THE IMPACT OF HOME COUNTRIES ON THE COMPETITIVENESS OF ADVERTISING TNCS

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Abstract
This study seeks to examine the extent to which home countries affect the competitiveness of firms competing in the international market and how this impact is changing as firms extend their international activity. It links a set of competitive advantages of advertising TNCs from the US, the UK and France with specific conditions in the home markets of these firms, and examines differences in the nature and type of their competitive advantages. The findings suggest that the competitive advantages of advertising TNCs are only partly shaped by the conditions in their country of origin. The impact of home countries weakens as agencies expand their international activity.

Key Words: international competitiveness, transnational corporations, advertising, nationality

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1. Background

As the world economy is becoming increasingly globalised and integrated, some scholars have maintained that home countries are losing their effect on the international performance of their indigenous firms and are becoming irrelevant in explaining the nature of the competitive advantages and innovative capabilities of firms. As early as 1969 Kindleberger wrote: 'The international operation has no country to which it owes more loyalty than any other, nor any country where it feels completely at home... The nation-state is just about through as an economic unit' (Kindelberger 1969, lecture 6). Two years later Vernon coined the phrase ‘sovereignty at bay’ as a metaphor for the eventual decline of the nation-state in relation to transnational corporations (TNCs) that are above state control, and explicitly expressed the idea that '... Suddenly, it seems, the sovereign states are feeling naked. Concepts such as national sovereignty and national economic strength appear curiously drained of meaning.' (Vernon 1971, p. 59).

The accelerated growth of international business activity in the more recent decades has been held to further facilitate the dissociation of the sources of the competitiveness of firms from those of their home countries, and to emphasise the globalisation of their strategies and structure. In a world where an increasing proportion of TNCs' value added activity is undertaken outside their home countries, where the nationality of their ownership is fully or partially foreign, where the shares of TNCs are quoted on a number of stock exchanges throughout the world, and the membership of their Board of Directors is multinational, ‘national identity’ becomes a meaningless concept, scholars have proposed (Ohmae 1990, 1995; Reich 1992; Barnet and Cavanagh 1995). In this globalised economic world, the arguments go, geographical location no longer matters, or matters much less than hitherto (O'Brien 1992; Craincross 1997). As factors of production -

money, technology, factories, and equipment - move effectively across borders, the very idea of national economy is becoming meaningless, as are the notions of national corporation, national capital, national products, and national technology (Reich 1992). TNCs are stateless world citizens, operating in a borderless economic world (Ohmae 1990), these scholars argue. The focus of attention has turned to the characteristics of individual firms, and explanations for patterns of international activity has been sought in the proprietary attributes of these firms rather than in the locational comparative advantages of their home countries.

Some of these TNCs indeed consider themselves as firms with no geographical or national centre, as expressed by ABB's CEO[1]: ‘Are we a Swiss company? Our headquarters are in Zurich, but only 100 professionals work at headquarters... Are we a Swedish company? I'm the CEO, and I was born and educated in Sweden. But our headquarters is not in Sweden, and only two of the eight members of our board of directors are Swedes. Perhaps we are an American company. We report our financial results in US dollars and English is ABB's official language.... My point is that ABB is none of these things - and all of these things. We are not homeless. We are a company with many homes’ (cited in Taylor, 1991, p. 95).

Other scholars, however, have argued that the patterns of international business activity reveal that firms specialise in the production and trade of different categories of goods, in a manner that reflects the resources and conditions of their country of origin. These patterns suggest that the assets abundant within the boundaries of countries continue to affect the type and nature of the competitive advantages that firms develop and use in international competition (Porter 1990; Hu 1992; Hirst and Thompson 1996; Reich 1996; Pauly and Reich 1997; Zaheer and Zaheer 1997; Doremus et. al. 1998; Nachum 1999a).

