by communicative means is the primary task of any communication department. In this sense, communication is an integrative part of the value chain in any corporation. Communication processes are part of primary activities (inbound logistics, operations, outbound logistics, marketing and sales, and service) as well as of supporting activities (firm infrastructure, human resource management, technology, and procurement). Thus, communication is not just an organisational function which helps top executives and other business managers to reach out to stakeholders. Corporate communications is also a valuable resource for listening and learning from the environment, which helps to reposition the organisation and adjust strategies, and a key driver of creating a supportive overall framework for corporate activities.

Findings from literature

Our literature survey across different disciplines revealed that the predominant research in the Anglo-American countries is still focussed on the debate about measuring and evaluating the effectiveness of communication. There are a number of models and methods for clustering communication processes into different chunks and levels of effect. Ex-post evaluation of professional communication activities are intensively discussed, e.g. in the fields of mass media, corporate media and social media. However, the contribution of communication to corporate strategy is seldomly reflected upon. This is also true for recent approaches like the Barcelona Principles 2.0 for Communication Measurement propagated by AMEC, an international industry association representing evaluation firms and agencies. Measuring the impact on organisational performance is recommended, but applicable methods and indicators are neither discussed nor offered in practice.

Since the 1990s, there has been an additional debate on the creation of intangible assets through communication. Raising awareness and changing the behavioural dispositions of stakeholders are described as a driver for creating intangible assets for the organisation, which can be regarded as a specific category of value representing a broader stakeholder orientation. There is also a large portfolio of measurement tools and methods for intangibles, such as reputation, brands or social capital. However, there are no standards for combining these closely linked values and for explaining their connection to organisational strategy.

Researchers and practitioners have also discussed the adaption of business valuation and management concepts. Financial indicators like return on investment (ROI) are often mentioned, but mostly misinterpreted. The complexity of communication processes, the close nexus with other functions and activities, and a lack of transparency about costs and

investments for communication in most corporations hinder the utilisation of such indicators. On the other hand, management systems like the Balanced Scorecard by Kaplan and Norton and associated concepts like Value Drivers became famous over the years. They allow professionals to visualise the link between communication activities, media and channel outcomes, changes in stakeholder's knowledge, attitude, behavioural disposition or behaviour, and organisational impact. Based on these approaches, researchers and professional associations in the German-speaking countries have developed a joint framework to capture the value chain of communication (DPRG/ICV framework), which is nowadays widely known and even accepted as a standard.

To sum up, the question of how communication contributes to value creation for organisations has not been answered until now. There are many approaches, indicators, measurement methods and concepts for evaluation. But they lead to different results, and a coherent and integrative approach is missing. There is a tendency among professional communicators and in the research community to focus on "soft factors" like creating reputation, brands or relationships. A major gap concerns the large range of strategic contributions through corporate listening, issues management, internal communication consulting or mastering crisis situations as well as change communication and innovation support.

The Communication Value Circle

In order to advance the debate, we have developed a new interdisciplinary framework which combines and expands insights from previous research. The purpose of this framework is to explain the process of value creation through communication in academia and practice. The Communication Value Circle (CVC) describes value creation on two levels: *corporate management* and *corporate communication*. At the core of the framework, however, is *corporate strategy*, which should be the starting point for all organisational decisions.

Adapting and expanding on classical distinctions in management theory (e.g. by Gälweiler), four generic corporate goals were combined to a matrix on the first level. The matrix can be read in its vertical and horizontal order. From the vertical perspective, (1) tangible and (2) intangible assets contribute to *creating* corporate value, whereas (3) room for manoeuvre and (4) opportunities for development contribute to *enabling* value creation. From the horizontal point of view, (1) tangible assets and (3) room for manoeuvre represent the *current* value creation of the corporation, while (2) intangible assets and (4) opportunities for development foster *future* value creation. Every function within the corporation supports these four dimensions of corporate value. As such, the generic goals are applicable to human resources management, sales or, as in this case, corporate communication.

The second level of the framework illustrates four major goals for communication that were derived from the four previous value dimensions:

(1) *Enabling operations*—Communication contributes to organisational objectives by supporting business operations internally and externally, e.g. through stimulating publicity, customer preferences, and employee commitment. By disseminating content and messages or raising attention and awareness for strategic issues, communication keeps an organisation running and enables the creation of material assets. By managing dialogue with employees,

suppliers, customers etc. on a daily basis, communication builds the basis for delivering value to key stakeholders.

(2) *Building intangibles*—Communication helps to create intangible assets, such as reputation, brands or corporate culture. Intangibles are part of the overall company value. Reputation has to be managed for important representatives of the corporation (CEO communication) as well as for the whole company. Positive reputations and strong brands are not only relevant for the corporate environment. They also create a strong corporate identity. Integrating the specific culture and history of a corporation into its internal and external communications is a basic task of any communication department.

(3) *Ensuring flexibility*—Being flexible as a corporation means having relationships that are based on trust or, at least, a perception of legitimacy of the corporation's values and actions. Communication can build stakeholder networks which ensure room for manoeuvre, also in times of change and crisis. If the licence to operate is questioned by relevant stakeholders, every other value dimension will be affected negatively. Corporations have to face various situations of uncertainty during which nothing becomes more important than relational capital, trust, and public acceptance.

(4) *Adjusting strategy*—Communication helps to make strategic management decisions by fostering thought leadership, innovation potential, and crisis resilience. This value dimension is built foremost on the communication department's capacity to listen. Systematically monitoring public opinion in mass media, social media, markets, politics and society helps to adapt strategies to upcoming socio-political and economic developments. Thus, corporate communications contribute to identifying competitive advantages.

