

## Factors Determining Client Loyalty to Advertising Agencies

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### ABSTRAK

Hubungan agensi-klien pegiklanan merupakan unsur penting untuk mengekalkan ketaatan klien. Sehubungan dengan itu, kajian ini bertujuan untuk menerangkan kenapa sebilangan klien mengekalkan hubungan baik dengan agensi pengiklanan mereka. Ketaatan dalam hubungan agensi-klien umumnya ditentukan oleh faktor-faktor seperti persekitaran perniagaan dalam mana mereka beroperasi, struktur organisasi, polisi am yang baik, ciri-ciri antara perorangan yang sesuai, prestasi akaun sebenar, sikap positif terhadap pembekal dan proses berkesan yang melibatkan pembekal.

Untuk tujuan kajian ini, temu bual telefon dan soal selidik tertadbir-sendiri digunakan untuk mengumpul data. Responden terdiri dari personel organisasi klien yang berpengetahuan tentang amalan pengiklanan. Sejumlah 133 responden sebagai sampel diperolehi dari Kawasan Lembah Klang untuk mewakili industri pengiklanan. Data dianalisis untuk Analisis Deskriptif Pembolehubah Tunggal dan Analisis Faktor. Analisis Deskriptif memberi gambaran menyeluruh kajian. Dari Analisis Faktor, 16 faktor yang diperolehi menghuraikan hubungan agensi-klien pengiklanan meyumbangkan 72.05% varians diterangkan dengan Cronbach alpa 0.909 (90.9%), menunjukkan butir-butir adalah amat boleh dipercayai.

16 faktor diperolehi mempunyai kuasa penjas yang baik terhadap ketaatan agensi-klien yang meliputi pengkongsian berorientasi prestasi, kawalan klien dan kepimpinan agensi, keformalan struktur organisasi, keterpusatan klien dan kestabilan pasaran, kecekapan pengurusan agensi, kuasa terpusat, kesamaan minat, kesesuaian, penyelesaian konflik dan kerjasama, kreativiti, saling kebergantungan, penyelarasan dan pengkhususan, persaingan dan perubahan teknologi yang rendah, produk yang matang, keberterusan dan keakuran norma, ketiadaan perubahan tak menentu pada strategi dan objektif, dan janji sanggup yang tinggi.

### ABSTRACT

The advertising agency-client relationship is an important element in maintaining client loyalty. In this regard, the study attempts to explain why a number of clients maintain loyal relationships with their advertising agencies. Loyalty in advertising agency-client relationship is generally determined by such factors as the business environment in which they operate, organizational structure, well developed general policies, compatible interpersonal characteristics, actual account performance, positive attitudes towards suppliers and effective processes involving suppliers.

For the study, both telephone interviews and self-administrated questionnaires were used to collect the data. The respondents consisted of personnel within client organizations who are knowledgeable about advertising practices. A final sample of 133 respondents was obtained from the Klang Valley area to represent the advertising industry. The data was analysed using Univariate Descriptive Analysis and Factor Analysis. Descriptive Analysis gave the overall picture about the study. For the factor analysis, 16 factors were extracted that illustrate the advertising agency-client relationship contributing 72.05% of the variance explained, with Cronbach alpha of 0.909 (90.9%), showing the items used were highly reliable.

The 16 factors obtained have a good explanatory power with respect to agency-client loyalty which includes performance oriented partnership, client control and agency leadership, formally structured organization, client centeredness and market stability, agency management competency,

centralized authority, mutuality of interest, compatibility, conflict resolution and co-operation, creativity, interdependence, co-ordination and specialization, low competition and technological change, matured product, continuity and conformity of norms, absence of erratic changes in strategies and objectives, and strong commitment.

## INTRODUCTION

The advertising environment in the 21<sup>st</sup> century promises to be knowledge rich yet turbulent. The increasing competitive nature of business has forced many companies to re-examine and reconsider their approaches in sustaining a competitive advantage. As a result, advertising agencies have come to realize that they must be allied to their clients' interests, and establish close relationships with clients, to sustain their own survival and prosperity (Nowak *et al.* 1997).

The reasons for loyal relationships between advertising agencies and their clients are quite general (Michell and Sanders 1995). While situation-specific account characteristics are important, the impact of a nation's economy on organizational structure as well as its policies and attitudes toward the advertising agency should also be taken into account. The technology advances, the expansion of non-traditional media capabilities and integrated marketing communication also have substantial influence on client loyalty. Indeed, Michell and Sanders (1995) were of the opinion that, to a certain extent, organizational and business-environment factors are more pervasive.

Since prior research has established a range of broad specific variables, consisting of external environment, organizational, interpersonal and actual account features (LaBhan and Kholi 1997; Crosby *et al.* 1990), it is therefore reasonable to speculate that there would be a significant difference in terms of their relative importance as determinants of account durability. To that effect, the objective of this paper attempts to determine the various forces in the business environment and within an organization that influence the organization's decision to maintain or terminate its account with the advertising agency. Through this, it will generate valuable insights into various factors that promote client loyalty in this era of stiff competition.

## LITERATURE REVIEW

### *The Evolvement of Agency-Client Relations*

In earlier days, an advertising agency was simply a seller of advertising space and then matured

quickly from selling agent to become supplier of copy, artwork and printing block. There on, advertisers began to solicit services from these agencies. And as they did, they learned to appreciate the agencies' impartial media advice and their position as informative sources of advertising materials.

Nevertheless, those early days saw few clients recognizing the need for a continuous relationship. Hart and O'Connor (1978) had described the relationship as business problems that were never brought up for discussion. As agencies developed their marketing and research intelligence skills, it became apparent to the advertisers that they could only take full advantage of those skills if they were willing to discuss more openly. The importance of such disclosure soon become clear when the advertiser realized how much an agency could contribute from its great bank of experience. This led to the realization of the long-term association.