Several of the location decisions of TNCs suggest that home countries are still the most important geographic areas affecting their competitiveness. The first is related to the location of the headquarters. Most TNCs, even those with the most intense international activity, maintain the headquarters in their home countries. Nestlé provides an example. About 98 percent of Nestlé's sales are outside Switzerland, about half of its top management is non-Swiss, and most of its shares are owned by foreigners (Business Week 1993). Yet, Nestlé's headquarters is in Switzerland. Likewise, the communication services conglomerate WPP operates 950 offices in 92 countries and generates about 80% of its revenues from overseas markets, half of them from North America (WPP, 1998). Yet, it maintains its headquarters in London.[2] There are some exceptions to this generalisation, particularly in cases where firms of different nationalities merge. For example, US's Upjohn and Sweden's Pharmacia, which merged in 1995, established their headquarters in neutral London (Financial Times, 1995); the management consulting Gemini is owned by French and German capital and is incorporated in France, but its headquarters is in New Jersey (Kipping and Sauviant, 1996). However, while there is a noticeable increase in the frequency of such examples, they are still rare. The headquarters is the place where the most important managerial decisions regarding the strategic direction of the firm are undertaken, and it is where both the top management and the board of directors are based. These tend to be in national hands and are shaped by national influences.

The second location decision of TNCs, which suggests that home countries are still the centres of their economic activity, is related to the location of innovative activities. The home country is the single most important site for innovation, the most critical source of competitive advantage of firms. The production of technology remains far from globalised and firms' technological performance is heavily dependent on the conditions in their home country. In manufacturing, studies have shown that for most countries, the percentage of R&D undertaken abroad, though increasing rapidly, does not exceed 15-25% (Cantwell 1995; Patel and Pavit 1991; Patel and Vega 1998). Consequently, the characteristics of the home country influence the volume and trends of the technological activities of firms much more than any other location (Patel and Pavit 1991). In service industries, too, the most critical competitive advantages, notably those related to the management of global knowledge - the core to value creation in many service industries - tend to be generated in the home country.

Third, according to most indicators (such as total or fixed assets, employment), most TNCs locate the largest shares of their value-added activities at home. Moreover, typically the overseas share of these TNCs is divided between a number of foreign countries, and thus any individual host country is likely to account for a much smaller share of the corporate total than the home country. Therefore, though TNCs cross national borders, the home country remains their geographic centre of gravity (Hu 1992). There are large differences between TNCs in different industries in terms of the location of their value-added activities. On the whole, manufacturing TNCs tend to locate larger parts of their value-added activities overseas, and to link the various parts of the TNCs via intra-firm trade. The low or non-tradability of most services excludes this possibility and service TNCs typically tend to have larger parts of their value-added activities at home (UNCTAD 1990).

There are some exceptions to these generalisations, where the geographical centre of TNCs' activities are less clear. Notable in this context are some UK TNCs and TNCs from smaller European countries such as Switzerland and the Netherlands, as well as TNCs of mixed nationalities (typically the result of mergers between TNCs of different nationalities), but again, these have so far remained the exception.

In the context of this debate, this study is designed to examine to what extent the type and nature of the competitive advantages of firms are related to specific conditions in their country of origin, and hence are shared collectively by all firms of the same nationality, and what is the role of firm-specific attributes, which are the exclusive possession of individual firms and distinguish them also from their national cohorts. In addressing these issues, we focus on a professional service industry - advertising - in which, despite the rapid expansion of international activity, the leading firms originate from only a few countries, a pattern which suggests that the home countries of these firms affect their ability to compete successfully in international markets. We link the competitive advantages of advertising agencies with specific conditions in their home countries, and use the similarity between agencies of the same nationality to test to what extent the factors critical for success differ by country.

