

## DO MNCs AND LOCAL COMPANIES DIFFER IN THEIR RELATIONSHIP WITH AD AGENCIES?

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### ABSTRACT

This exploratory study investigates the differences between local companies and multinational subsidiaries in their advertising agency-client relationships in Turkey. A survey utilizing personal interviews was conducted with 52 of Turkey's top advertisers (27 of them foreign-equity companies) to determine if multinational subsidiaries' practices towards their advertising agencies or their level of satisfaction with various aspects of agency service and the relationship differed from those of local companies. Some significant differences in practices and in the length of association emerged. Satisfaction levels, however, did not reveal any significant differences. The study suggests that multinationals are more formalized in their management of agency relationships.

**Keywords:** *Advertising Agency – Client Relationships, Business Relationship Management*

## ÇOKULUSLU KURULUŞLARLA YERLİ KURULUŞLARIN REKLAM AJANSLARIYLA İLİŞKİLERİNDEKİ FARKLILIKLAR

### ÖZET

Yerli firmalar ve Türkiye'deki çokuluslu firmaların reklam ajanslarıyla ilişkilerindeki farklılıkları inceleyen keşifsel çalışma, Türkiye'nin en büyük 101 reklamveren kuruluşundan 52'sinin yöneticileriyle yapılan anketlerden yararlanmaktadır. 27'si yabancı sermayeli olan bu kuruluşların yöneticileriyle yüz yüze görüşülerek çokuluslu firmaların reklam ajansı hizmetinin çeşitli yönlerine ilişkin memnuniyeti, ajanslarından duyduğu genel memnuniyet ve ajanslarıyla ilişkilerindeki uygulamalar açısından yerli kuruluşlarla aralarında farklılık olup olmadığı araştırılmıştır. Ajans yönetimine ilişkin reklamveren uygulamalarında ve ajansla ilişkinin süresinde önemli farklılıklar ortaya çıkmıştır. Ancak, memnuniyet düzeylerinde herhangi bir farklılığa rastlanmamıştır. Bulgular, çokuluslu kuruluşların reklam ajanslarıyla ilişkilerinin yönetiminde yerli kuruluşlara göre daha kurumlaşmış oldukları sonucuna işaret etmektedir.

**Anahtar Kelimeler:** *Reklam Ajansı-Reklamveren İlişkisi, Şirketler Arası İlişkiler Yönetimi*

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**INTRODUCTION**

The relationship of the multinational subsidiary to its advertising agency in a developing market presents an interesting manifestation of the agency-client relationship. These associations are increasingly a result of global alignment decisions taken at the headquarters of the multinational client company (Michell and Bright, 1995; Sweeney, 2005). The multinational subsidiaries are thus committed to their advertising agencies so long as the global decision remains in effect. For the advertising agencies in subsidiary markets, this means, on the one hand, that a new global realignment decision may end a successful agency-client relationship through no fault of the local advertising agency. On the other hand, the same globally dictated commitment may work in the agency's favor, handing it a new client without much effort. More importantly, while local companies, not fettered with similar decisions, can drop their agencies when the times get tough, multinational subsidiaries may provide a life jacket. The Turkish recession in 2001 showed this to be the case: While the advertising industry's total billings dropped by half that year (Advertising Association, 2007a), some agencies could stay afloat thanks to their multinational clients. The reverse side of the coin is that this perforce relationship may breed complacency on the part of the agency and frustration for the client. Understanding the differences between the expectations of multinational companies and local firms is therefore especially important for advertising agencies in developing markets.

While there is a diverse body of literature on agency-client relationships in developed countries, little is known about agency-client relationships in developing or emerging economies. The research on multinational companies and their advertising agencies is again sparse and mostly of Anglo-American origin. Moreover, most of the discussion centers on the debate of standardization vs adaptation of international advertising. Very little research, if any, has been done on the differences in agency relationships of domestic and multinational firms in developing markets.

In this study we seek to extend understanding of the advertiser's satisfaction in the agency-client relationship by addressing this research gap. The study investigates the differences in agency-related practices of domestic firms and multinational subsidiaries and their satisfaction with

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their agencies. As this aspect of agency-client relationships has not been researched before, the study is exploratory in nature.

