CHAPTER 2
ADVERTISING INDUSTRY

This chapter looks at the advertising industry from advertising trends in the U.S. to a historical perspective of the Malaysian advertising industry. It covers topics on the structure, compensation methods, growth as well as advertising awards which recognise the efforts of the industry.

2.1 Advertising Trends

The advertising industry is not alone in facing new developments in the wake of an increasing competitive environment, new technology and globalisation. Some of these developments have threatened the industry, shifting promotion dollars from mass media advertising to other promotional tools such as sales promotion and direct marketing (Belch and Belch, 1995). According to Fox and Geissler (1994), U.S. ad agency gross income, adjusted for inflation, has been flat since 1985 and can be attributed to:

1. Mass media advertising has become increasingly expensive. Advertisers, hard pressed to account for every advertising dollar in the wake of bottom line focus, have resorted to more efficient media which will reach their target audience at lower costs. This has resulted in the growth of Integrated Marketing Communications (IMC) (Belch and Belch, 1995).

2. The media market has grown increasingly fragmented due to cable and interactive TV. In U.S., network TV owned only 62 percent (1990) of the viewing audience compared to 87 percent in 1980. There has been a shift from mass media to smaller targeted media alternatives such as direct mail and event sponsorships. McDonald’s spent US$40 million sponsoring the “Flintstones” (Fox and Geissler, 1994).
3. Technological progress has introduced new methods of tracking purchases such as Universal Product Code (UPC) scanners at checkout counters and customer counting systems such as SHOFFPERTRAK, Fastlane, SMARTCOUNT and CHECKIN (Robins, 1995; Chain Store Age, 1996) on the retail end. Their ability to provide immediate update on the effects of promotional efforts, has given retailers more clout. As a consequence, manufacturers have conceded to the retailers' request for sales promotion efforts.

4. Information Technology has accelerated the growth of database marketing. Its ability to segment customers based on geographic, demographic and psychographic profiles has increased the impact of direct mail, a more effective and efficient media in favour of mass media (Belch and Belch, 1995).

5. Changes in media buying practices where corporations have switched to in-house and independent media buying services, have reduced advertising revenue for agencies (Belch and Belch, 1995).

6. Mergers and acquisitions with other agencies and support organisations have promoted the role of IMC rather than just advertising (Belch and Belch, 1995).

In the U.S., high account switching and the tendency of major advertisers to seek advertising and brand building advice from large consulting firms have eroded the roles of ad agencies from key problem solvers to just creative shops (Levine, 1998). The problem is compounded by the failure of agencies to attract talented entry-level personnel what with meagre pays offers compared to consulting firms' start-up pay which is twice as much (Levine, 1998; Crain, 1998). Consulting firms offer advertisers dispassionate and objective advice as well as provide a competitive edge in personnel, some of whom have MBAs. These consultants are more able to advise and think along the same line of thought as the clients. This scenario
has resulted in loss of business to agencies and price-cuts and further aggravated the situation in reducing the ability of agencies to pay for more qualified personnel (Crain, 1998).

2.1.1 Types of Advertising Agencies

According to Belch and Belch (1995), three major groups of advertising agencies are observed:

**Full Service Agencies:** These type of agencies offer marketing, communication and promotion services. Full service agencies produce ads, conduct research and select and buy media for the clients. Non-advertising services such as sales promotion, strategic market planning and public relations and publicity are also offered. Most agencies fall within this group.

**Creative Boutiques:** These type of agencies only offer creative services, one function of an advertising agency. These agencies usually offer their services on a fee basis.

**Media Buying Services:** These type of agencies also offer only one component, the media buying services. Their volume from consolidated budgets of advertisers allow for great savings for the advertiser.

It was observed in the U.S. that the creative boutiques are on the decline (Rothenberg, 1998). The key reasons were minimal financial and emotional risks of starting an agency and globalisation. Even small clients are planning or projecting a need for international market presence. Global clients who had previously engaged the services of creative boutiques have consolidated their advertising efforts, for efficiency. This trend could prove detrimental as creative boutiques have historically provided creative renewal and fresh industry leadership.
2.1.2. Structure and Organisation of Advertising Agencies

Two types of structure are identifiable in advertising agencies: the centralised or departmental system and the decentralised or group system (Belch and Belch, 1995).