2. The Choice of Advertising

The issues addressed in this paper are particularly interesting in the context of professional service industries. The leading firms in many of these industries originate from very few countries (see Nachum 1999a, chapter 5), a pattern which suggests that the characteristics of home countries strongly affect the competitive advantages of these firms. Yet, the advantages of professional service firms are based exclusively on intangible assets, some of which are highly mobile. The reasons for the linking of such assets to any particular location, including the home country, and subsequently, the connection of the competitive advantages of firms to this location, are often unclear. These industries thus provide a most interesting case for the examination of the link between intangible characteristics of home countries and the competitiveness of firms.

In order to control for industry effects, we focus in this paper on a single professional service industry - advertising. The choice of advertising was influenced by two considerations. First, the industry has to be one with intense international activity, because it is only in this context that the questions of this research are meaningful. Estimates are that in the mid-1990s the cross-border activities of advertising TNCs accounted for about 50 percent of total investment in advertising (Kim 1995). Second, the dominant global players should be geographically concentrated in a non-stochastic manner, to allow the researcher to hypothesise home country effect. Figure 1 shows the national distribution of the top advertising TNCs over the last two decades and its concentration in the US, the UK, France and Japan. In 1995, more than 80% of the top 50 advertising TNCs (i.e. 42 agencies) originated from these four countries. The combined revenues of these 42 agencies accounted for more than 95% of the total revenues of the top 50 agencies.[3]

The study focuses on advertising TNCs based in the US, UK and France. Although Japanese agencies have a dominating position in the industry, they are excluded because their activity is concentrated mostly in Japan, and they are not significant competitors in international markets (The Economist 1993).

3. The Hypotheses

The particular conditions faced by firms in their home country are likely to lead them to develop competitive tools distinct from those of firms of other nationalities, which face different economic environments. When expanding their activity overseas, firms use these different capabilities, which they have developed initially in their home countries, in competition against firms of other national origins. Indeed, studies have shown that the competitive advantages of firms often reflect specific characteristics of their home countries. In an analysis of the development of the largest firms in the US, the UK and Germany, Chandler (1990) shows how these firms have developed specific advantages which accrue to them because of the way their industries developed in their home country. Reich (1996) documents considerable differences in the contribution of foreign manufacturing affiliates in the US in the 1990s, and attributes them to specific characteristics of their country of origin.

The three countries studied here share certain similarities in terms of the level of economic development and structure, but there are also considerable differences between them (Table 1). The similarities and differences are evident with reference to the general characteristics of the economy (Table 1.1) and to advertising (Table 1.2). Notable is the large absolute size of the US market relative to the UK and France, both at the level of the economy as a whole (as measured by GDP) and of the advertising industry (measured by total advertising expenditure, communication services expenditure, number of advertising agencies). Of particular importance in the context of this study are the differences in terms of internationalisation, with the European countries, and particularly the UK, exhibiting higher levels of international involvement (in terms of all the measures examines in Table 1.1) relative to the US.

These differences are likely to be reflected in corresponding variations in the characteristics of advertising agencies originating from these countries. This discussion suggests:
H1a: The national origin of US, UK and French advertising TNCs affect their competitive position in the international market.
H1b: The firm-specific attributes of US, UK and French agencies reflect the conditions in the home countries of these agencies.

The impact of home countries on the competitive advantages of firms is likely to be related to the extent and nature of international activity of firms. The competitive advantages of firms with more intense and more mature business activity outside their home countries may reflect the conditions in their home countries to a lesser degree than those of firms whose activities take place mostly within their home countries. Foreign competition at home may also affect the link between the resources of home countries and the competitive advantages of firms, as it exposes firms to foreign influences.

Several studies have shown that as firms increase their international activity, home countries lose some of their impact on the type and nature of their competitive advantages. Based on the comparison of the sectoral activities of firms and their home countries, Cantwell

(1989) found that at an early stage of internationalisation, the pattern of firms' advantages are closely related to those of their home countries, as reflected by the structure of exports and outward FDI. The expansion of international activity leads to the development of large inter-sectoral differences among the activities of firms and those of their home countries. Dunning (1996) found that a greater degree of transnationality of firms is associated with the perception that an increasing proportion of their competitive advantages is derived from foreign sources. The advertising agencies studied here exhibit a considerable variation in terms of the intensity and maturity of their international activity (see ahead), and hence we hypothesise that:

H2: The more advertising agencies expand their activity overseas, the less their home country affects their characteristics.

