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Economic perspectives on public relations

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ABSTRACT

This paper explores the relationship between economic theory and public relations, in order to explain how public relations management contributes to companies' overall economic gains. It uses a "blend" of economic theories to explain the role and contribution of public relations from the economic point of view. The paper sees a link between the strategic management of public relations as a function, and portions of neoclassical theory, as well as to alternative economic approaches relating to investments and transaction costs.

1. Introduction

There is a need to include economic concepts such as costs and revenues. in the public relations domain (Likely, 2000). As with any other strategic function of the modern corporation, public relations activities need to be budgeted and measured in terms of effectiveness. Public relations expenses, defined as the money spent by the public relations department (Kim, 2001), are often criticized on the premise that the future benefits of such expenditures are uncertain and may not result in higher sales or company growth (Rayburn, 1986). If public relations do not deliver the required return on investment, they are unnecessary costs. That is why public relations cannot afford to ignore the importance of justifying its budget in terms of its contribution to revenues, profits and the overall growth of the company.

As suggested by Hon (1998), evaluating the effectiveness of public relations continues to be a topic of critical importance, because measuring the outcomes of public relations programs provides the data needed to demonstrate that public relations helps organizations and clients meet their performance goals. Hence, over the past few years, scholars and practitioners have increased their focus on public relations evaluation and effectiveness (e.g. Guth & Marsh, 2003; Likely, 2004; Xavier, Johnston, Patel, Watson, & Simmons, 2005).

Taking this into the account, it is obvious that the public relations of the firm has an economic dimension which is an important research perspective for public relations (Lah & Golob, 2008; Prior-Miller, 1989). It is appropriate to study public relations characteristics within a management or broader economic theoretical framework because public relations is a management function (Verčič & Grunig, 2003). However, most scholars have failed to make connections between economics and public relations, although it has been suggested that even the widely used situational theory of publics and the models of public relations have roots in microeconomic theory (Verčič & Grunig, 2003). The literature linking public relations with economic theory is still sparse.

This paper examines how to theoretically connect public relations with some of the most prominent economic theories in order to explain how public relations management contributes to a company's overall economic gains. This is important,

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because, as argued by Culbertson, Jeffers, Stone, and Terrell (1993), economics directly affects public relations programming and decision making. Further, economic way of thinking and economic concepts can be useful for public relations practice (Culbertson et al., 1993).

The paper first discusses different views of the relationship between public relations and economics from the public relations perspective. This link has been implicit and unarticulated. Then it turns to the economic view of public relations. First it analyzes the neoclassical optimization approach to public relations, within the modern neoclassical structure–conduct–performance paradigm. Then the alternative to the neoclassical approach to public relations is discussed, based on post-Keynesian economics and transaction cost theory, stressing the importance of the investment protection role of public relations and transaction costs.

2. Economics in public relations literature

The "relations" between public relations and economics may be categorized in five groups.

One group of authors, who propose that "public relations is the active participation in the social construction of meaning" (Hutton, 1999, p. 202), search for the roots of their definitions in different disciplinary fields and social scientific theories, such as symbolic interactionism, exchange theory, conflict theory and structural–functional theory (Prior-Miller, 1989). The exchange theory, for example, is also rooted in microeconomic theory (Prior-Miller, 1989). On the other hand, Lawniczak (2007) links public relations with certain socioeconomic models of a market economy in transition, and believes that public relations should promote those models.

A second group of researchers explores how the country's socioeconomic and political environment impacts the practice of public relations. In the context of contextual or environmental research (Taylor, 2001) in public relations, authors view socioeconomic factors as important determinants of the development and practice of the profession (e.g. Culbertson & Jeffers, 1989; Molleda & Moreno, 2006; Sriramesh & Vercic, 2003). Political economy approach similarly argues that it is important to consider broader political and economic factors that affect the public relations process in a country (Duhé & Sriramesh, 2009).

The third view consists of public relations scholars who believe that public relations needs an interdisciplinary approach, which should include economics alongside other disciplinary fields, such as mass communication, interpersonal/speech communication, psychology and sociology (Ihlen & van Ruler, 2007). In this view economic conditions are important in the context of integrative thinking in public relations, especially when dealing with costs and resource availability. Culbertson et al. (1993), for example, try to link public relations to economic concepts.

The fourth view relates public relations more precisely to a specific economic paradigm. Tracing the origins of public relations in economics, Verčič and Grunig (2003) incorporate public relations into management theory and follow Mintzberg's rationalization of management theory, rooted in neoclassical microeconomics. The authors argue that transaction costs and especially Coase's work are the most relevant entry points for public relations research (Grunig & Grunig, 2005).

The fifth view consists of scholars who, in their definitions of public relations, use components with direct economic implications (Hutton, 1999). For example, seeing public relations as a business "lubricant" or "catalyst" might be connected with lowering the firm's transaction costs. In this view a cost–benefit analysis is used which directly assigns monetary values to public relations goals (Bruning, Dials, & Shirka, 2008). In order to avoid subjectivity in assigning a monetary value to public relations, a two-stage model is proposed for evaluating the effect of public relations expenses on reputation (Kim, 2001). The focus is on the economic impact of reputation on companies' bottom line (Hutton, Goodman, Alexander, & Genest, 2001; Kiousis, Popescu, & Mitrook, 2007; Yang, 2007). Understanding public relations as a "persuader," or "a builder of goodwill," or "image perception," makes it similar to advertising in its economic (profit) impact (Hutton, 1999).

It is interesting that most researchers do not start out from an economic point of view, but rather look into economics from the public relations field. However, for a deeper understanding of the link between the two disciplines, an economic perspective on the role of public relations within the firm is important and valuable. There are several competing economic theories which have different consequences for public relations. Among them are the neoclassical approach and its alternatives: post-Keynesian and transaction costs approaches.

3. A neoclassical optimization approach to public relations

The theoretical foundation for the neoclassical theory of public relations is a hypothetical and unrealistic situation—a market structure of perfect competition, where a firm needs no communication with (economic) agents. In a perfect competition model, economic agents are perfectly informed. In order to optimize its revenues, a firm in perfect competition does not need to engage in any sort of communication. As Dorfman and Steiner's (1954) theorem suggests, there is no need for advertising in perfect competition. *Mutatis mutandis*, in perfect competition there is no need for public relations. The market(s) in perfect competition is transparent *per se*—a firm does not need strategic communications to build relationships with stakeholders; the publics do not need to be informed by the firm, and there are no issues generated by the publics which might harm the business of the firm. In such a setting, public relations activities cannot change a demand curve. Public relations is a needless cost for the firm that can worsen its economic position. If a firm were to employ public relations, costs of such activities would change the assumed equilibrium position of a firm but they would not bring any revenues just higher costs.