The formation of alliances or strategic networks between businesses and advertising agencies seeks to improve advertising quality and cost. Every industry is turning towards long-term collaborative relationships with their advertising agency to secure valued skills, facilities and technologies (Glover *et al.* 1989; Schultz and Zinser 1978). Due to resource limitations and management constraints, businesses began to rely on the agency's strengths and skills (Dwyer *et al.* 1987). Anderson and Narus (1990) defined collaborative relationships as a relationship in which a client and an agency form a strong and extensive social, economic and technical tie over time, with the intention to lower total cost and increase value and achieve mutual benefit.

### *Loyalty in Agency-Client Relations*

Loyalty is the relationship between agent and client. Loyalty can be defined as a construct that embodies a willingness to support the object of one's loyalty and to continue that support over the long run, thus forming an attachment and commitment on the part of the client to a supplier's offering. Anderson and Narus (1990), Dwyer *et al.* (1987), and Newsome (1980) stated that clients could benefit from a loyal relationship

with supplier, i.e. the reduction in transaction costs. Besides, Nyquist and Booms (1985) suggested that loyalty bring forth long-term thinking and more effective and tailored service quality. For the service supplier, the expectation of future purchases by the client acts as an incentive to ensure quality (Crosby *et al.* 1990; Moriarty, Kimball and Gray 1983).

#### *The Economy of Client Loyalty*

Advertising agencies were found to be heavily pursuing strategies to attract, develop and retain clients because they believed partnerships allow better co-ordination of effort which directly translates into better customer service at lower costs. Existing clients were regarded highly as showcase accounts and sources of new service ideas (Jackson 1985). Kalwani and Narayandas (1995) found that a significant number of advertising agencies have resorted to creating barriers to clients' account switching so as to establish long-term relationships.

#### *Relationship Life Cycle*

Similar to the product life cycle concept, Wackman *et al.* (1986) suggests four stages of the relationship life cycle, which include (i) Pre-relationship, (ii) Development, (iii) Maintenance, and (iv) Termination. In the pre-relationship phase, both parties are learning about each other's expectations and objectives. During the development stage, the first advertising copies are created. At this phase, one party expects a lot from the other. In the maintenance stage, a more meaningful relationship is formed and the more successful advertising campaigns are typically achieved. The termination stage is the point when both parties no longer maintain a relationship, either at the client's wishes or the agency's refusal. Termination can happen abruptly or peacefully (Verbeke 1989).

During the development and maintenance phases, four groups of attributes were found to be important in maintaining a relationship, according to Wackman *et al.* (1986). They are the work product factor, work pattern factor, organizational factor and relationship factor. A "good personal relationship with the account people" and "agency charges fairly" were crucial to the overall relationship. The factors of "effectiveness of the meetings between the firm and the advertising agency" and "quality of creative work" are also important.

Michell (1988b) discovered that many clients' accounts do indeed go through the exponent contractor stages of the relationship life cycle, with the exception of some extremely loyal advertisers and other extremely disloyal ones.

#### *Components of Loyalty*

While many accounts go through stages that are analogous to the relationship life cycle, there are many others that do not. For example, West and Paliwoda (1995) and Michell (1988a) determine that accounts of very large, established organizations have substantially more durable advertising relationships than other clients. Michell (1988a) maintained that larger advertisers do not necessarily mean larger accounts and vice versa. A later study done by Michell and Buchanan (1991) found further supporting evidence in that there was a linear relationship between account size and account durability.

Another element that influences the degree of loyalty is the advertised product category. Separated by product category, there is a tendency for fast-moving consumer goods accounts, in more matured markets, to be more loyal to their agencies. These include Household Stores, Food, Tobacco, Toiletries and Apparel. In addition, the worth or size of individual account was no larger than those of disloyal accounts such as Publishing and Office Equipment (see West and Paliwoda 1995; Michell 1988a).

The period in which an account is established also carried some weight in degree of loyalty. New accounts, consisting of accounts introduced no more than five years, are found significantly more volatile in their relationships with the advertising agency. Only a small portion of them progressed through the later stages of the hypothesized relationship life cycle (see Novack 1991; Ford 1990; Dwyer *et al.* 1987).

## CONCEPTUAL FRAMEWORK

### *Modeling the Determinants of Agency-Client Relations*

For the purpose of the study, the model produced by Michell and Sanders (1995) consisting 7-factor and 57-variable is adopted. The model shows that the advertising agency-client relations as a decision-making process involving individuals interacting within the boundaries of the formal context of the

organization (Webster 1991). The organization is influenced by a variety of force in the business environment (Barclay 1991). From the literature, seven factors were developed which appear to influence the likelihood of the agency-client relationship remaining loyal (Fig. 1).

*General Business Environment*

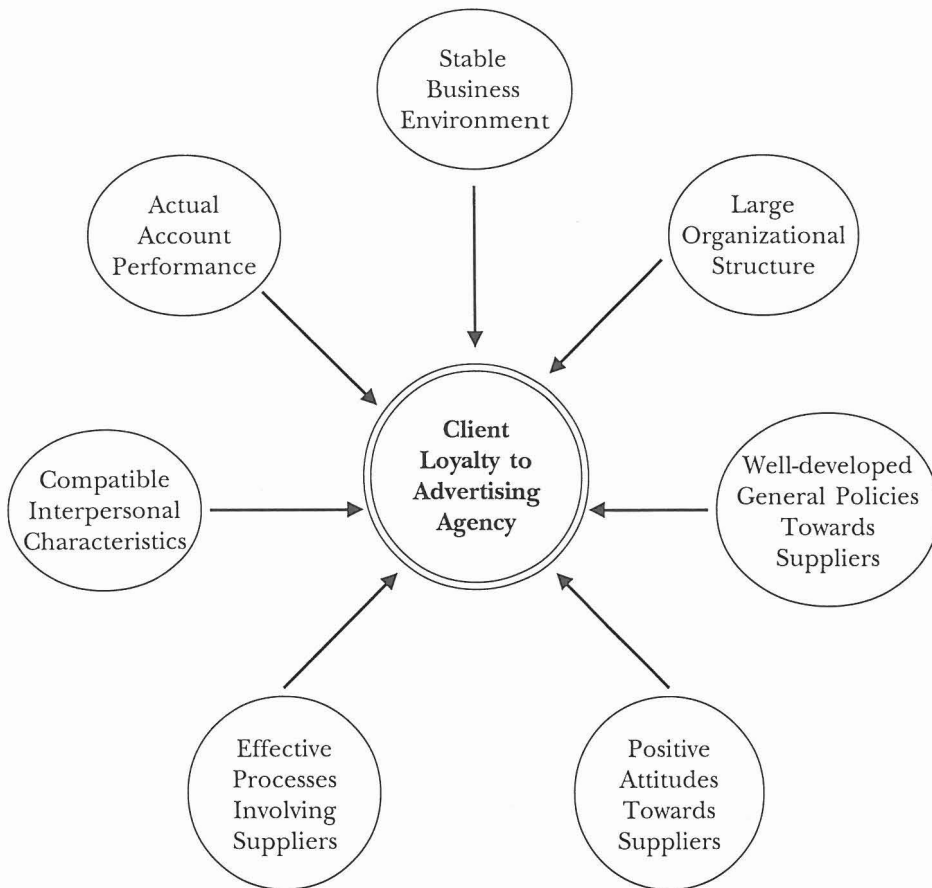
Evidence indicates that the classic vertical organization will be replaced by new forms of networked organizations consisting of a number of functionally specialized firms tied together in co-operative relationships (Achrol 1997). Environments are being disturbed by an increasing pace of technological change. In dealing with the dynamic and unpredictable environment, organization efficiency is defined in terms of a firm's speed and agility in processing information, from detection of marketing signals

to transformation into delivered satisfaction (Achrol 1997; Anderson and Narus 1990).

It was posited that a more stable and durable agency-client relations were likely to be the resulting situation if a high level of stability exists in the client's general business environment. The rate of technological change experienced by virtually all organizations today also have an effect in changing supplier strategies (Cooper and Schendel 1976). Other research studied on market growth rates and business strategies gave the same results (Ford *et al.* 1986; Hambrick 1983).

*Organizational Structure*

It was postulated that the size and complexity of the client organization would influence the level of client loyalty to advertising agencies. When the size of the organization increases, so will the



Source: Michell and Sanders (1995), *Journal of Advertising Research*, March/April: 10.

Fig. 1: Modeling the determinants of agency-client loyalty

complexity of the organization's structure. More specialization means more coordinating problems and tends to result in more structured hierarchy and procedures (Achrol 1997). Therefore, increased size will typically lead to greater need for formalized control and specialization. As such, larger companies with larger accounts have stronger tendency to demonstrate more loyalty to their agencies (Michell and Buchanan 1991).

Interestingly, prestigious advertisers have tended to develop an advertising relationship with an agency compatible with their own self-image (Michell 1988b; Cagley and Roberts 1984). The author also saw value in parallel agencies, recognizing that an advertising agency must achieve a certain large size to attract highly skilled employees and profitable clients. Similarly, Smith, Venkatraman and Wortzel (1995) suggest that compatibility and congruence of marketing strategies and activities between members of a partnership will increase the achievement of both partners' market goals and objectives.

#### *General Policies Towards Agencies*

Many articles relating to the environmental boundaries between partnering organizations suggest that the effectiveness of the relationship may be handicapped in the event that the prestige and the size of both organizations do not commensurate (Cagley and Roberts 1984). Harvey and Rupert (1988) advised advertisers to evaluate the size of agency and the compatibility of services needed by the organization. The size of the agency, in terms of gross advertising billings and the range of services offered are important considerations in the agency selection process.

It was also posited that if both partnering organizations held on to policies which encourage higher levels of inter-organizational collaboration, the likelihood that long-term relationships with suppliers be maintained is increased (Lefton 1980). Mutual commitment to the future (Morgan and Hunt 1994) and a balanced powerful relationship are essential to the collaborative process (Bucklin and Sengupta 1993). Segil (1996) proposes collaborative problem solving as the best approach for reaching compromise in a relationship. This approach offers the possibility of creating a better alternative, different from what either party had previously considered as an option.

Moreover, as the relationship between the partnering organizations prolongs, the chances of improving or correcting inter-organizational shortcomings are much higher (Hotz *et al.* 1982). Team approach was also evident in selected agency-client relationships. This positively correlated with blurred inter-organizational boundaries.

#### *General Attitude Towards Agencies*

Basically, general attitudes that clients have towards suppliers consist of variables derived from the beliefs and values of their employees. For example, in developing account team spirit, high performance is crucial and is indeed sufficient. Additional benefits of account team spirit included the increased ability of the account team to rectify differences in the operational perspective (Frankel 1976). According to Gerlach (1992), relationships should be characterized by shared values, long-term commitment and affiliated sentiments. Five social norms that underlie relational governance were proposed - solidarity, mutuality, flexibility, role integrity and harmonization of conflict. With regard to role integrity, Beard (1996) found that client role ambiguity is a source of dissatisfaction in client-advertising agency relationships.

Furthermore, Michell (1984) pointed out that common understanding and commitment between client and agency build trust in the relationship. In addition, according to the results of a recent survey by Nowak *et al.* (1997), client trust and commitment increases creative quality and implementation diligence. Open discussions and supportive relationships can also improve the quality of the creative work (LaBahn and Kohli 1997).

#### *General Processes Involving Agencies*

General processes constitute the framework within which agency-client relations are maintained. Effective agency performance has been attributed to consistent inter-organizational interaction and frequent communication. According to Michell (1987), very regular, usually day-to-day contact may induce continuity in the relationship.

However, Doyle, Corstjens and Michell (1980) found that shared communication and periodic reviews appear to contribute to valuable communication and the much-needed feedback. Feedback has been said to have the ability to

overcome disenchantment, which is a major cause of break-ups in many agency-client relations.

Trust seem to be particularly important in long-term relationships (MacNiel 1980). A large number of conflicts with the supplier appear to have been caused by poor communication (Bourland 1993) and disagreement over priorities (Thambain and Wilemon 1975). Achrol (1997) explained that in a collaborative relationship, there is a presumption that if the relationship is to endure, mutual sentiments must exist to harmonize conflicts. And harmony is sought via constant social interactions.