4. Methodology

To test for the extent to which home countries affect the competitiveness of advertising TNCs, we constructed a model at the level of the firm, using international competitiveness as the dependent variable, and firm-specific advantages and country variables as independent variables. By bringing together the determinants of international competitiveness (the set of firm-specific advantages) and the impact of nationality we can test whether nationality exercises an independent impact, after the general determinants of competitiveness, which may affect it regardless of nationality, have been taken into account.

The link between the possession of firm-specific advantages and the international competitiveness of firms is well established in the FDI literature (see Dunning 1993 for a review). Firm-specific advantages are the attributes of individual firms which allow them to overcome the disadvantages of being foreign in overseas markets, and to offset the extra costs associated with setting up operating facilities across geographical, cultural and legal borders. They enable the firms possessing them to perform in unique ways, not available to their

competitors, to create barriers to entry and exploit monopolistic power in their own markets, and to reduce barriers to entry to other markets. Hence, the firms possessing strong advantages would be expected to acquire a strong competitive position in international markets.
The model is of the general form:

$$\mathbf{Ci = f\,(Fi;\ Zi) + Ei}$$

where:
Ci - International competitiveness of agency i (total world-wide revenues)
Fi - Vector of firm-specific advantage of agency i
Zi - Dummy variables for national origin of agency i
Ei - Random error term.

Two dummy variables are introduced in order to analyse possible differences among agencies originating from different countries, thus allowing the intercepts and the slopes to vary between countries. The dummy variables are defined as follows: France: Z1=0, Z2=0; UK: Z1=0, Z2=1; US: Z1=1, Z2=0.

The explanatory variables – the firm-specific advantages - stem from the privileged possession of some intangible assets (Caves 1971) as well as those arising as a result of the common governance of cross-border value-added activities (Dunning 1993). The former typically includes advantages such as the innovatory capacity of the firm, non-codifiable knowledge, human capital experience, and goodwill. The latter are those resulting from attributes such as size, product diversity and learning experience (e.g. economies of scope and specialisation), as well as those that specifically arise because of multinationality (see Dunning 1993, Table 4.1).

While initially these advantages were conceptualised with reference to manufacturing industries, there have also been a number of attempts to apply them to services (Dunning 1989; some of the papers in Aharoni (ed.) 1993, 1997; Aharoni and Nachum (eds.), forthcoming). Drawing on this literature, we identified the following firm-specific advantages as the most critical in advertising: the innovatory capacity of the firm and its possession of non-codified knowledge are equivalent to creativity in advertising. As a proxy for advantages arising from multinationality we use the duration of international activity. Human capital is measured by the quality of the employees of advertising agencies. Product diversity is measured by scale, and learning experience by age. Some other potential sources of advantages, such as size and goodwill do not require specific modification in order to apply them to advertising. The Appendix presents in some details the theoretical rationale for the choices of these advantages, their possible origin in particular characteristics of the home countries of the advertising agencies concerned, and how they are operationalised in the statistical analysis.

The accuracy of the variables selected as measures of the theoretical concepts representing firm-specific advantages of advertising TNCs might be a source of controversy. The process of transforming qualitative factors into explicitly defined quantifiable variables is a difficult task. Some theoretical concepts are not operational, and it may not be possible to find for them empirical (operational) counterparts. In other cases, there may remain a discrepancy between the theoretical concepts and the operational counterparts. As a result of the indirect link (in some cases) between the two, the accuracy of the latter as measures of the former may remain controversial.