In a **Departmental System**, each function of an advertising agency is a separate department. They serve all the agencies’ accounts. The advantage of this type of structure is that it allows staff opportunities to broaden their experience and expertise on a wide variety of accounts.

In a **Group System**, a personnel is pulled from each department or function and grouped into a team. Headed by an account service person, the team or group services a particular account. This type of structure allows employees to gain greater in-depth knowledge of the product or service.

2.1.3. Compensation Methods

Belch and Belch (1995) reported that the advertising industry subscribes to five types of compensation methods: commission system, fee arrangement, cost-plus agreement, percentage charges and incentive-based compensation.

The most common is the commission system in which agencies are awarded 15 percent commission on the media bought by the advertiser. Proponents of this system state advantages as easy administration, switch from price-cut competition to non-price factors such as quality of the advertisement produced, proportional service for the account size where more time, energy and resources are expended on larger accounts and flexibility as agencies offer additional services at no extra charge.

Opponents of the system question equitable compensation for the services performed as agencies may spend an equal amount of time on planning
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and creating the advertisement but yet one may receive a higher commission from a larger media budget.

The issue of ethics then arises as agencies may push for high cost media rather than the appropriate media when agency compensation is tied-up to media costs. It encourages agencies to focus on commissionable media and ignore non-commissionable media such as sales promotion, direct marketing, public relations and publicity and personal selling.

A variation is the negotiated commission, advocated by advertisers. It comes in the form of reduced percentage rates, variable commission rates and commission with minimum and maximum rates.

The fee arrangement is another type of compensation where the agency is paid a basic monthly fixed-fee for all its services or a fee-commission combination where the media commission received is credited against the fee.

The third type is known as the cost-plus agreement where the advertiser pays the cost of work and adds a pre-agreed profit margin. The cost-plus and the fee arrangement methods are usually used in combination with the commission system.

Percentage charges is another method of compensation where a markup of percentage charges is added to the cost of the various services the agency purchases from outside suppliers.

The last method, incentive-based compensation, has been a bone of contention among agencies. The idea of tying compensation to performance is favoured by clients as it makes the agency accountable for their work. Agency performance is measured based on achievement of goals set and agreed upon by both the agency and client. Objective measures include sales or market share whilst subjective measures
include quality of the creative work. A sliding scale method where a base compensation of less than 15 percent commission with add-ons based on attainment of the set goals, may be used.

The incentive-based compensation was used by DDB Needham Worldwide in the 1990 (Miller, 1990; Levin 1991) and Calet, Hirsch & Ferrel (Belch and Belch; 1995). DDB Needham offered to guarantee results for advertising, based on sales goals, to encourage more agency accountability. The plan was received positively by clients but raised unprecedented concerns among the agencies. Among the criticisms were DDB's inability to look at the total marketing communications where advertising is only one component - there was no scientific proof of advertising's effect on sales, thus the validity of the use of sales as a measure, its rather sophisticated measurement system to track effectiveness and so on, was questioned (Miller, 1990).

Despite the protests, the trend is picking up. Major advertisers such as GM and Proctor and Gamble in the U.S. are implementing agency compensation based on a combination of fees, incentives and labour-based compensation with effect in 1999. This is to reduce media bias towards expensive broadcast TV (Advertising Age, 1998). GM reported reducing commissions from the traditional 15 percent to around 9 percent plus fees for additional services as far back as the late 1980's (Halliday, 1998). Other advertisers opting for the fee management with their agencies include Ford Motor Co., Mercedes-Benz of North America, BMW of North America, Mastercard International, American Express Co., IBM Corporation, Unilever, Colgate-Palmolive Co., KMart Co. and Levi Strauss & Co (Halliday, 1998). The numbers are on the rise as a survey by the Association of National Advertisers (ANA) in 1998 reported an increase of 17 percent over 1992's 13 percent and 1989's 1.2 percent of advertisers who compensated their agencies on incentives tied to performance (Halliday, 1998).
The advantages, advertisers claim, are they can determine who works on their accounts as well as the amount of time input. This system of compensation is also more appropriate for advertisers who use more of an Integrated Marketing Communication programme rather than traditional media (Halliday, 1998). One agency, Ammirati Puris Lintas, levies an additional fee for strategic thinking (Petrecca, 1998).

2.2. The Advertising Industry in Malaysia

The advertising industry in Malaysia whose growth picked up from 1950 onwards, after independence, has played a supporting but important role in the industrialisation of the Malaysian economy. Contribution to the country’s GDP was 0.8 percent (Adnan, 1994).

2.2.1 Historical Background

It is rather difficult to pinpoint the exact date when advertising started in Malaysia. Senn (1970) has suggested that advertising first started to support the traders. The media used was limited to mainly newspapers, some posters, handbills and sandwich boards. The ads were strictly related to shipping such as shipping schedules.

The first documented ad was traced back to 1805 in the country’s first newspaper “Prince of Wales Island Gazette” published in Penang, according (Mansor, 1984). Forty years later, in 1845, the first edition of the Straits Times was published. Its front page was dominated by shipping-related advertisements.

Senn (1970) reported the first advertising agent was a J.R. Flyn Anderson in Changi Alley, Singapore, who advertised his services in the Straits Times paper on the 4th of January, 1919. A local, Siow Choon Leng, followed soon after with an ad in the Straits Times on the 3rd of February, 1919. By 1934,
there were 17 companies specialising in advertising, publicity and market research in Malaysia and Singapore. Thirteen were located in Singapore (see Appendix C), one in Kuala Lumpur (KL) - the Bus New Agency), one in Penang - Film News Advertising and Commission Agency and one in Malacca - Malacca Advertising & Bill Posting Agency. Adnan (1994) noted that the first Malayan agency that handled ad-related job was UNION Art Studio which was founded by Lee Yuen Hong in the forties. The company is now known as UNION Forty-Five. The only other competitor at that time was KC Dat which handled printing and press work.

The advertising industry was stalled during the Japanese Occupation which lasted from 1941 till 1944, and resumed in 1945 with Lee’s notable chalk-rendered billboard for a KL restaurant (Senn, 1970).

It is noted that the Association of Accredited Advertising Agents of Malaya (4As) was established in Singapore in 1945 and its formation was announced in the Straits Times on the 1st of May, 1948 in Singapore. The first members were Masters Limited, Millington Limited and Messrs G.F. Young. It was also in Singapore that the Malayan Advertisers Association of Malaya and Singapore (2As) was founded in 1952. Soon after, in the mid-1950’s, experienced advertising personnel in Print, Radio and Rediffusion, from outside Malaysia, started their bases in Singapore. From there, they opened offices in KL to service their clients in Malaysia. Such early agencies included Cathay, Grant, Masters, Benson, Young, to name a few (Senn, 1970).

With independence in 1957, the economy in Malaysia picked up as policies and programmes to attract foreign investors were implemented. On December 28th, 1963, the introduction of commercial TV gave the Malaysian advertising industry its impetus (RTM online). Multinational organisations who realised the growth potential started investing and building their brands in Malaysia. The advertising agencies handling these brands in their home country, followed in their footsteps by setting up branch offices in line with
the expansion plans of their clients, to service the accounts in Malaysia. The first agencies to do so were Ogilvy & Mather, Ted Bates, Lintas and McCann-Erickson. Their initial billings were modest but, as their clients grew, so did these agencies (Senn, 1970; Adnan, 1994).

2.2.2 Growth

The advertising expenditure (ADEX) trend and the Association of Accredited Advertising Agents (4As) membership figures reflect the growth of the advertising industry. It is the author’s observation that the figures, however, do not represent absolute values of growth but portray rather a general trend of growth. ADEX, for example, reflects the growth value of the industry. The 4As membership, on the other hand, does not reflect the growth of the total advertising agents but only of accredited or full service agencies. Only agencies buying media for their clients will need to be accredited to the media owners and consequently, by requirement, join the 4As, as confirmed by the 4As Secretariat.