#### *Interpersonal Characteristics*

Compatibility in terms of interpersonal characteristics has been determined to bring more favorable business outcomes (McGarth and Hardy 1988; Evans 1973). The ground rules of the relationship between the agency and the client are typically set based on norms and standards of conduct of the partners. Adopting norms and standards are believed to ensure relationship continuity (Dwyer, Schurr and Oh 1987).

Sharman (1981) claimed that clients expect high-caliber personnel from the agency. Ogilvy (1977) has singled out leadership ability of top agency personnel as an important ingredient in any agency's success. Likewise, McClelland and Burnham (1976) suggested that effective account team members tend to prefer situations in which personal responsibility may be undertaken.

#### *Actual Account Characteristics*

In terms of actual account characteristics, Shank, Niblock and Sandalls (1973) claimed that there has been a long-running compromise between creativity and business. However, Flether's (1980) study indicated that respondents were quite capable of ranking agencies separately in terms of their marketing abilities and creative abilities.

Furthermore, Michell, Cataquet and Hague (1992) have identified several crucial agency account characteristics, common over time and between countries, which were found to cause disharmony. These include poor marketing advice, poor account management, agency "not close to our business", weakness of campaigns in image or sales effectiveness, unfulfilled full-service needs, conflicting accounts, weak top agency

personnel, and relatively poor value for money. Stern and El-Ansary (1992) demonstrated that the motivation behind business-to-business relationships is to enhance the value of the relationships' market offering to the clients and to lower the relationships' costs.

The literature is enough to support the probable influence of the business, organizational, interpersonal and account factors to the advertising agency-client relationships. Loyalty to working relationships has been found to be enhanced by stable business environment, mutual beneficial client's general processes, attitudes and procedures involving the advertising agency, compatible interpersonal characteristics and actual account characteristics.

#### *Sample and Sampling Procedures*

The data of this study was collected through questionnaire survey. The self-administered questionnaires were mailed to the senior marketing executive/marketing manager of the clients' organizations. These executives or managers have a direct responsibility for the advertising accounts and are knowledgeable based on the duration of their relationship with the advertising agency. The surveyed advertising companies are those located in Kuala Lumpur. The non-probability sampling technique was employed in the distribution of questionnaires, where the probability of selecting population elements is unknown. From the returned questionnaires, 133 set of usable questionnaires are being used in this study. The respondents' profile is summarized in Table 1, along with the characteristics of their advertising agency (Table 2).

## RESULTS AND DISCUSSION

### *Advertising Agency-Client Relationship Profile*

The advertising agency-client relationship profile is documented in Table 3. In terms of relationship, about 58 per cent of accounts were maintained for *more than 4 years*; 21 per cent *more than 10 years*; only 9 per cent *over 14 years*. About 51.2 per cent of the respondents had a *1 to 6 year* relationship with their agency and approximately 67 per cent responded "Yes" to being bound by contract. *Formal Evaluations* were conducted in 41.4 per cent of the companies, whereas 45.1 per cent only carried out *Informal Evaluations*.

TABLE 1  
Client organization profile

Variables	N	Percentage (%)
<b>1. Respondent's Job Title</b>		
a. Marketing / Advertising Executive	39	29.3
b. Marketing / Product / Brand Manager	55	41.4
c. Marketing Director	15	11.3
d. Public Relations / Corporate Communications Executive	14	10.5
e. Managing Director / Chief Executive	2	1.5
f. Business / Area Market Development Manager	8	6.0
<b>2. Product Category</b>		
a. Automobile	9	6.8
b. Food, Confectionery, Beverage (Including alcohol)	26	19.5
c. Electrical Appliances	9	6.8
d. Electronics	7	5.3
e. Energy	2	1.5
f. Finance, Banking, Insurance	5	3.8
g. Petroleum, Lubricants	2	1.5
h. Retailing	5	3.8
i. Telecommunications	8	6.0
j. Tobacco	4	3.0
k. Toiletries	13	9.8
l. Wearing Apparel	10	7.5
m. Other	33	24.8
<b>3. Number of Employees</b>		
a. Less than 500	33	24.8
b. 500 – 999	37	27.8
c. 1000 – 1499	18	13.5
d. 1500 – 1999	15	11.3
e. 2000 – 2499	13	9.8
f. 2500 – 3000	9	6.8
g. Greater than 3000	8	6.0
<b>4. Estimated Annual Sales Volume</b>		
a. Less than RM1 million	5	3.8
b. RM1 million – RM49 million	9	6.8
c. RM50 million – RM99 million	15	11.3
d. RM100 million – RM149 million	14	10.5
e. RM150 million – RM199 million	16	12.0
f. RM200 million – RM249 million	17	12.8
g. RM250 million – RM299 million	20	15.0
h. RM300 million – RM349 million	18	13.5
i. Greater than RM350 million	19	14.3

In terms of "most valued" agency characteristic, *Agency Creativity* was ranked first with 27.1 per cent, *Agency's Complete Knowledge of Our Product(s) / Service(s) and Advertising Strategies* was second (25.6 per cent) and *Availability of a Comprehensive Range of Service* was third (24.1 per cent). At this point, it is safe to conclude that agencies with a high degree of creativity, knowledge and diversity in the service rendered are most likely to have more loyal clients.

#### Factor Analysis

The factor analysis focussed on 16 factors (extracted from 56 variables used in the study) that gave a total variance of 72.05 per cent. The factors were summarized in Table 4 including the items included into every factor groups. The Cronbach Coefficient of Reliability,  $\alpha = 0.9097$  (90.97%), whereas standardized  $\alpha = 0.9152$  (91.52%). And the sampling adequacy for this data is 0.698 (69.8%).

TABLE 2  
Advertising agency profile

Variables	N	Percentage (%)
<b>1. Types of Advertising Agency</b>		
a. Local, Full-service Agency	60	45.1
b. Global, Full-service Agency	55	41.4
c. Creative Consultancy	13	9.8
d. Media Independent	2	1.5
e. Multimedia Advertising Design Firm	1	0.8
f. Below-the-line Agency	2	1.5
<b>2. Account Handler</b>		
a. Account Executive	54	40.6
b. Account Manager	60	45.1
c. Account Director	19	14.3
<b>3. Number of Agency Personnel</b>		
a. Less than 20	9	6.8
b. 20 – 39	39	29.3
c. 40 – 59	23	17.3
d. 60 – 79	21	15.8
e. 80 – 99	19	14.3
f. 100 – 119	15	11.3
g. Greater than 120	7	5.3
<b>4. Estimated Total Billings</b>		
a. Less than RM10 million	23	17.3
b. RM10 million – RM19.9 million	15	11.3
c. RM20 million – RM29.9 million	14	10.5
d. RM30 million – RM39.9 million	12	9.0
e. RM40 million – RM49.9 million	15	11.3
f. RM50 million – RM59.9 million	16	12.0
g. RM60 million – RM69.9 million	13	9.8
h. RM70 million – RM100 million	14	10.5
i. Greater than RM100 million	11	8.3

#### *Factor 1: Performance Oriented Partnership*

Factor 1 is the most influential to the advertising agency-client loyalty variable. This factor explained 20.05 per cent of the variance and has an eigenvalue of 11.23 in the study. *Willingness of senior agency personnel to be personally responsible for the achievement of the result* was viewed as very crucial by the respondent, with the factor loading of 0.776. *Team members should also take pride of the performance achieved by the group* (0.763). The other significant items are like *Client strives to be accommodating* (0.600), *Diplomacy and mediating skills* are important (0.574) and *Ads produced by the agency projected very strong image* (0.506). *Agency has enjoyed many positive recommendations* (0.411), *Information-sharing* (0.409) and *Team approach* (0.368) are also important items. Wills (1992) found the main factors in winning accounts were positive recommendation by satisfied clients,

personal contacts with top management and presentations. High-caliber personnel in agencies are likely to be a central requirement of clients because it improves their perception of advertising creativity. And high performance in itself appears to develop team spirit with more effective account groups.

#### *Factor 2: Client Control and Agency Leadership*

This factor proposes that, a client would like to have control over the advertising budget, resources and specifications detailing their expectations and they would like agency personnel to take the lead because the agency knows best. The variance explained for this factor is 6.88 per cent whereas the eigenvalue is 3.85. The item *Frequent monitoring/controlling of campaign activities required* (0.807) is the highest loading item followed by *Periodic review systems are necessary*



TABLE 3  
Advertising agency-client relationship profile

Variables	Frequency (N = 133)	Percentage (%)
<b>1. Length of Relationship</b>		
a. Less than 1 year	16	12.0
b. 1 – 3 years	40	30.1
c. 4 – 6 years	28	21.1
d. 7 – 9 years	21	15.8
e. 10 – 13 years	16	12.0
f. 14 – 16 years	8	6.0
g. 17 – 19 years	2	1.5
h. Greater than 19 years	2	1.5
<b>2. Relationship Bound by Contract / Agreement</b>		
a. Yes	89	66.9
b. No	44	33.1
<b>3. Similarities between Hierarchical Positions of Account Handler and Respondent</b>		
a. Match	102	76.7
b. Mismatch	31	23.3
<b>4. Manner of Performance Evaluation</b>		
a. Formal Evaluation	55	41.1
b. Informal Evaluation	60	45.1
c. No Evaluation	18	13.5
<b>5. Most Valued Agency Characteristics</b>		
a. Agency's Creativity	36	27.1
b. Agency's Complete Knowledge of Product(s)/ Service(s) and Advertising Strategies	34	25.6
c. Agency's Understanding of the Market We Serve	18	13.5
d. Agency's Management Strength	4	3.0
e. Availability of a Comprehensive Range or Services that Matches our Advertising Needs	32	24.1
f. Agency's Ability to Keep to Schedules/Deadlines	5	3.8
g. Agency's Sensitivity towards Budget Constraints	4	3.0

TABLE 4  
Results from factor analysis

Extracted Factors' Items	Factor Loading	Eigenvalue	Percent Variance	Cumulative Variance
<b>Factor 1: Performance Oriented Partnership</b>		<b>11.23</b>	<b>20.048</b>	<b>20.048</b>
1. Senior agency personnel take personal responsibility for outcomes	0.776			
2. Group performance is a source of pride	0.763			
3. Client strives to be accommodating/adaptive	0.600			
4. Diplomacy/mediating skills are important	0.574			
5. Ads produced by the agency projected very strong image	0.506			
6. Agency has enjoyed many positive recommendation	0.411			
7. Information-sharing is vital	0.409			
8. Team approach is practiced	0.368			

TABLE 4  
Results from factor analysis (continued)

Extracted Factors' Items	Factor Loading	Eigenvalue	Percent Variance	Cumulative Variance
<b>Factor 2: Client Control &amp; Agency Leadership</b>		<b>3.85</b>	<b>6.880</b>	<b>26.928</b>
1. Frequent monitoring/controlling campaign activities required	0.807			
2. Periodic review systems are necessary	0.677			
3. Strong leadership is required on agency side	0.560			
4. Client policy encourage inter-organizational collaboration	0.526			
5. Top management encourages open, supportive relations		0.476		
<b>Factor 3: Formally Structured Organization</b>		<b>3.18</b>	<b>5.667</b>	<b>32.605</b>
1. Client organization has formalized structure	0.735			
2. Marketing department is multi-tiered	0.724			
3. Marketing department has specialized professionals	0.666			
4. Marketing department is large	0.566			
5. Frequent interaction/communication is necessary	0.437			
<b>Factor 4: Client Centredness &amp; Market Stability</b>		<b>2.96</b>	<b>5.284</b>	<b>37.889</b>
1. Agency's prompt recognition of client's impending dissatisfaction is expected	0.751			
2. Agency is client-oriented	0.747			
3. Market uncertainty/variation is relatively low	0.578			
4. Ad campaigns are strong in sales effect/creative standards	0.466			
5. Client is optimistic over general economic climate	0.454			
6. High-caliber agency personnel are required	0.416			
<b>Factor 5: Agency's Management Competency</b>		<b>2.48</b>	<b>4.427</b>	<b>42.316</b>
1. Agency has excellent account management skills	0.782			
2. Compatible objectives/goals are developed	0.602			
3. Anticipated benefits from relationship exceed costs of partnership	0.576			
4. Social exchange is necessary	0.482			
5. Agency is of similar prestige	0.424			
6. Agency provides on-line advertising facilities	0.371			
<b>Factor 6: Centralized Authority</b>		<b>2.27</b>	<b>4.055</b>	<b>46.370</b>
1. Organizational authority is centralized	0.828			
2. Decision-making is formalized	0.571			
3. Minimal disagreement during campaign development is desired	0.464			
<b>Factor 7: Mutual Interest</b>		<b>2.12</b>	<b>3.783</b>	<b>50.153</b>
1. Client strives for common understanding	0.723			
2. Mutual agreement on priorities is necessary	0.610			
3. Mutual professional competence is crucial	0.554			
4. Common high professional values/standards shared	0.422			

TABLE 4  
Results from factor analysis (continued)

Extracted Factors' Items	Factor Loading	Eigenvalue	Percent Variance	Cumulative Variance
<b>Factor 8: Compatibility</b>		<b>1.83</b>	<b>3.274</b>	<b>53.427</b>
1. Interpersonal friction is rare	0.812			
2. Agency understands and fulfils needs precisely	0.502			
3. Agency size is important	0.502			
4. Team members from both sides have similar levels of expertise	0.434			
<b>Factor 9: Conflict Resolution &amp; Cooperation</b>		<b>1.64</b>	<b>2.936</b>	<b>56.363</b>
1. Inter-organizational differences are rectified positively	0.739			
2. Agency offers good marketing advice	0.654			
3. Client's product portfolio seldom changes	0.396			
<b>Factor 10: Creativity</b>		<b>1.53</b>	<b>2.738</b>	<b>59.101</b>
1. Client's trust in agency's creative judgement	0.773			
<b>Factor 11: Interdependence, Coordination &amp; Specialization</b>		<b>1.40</b>	<b>2.495</b>	<b>61.595</b>
1. Client encourages mutual task independence	0.721			
2. Efficient coordination/scheduling of resources is preferred	0.666			
3. Client's marketing team have varied specialization	0.342			
<b>Factor 12: Low Competition &amp; Technological Change</b>		<b>1.33</b>	<b>2.380</b>	<b>63.976</b>
1. Competitors present little/no threat	0.813			
2. Technology has changed relatively slowly	0.468			
<b>Factor 13: Mature Product</b>		<b>1.23</b>	<b>2.202</b>	<b>66.179</b>
1. Product is mature in life style	0.847			
<b>Factor 14: Continuity &amp; Conformity of Norms</b>		<b>1.62</b>	<b>2.075</b>	<b>68.253</b>
1. Personnel continuity within agency is critical	0.782			
2. Agreed norms of behavior need to be conformed with	0.681			
<b>Factor 15: Absence of Erratic Changes in Strategies and Objectives</b>		<b>1.09</b>	<b>1.951</b>	<b>70.204</b>
1. Advertising on satellite television is not contemplated at present	0.681			
2. Clear-cut objectives eliminate risks	0.499			
<b>Factor 16: Strong Commitment</b>		<b>1.03</b>	<b>1.842</b>	<b>72.046</b>
1. High levels of commitment is exhibited towards the achievement of results	0.439			

*Note:*

Reliability Coefficient	- Alpha	= 0.9097
	- Standardized Item Alpha	= 0.9152
Kaiser-Meyer Olkin Measure	of Sampling Adequacy	= 0.698
Bartlett's Test of Sphericity	- Approx Chi-Square	= 4198.137
	- Significance	= 0.000
	- df	= 1540

(0.667). At the same time, clients would expect *Strong leadership on agency side* (0.560). *Having policies* (0.526) and *Top management's encouragement of inter-organizational collaboration* (0.476) also promotes loyalty. By implication, clients naturally want to have a say in all matters pertaining to the campaign such as budgets and creative specifications. Reviews and evaluation of past performance are important to the client because they serve as a platform for future campaign activities. Top agency personnel are also expected to have the ability to lead in the campaign process.

*Factor 3: Formally Structured Organization*

The third important factor that affects advertising agency-client loyalty relationship is client's organization structure. Increased size has typically led to greater complexity and need for formalized control and specialization. Larger advertisers prefer more stable and lasting relationship with channel members (Michell and Buchanan 1991; Michell 1988b). The significant items for this factor were *Client organization has formalized structure* (0.735) and *Marketing department is multi-tiered* (0.724). Also important items were *Have qualified/specialized professionals in the marketing departments* (0.666) and *Marketing department that is large in size* (0.566). In addition, *Frequent interaction is necessary* (0.437). The eigenvalue for the factor is 3.18 and the percentage of total variance explained is 5.677 per cent.

*Factor 4: Client Centredness and Market Stability*

This factor contributes 5.284 per cent of the variance explained and the eigenvalue of 2.96. The factor suggests that clients expect their *Agency to promptly recognize their dissatisfaction* (0.751) and *Be client oriented* (0.747). Besides, a *Stable economic climate* (0.578) and *Client's optimistic over general economic climate* (0.454) may induce clients to remain in the agency-client relationships longer. Lastly, clients were found to be more loyal to the agency that *Produced advertising works that were strong in sales effect in the past* (0.466). The item, *Ad campaign are strong in sales effect/creative standards*, is logical because in the first place, advertising agencies are hired to produce advertisements that will improve sales. Thus, *High caliber personnel* are required (0.416). This implies that stable market conditions and productive partnership are crucial to a working relationship.

*Factor 5: Agency Management Competency*

The percentage of variance explained of this factor was 4.427 and the eigenvalue of 2.48. *Agencies should have excellent account management skills* (0.782). In addition, client and their agency should develop *Reachable and measurable goals and objectives* (0.602). Client also like to be assured that the relationship is worthwhile, i.e., *Anticipated benefits from relationship exceed costs of partnership* (0.576) and had the opinion that *Social exchange* (0.482) and an equally *Prestigious agency* (0.424) was necessary in order to build trust in the agency. Finally, respondents considered it a necessity for agencies to be equipped with *On-line advertising facilities* (0.371). Williamson (1997) found that some clients switched agencies solely because their traditional above-the-line agencies failed to include interactive/multimedia advertising technologies in their services.

*Factor 6: Centralized Authority*

*Authority* (0.828) and *Decision-making* (0.571) within client organization should be formalized and centralized in order to ensure a durable account. The item, *Minimal disagreement during campaign development is desired* (0.464), indicates that stress produces tension in the relationship that subsequently reduces productivity. The variable loading jointly explains 4.06 per cent of the variance and secures an eigenvalue of 2.27.

*Factor 7: Mutual Interest*

The seventh factor stresses the importance of clients and their agencies to have mutual interests. Both sides have to perceive that the partnership is beneficial or profitable to them in the long-term. It was ascertained that *Client strives for common understanding* (0.723). Moreover, *Mutual agreement on priorities is necessary* (0.610). To achieve this, the respondents felt that personnel from both sides should have the same level of *Professional competence* (0.554) and *Common high professional values and standards must be shared* (0.442) to sustain a longer agency-client relation. About 3.8 per cent of the variance is explained by this factor and the eigenvalue is 2.12.

*Factor 8: Compatibility*

Compatibility describes the ability of the client's organization and the advertising agency to work in a harmonious and agreeable manner with each other. To do so, the analysis suggested that

*Interpersonal friction is rare (or ought to be rare)* (0.812). Additionally, the *Size of the agency* should be compatible with the client's organisation (0.502) and the *Agency must have the ability and know-how to understand and fulfill its client's needs* (0.502). Effective relationship is also a function of both sides having team members with *Similar levels of expertise* (0.434). This implies that compatibility between account team members help develop team spirit as it is derived from the beliefs and values of the client personnel towards agency competence. This factor explains 3.27 per cent of the variance and has an eigenvalue of 1.83.

*Factor 9: Conflict Resolution and Cooperation*

Slightly above 2.9 per cent of variance is explained by this factor with an eigenvalue of 1.64 indicated that, besides being offered *Good marketing advice* (0.654), clients want *Inter-organizational differences to be rectified in a way that ensure positive outcomes for the teams* (0.739). Having a lesser importance in the factor group is *Client's product portfolio seldom changes* (0.396) item. It could be concluded that agencies must develop negotiation and conflict skills to handle any discrepancy that may arise.

*Factor 10: High Creative Standards*

Factor 10 proposes a single point that advertising agencies must have good creative judgements in order to gain the client's respect and trust. The item, *Client's trust in agency's creative judgement* (0.773) explained 2.74 per cent of total variance and secured an eigenvalue of 1.53.

*Factor 11: Interdependence, Coordination and Specialization*

In a working relationship, clients and ad agencies should encourage *Mutual task dependence* in the campaign development process (0.721). *Efficient coordination and scheduling* of human, technical and physical resources are found to be necessary to ensure maximum benefits for the partners (0.666). Finally, *Client's marketing teams (should) have varied specialization* (0.342). This implies that increased perception of interdependence may lead to stronger task motivation among team members and pride in group performance. Total variance explained for this factor is 2.50 per cent with the eigenvalue of 1.40.

*Factor 12: Low Competition and Technological Change*  
*Competition was found to be impediment to client loyalty* (0.813). An environment of stiff competition usually exists when a product or service has achieved acceptance by most potential buyers (Kotler *et al.* 1996). In order to defend a brand from competition, a company would have to increase its marketing outlays to differentiate itself. *An improvement in technology* (0.468) by the ad agencies is important to deal with this situation. Total variance explained by these items is 2.38; an eigenvalue is 1.33.

*Factor 13: Mature Product*

This factor expressed a single item that manufacturers of products in the mature stage of life cycle tend to more loyal, evident by the variable *Product is mature in life cycle* (0.847). Similarly, Media Expenditure Analysis Limited (MEAL) found that the most loyal product categories are fast-moving consumer goods in more mature markets. The factor accounts for 2.20 per cent of variance and secures an eigenvalue of 1.23.

*Factor 14: Continuity and Conformity of Norms*

This factor, which explains 2.08 per cent of the variance, suggests that high turnover within the ad agency is less favorable to clients (0.782). A possible explanation is that, when an agency personnel, i.e., an account executive, resigns, the client has to begin a new relationship with his/her replacement. And it takes time for the new personnel to fully understand the client's needs and strategies, which is deemed unprofitable. Moreover, the respondents also felt *Agreed norms of behavior need to be conformed with* (0.681) and a new agency personnel is usually not familiar with norms of behavior. This implies that clients typically avoid agency switching that discontinues the existing strategies.

*Factor 15: Absence of Erratic Changes in Strategies and Objectives*

Factor 15 implies that if the clients decided to advertise on satellite television, the agency might not have the technology or expertise to assist them (0.681), particularly if the decision was rash. Satellite technology enables advertising campaigns to be centralized and be broadcasted in all markets simultaneously. This finding is consistent with the conclusion reached by

Howard and Ryans (1988), that advertising on satellite television will change the traditional agency-client relationships. Secondly, the factor suggested that having *Clear-cut objectives* (0.499) at the start of the relationship would eliminate any potential risk or problem. This factor explains 1.95 of the variance and has an eigenvalue of 1.09.

**Factor 16: Strong Commitment**

The last factor accounted for only 1.84 of the variance explained, with an eigenvalue of only 1.03. The factor focuses solely on the importance of commitment by the partners to ensure that the desired outcomes are accomplished. Commitment plays a key role in business

relationships between parties who invest time and resources, which cannot be put to use elsewhere and require to be managed. When two parties are satisfied, they often choose to invest in the relationship further, which leads to commitment and bonding. Thus, alternative relationships are rarely considered as a result of the rising switching costs (West and Paliwoda, 1995).

In contrast to the 7 factors that influence ad agency-client relations as proposed by Michell and Sanders (1995), the current factor analysis produced 16 factors that can influence the agency-client relationship in Malaysia as discussed above and illustrated by Fig. 2.