Furthermore, there is an inherent tension between the theoretical ideas about intangible resources and our relatively limited ability to measure them. Consequently, many of the measures we have used are far removed from the tacit, intangible assets that are part of the competitive advantages of firms in their home countries. This is a difficulty shared with most studies of this kind. For example, Porter (1990) used export data to evaluate competitiveness of home-based clusters of industries, a measure that does not capture a competitive advantage, but rather its outcome. Obviously, such indirect measures have many shortcomings, not least the possible bias emerging from intervening factors between the theoretical constructs and the operations used to measure them. Notable in the case of exports are government policies that affect the export performance of a country's firms in a manner that may not be related to their possession of superior advantages relative to their competitors in other countries.

Several of the operation measures selected refer only to activities under the same ownership and thus do not capture advantages that might be gained through non-equity co-operation agreements. However, the latter are relatively rare in advertising (Nachum 1999a; Grosse, forthcoming), limiting the potential bias of these measures.

Table 2 presents summary statistics of the various firm-specific advantages analysed and their correlation coefficients. Notable are the high standard deviations of some of the variables (such as creative ability, salaries, income per employee), highlighting the heterogeneity within the sample. For the most part, the correlation coefficients are small, implying limited links between the various competitive advantages. The notable exception, however, is size. This characteristic of agencies is closely and positively correlated with maturity and experience, creativity, international experience, and income per employee. Most interesting and illuminating, marginal profitability has a very low and insignificant correlation with all the firm attributes analysed. As could have been expected, experience and maturity is highly correlated with one of the measures of international experience. To avoid a possible bias, we added additional measure for international experience (see Appendix, part B).

4.1. The Agencies Studied

Data on selected advertising agencies headquartered in the US, the UK and France were used for the empirical analysis. It will be recalled that these three countries were chosen to be the focus of the analysis because they are the home for a large number of global players in advertising and thus allow us to examine potential impact of home the countries on the competitiveness of advertising agencies. To be included in the study agencies had to be multinationals, to allow us to compare among agencies of different nationalities competing, at least potentially, against each other. Our definition of multinationality includes agencies that draw at least 10 percent of their business from outside their home market.

The rush of mergers and acquisitions of the 1980s and 1990s (see Ducoffe and Smith 1993) created difficulties in selecting the unit of analysis and in identifying the national identity of agencies. Because we are interested in operating units, we ignored mergers and acquisitions which created holding companies financing a network of independent agencies, with limited, if any, synergy of resources among the different parts of the conglomerate. Some of the agencies compounding these conglomerates were included in the analysis as independent agencies. For example, J Walter Thompson and Ogilvy & Mather, which are part of WPP, were included in the study as independent agencies, but WPP was excluded. Further, we limited our scope to agencies whose country of origin can be clearly identified, and omitted from the study agencies with mixed national identities. An example of an agency that was dropped for this reason is D'Arcy-MacManus and Masius, a result of a merger between US and French agencies.

All the agencies that met these requirements were approached. The final sample totals 35 agencies, with 13, 12 and 10 from the US, the UK and France respectively. The small size of the sample is a limitation inherent in dealing with oligopolistic industries, in which the number of players is very small. This problem becomes more severe when limiting the areas of observations to a small number of countries and to firms with specific characteristics, as in the present study.

Data were collected through personal interviews with one representative in each agency, typically the chief executive. The agencies that provided the data wish to remain anonymous, so their names cannot be released.

5. Statistical Analyses and Discussion

The model constructed above was estimated in several ways. The whole sample of agencies was used to examine the extent to which home countries affect the competitiveness of advertising agencies by combining the firm-specific advantages and the country dummy variables as explanatory variables (H1). In order to test for possible changes in the impact of home countries on the competitiveness of advertising agencies as they expand overseas (H2), we estimated the model in two different variations: 1) based on a sample that excludes agencies that have been active overseas for 25 years or more (N=27); and 2) a sample that excludes agencies that generate more than 50% of their revenues overseas (N=29). Table 3 presents the results of the various estimations of the model by means of a linear regression.

