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Differences in decision-making criteria towards the return on marketing investment: A project business perspective

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Abstract

Assessing the value of marketing to a business remains a thorny issue in theory and practice. Decision-making at the finance–marketing interface is under-researched, particularly for project businesses. Confronted by demands of accountability concerning the allocation of resources to meet competitive pressures, the paper examines the quality and extent of dialogue in investment decision-making. The return on investment (ROI) and marketing-specific investment (ROMI) are important factors at the marketing–finance interface. ROMI/ROI is examined from quantitative and qualitative viewpoints. The empirical evidence shows that short-term financial criteria dominate and are misaligned to long-term performance of project businesses and business units. Marketing investment in relation to project markets poses a particularly challenging environment. Client lifetime value and programme data sets for ROMI coupled with qualitative decision-making offer ways forward with constructive dialogue at the finance–marketing interface. The paper concludes with detailed recommendations for research and practice.

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Keywords: Decision-making; Dialogue; Finance; Marketing; ROMI; Performance

1. Introduction

The value of marketing and the marketing function remains a thorny management issue in theory and practice. This is particularly the case from the perspective of financial management where exacting justifications are demanded from the marketing function to justify investment in marketing-related capabilities and activities (Srinivasan and Hanssens, 2009; Weissbrich et al., 2007). Marketing and finance are functions that are often treated in isolation both in research and practice. There has been no research at the marketing–finance interface in project businesses to address function and agency (cf. Jensen and Meckling, 1976). There are two dimensions that provide a starting point: the criteria of justification about investment decisions, and the extent of alignment in the dialogue for decision-making at the marketing–finance interface.

The paper considers three levels in order to address the marketing–finance interface because each level exerts influence. There is the market and shareholder value, the level of the firm and finally the dynamics at the marketing–finance interface. Associated with these three levels are assessments on investment in and by firms, strategic decisions on budgeting, and the return on marketing-related and marketing-specific investment (ROI and ROMI). There is a gap in the literature concerning ROI and ROMI in theory and practice regarding the marketing–finance interface in sectors producing specific assets, particularly project businesses.

The *aim* is therefore to assess marketing-related and marketing-specific investments in terms of the justification criteria and the dialogue applied in decision-making. The project delivery channel comprises complex bundles of services and products, configured under conditions of uncertainty, and frequently engaging temporary and sometimes multi-organisational teams (e.g. Turner,

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2008; Winch, 2010). There are at least five evaluative *objectives* with associated outcomes in this context: i) ROI and ROMI are generally useful conceptual and appropriately applied practical tools; ii) ROI/ROMI is useful yet needs careful and considered application in specific contexts; iii) ROI/ROMI provides a basis yet more conceptual development is required for application across different types of project contexts, supported by an appropriate and shared dialogue; iv) some combination of the previous three outcomes; and v) ROMI/ROI is not useful.

The paper proceeds by reviewing the management literature in the investment market in relation to and for the firm, prior to analysing the application in project businesses. Focus is upon the justifications and dialogue used in decision-making around marketing investment and returns. Return on investment or ROI applies to all investment, which includes marketing-related investment and ROMI applies to marketing-specific investment and marketing-related investment. Another perspective yields two types of investment: investment to improve the market position of the firm and ability to sell its service, and investments in the marketing function to improve performance, from which stance all such investment can be pejoratively categorised under ROMI. An overview of ROMI is provided, examining the concept from both quantitative and qualitative viewpoints. It then proceeds by reviewing ROMI against the concepts of the marketing mix and relationship marketing. The methodology and method are then presented as a springboard for the empirical investigation. The findings and discussion of the findings complete the main body of the work before concluding with statements upon the contribution to knowledge, the limitations and recommendations for both research and practice.

2. Literature review in management and for project businesses

Management is increasingly challenging the marketing function to demonstrate how marketing fits into financial metrics (Ganesan, 2012). This is partly driven by internal criteria concerning financial strategies of prevailing business models, and partly by the external drivers from investment markets that help shape prevailing business models. Marketing outcomes are therefore measured in terms of profitable contribution to shareholder value (Srivastava et al., 1998).

Investors are risk averse, being more concerned about potential losses than gains. Reconfiguring or increasing value propositions across a portfolio of customers may increase customer satisfaction, yet studies show that increasing customer satisfaction does not reduce supplier risk, although some recent evidence shows contrary results (Tuli and Bharadwaj, 2009). However, the marketing literature has shown that operational cost control as a major driver to improve returns works short-term, yet compromises long-term returns (Grönroos, 2000). A traditional production approach to cost accounting cannot be uncritically applied in service markets because cost reductions are a cut in investment. The service logic (Vargo and Lusch, 2004) takes matters a step further, questioning the production-service split and reinforcing the inseparability of costs and investment.

Project activities are located on the cusp of product and service. *How* project management is executed *is* service provision. Further, contracts, whether social through in-house provision or legally set out as in the open market, are agreed prior to all requirements being specified, and responses to emergent requirements form part of the service content. The capabilities required by project businesses support the customizing of complex and uncertain specific assets and the tailoring of services to context (Davies and Brady, 2000). This poses a challenge for investment in project business capabilities that are used to improve the service content and project specific investments. The latter are incorporated in the costs and any bid price. Technical and service capabilities developed at the business level are more contentious. These investments are marketing-related in order to implement the marketing strategy (Davies et al., 2007).

This provides the context in which project businesses allocate investments, taking into account a range of factors that influence the earning logic, profitability, and how this is perceived in relation to shareholder value. This in turn raises whether the finance drives or serves the firm (e.g. Grönroos, 2000; Srinivasan and Hanssens, 2009) whether as a production-cum-task or customer orientation, with short or long-term horizons for analysis and application in practice.

2.1. The marketplace

At the general market level are three related foci: (i) stocks, (ii) the firm or project business, and (iii) customers. Stocks concern the attractiveness for investing in firms and relate to shareholder value. The financial performance of firms feeds into shareholder value and is derived from the effects of marketing-related and marketing-specific investments on operational performance. Customers demand value for money (VFM) and can reasonably expect investment-derived improvement in VFM over time.

One of the greatest constraints on the development of effective governance and service provision has been *impatient capital*, whereby managers have sought to satisfy the demands of financial markets demanding low risk and high returns (Narayanan and DeFillippi, 2012). Shareholder value can be measured several ways using capital market-based measures, for example market to book ratio (Hogan et al., 2002) and the market value to the current replacement costs of its assets (Anderson et al., 2004; Tobin, 1969), which have less relevance the more the business is project-based because project businesses are heavily reliant upon the return on capital employed (ROCE) derived from accelerating the circulation of working capital. Therefore, measures such as market value added (MVA), which is the difference between the market value and capital employed (Griffith, 2004) are pertinent.

Finance managers take a summative perspective. Aggregated purchases or contracts give rise to the total profitability and market share (e.g. Reinartz et al., 2005). Declared profitability depends upon operational cost control, the amount reinvested for future

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