Does the softer side of the client-advertising agency relationship matter?

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Abstract

There are several tangible and intangible elements that contribute towards a long-term relationship between advertising agencies and their clients. This paper evaluates the intangible or ‘softer side’ of the relationship as perceived by the clients. It considers the role of creative competence of advertising agencies and also the relational aspects of the service provision. These are modelled as antecedents to client satisfaction, commitment, and eventually loyalty. A validated survey instrument comprising 22 items was used to collect quantitative data. Responses from 119 clients of advertising agencies was analysed using confirmatory factor analysis and hierarchical regression. The results revealed that the proposed model was robust in that creative competence and interpersonal relationships followed by client satisfaction and commitment explained 77% of variation in loyalty. The findings of this study have significant practical implications to advertising agencies.

Introduction

Over the past few years research has been focussed on establishing and maintaining healthy long-term business relationships (Ndubisi, Malhotra and Wah, 2009; Venetis and Ghauri, 2004) as this provides many benefits to both parties (Dwyer, Schurr and Oh, 1987). Dwyer, Schurr and Oh (1987) explain that purchase behaviour through a series of transactions is not in itself an indication of a relationship. Rather one needs to consider the motivations and attitudes that underlie exchanges and behaviours, such as word of mouth recommendations, in order to determine the presence of a long-term relationship. In situations where repeat interactions and exchanges are sought, the proactive service provider will focus on developing a bond with the customer rather than simply focusing on the transaction. This is the essence of relationship marketing and has been of considerable interest to researchers especially in the business-to-business (B2B) context (Ndubisi, Malhotra and Wah, 2009; Venetis and Ghauri, 2004). Patterson and Ward (2000) claim that ‘There is much we do not know about the antecedents of relationship marketing … and the dimensions that customers use to evaluate a relationship with a supplier’ (p. 329).

Whilst loyalty in the business-to-customer (B2C) context has received a great deal of attention, this is not the case in the B2B context especially in the case of professional relationships between clients and service providers. Some of the advantages of building relational exchanges include the creation of barriers against competition, decreased price sensitivity and increased profitability (Hennig-Thurau, Gwinner and Gremler, 2002; Venetis and Ghauri, 2004). Malhotra and Agarwal (2002) claim that empirical studies combining relationship marketing, customer satisfaction and customer loyalty are scarce.

Relationships are critical to all aspects of life, especially business. Though there are many advantages to developing and sustaining relationships between advertising agencies and their clients, there has been little research investigating successful relationships (LaBahn and Kohli, 1997; Wackman, Salmon and Salmon, 1986). The bulk of research on client-agency relationships is focused on switching behaviour and the reasons for termination of relationships (Doyle, Corstjens and Michell, 1980; Michell, 1986; Michell, Cataquet and Hague, 1992). Moreover, most research on relationships focuses on the supplier side rather than the client side (Barnes and Howlett, 1998; Karantinou and Hogg, 2009).
Contextual background and hypotheses

The nature of the advertising industry has changed over the last 10 years, although its role of communicating with and influencing clients remains unchanged. Today many advertising agencies see themselves as offering more than simply communication products. They offer solutions to marketing problems (Beverland, Farrelly and Woodhatch, 2007). Additionally, many of the larger agencies have purchased or merged with smaller boutique or specialist agencies, such as public relations agencies, website developers, direct marketers and marketing research firms to ensure that they are able to provide a range of services that their clients expect through a one-stop-shop (Wilson, 2011). Clients seek solutions to problems, but are often unsure where the solution lies and which are the most appropriate channels. Full service agencies can fashion one comprehensive integrated solution for clients and tend to have broader experiences, hence are less risky than smaller boutique agencies. However, this adds complexity for the account manager who has to ensure that all the various departments within the full service agency work together to produce an integrated campaign for the client.

It is commonly known that it is easier and cheaper to retain existing customers than to attract new ones (Curasi and Kennedy, 2002; Reichheld, 1996), hence it is critical to understand what customers value in a service provision relationship. This exploratory study sought to understand the intangible affective dimensions and the interrelationships between them that influence organisations to remain loyal to their advertising agencies.

The main reason clients seek the services of advertising agencies is to obtain creative solutions for their marketing problems, hence creative competence has been modelled as an exogenous construct in the model. As the original premise of this study was to identify the factors that influence relationship continuance, interpersonal relationships between the client and the advertising agency was also included as an exogenous construct. Unless clients are satisfied with their service providers, they are unlikely to reuse their services, hence satisfaction was incorporated as an endogenous construct. The role of commitment as an essential ingredient for successful long term relationships has been noted by several authors (Dwyer et al., 1987; Fullerton, 2005; Gundlach, Achrol and Menzter, 1995). The conceptual model for this study is depicted in figure 1.