Several conclusions can be drawn from the analyses presented in Table 3. First, a common set of firm-specific advantages explains a high proportion of the variation among advertising agencies of the three countries, which implies that there are common attributes in the industry that affect the competitiveness of advertising agencies regardless of their national origin. Country effects increase slightly the explanatory power of the model, and only one of the country dummy variables is significant, that is, nationality exercises some independent impact on competitiveness, after taking account of the other factors commonly considered to affect it.

Second, the explanatory power of some individual variables changed when the country dummy variables were added, with some becoming more significant and others losing some of their explanatory power. This suggests that the relative importance of some firm attributes changes when country influences are included. The impact of home countries on the competitiveness of advertising agencies is thus exercised both directly, via the explanatory power of the country's dummy variables, and indirectly, via their influence on the firm-specific attributes.

Third, only one of the two country dummy variables - the one distinguishing the US and the European agencies - is significant. The dummy variable that distinguishes US and French agencies, and UK agencies, is not significant. These findings correspond to the differences between the three countries in terms of most of the variables likely to affect the competitive advantages of advertising agencies, where the European countries are more similar to each other than to the US (see Table 1). The magnitude of the differences across agencies from these countries seems to reflect the differences between their home countries. These suggestions are in line with previous research (Yip 1991; Yip et al 1997) which found that the similarity between firms originating from different European countries, in terms of their strategic behaviour, was greater than between them and their counterparts in the US. The authors conclude that while nationality matters very much for the strategic behaviour of multinational firms, in the case of European firms it applies at the regional level rather than at the level of individual countries.

Fourth, when the model was estimated on the partial samples, which exclude agencies with more intense and matured international activity, its explanatory power increased. Also here, the inclusion of the country dummy variables slightly increased the overall explanatory power of the model. In line with our expectations, home countries affect more strongly advertising agencies that maintain most of their activity at home. As agencies increase their foreign involvement, the impact of their home country on their competitiveness diminishes.

In order to gain some additional insight into the extent and nature of the impact of home countries on the competitiveness of advertising agencies we cluster the agencies in our sample, using hierarchical cluster analysis procedure (Euclidean distance), based on the set of the firm-specific advantages summarised in the Appendix (Figure 2).

The national origin of advertising agencies is reflected in the hierarchical structure presented in Figure 2 only to a limited degree. At the lowest distance level, it is possible to identify six small clusters, all of which except one combine agencies of at least two countries, and one groups agencies of the three countries (the cluster of agencies numbers 9, 10, 14, 33, 2, 20). Only one of the clusters formed at this distance level groups agencies of a single nationality - 2 US agencies (numbers 24, 25). At more remote distance levels, a larger cluster is formed that includes only US agencies (agencies numbers 29, 30, 24, 25, 23, 26, 27, 31). It is interesting however to note that clusters of mixed nationalities combine either UK and French agencies or UK and US agencies. There is only one case in which French and US agencies are grouped together (agencies numbers 9, 10, 14, 33, 2, 20). Agencies in this cluster, notably the European ones, are among the more multinationalised in the sample, and their cluster membership may thus confirm the diminishing impact of home countries on the competitiveness of advertising agencies as they increase their international activity.

Two UK agencies - no. 19 and 17 - remain outside clusters until very high distance levels. Indeed, and in line with our theoretical expectations, these agencies are the most multinational in the whole sample, acquiring most of their revenues outside the UK. Their position in the hierarchical structure in Figure 2 may suggest that at this level of international activity, TNCs exhibit neither similarity to their national counterparts, nor to TNCs of other nationalities. Their firm-specific attributes reflect their own individual capabilities rather than the influences of any specific location.

The small size of the sample excludes the possibility of estimating the model constructed above for each country separately. In order to gain some additional insight regarding the nature of individual firm attributes in the three countries, we present the means and standard deviations of the three country samples (Table 4).