After a brief overview of the Turkish advertising industry and of multinationals in Turkey, the article will present the hypotheses, method, findings and implications of a survey conducted with Turkey's leading advertisers.

### **THE TURKEY CONTEXT**

#### **Background on the Turkish Advertising Industry**

Most industry observers would date the beginnings of modern advertising agencies in Turkey from about 60 years back (e.g., Koloğlu, 1999). Over the past two decades, however, advertising in Turkey has shown a rapid development. This is evinced by the increasing number of agencies and total billings. There are about 100 established agencies (Advertising Association, 2007b), and total billings in 2006 reached \$2.53 billion (Advertising Association, 2007a). The impetus for the growth can be attributed in large measure to the introduction of free market economy principles in the 1980s. While measured media advertising expenditure was \$130 million in 1986, in 2005 it was about \$1.67 billion (*ibid.*), representing 0.46% of Turkey's GDP, measured at market prices (World Advertising Research Center, 2006). In developed countries, the ratio of adspend to GDP is about 1% (Waterson, 1992, as cited in O'Donovan et al., 2000: 317). For instance, in 2005 the share of adspend to GDP was 1.24% in the US, 1.14% in the UK, 0.78% in Canada, and 0.74% in Germany (World Advertising Research Center, 2006). While the share of Turkey's adspend to GDP indicates there is still room for growth, it is important to note that Turkish advertising has recorded a remarkable rebound since the recession of 2001.

Despite the growth trend, however, Turkey's advertising industry may still harbor important differences from the advertising industries in developed countries. For one, previous research suggests that developing markets may differ from developed markets by the shortage of advertising talent (Shao and Hill, 1992), less developed marketing infrastructure and low competition (Aydın and Terpstra, 1981). More pertinent for Turkey may be that the Turkish organizational climate differs from the countries of Western Europe and North America, which dominate the nationality composition of foreign-equity companies in Turkey (Erden, 1996). Turkish culture has been described as collectivistic,

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and with a strong tendency of uncertainty avoidance and high power distance (Hofstede, 2001). Turkish organizations have been distinguished by centralized decisionmaking, highly personalized, strong leadership, and limited delegation (Ronen, 1986, as cited in Fikret-Paşa et al., 2001), with collectivism as the most dominant characteristic of the organizational culture (Fikret-Paşa et al., 2001). Furthermore, multinational organizations have been found to be more “formal rational” than Turkish public and private organizations (Ölmez et al., 2004). Family domination in ownership and management is one of the defining features of business groups in Turkey (Buğra, 1994), and researchers have noted that even when professional managers run these companies, family members are “highly actively involved” in strategic and daily decisions (Gürsoy and Aydoğan, 2002), with implications for organizational behavior diverging from those of multinationals.

Advertising agency-client relationships in Turkey have been investigated by Kaynak et al. (1994), who found that the personal relationship between the advertising agency and its client was very important in Turkey, contrary to a more developed economy such as that of the Netherlands (Verbeke, 1988/1989). The differences expected between multinationals and local firms have an especial pertinence to marketing because majority ownership in multinational subsidiaries was found to be a significant variable in marketing involvement (Aydın and Terpstra, 1981).

### **Foreign-equity Companies in Turkey**

At the end of 2006 there were around 15,000 foreign-equity firms in Turkey (Undersecretariat of the Treasury, 2007), representing a total FDI stock of 79 billion USD, where the foreign affiliate had at least a 10% equity share (Central Bank of Turkey, 2007). The real impetus for the inward flow of foreign investment was provided by the liberalization policies of the early 1980s, allowing freer entry and operations (Tatoğlu and Glaister, 1997). On the agency side, while there were two foreign-affiliated advertising agencies in Turkey in 1985, by the year 2000 there were at least 25 (“Uluslararası Evlilikler”, 1999).

Multinationals tend to be heavy advertisers (Vernon, 1971, as cited in Aydın and Terpstra, 1981), and this also appears to be the case in Turkey. The uppermost echelons of the lists of top advertisers for many years have been dominated by multinationals, among them such mainstays as Unilever, Procter and Gamble, Coca-Cola, and Reckitt-Benckiser. As some of the country’s biggest advertisers, MNCs have

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contributed to the development of the industry as buyers of agency services and media time and space. Some have established local agencies in affiliation with their parent companies' worldwide agency networks. By providing on-the-job training to nationals, the multinationals in Turkey helped expand the managerial pool in marketing (Erden, 1988), and especially the consumer goods producers among them were found to be a major source of know-how for Turkish advertising agencies (Aydın and Terpstra, 1981). As the agency industry is younger than those in developed markets, the training in advertising and marketing in Turkey can be said to have been fulfilled by the multinational advertiser rather than the advertising agency, contrary to the case, for instance, in the US (Keep et al., 1998) or in France (Chevalier and Catry, 1978).