Based on extant literature the following hypotheses have been developed:

H1a: Creative competence of advertising agencies has a positive impact on their clients’ satisfaction.

H1b: The quality of interpersonal relationships between clients and their advertising agencies positively influences clients’ satisfaction.

H2: Clients’ satisfaction has a positive influence on their commitment towards advertising agencies.

H3: Clients’ commitment positively influences their loyalty towards advertising agencies.

Figure 1: Proposed conceptual model for the ‘softer’ side of client-advertising relationship
Methodology

The survey instrument consisted of 22 items and a series of background questions. Creative competence, that is the client’s assessment of the quality of the agency’s creative work and its capacity to execute the agreed upon campaign, was assessed via 5 items based on the work of LaBahn and Kohli (1997). It was expanded to incorporate agency proactivity in line with Beverland, Farrelly and Woodhatch (2007). Jayawardhana et al. (2007) highlight the importance of service encounters when the customer and firm interact. These interpersonal encounters provide the basis for the perception formation of the image of the service provider in the eyes of the customer. Wilson and Mummalaneni (1988) contend that service encounters and relationships between individuals from trading organisations enhance interorganisational communication, understanding and information exchange, thereby strengthening the overall relationship. Interpersonal relationships was assessed using 4 items, covering social, personal and professional aspects of the relationship.

Satisfaction, an evaluative construct where an outcome is compared with an expectation or norm (Selnes, 1998), was assessed using three items relating to affective evaluation of various aspects of service provision. These included satisfaction with the personal and professional relationship as well as satisfaction with the services provided. The items were drawn from Lam et al. (2004). Commitment entails the embracing of a long-term orientation towards relationship continuity (Dwyer et al., 1987). Commitment relates to the relationship and bond between organisations. The items used to assess commitment were aligned with Gundlach, Achrol and Menzter’s (1995) conceptualisation incorporating instrumental, attitudinal and temporal components.

Many authors have adopted a two dimensional conceptualisation of loyalty with the inclusion of behavioural and attitudinal aspects. However there is no consistency in the operationalisation of these dimensions of loyalty. Loyalty in the current study was conceptualised as being composed of three distinct elements: reuse, advocacy and propensity to switch and came from a variety of sources, namely Eggert and Ulaga (2002), La (2005) and Lam et al. (2004). All items were assessed using a 7 point Likert scale. The survey was pretested with 12 qualified experts including marketing academics, advertising agency executives as well as senior corporate marketers.

Participants were recruited from a purchased list of marketing decision makers, which consisted of over 900 listings, of which 560 were eligible to participate in the survey. In total, 119 usable surveys were received. This is comparable with research studies undertaken in Australian services contexts, for example Patterson and Spreng (1997) n = 128, (in the advertising agency context), Davies and Palihawadana (2006) with n = 122 and Van Rensburg (2008) n = 116. The surveys were completed online.

Over 90% of the respondents indicated that they held executive or very senior positions. The duration of relationships between the organisation and the key contact person at the agency varied, with 41.2% indicating that the relationship had existed for over three years. Almost the same percentage indicated that the respondents’ relationship with the agency had lasted for at least three years (40.2%). The trend reversed when the personal relationship between the respondent and the agency’s key contact personnel was considered, with 72.1% of respondents indicating that the duration of the relationship was less than three years. This shows the high churn rate of key personnel in advertising agencies. Annual spend with advertising agencies varied, with 63.9% of respondents spending less than $1 million, whilst 11.3% spent over $10 million per annum. Over 80% had parent companies registered in Australia or New Zealand.
Results

Confirmatory factor analysis (CFA) was conducted on the individual constructs and results are shown in table 1. Bagozzi, Yi and Phillips (1991) recommend the use of multi-trait multi-method technique to assess construct validity, consisting of both convergent and discriminant validity. Convergent validity was established since the factor loadings for each item onto its relevant construct was at least 0.4 (Nunnally, 1978), whilst discriminant validity was established through the comparison of inter-construct and intra-construct relationships (Bagozzi et al., 1991; Reisinger and Mavondo, 2006). In all cases the internal consistency exceeded the correlation between the constructs (Hulland, 1996).

The items that were confirmed through the CFA to contribute to each unidimensional construct were aggregated to form multi-item composite factors in order to reduce model complexity (Kline, 2005). Normality of distribution for each construct was established, as both the skewness and kurtosis values fell within the range of -2 to +2.