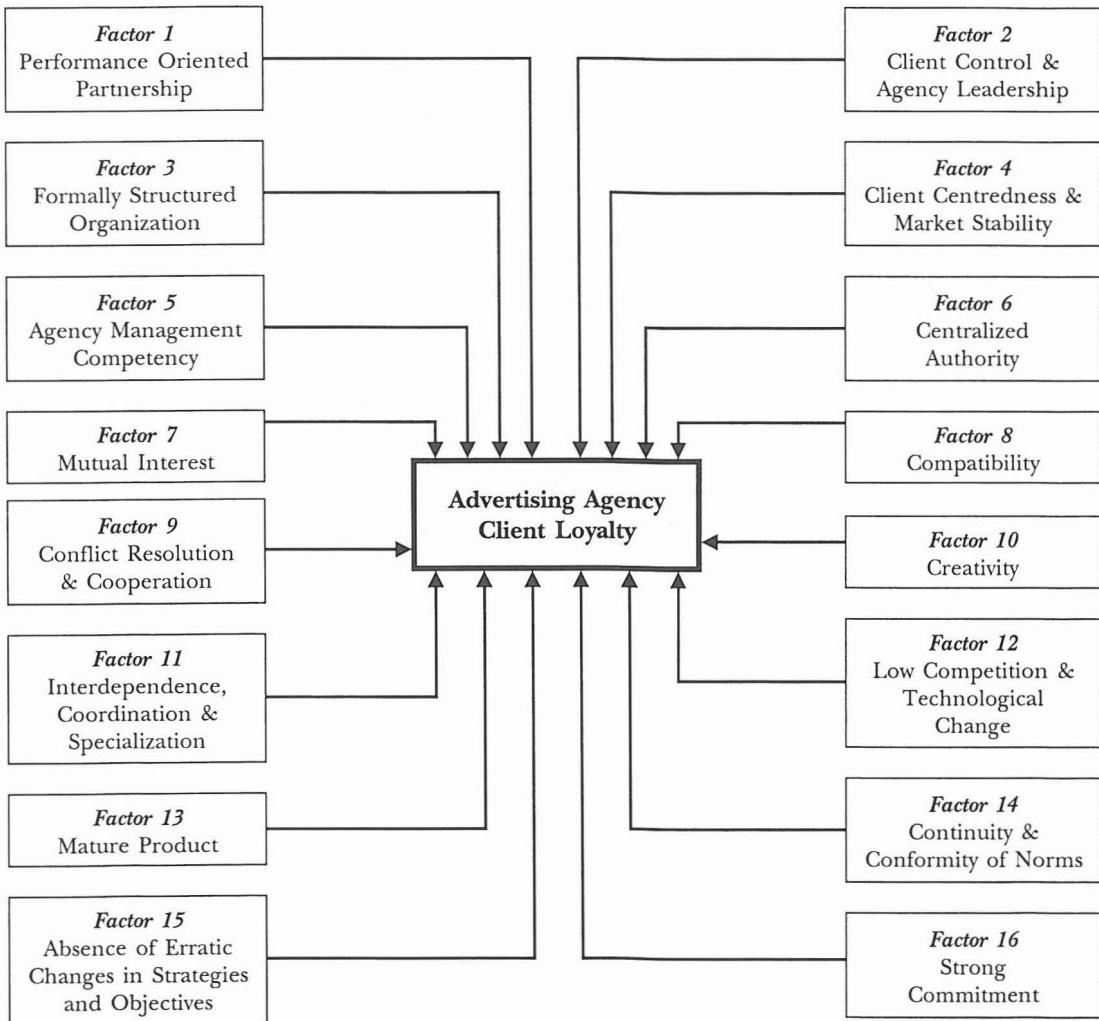


Fig. 2: A proposed model of the agency-client loyalty in Malaysia

## IMPLICATIONS OF STUDY

### *Theoretical Implication*

The differences that exist between our study, and a similar one conducted in the U.K. by West and Paliwoda (1995), clearly reflect how key success factors vary over time. This inconsistency shows that the business community evolves continuously. Therefore, the factors that contribute to clients' loyalty towards advertising agencies will also change to suit the demands of the prevailing business trends.

When there is prolonged dissatisfaction with an agency's service, the account and the agency-client relationship will be terminated. Break-ups appear to be a process consisting of several incidents rather than a single, rash decision. The reasons for the switch also differ over time, depending on the economic, structural and account characteristics. Therefore, this study is an eyeopener in this field.

### *Managerial Implication*

It is apparent that clients engaging in sustained relations do not only perceive ad agencies as reservoirs of creative talent, but also as equal business partners and team members. To retain loyalty, agencies must be up-dated on the impact of a wide range of variables, the account must be run as an inter-organizational team effort, and the partners must have mutually beneficial policies and attitudes in their dealings. Equally important, especially in the case of multinationals, is that, home country decision-making units are highly influential in any advertising activities of subsidiaries. And the effects of multimedia and satellite broadcast technologies on traditional agencies are strong and immediate. Agencies should not continue to produce advertisements without fully understanding the impact of these changes on the buying public. In other words, traditional agencies need to expand their non-traditional media capabilities and integrate marketing activities via databases and other means to reach different consumers with tailored messages.

Loyalty is directly related to the campaigns that have an effect on sales or awareness. Personal affinity, compatibility and complete understanding of norms or expected behaviors are identified with loyalty. Successful partnerships tend to have processes such as periodic reviews and contracts. Coordination, commitment and responsibility undertaken by both sides will

ensure the smooth running of campaign activities. No single factor stands out as being the determinant for loyalty because loyalty is indicated to be the result of the interplay within a set of factors.

## CONCLUSION

This study indicates the general conditions, values and behaviors that exchange partners should demonstrate to achieve mutually beneficial outcomes. Importantly, more studies will enable agencies and academicians alike to better understand client behavior patterns, the required level of agency input and how the partnerships work in different political and socio-economic environments.

In general, the client looks for the competence of the advertising agency, in addition to its expertise, reputation and compatibility before they decide to engage the agency. Another important consideration is cost consciousness related to the agency-client relations, where agency management may believe that the client is asking for more than the agency can deliver on the revenue it earns from that account (Bovee *et al.* 1995). To build a good relationship between the agency and the client, both parties should communicate what they want from each other, to ascertain that both parties understand the role they should play in order to ensure the success of this relationship in the future.

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