### **HYPOTHESES**

The key research question is the differences between the foreign-equity companies in Turkey from local companies in the evaluative criteria used and the practices employed with respect to the advertising agency.

#### **Contract and Performance Evaluation**

Turkish organizations have been found to differ from multinational organizations most strongly on the formalization and standardization of work processes and on the measurement and assessment of these processes (Ölmez et al., 2004). Formalization denotes the extent to which rules, procedures, instructions, and communications are written (Pugh et al., 1968: 75). In the advertising agency-client context, formalization can be operationalized by the existence of an agency contract, the practice of an overall agency evaluation, and a concomitant client evaluation by the agency. The professional literature on advertising has long claimed that for the agency-client relationship to be satisfactory for both of the parties concerned, it has to be based on a well-designed contract, a clear understanding of the roles and goals of both parties, agreement on how the performance of the agency will be judged, and effective communications (e.g., Weilbacher, 1983/1991, Prince and Davies, 2006). In fact, some of the earliest empirical studies of the agency-client relationship have put forward the contract (Marrian, 1967) and the formal agency evaluation (Ryan and Colley, 1967) as

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essential to improving agency-client relationships. Therefore, it is hypothesized that:

**Hypothesis 1a:** Multinational firms are more likely to have a contract with their advertising agencies than local firms.

**Hypothesis 1b:** Multinational firms are more likely to conduct a formal agency evaluation than local firms.

**Hypothesis 1c:** Multinational firms are more likely than local firms to have their advertising agencies evaluate their performance as clients.

### **Incentive Payment**

In recent years the use of incentive payments to the advertising agency is increasing among American (Beals and Lundin, 2004) and European advertisers (European Association of Advertising Agencies, 1994). Therefore, it is hypothesized that:

**Hypothesis 2:** Multinational firms are more likely to engage in incentive payment to their advertising agencies than local firms.

### **Multiple Agency Partners**

When there is the performance commitment of advertiser to agency as in the case of multinational subsidiaries, solutions to the problems may be sought within the relationship rather than outside; thus, advertisers may request changes in the agency personnel servicing their account, demand more resources or lower rates, and/or spread the workload among multiple agency partners to make the relationship work. Having multiple partners may be preferred by the client also because it represents a less risky predicament than having a single agency for all of the client's creative work. In the US, for instance, there seems to be a tendency towards expanding the agency roster to increase branding or major creative efforts (Association of National Advertisers, 2005). Therefore, it is hypothesized that:

**Hypothesis 3:** Multinational firms are more likely to have multiple agency partners than local firms.

### **Length of Agency Association**

Previous research suggests that agency selection and termination decisions are usually taken at the highest levels of a client company, by a

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far smaller number of people than those involved in agency evaluation (e.g., Prendergast et al., 2001), while for smaller companies the number of critical decision makers declines further (Marshall and Na, 1994). Thus, it can be assumed that in family-dominated companies, the decision of selecting or terminating an advertising agency rests largely with the company's owners or top managers, who may take such decisions with relatively more ease than multinational companies. At the same time, while some multinational subsidiaries are necessarily committed to their agencies through global alignment decisions, multinational advertisers' agency relationships are expected to be of longer term. Hence, it is hypothesized that:

**Hypothesis 4:** The span of association between multinational clients and their advertising agencies is likely to be longer than that between local clients and their agencies.

#### **Evaluative Criteria**

As expectations of the advertising agency may be shaped by the differing environmental constraints faced by firms (Michell, 1986/87), locals and multinationals are expected to differ in their expectations and consequently evaluations of their advertising agencies. Hence:

**Hypothesis 5:** Agency evaluation criteria of multinational and local firms are likely to differ in the level of importance that is accorded to them.

### **RESEARCH METHOD**

The purpose of the study, part of a larger research project on advertising agency-client relationships, is to investigate the differences between domestic firms and MNCs in their management of and satisfaction with their advertising agencies in Turkey. The sampling universe was made up of 101 firms, whose ratecard-based measurable-media reported adspend exceeded 34 million US dollars in 2004 (Bileşim Medya, 2005). Over 40% of these advertisers are composed entirely or partly of foreign equity. Their national origins at the time of the study included among others the US, the UK, Germany, France, Switzerland, Belgium, Netherlands, Sweden, Finland, Italy, Japan, and South Korea.

These advertisers evaluated a total of 28 agencies, the majority of had foreign affiliations (54%). 25% of the advertisers surveyed indicated

that their agencies were determined by the multinational parent company. Not surprisingly, the majority of the foreign-equity advertisers (92.6%) were working with the local subsidiaries of global agencies.

A company was classified as a multinational when its foreign equity share equalled or exceeded 10%. The terms "foreign-equity firm" and "multinational" were used interchangeably in this study. One company which had just been acquired by a foreign company at the time of the field study has been classified as local for the purposes of this study as the practices reported by the respondent referred to the company's recent local past.

Individuals who were responsible for managing relations with advertising agencies were the data source, identified via the membership list of the Advertisers Association, published reports, industry contacts, or direct inquiry. No sampling was conducted; every attempt was made to include all of the population elements. The sampling universe was reduced to 89 companies due to reasons such as the advertiser's ceasing operations or not employing the services of an outside agency. The final set of respondents included 52 advertisers, each company represented by one questionnaire. Two agency relationships, indicated to be in their final stages, were included in the analyses. The final sample size of 52 represents a return rate of 58% on the reduced sampling universe. No significant differences were found between responding and nonresponding companies in terms of foreign equity levels, organizational age or organizational size (in terms of either number of employees or reported measurable media advertising expenditure exclusive of discounts).

The survey was conducted over a 6-month period (fall 2005 through spring 2006), and the pilot study over a 2-month period (during Spring 2005). The unit of analysis is the advertiser's primary advertising agency, as opposed to specialist agencies. If multiple agencies were used for a brand, the respondent was instructed to respond to the survey with reference to the primary advertising agency (lead creative agency) only.

The data collection instrument was a self-administered questionnaire, completed in the presence of the researcher. The satisfaction questionnaire used for the present study has been adopted with minor modifications from Kaynak et al. (1994), who had used the items from Wackman et al. (1986/87) and Verbeke (1988/89). The scale ranged from "Very satisfactory" to "Not satisfactory at all," including a "No opinion" option. Cronbach's alpha was calculated to assess the reliability of the 16 items used for assessing satisfaction with the agency

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(4 variables were excluded from the analysis due to the number of missing cases). The measure was 0.85, suggesting that the instrument is reliable (Nunnally, 1978). The entire questionnaire was reviewed by academicians and industry specialists. The English version, administered to two respondents, was reviewed by an academician and cross-checked with the Turkish.

Two significance analysis methods have been used: t-tests and chi-square analyses. The nonparametric equivalents of the t-tests were also conducted to remove any doubts that may stem from the nature of the data. The nonparametric tests (not reported here) confirm the findings of the parametric tests.

## **RESULTS**

### **Respondent and Participating Company Profile**

The confidence that can be placed in the results partly rests on the characteristics of the respondents as key informants. The majority of the respondents hold senior and upper-level management positions, with 48% at or above the level of marketing director or vice president, and have considerable industry experience. Nearly 40% have at least 10 years of experience in their respective industries.

More than a third of the top 101 advertisers for the year 2004 are among Turkey's 500 largest industrial companies; and over 40% of the 52 advertisers surveyed belong in their ranks (Istanbul Chamber of Industry, 2005). Ten family conglomerates are represented in the list of top advertisers, and more than a third of the companies represented in the study belong to one of these groups. Based on a sectoral distribution, fast-moving consumer goods companies, not surprisingly, dominate the list (57.7%), followed by consumer durables (28.8%) and services (13.5%). There were no significant differences among foreign-equity and local companies with respect to sectoral distribution, organizational age (or, in the case of multinationals, years of operation in Turkey), or size (in terms of either number of employees or reported measurable media advertising expenditure exclusive of discounts).

The majority of the companies surveyed (52%) have a foreign equity share equalling or exceeding 10%. About one-third has a foreign equity level of 90% or above. European companies account for 33% of the total companies surveyed (or 63% of the multinational set), followed by American companies accounting for 15.4% (or nearly 30% of the multinationals). Additionally, at the time of the study, 56% of the

participating companies were members of Turkey's Advertisers Association, and 63% of the participating companies who were at the same time association members were multinationals.

**Agency-Related Practices**

The use of an agency contract was found to be more prevalent in the agency relationships of foreign-equity companies than that of local companies ( $p < 0.05$ ). Thus, Hypothesis 1a was confirmed.

**Table 1: Multinational Subsidiaries vs Domestic Companies: Agency Relationship Management**

<b>A</b>	<b>Foreign-equity (n = 27) %</b>	<b>Local<sup>a</sup> (n = 25) %</b>	<b>Test of Significance <math>\chi^2</math> (Two-tailed)</b>
<b>Agency contract<sup>b</sup></b>	88.9	60.0	5.778**
<b>Formal evaluation<sup>c</sup></b>	77.8	52.0	3.811***
<b>Agency evaluation of client<sup>d</sup></b>	44.4	12.0	6.657**
<b>Incentive payment for agency</b>	51.9	20.8 [n=24]	5.230**
<b>B</b>	<b>Foreign-equity (n = 27) Means (st. deviations)</b>	<b>Local<sup>a</sup> (n = 25) Means (st. deviations)</b>	<b>Test of Significance (Two-tailed)  t-value</b>
<b>Length of agency association</b>	8.44 (6.69)	2.74 (2.60)	3.991*
<b>Agency roster size</b>	2.19 (1.27)	1.52 (0.77)	2.300**

<sup>a</sup> Entirely local equity or foreign equity less than 10%.

<sup>b</sup> Excluding contracts of less than 1-year duration.

<sup>c</sup> Excluding non-written and irregular evaluations.

<sup>d</sup> Excluding irregular evaluations.

\*  $p < 0.01$  \*\*  $p < 0.05$  \*\*\*  $p < 0.10$

Multinationals were found to be more likely to engage in regular overall agency evaluations than local firms ( $p < 0.10$ ), and more likely to be evaluated by their agencies for their performance as clients ( $p < 0.05$ ). Hence, there was limited support for Hypothesis 1b, but Hypothesis 1c was confirmed.

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Foreign-equity firms are more likely to make incentive payments to their agencies ( $p < 0.05$ ) and to employ multiple advertising agencies ( $p < 0.05$ ). Thus, Hypotheses 2 and 3 were also confirmed.

**Table 2: Multinational Subsidiaries vs Domestic Companies: Satisfaction with the Advertising Agency**

Dimensions of agency satisfaction and of the agency-client relationship <sup>a</sup>	Foreign-equity Company Means (standard deviations)	N	Local Company Means (standard deviations)	N	Test of Significance (Two-tailed) t-value
Easy to get in touch with account executives	4.52 (0.643)	27	4.32 (0.748)	25	1.022
Assignment of responsibility among agency personnel is clear and specific	4.35 (0.797)	26	4.08 (0.909)	25	1.110
Relations with account executives	4.22 (0.751)	27	4.17 (0.761)	24	0.262
Ability to stay on strategy	4.11 (0.847)	27	3.76 (1.052)	25	1.319
Agency staff experience	4.11 (0.577)	27	3.96 (0.889)	25	0.721
Productive, effective agency meetings	4.04 (0.759)	27	3.96 (0.889)	25	0.335
Relations with creatives	3.87 (0.968)	23	3.88 (1.092)	25	-0.035
Agency reacts quickly	3.83 (0.761)	24	3.48 (0.846)	23	1.510
Creative abilities	3.74 (0.712)	27	3.92 (1.077)	25	-0.702
Ability to meet deadlines	3.69 (0.838)	26	3.28 (1.137)	25	1.470
Low turnover	3.67 (1.074)	27	3.88 (0.992)	24	-0.720
Agency charges fairly	3.67 (0.920)	27	3.33 (1.090)	24	1.172
Agency provides full range of services	3.65 (0.846)	26	3.64 (0.995)	25	0.053
Agency approval process efficiency	3.63 (1.043)	27	3.80 (1.000)	25	-0.601
Agency shows strong leadership	3.48 (1.014)	27	3.32 (0.802)	25	0.639
Ability to stay within budget	3.44 (1.050)	27	3.28 (1.021)	25	0.572
Overall satisfaction	3.74 (0.656)	27	3.76 (0.926)	25	-0.086

<sup>a</sup> On a scale of 5 = "Very satisfactory" to 1 = "Not satisfactory at all."