The analysis in Table 4 presents a mixed picture, as with the findings of the previous analyses. Some of the firm characteristics differ significantly between the countries, while some others show no significant differences. To a large extent these findings can be attributed to some specific country characteristics and conditions in the three countries.

Scope exhibits almost identical character in the three countries. Historically, there were large national differences in terms of diversification strategies, largely reflecting the attitudes of national clients towards promotion and marketing. US agencies adopted strategies of diversification such as ‘The Whole Egg’ (Young & Rubicam), ‘Seamless Marketing’ (Grey) and ‘Aggregate Marketing’ (J. Walter Thompson) long ago, in response to the demand of their clients. As early as 1939, N.W. Ayer & Son, one of the oldest US agencies and among the top in the US for decades, expanded its activities into the fields of marketing research and public relations, and advised clients on matters which far exceeded the scope of advertising alone (Hower, 1949). Other US agencies followed this example and offered their clients a whole range of marketing services to complement advertising. This ‘total marketing’ approach has remained common among US agencies ever since. By contrast, European advertisers generally had a more restricted approach to marketing, and consequently European agencies tended to provide a more limited range of promotion services (Rawsthorn 1990). The traditional European approach viewed advertising as a distinct discipline, and advertising agencies were usually not engaged in other forms of promotion. However, more recently, diversification has become common also in the UK and France, pursued largely through the acquisition of separately branded firms that are known for their individual expertise (Nachum 1999a). Saatchi & Saatchi, for example, has diversified from being solely in advertising in 1983 to offering 10 separate marketing services and 7 management services in 1987 (Kleinman 1987). WPP Group is operational in 10 marketing service categories, and regards the provision of an integrated range of communication services as the cornerstone of its strategy (WPP 1998). The similarity among advertising agencies of the three countries in terms of their diversification strategies may suggest that there is a tendency for some national differences to diminish over time.

The differences between advertising agencies of the three countries are also not significant with respect to client loyalty, international experience (measured by share of foreign revenues), marginal profitability, and the quality of the employees (measured by revenues per employee).

However, with respect to some of the other firm characteristics, advertising agencies differ considerably and significantly. Particularly notable are the differences between US agencies and their European counterparts, which are in line with the findings of the previous analyses. US agencies are much older and have more mature overseas activity. They are more successful in the Cannes competition, they pay far higher salaries to their employees (relative to the local industry average!), and they are considerably larger than UK and French agencies.

US agencies have enjoyed the advantage of operating in a home market far larger than any other market in the world (Table 1). Given the limited ability to compensate for a small home market by export (as the negligible volumes of trade in advertising suggest[4]), a large home market provides a valuable advantage. The size of the US market has allowed US agencies to grow large and to acquire the organisational capabilities of running large-scale operations at home. The differences reported in Table 4 highlight the sustainability of this home based advantage when agencies expand overseas. The small size of UK and French agencies, relative to their US counterparts, suggests that the ability to grow large via activity in foreign countries might be limited.

The maturity and experience of US agencies relative to their European counterparts reflect differences in the historical development of the advertising industry in these countries. US manufacturers were the first to use promotion methods as a tool to increase the volume of their sales. In response to this demand, the first US advertising agency was established as far back as 1840 (Fox 1984), and by the 1920s more than one thousand advertising agencies were operating in the US (Hower, 1949). Many of today's leading agencies were established during this period. In Europe, demand for advertising was slower to develop, and consequently, the majority of advertising agencies were established several decades later (Nevet 1982; Mattelart 1991). Thus, US agencies are, on average, much older than their European counterparts, reflecting differences in the historical development of the industry in these geographic areas.