Table 1: Results of confirmatory factor analysis for all the constructs

<table>
<thead>
<tr>
<th>Construct</th>
<th>Alpha</th>
<th>p</th>
<th>Cmin/df</th>
<th>GFI</th>
<th>TLI</th>
<th>CFI</th>
<th>RMSEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benchmarks#</td>
<td>&gt;0.7</td>
<td>&gt;0.05</td>
<td>&lt; 2</td>
<td>&gt;0.095</td>
<td>&gt;0.095</td>
<td>&gt;0.095</td>
<td>&lt; 0.08 or (Lower CI &lt; 0.05)</td>
</tr>
<tr>
<td>Creative competence</td>
<td>0.922</td>
<td>0.057</td>
<td>2.143*</td>
<td>0.966</td>
<td>0.977</td>
<td>0.988</td>
<td>0.098 (0.00–0.18)</td>
</tr>
<tr>
<td>Interpersonal</td>
<td>0.923</td>
<td>0.2687</td>
<td>1.337</td>
<td>0.989</td>
<td>0.952</td>
<td>0.998</td>
<td>0.053 (0.00–0.199)</td>
</tr>
<tr>
<td>relationships</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Satisfaction</td>
<td>0.956</td>
<td>0.058</td>
<td>2.69*</td>
<td>0.950</td>
<td>0.960</td>
<td>0.978</td>
<td>0.110 (0.006–0.182)</td>
</tr>
<tr>
<td>Commitment</td>
<td>0.846</td>
<td>0.089</td>
<td>1.536</td>
<td>0.954</td>
<td>0.979</td>
<td>0.986</td>
<td>0.067 (0.00–0.121)</td>
</tr>
<tr>
<td>Loyalty</td>
<td>0.914</td>
<td>0.089</td>
<td>1.536</td>
<td>0.954</td>
<td>0.979</td>
<td>0.986</td>
<td>0.067 (0.00–0.121)</td>
</tr>
</tbody>
</table>

- # Source for benchmarks: Cunningham (2008)
- * According to Reisinger and Mavondo (2006), Cmin/df < 3 is acceptable.

The model was tested using hierarchical regression. Hypothesis 1a was supported ($\beta = 0.325$, $t = 7.499$, $p = 0.000$), as was Hypothesis 1b ($\beta = 0.620$, $t = 12.390$, $p = 0.000$). Together creative competence and interpersonal relationships explained 87.4% of variation in client satisfaction. The impact of performance on satisfaction has generally been ignored (Geyskens, Steenkamp and Kumar, 1999), however Caceres and Paparoidamis (2007) found creative quality to be an important predictor of satisfaction. Wackman, Salmon and Salmon (1986) found that relationship factors were the most important predictors of clients’ satisfaction with their advertising agencies. Czepiel et al. (1985) and Surprenant and Solomon (1987) contend that service encounter is a critical determinant of satisfaction, especially when there is inseparability and intangibility. This study supports these findings and contentions.

Hypothesis 2 was supported as shown in table 2, with creative competence, interpersonal relationships and satisfaction explaining 50% variation in commitment. This hypothesis purports that clients who are satisfied with the creative services of their agencies as well as the relationship with their agencies become committed to the client-agency relationship. Previous studies that have associated satisfaction and loyalty have omitted commitment (Caceres and Paparoidamis, 2007; Jayawardhena et al., 2007). The current study also found that satisfaction totally mediates the relationship between creative competence and interpersonal relationships and commitment.
Hypothesis 3 was supported with creative competence, interpersonal relationships, satisfaction and commitment explaining 77.3% of variation in client loyalty as shown in table 3. A similar hypothesis was supported by Caceres and Paparoidamis (2007) and affirms that if strong allegiances exist between clients and their agencies, the client can be counted on to act as an advocate for the agency, promote the agency to potential customers as well as consider the agency their primary and sole provider of those specific services which the agency is able to provide.

**Managerial implications and conclusion**

The current study sought to assess the importance of the softer aspects of the client-advertising agency relationship in order to determine the impact of affective aspects on client loyalty and the continuation of the professional relationship between the client and the service provider. Client perceptions of their advertising agencies are formed through a series of interactions with employees of the service provider, hence every contact between the agency and its clients has the potential to improve or damage the business relationship (Patterson and Ward, 2000). Loyalty depends on the total service package rather than on specific elements. According to Mick Blore, group chief creative officer for Young and Rubicam SA, as quoted by Furlonger (2009) ‘Agencies are hired for creativity and fired for service, which usually means the personal chemistry or lack of it. It’s the mundane things that make a difference’. This study has important implications for advertising agencies. They should ensure that their staff possess an exceptionally high level of creative competence. Additionally they need to spend time and effort getting to know their clients and understanding their needs and expectations, in order to be able to satisfy them.

The model developed for the current study explains 77% of variation in client loyalty, hence the soft side or the affective factors are clearly important in the maintenance of business relationships. Future research should incorporate an additional construct associated with value creation which is also important in any commercial relationship. The sample size to be used in future studies should be increased to include clients of varying organisational characteristics. Finally a dyad investigation of both advertising agencies and their clients will certainly reveal some interesting findings in this area.
References:


