CHAPTER 3
LITERATURE REVIEW

In this chapter, the literature review examined factors that contribute to success in an agency including agency-client relationship and organisation factors. A model was then developed using the learnings was developed and used to test.

3.1 Agency-Client Relationship

Various aspects of the agency-client (A-C) relationship have been investigated by numerous researchers as far back as 1970. Studies of the relationship are critical as they provide insights to help reduce the costs of time and labour expended in developing and building the relationship.

Helgesen (1994) supports the use of agency theory which examines the interactions between principal and agents, to explain agency-client relationships. Initial proponents included researchers such as Eisenhardt (1989) and Bergen, Dutta and Walker (1992). Helgesen (1994) also noted that the two stages in the relationship based on the agency theory corresponds to the phases in the agency-client life cycle as forwarded by Wackman et al (1987).

The theory, according to Helgesen (1994), provides insights into the two stages of an agency-client relationship: the pre-contractual and the post-contractual stage. Principally, both parties are motivated by self-interest to gain maximum remuneration. As a result they seek to reduce risks through information. Thus information is seen as the exogenous factor that can influence the pre-contractual as well as the post-contractual relationships. However, the information is usually incomplete and asymmetrical. In an agency-client relationship, the agency's creative standards, indicated through awards won, serve as important influencers.
3.1.1 The Agency-Client Life Cycle

The agency-client relationship can be viewed as a life cycle comprising of four stages: prerelationship, development, maintenance and termination (Wackman et al, 1987).

· Figure 3.1: The Agency-Client Life Cycle

Source: Adapted from Wackman, Salmon and Salmon (1987)

**Prerelationship Stage**

This stage, also known as the evaluation stage, constitutes the period before a formal contract is signed between the two parties. Here criteria for evaluating or selecting an agency are used by an advertiser. In a similar manner, super agencies also select their clients, especially in these days of mergers and acquisitions (see Figure 3.1).

Agency search results from two key factors: the structural change in the client's organisation that necessitates an agency change or dissatisfaction with the current agency (Weilbacher, 1983; Morgan 1974).

Helgesen (1994) uses agency theory to explain the need for information search albeit incomplete and asymmetrical, by both parties in order to reduce risks. One of the ways an advertising agency indirectly “sends” out information about its performance and capability is through awards, thus the
importance of advertising awards. The agency’s focus on creativity for attracting new business is validated by Henke (1995) and Verbeke (1989).

The Evaluation or Selection Process - Cagley (1986) studies the selection criteria from both sides of the fence: the agency and the client, the advertisers. His research uses 25 attitudinal statements identified from various checklists and articles:

- Zeltner (1979) on factors leading to satisfaction and dissatisfaction of current relationships of agency-client;
- Hanan (1970) describing the selection process of agencies;
- Campbell (1970) and Nylen (1980) on ideal criteria in agency evaluation or selection;
- Anderson and Barry (1979) and Zeltner (1979) on checklists for agency selection and
- Brown (1983) on the agency’s indication of the importance of selected services and client’s satisfaction with those services.

Cagley’s (1986) findings indicate that both advertisers and agencies agree on the majority of the statements (14 out of 25), key of which is the people factor. Of the nine variables that agencies rate higher than advertisers, the relationship factor came out strongest. Advertisers rate two attributes related to creativity, more important than agencies.

Development Stage
This stage constitutes the post-contract or agreement period. Both the agency and client are still learning about each other. A great amount of time and resources is spent learning about the client’s business, the products or services, the customers as well as the client’s management styles. Here also the agency expends a great amount of time and resource establishing credibility and building trust. These are the first stirrings of the agency-client relationships. Here at this stage, the first campaign is developed and implemented. Thus, factors for evaluating relationships are important.
Wackman et al (1987) went a step further and researched into the satisfaction factors in the next two stages of the agency-client relationship. In their research, advertisers were asked to rank the importance of 18 variables adapted from an inventory devised by Weilbacher (1981). From their findings, predictors of a client’s satisfaction with the agency were: relationship with account service people followed by client’s perceptions of fair charges. Predictors of “Good” creative work also came out strong.

**Maintenance Stage**

This is the most efficient and productive stage of the agency-client life cycle that lasts many years. What was learnt during the development stage is now being put into practice with the minimal expenditure of resources. The earlier learnings have developed into a resource, and nurtured into an enduring capability that fulfills the conditions required for sustainable competitive advantages (Collins and Montgomery, 1995; Hitt, Ireland and Hoskisson, 1996). The conditions are: inimitability, durability, appropriability, substitutability and competitive superiority.

For the client, the establishment of a successful campaign that lasts many years, provides maximum profitability for the product or service as exemplified by the Marlboro campaign. At this stage, both parties are evaluating each other on aspects of satisfaction/dissatisfaction (Wackman et al, 1987). Criteria on judging **loyalty and satisfaction** are important here.

A group of researchers have proposed the use of agency reviews with quantifiable evaluation techniques, to reduce agency-client disenchantment (Michell, 1987). Henke’s (1995) longitudinal study of agency-client relationship shows that the creative skills component is important during the evaluation stage but diminishes as the relationship moves through the development and maintenance stage.
Termination Stage

Here the relationship between the two parties are in the process of breaking down. Some reasons cited are re-alignment of accounts, change of management or dissatisfaction in the relationship or performance (Wackman et al, 1987). Criteria for dissatisfaction play a key role in determining the probability of termination.

Researchers such as Doyle et al (1980) have shown that the advertisers and the agencies subscribe to very different views on reasons for agency switch. Clients specified that the primary reason for agency switch was dissatisfaction with agency performance and secondly to changes in client policy. Agencies believed that it was primarily changes in client policy and management that were responsible for agency switch. From the Doyle et al (1980) research, signals of an agency's vulnerability were:

- Dissatisfaction with Agency Performance
  * Dissatisfaction with creative work - attributed as the main reason for agency switch but believed otherwise by agencies
  * Level of Client service - which covers the standard of agency account management, closeness to client and standard of marketing advice.
  * Campaign results - which cover relative image and sales potential of the campaign

- Change in Client Policy
  This can show up in three ways.
  * Change in marketing strategy - the agency is seen to belong to the old, “failed” marketing policies.
  * Client outgrows agency - client grows into a large business with new and sophisticated service requirements that current agency is unable to fulfill. The client could have undergone a merger and consequently realign account with the group's current ad agency, or the structural change may strain the client-agency relationship.
* Periodic reevaluations of agency - which may be *ad hoc* when client feels that the agency is going "stale" and the continuous reevaluations of a client that uses multi agencies

Doyle et al (1980) recommend the remedial actions of regular review sessions, tactical adaptations to client organisational change, show whole-hearted commitment to new strategies, account audits and post-mortem.

However, relationship factors should not be disregarded. Heekin (1983) attributed a majority of agency failings to people-related reasons which include arrogance, inability to listen, preoccupation to landing new accounts, frequent personnel change and the intangible problem of "chemistry". Heekin (1983) found that failings occurred at the same frequency whether sales were increasing or falling.

3.1.2. Duration of the Agency-Client Relationship

A study conducted in Milwaukee by Lynn, Wesson and Gaguard (1984) reported that one-fourth of clients terminated their agencies before the end of the second year. This corresponds to the developmental stage of an agency-client life cycle. The study also revealed that only 44 percent of the clients (n=92) indicated they were still using the same agency for five years or more.

Verbeke's (1989) study showed the average life span of an agency-client relationship in Norway was four years.

3.2 Organisation Factors

To develop sustainable competitive advantages, a corporation must leverage on its available resources to derive core competencies and
develop strategies to ensure this stage. The path to sustainable competitive advantages can be illustrated in Figure 3.2.

3.2.1 Resources

Resources come in the form of (Hitt et al, 1996): human resources; technological resources (patents, trade secrets, etc.); physical resources (locality, accessibility); financial resources, organisational resources (reporting structure, planning, controlling and coordination systems); and resources for innovation (research) and reputation with customers (brand name, perception of service quality) and with suppliers (relationship).

Figure 3.2: Pathway to Sustainable Competitive Advantages

Resource that fulfills the conditions of imitability, durability, appropriability, substitutability and competitive superiority, can be developed into capabilities, core competencies and ultimately sustainable competitive advantages (Collins and Montgomery, 1995; Hitt et al, 1996).
Fahy (1996) has suggested that the resource-based view (RBV) model is used to evaluate potential sources of competitive advantages in international service firms. RBV has been proposed as the new strategy of the nineties by Collins and Montgomery (1995).

RBV evaluates resources on the following factors: rareness, valuable, inimitability and imperfect mobility of resources (Fahy, 1996). The last two factors are of particular significance to service firms. Being people-based, the competitive advantage gained through people skill and knowledge-experience, are lost when staff leave. The inimitability factor is evident from the rate copies of service or product innovations of service firms are made. This is exemplified by the airline industry where frequent flyer programmes are quickly copied.

The rent-generating assets of a firm can be categorised into two components: resources and capabilities. Resources can be either inputs or outputs, are tangible and possess two attributes, ownership and value which include, intellectual property rights, legal rights to physical assets, etc. These are tradable. In contrast, the other attributes, capabilities or competencies (capacity to deploy resources), are unique to a firm and being so, are not easily tradable, offer strong bases of sustainable competitive advantages (Fahy, 1996).

Fahy (1996) then went on to examine the transfer of firm-specific resources and capabilities across borders- the diffusion from parent to host country, the logistics system of Wal-Mart which integrates people, delivery vehicles and communication systems to generate the value of cost savings and the complex relationship among individuals, reflected in performance management, recognition, compensation practices and communication programmes in AT&T's Global Business Communications Systems division that contributes to its unique human resource capabilities that sustains its position in customer-led applications of technology and as a value supplier.
3.2.2 Leadership and Corporate Culture

Suny (1996) in her study examined the relationship among leaders, corporate culture and transformational learning in the workplace and found that leaders can create, foster or hinder the learning culture of employees and that a rapidly changing economy, employees must continually learn to discover new alternatives to action (creativity factor).

3.3 The Research Model

The above literature review suggests that the global sustainable competitive advantage of an advertising agency is related to the resource or capability factor. Resources translate to human resource which include staff capabilities - creativity, leadership, agency-client relationship factors. Factors such as culture, ability to transfer technology or knowledge, strategic thinking, also contribute to sustainable competitive advantages that lead to success for an agency.

The research seeks to establish whether these factors exist, or whether they are practised by the multinational advertising agencies.

As multinational agencies are perceived to be successful - they are large and control the industry through their clients' lavish advertising expenditure - their practices and philosophies are correspondingly perceived to be successful. Following this logic, local agencies who subscribe to and practise the same philosophies, are on the pathway to success, too.

A model was developed to illustrate the link between the success factors and sustainable competitive advantages or success in advertising agencies (see Figure 3.3).
3.3.1 Measures of Success

Successful outcomes in an agency are manifested as growth in billings, higher profits, increased customer loyalty and a successful reputation, either as creative, strategy or media strengths.

Growth in billings or agency revenue is contributed by two channels: new customers from realignment of accounts won by head office or through new business pitches and growth in existing business or the retention of the existing customers.

**Gross Billings:** A direct measure of billings can be obtained from the gross billings. However, as there is considerable movement of accounts, other measures are sought to support success.
**Reputation:** New business pitches are possible through an agency's successful reputation for either good creative work or campaigns that help the client sell their products. Local and international advertising and creative awards lend credibility to the successful reputation (Helgesen, 1994).

**Agency-Client Relationship:** Existing accounts or businesses is attributed to customer loyalty which is the manifestation of customer satisfaction. This is derived from a higher perceived service quality.

Indicators of customer loyalty, satisfaction and relationship can be appropriately expressed in statements selected from various past research literature. These include:

**Dissatisfaction Factors (Doyle et al, 1980)**
- Need for full service agency
- Changes in agency creative personnel
- Changes in agency account management
- Standard of agency creative
- Standard of agency account management
- Relative image weakness of campaign
- Relative sale weakness of campaign

**Satisfaction Factors (Wackman et al, 1987 and Verbeke, 1989)**
- Good personal relationship with Account Service people
- Agency charges fairly
- Agency meetings are productive and effective
- Agency shows strong leadership
- Good relationship with Agency creative people
- Assignment of responsibility is clear
- Quality of creative work
- Agency personnel is experienced
- Agency meets deadlines
- Agency operates within the budget limitations
- Agency is burdened with too many levels of approval
- Agency reacts quickly to changes in the environment
Predictors of Agency Switch (Henke, 1995)
- Satisfaction with size of client’s account relative to agency’s other accounts
- Unaided awareness of ad agencies
- Importance of creative skills
- Satisfaction with media skills
- Satisfaction with creative skills
- Importance of winning awards for work

Client Loyalty (Michell and Sanders, 1995)
- Mutual trust must be developed
- High-calibre personnel are required
- Mutual professional competence is crucial
- There are no conflicting accounts
- Pride in group performance required
- Good communication systems are vital
- The campaign is strong in image/sales effect
- Periodic review systems are necessary
- Managers who take initiatives are preferred
- The company is prestigious

Customer loyalty, measured by client longevity—how long clients have been with the agency also contributes to cost savings which leads to a higher profit margin, another measure of success.

**Corporate Resources:** The key driver of customer loyalty, higher profit margins, reputation and growth in billings is corporate resources. Corporate resources comprise of human resources, a key force in services, technology which enhances services, efficient organisational structures and effective management styles that enable services to flow seamlessly.

Questions on the importance of human resource training and development were included to investigate and support agency’s belief in the importance of human resource.
In a similar manner, questions on **extent of computerisation**, importance of **research** and other **management issues** are incorporated to support the agency’s mind set.

The research seeks to investigate the extent these resources are recognised and utilised in both international and local agencies.