The framework helps to understand, systematise and sort the variety of approaches which are used to explain communication value in theory and practice today. Moreover, all 12 communicative objectives within the four communicative value dimensions can be linked to established sets of performance indicators, measurement tools and evaluation methods. This means that the framework can be used to integrate existing knowledge and experiences, identify gaps, and work towards more coherent mental models in the field.

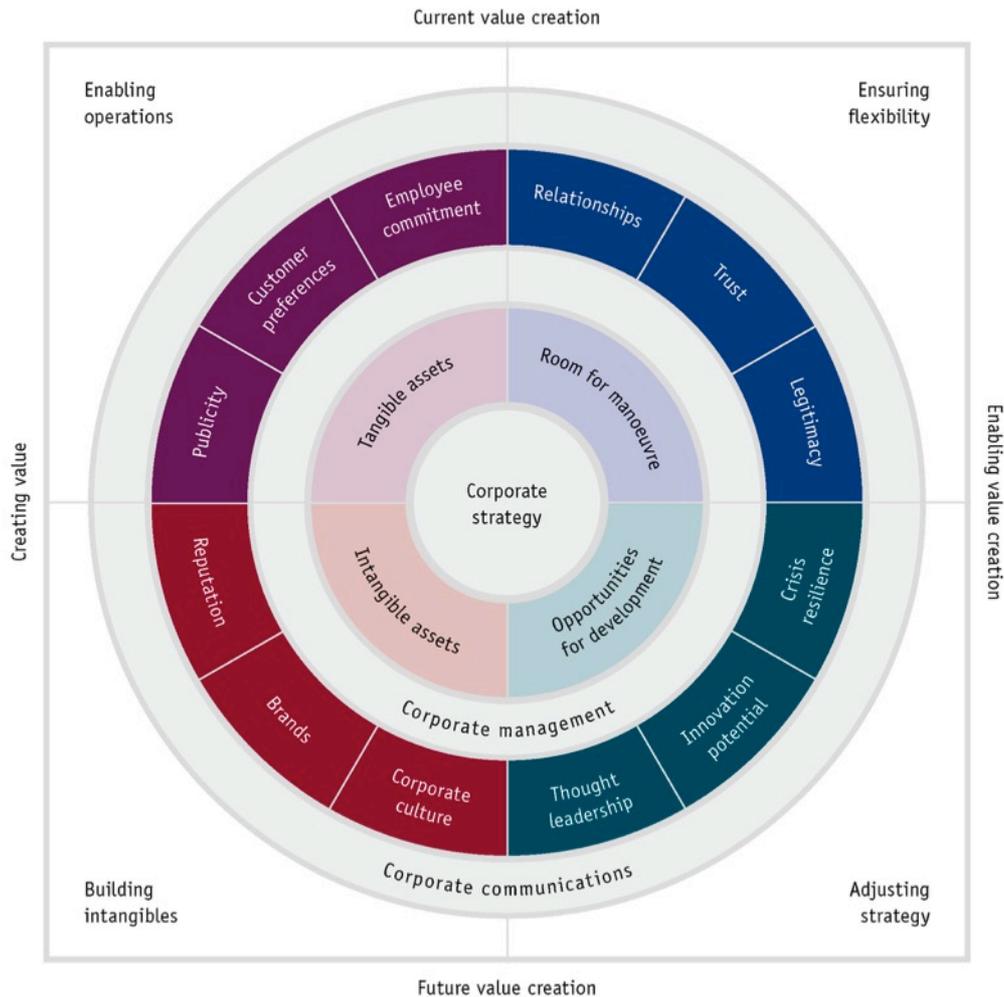


Figure 1: Communication Value Circle - How corporate communications contribute to value creation in corporations

Conclusion: Aligning communication with strategy

How can the Communication Value Circle be applied in practice? Instead of trying to identify communication values in each dimension for every kind of corporation, it is important to adapt the framework to the multitude of possible variables and situations in the business world, such as

- type and size of corporations (start-up company, SME, corporate holding, etc.)
- functional areas and departments (communication department, marketing department, etc.)
- field of action (public affairs, public relations, innovation communication, etc.)
- stakeholders (customers, employees, journalists, etc.) or
- situational contexts (product launches, crises, post-merger integration, etc.).

As these variables vary, so does the significance of the four dimensions of value creation. Not every single goal is as relevant for each communication department or situation. The framework should not be misunderstood as a normative representation of communication goals. Instead, it can help to align communication with the unique strategy of specific

corporations or business units. For example, a small start-up company has to make itself known in the first place and, therefore, has to pursue goals like building a brand among customers and reputation among investors and potential partners. In contrast, a blue-chip corporation listed on the stock market with a unique history can probably leverage the value of communication much more by adjusting strategies through a consistent system for corporate listening and thought leadership. At the same time, a subsidiary of the same listed corporation in another country could rank other values at the top, such as supporting sales in the local market through consistent marketing communications and developing a partnership culture with retailers on the ground.

As such, the Communication Value Circle can be used as a management tool to identify, discuss, structure, and agree on value drivers and performance indicators in corporate communications. Along this line, the process of aligning corporate management with the management of corporate communications becomes increasingly transparent and manageable.

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About the research project

The results presented here are part of the large-scale research program *Value Creating Communication*, which has been initiated by the Academic Society for Corporate Management & Communication in Germany in 2015. With regard to the scope and content, the number of experts involved and the budget, this is the most comprehensive research program in the discipline of corporate communications until now. Researchers at four German universities are working closely together with Chief Communications Officers of leading global companies as well as international experts to address key questions for every communications department. The CVC framework has been developed by a research team at Leipzig University and Humboldt University Berlin supported by a sounding board of Chief Communication Officers from BASF, Bosch, Deutsche Bank, Osram, and Roche. More information about the program is available at www.akademische-gesellschaft.com.

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