4As’ membership figures were poorly documented before 1980. Caution must be exercised particularly in the use of the 4As membership roll as member agencies that are currently not on the list were found still operating. A check with the 1998 Malaysian Advertising Directory (MAD) which lists the current advertising agencies revealed that some of the agencies that dropped off the 4As list still exist. Reasons cited for the removal of the member agencies from the 4As list included non-payment of subscriptions, cessation of operations or resignations for reasons that were not documented (4As, 1998). Although these figures may not indicate the actual growth, the author believe that they can be used to reflect the general trend of growth of the Malaysian advertising industry.

ADEX figures include TV and print spend that were monitored and tracked by AC Nielsen, and radio, cinema, video and point-of-sale spend that were supplied by the respective media owners to AC Nielsen. Although the list of
media vehicles in ADEX is not exhaustive (see Appendix D), the current figures represent around 90 percent of actual advertising expenditure in the nation (AC Nielsen, 1998).

Figure 2.1: Advertising Expenditure Trend in Malaysia from 1980-September 1998

![Graph showing advertising expenditure trend in Malaysia from 1980 to September 1998.]

Source: AC Nielsen, 1998

In Figure 2.1, advertising expenditure in Malaysia showed a phenomenal annual growth rate of 30 percent during the 1980-1990 decade. Although advertising expenditure continues to rise, it is doing so at a slower rate, averaging 10-20 percent annually. However, figures since 1997 have plummeted and growth rate registered negative 39 percent as at September 1998.

The growth of the 4As membership exhibits a similar growth trend in the advertising expenditure in Malaysia. The 1990’s membership grew positively whilst memberships in the 1980’s registered an overall negative growth trend due to a recession during the 1986-87 period (see Figure 2.2 and Appendix E).
Figure 2.2: The Growth of Accredited Advertising Agencies in Malaysia

<table>
<thead>
<tr>
<th>Year</th>
<th>No. Admitted/Resigned</th>
<th>Cumulative Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>1976</td>
<td>4</td>
<td>6</td>
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<tr>
<td>1979</td>
<td>2</td>
<td>18</td>
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<tr>
<td>1980</td>
<td>0</td>
<td>18</td>
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<tr>
<td>1981</td>
<td>0</td>
<td>18</td>
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<tr>
<td>1982</td>
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</tr>
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<td>40</td>
</tr>
<tr>
<td>1997</td>
<td>0</td>
<td>40</td>
</tr>
</tbody>
</table>

Source: Association of Accredited Advertising Agents, Malaysia (4As) membership Register 1998

2.2.3 Structure of the Malaysian Advertising Industry


Full-service or accredited ad agencies can be classified into three broad types: the multinational (or international) agencies (MNA), the locally-affiliated agencies (LAA) and the 100 percent local agencies (LA).

MNAs are required to have a local partner with major shares in the company. The local partner need not be advertising agents, but could be statutory bodies or marketing firms. Examples of such a partnership include The Antah Group (51 percent), the local partner of Grey Advertising (M) Sdn
Bhd and Sime Darby, the local partner of J. Walter Thompson (Malaysian Advertising Directory 1998; Adnan, 1994). A key characteristic of MNAs is that expatriates run the firm and make top management decisions. The twenty MNAs, representing 10 percent of the ad companies, contributed to 70 percent of the advertising and communication expenditures in Malaysia in 1992, due to the international accounts from their parent agencies (see Table 2.1). Some examples include Ogilvy & Mather with AMEX and McCann-Erickson and Coca-Cola (Adnan, 1994).