### **Length of Agency Association**

Length of association with the advertising agency is the strongest difference between local and foreign-equity companies ( $p=0.000$ ). Local firms on average work with their agencies for about three years while the agency association length for foreign-equity firms averages over eight years. Thus, Hypothesis 4 was confirmed. In a related finding, foreign-equity advertisers were, not surprisingly, found to have foreign-equity advertising agencies as their lead creative agency ( $p=0.000$ ).

### **Satisfaction with the Agency**

Overall, foreign-equity and local firms appear to be satisfied or dissatisfied with various aspects of agency service at similar levels.

Though not at levels that were statistically significant, foreign-equity firms were less satisfied than local firms with the agency's creativity, staff turnover, and with the efficiency of the agency's approval process. On the other hand, they were more satisfied than local firms with most of the other aspects of the agency-client relationship. Hence, no support was found for Hypothesis 5 for the variables of satisfaction included in this study.

## **CONCLUSION AND DISCUSSION**

This study has found some clear differences between the ways multinational subsidiaries and local companies manage their agency relationships but no significant differences between multinationals and local companies regarding their satisfaction with various aspects of agency service and the relationship. The latter finding may be due to the fact that the local companies surveyed were the largest advertisers, most of whom were at the same time among the largest or oldest companies in Turkey, or belonged to some of the country's biggest conglomerates, which constitute the most institutionalized sector of private business (Yamak and Üsdiken, 2006). As such, they would have considerable agency experience, with agency expectations and evaluations similar to those of multinationals. Also, the well-known movement of Turkish professionals trained in multinational subsidiaries or multinational advertising agencies to local client companies may have enhanced the level of advertising expertise, which in turn may be shaping advertising agency evaluations of the client company. A larger sample that included smaller advertisers could reveal significant differences in evaluation

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criteria. Further research could also test for differences based on a longer list of satisfaction attributes.

One of the reasons for multinationals' higher levels of satisfaction with the majority of agency service aspects (though not at statistically significant levels) may be due to the fact that they are mostly working with Turkish subsidiaries of multinational agencies. Multinational agency subsidiaries have been found to "mirror" their clients in organization (Vardar and Paliwoda, 1993). Further research may focus on the client evaluations of local advertising agencies and multinational agency subsidiaries to gauge how much of the differences is stemming from the agency. One of the few aspects of the relationship where multinationals are less happy than local companies is creativity. This could be due to increasing client headquarters control over international advertising, which may be leading to less creative freedom for the local agency with the concomitant consequence of lackluster advertising.

Perhaps the most significant impact of multinational companies on Turkey's advertising industry is the stability they provide due to global alignment decisions. Local companies could learn from multinationals about the ways in which they could reinvigorate their relationship with their advertising agencies while further research could explore how multinational subsidiaries yoked to their agencies by global decisions work within the relationship to solve the problems.

Further research could explore sectoral or national differences in the management of the advertising function. Previous research suggests multinational practices may differ according to the nationality of the parent company (e.g., Özsomer et al., 1991) or the advertiser's sector. Buchanan and Michell (1991), for instance, suggest that the management culture or the maturity of the product classes of fast-moving consumer goods companies enhances their management of the agency relationship. The European domination of the multinational set of respondents and the predominance of FMCG companies in the study could therefore have introduced an element of bias.

The findings from this exploratory study show apparent opportunities to improve both practices and performance in agency-client relationship management. For the local companies, basing the relationship on a well-defined contract, two-way performance evaluations, and incentive payment practices could result in improved satisfaction with the overall relationship. For the multinational companies, a critical review of the policy and level of worldwide advertising

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standardization may prove useful (and there are signs of an international strategy/local implementation policy in recent years). The agencies of multinational clients, on the other hand, may find it useful to adopt more formalized procedures in order to enhance client satisfaction.

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