**TABLE 2.1**

**TYPES OF ADVERTISING AGENCIES IN MALAYSIA**

<table>
<thead>
<tr>
<th>Types of Advertising Agency</th>
<th>Estimated Number</th>
<th>Billing</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>MNAs and LAAs</td>
<td>20 (10%)</td>
<td>16 (5%)</td>
<td>70%</td>
</tr>
<tr>
<td>Local (LA)</td>
<td>na</td>
<td>323 (91%)</td>
<td>30%</td>
</tr>
<tr>
<td>Media Specialists</td>
<td>-</td>
<td>15 (4%)</td>
<td>na</td>
</tr>
<tr>
<td>TOTAL</td>
<td>&gt;200 (100%)</td>
<td>354 (100%)</td>
<td>na</td>
</tr>
</tbody>
</table>


na = not available

Locally-affiliated agencies (LAA) are local agencies which have merged with multinationals. Top management decisions are made by Malaysians. An example is Naga DDB where ownership is 70 percent local and 30 percent is held by DDB Needham Worldwide (Malaysian Advertising Directory 1998).

Local agencies such as Idris Associates, Spencer Azizul, to name a few of the 200 agencies in the industry, contributed to RM30 million, 2 percent of the total media billings in 1992 (Adnan, 1994). Local agencies are defined as having a minimum of 70 percent local ownership of which 30 percent is Bumiputra.

Adnan (1994) has commented that the local agencies in Malaysia were more likely to compete on cost. With the lack of funds and facilities, local agencies will find it difficult to grow like international agencies. For one thing, international agencies have the benefit of international resources.
such as research, financial backing, expertise and the clout to realign international accounts held by the parent agency.

It is interesting to note that the top Malaysian firms with overseas business and international offices rarely use the services of local agencies even at home. A discussion with a long time ad industry professional revealed examples that include Malaysian Airline System (MAS) - the national airline account is handled by Leo Burnett, Maybank, the largest bank in Malaysia and the Tourism Development Corporation Malaysia (TDC) whose accounts are split between a number of international agencies and Royal Selangor (Pewter) by Leo Burnett. Only Edaran Otomobil Nasional (EON), the Malaysian distributor of Proton, is handled by a local advertising agency, Bloomingdale. Still Proton's international markets are handled by the domestic agencies in the respective countries. This seemingly lack of support for local agencies could be attributed to the inefficient international networking of local agencies. The prior use of international affiliates in an attempt to achieve international networking has been observed to be ineffective due to the lack of commitment and financial concerns on the part of the affiliates.

Few local agencies have expanded their network beyond Malaysia. Zakon (1988) has recommended steps to global networking based on his observations of some agencies:

- Follow your customers as failure to do so will mean they will find new vendors that will inevitably follow them back home again.
- Commit to the market as an indigenous supplier rather than as an expatriate
- Leverage the power of the network by the sharing of insights, ideas and expertise so that the learnings in one country can be translated elsewhere.
2.3 Advertising Awards

Advertising awards are important as, by virtue of argument, they serve as criteria of the effectiveness of advertising campaigns and thus measure the advertising agency's performance. The universally accepted criteria used by most awarding institutions are based on creativity with an emphasis on innovative and original solutions (Helgesen, 1994).

According to Helgesen (1994), advertising awards are important on three levels. At the individual level, they are a measure of professional assessment and recognition. Winners of awards become opinion leaders and trendsetters and their work become the professional standards of the industry to be copied by others.

At the corporate level, they gain recognition for the agency's work and serve as promotional instruments. Agencies use the awards to acquire new clients, increase the loyalty of present clients, encourage creativity among staff and help to recruit talented professionals (Polonsky and Waller, 1995; Helgesen, 1994). Advertising awards may be used to profile an agency on a key professional property - the agency’s creative track record (Helgesen, 1994).

Use of creativity, the measure in most advertising awards, has been proven an important criterion in agency-client relationship by various researchers (Doyle, Corstjens and Michell, 1980; Wackman, Salmon and Salmon, 1987; Verbeke, 1989 and Michell and Sanders, 1995). Henke (1995) reported in a longitudinal study that creative is crucial to winning new business but its role is diminished as the agency-client relationship evolves. Helgesen (1994) further suggested that winning awards may also facilitate the agency's position, in that they do not have to document advertising results through demanding and expensive research, as the awards are perceived to be the professional standard. Thus creative excellence as manifested in winning awards is considered a competitive force in advertising agencies.
At the industry level, awards serve the need for social acceptance and legitimacy. They are also perceived as professional standards for judging advertising effectiveness (Helgesen, 1994).

The above arguments reinforce the importance of creative excellence in advertising awards and as a criterion of advertising effectiveness and agency performance. However, high scores for recall and recognition, commonly used as measures for creative excellence, have been demonstrated not to correlate with sales by researchers Haley (1990) and Clancy and Shulman (1991).

The key problem, according to Helgesen (1994) is the validity of measures in advertising awards. The main criteria are "creative excellence" and "great advertising" which depend on the use of surrogate criteria - recall, recognition and liking which are based on communication effects. They are not direct measures based on marketing such as sales or market share or return on advertising investment. No relationship between the creative criterion and sales has been demonstrated. The question then arises whether the awards are truly an indication of the effectiveness of an ad campaign.

Several studies, and in particular the one by Weinblatt (1985) showed that a number of awarded campaigns were followed by later failures in the marketplace. Helgesen's study (1994) found that creative advertising awards are not a reflection of an agency's performance. This study was supported by the Australian study by Polonsky and Waller (1995) that winning advertising awards does not affect the agency's income or billing.

In an effort to ensure that research plays an important role in support of creative and successful campaigns, the Advertising Research Foundation (ARF) instituted the David Ogilvy Award in 1993 (Helgesen, 1994). Other awards such as EFFIE (short form that stands for effectiveness) started in 1969 by the New York Chapter of the American Marketing Association,
judges the results of the overall advertising process— from marketing strategy to the media mix to research as well as the creative ideas (Moriarty, 1996). Another such award that does not use creativity as the salient criterion is the Australian The AFA Advertising Effectiveness Awards (Polonsky and Waller, 1995).

Popular international awards include The One Show, Clio Awards, Art Director Club of New York, Cannes International Advertising Film Festival, London International Advertising Awards and Asian Advertising Awards (Polonsky and Waller, 1995).

2.3.1 Creative Awards in Malaysia

Advertising agencies the world over have always been rated by the creative work they produce. In Malaysia, awards that have recognised local creative excellence were:

1. Kancil Awards organised annually by the Creative Council
2. Juita Awards for TV commercials which are organised by Radio Television Malaysia (RTM)
3. Malaysian Video Awards, and
4. Star Ad of the Month awarded by The Star newspaper.

Of the four awards, only the Kancil Awards and the Malaysian Video Awards are still in operation. The Kancil Awards are judged by the Kancil jury, a panel of judges from both the local and international advertising industry. Formerly known as the 6As or Association of Accredited Advertising Agents Annual Awards, it was renamed the Kancil Awards in 1992. Figure 2.3 shows that more Kancil awards are won by international agencies than local agencies. (see also Appendix F).

The Malaysian Video Awards (MVA) are annual awards of the MVA Council established in 1994 (MVA web page, 1998). The awards are organised
under the auspices of the National Art Gallery. They recognise individual crafts in film and video production.

Figure 2.3: Local Awards (Kancil Awards) won by Type of Advertising Agencies from 1992-1998

Source: AD oi 1998

The defunct Juita awards, which started in the 1970s were organised annually by RTM. The panel of judges comprises of the Kementerian Penerangan (Information Ministry) personnel, advertisers and advertising agencies. Initiated with the primary purpose of improving the quality of TV Commercials, the JUITA award's criteria included originality, concept, creativity and the reflection of government policies such as multi-racial culture, in TV commercials (telephone interview with RTM staff).

The Star Ad of the Month, held in conjunction with The Star newspaper's 25th anniversary, ran from January till December 1997. This award is not an award for excellence in the true sense although it was a public poll on likeability of the ad (telephone interview with The Star staff).

Malaysian advertising agencies also submit their work to international awards which include the renowned Clio awards, the New York Art Director's Club, the Cannes Awards (Lion awards), the British Design and Art Direction Awards and so on.
A number of Malaysian agencies have entered and won international awards. They include DYR, FCB, Leo Burnett, Naga DDB, Spider, to name a few. From this, we may infer that Malaysian advertising agencies believe that winning advertising awards are of importance to their business.