Likewise, US agencies are far ahead of their European counterparts in terms of the two measures of international experience (though only one of the differences is significant). This finding is somewhat surprising, as while theory would predict US agencies to be larger, due to the large size of their home market, it would not necessarily predict them to be more international. On the contrary, one of the consequences of a large home market is often limited international activity, as there are many growth opportunities available for firms in the home market. Such a link between the size of the home market and the international activity of firms has been shown by several studies (see, for example, Hirsch and Thomsen 1993, with reference to firms from small countries). Indeed, some of the world's leading TNCs originate from smaller countries. An examination of the list of the world's top 100 TNCs, published annually by UNCTAD, shows that while US TNCs are at the top of this list in terms of the absolute value of their foreign assets, when ranked in terms of the relative transnationality index,[5] TNCs from small countries take the lead (UNCTAD 1998, Table II.1)[6]. The data in Table 1 indeed document the greater international involvement of the UK and France relative to the US.

One explanation commonly suggested for the intensity of the international involvement of US advertising TNCs is the push they received from their home clients (Weinstein 1974, West 1996). The rapid expansion abroad of US manufacturing TNCs in the years following the Second World War, at a time in which European firms were less active outside their home countries, facilitated the early development of international activity of US advertising TNCs. US TNCs have preferred the services of their home agencies over those of the local agencies in the foreign markets in which they established operations. They thus encouraged the international expansion of their advertising agencies, which expanded abroad to serve their home clients overseas. This phenomenon of following home clients abroad has been particularly typical in the US, and is often regarded as a country-specific explanation for the international success of US agencies (West 1996). J Walter Thompson (JWT)'s agreement with General Motors in the 1920s is a well-known example of the international expansion of advertising agency which was driven by its client (Merron 1991). The expansion abroad of McCann Erickson was similarly encouraged by its major client Standard Oil (UNCTC, 1979). Systematic evidence for this pattern of international expansion (Weinstein 1974) suggests that the international expansion of US agencies during the first half of the 20th century followed closely the international expansion of US manufacturing firms. European TNCs pushed their advertising agencies abroad to a lesser extent. Rather, they display a preference for local agencies in the countries they establish operations. The early expansion to international markets provided US agencies with first mover advantages, and their European competitors were slow to catch up.

The differences in the duration of foreign activity between US and European agencies are related to the historical development of international activity of advertising agencies in the three countries. The expansion abroad of US agencies goes back to the turn of the century (Weistein 1974), and was accelerated after the Second World War. In the early 1960s, 36 US agencies were operating 281 offices outside the US (Nevet 1982). By contrast, the local market was the major one for UK agencies until the early 1980s. Their international activity was very modest and was concentrated in the Commonwealth countries. Only in the 1980s did UK advertising agencies start competing against the large US agencies, both in the UK and on world markets (Nachum 1999a). The French agencies were very late to set up overseas operations. In the early 1970s only one agency, Publicis, had an international network (Mattelart 1991). French agencies started to create significant international activity only very recently.

Notable, too are the differences between agencies from the three countries in terms of creativity. To a large extent these differences can be explained by national attitudes towards the Cannes competitions, the operation measure used for creativity. In the US, and increasingly in the UK, advertisers regard success in these competitions as evidence for agencies' creative capabilities. US and UK agencies use their achievements in these competitions as promotion tools and regularly inform their clients about the number of awards won. Such an attitude is less common in France. French agencies do not assign much competitive value to performance in the Cannes competitions, and they tend to compete less than their UK and US counterparts (Advertising Age 1991).

However, while the differences between the US and the European markets are considerable, and consequently US agencies differ in many ways from their European counterparts, there are also some notable differences between UK and French agencies. Furthermore, in some cases, UK agencies exhibit greater similarity to US agencies than to French agencies. Indeed, the data presented in Table 1 suggest that in some measures, the UK is more similar to the US than to France. For example, while in absolute terms the US market is far larger than the UK and the French markets, in relative terms (as measured by advertising expenditure per capita and as % of GDP), the UK is more similar to the US than to France. This is likely to explain the significant size differences between UK and French agencies (Table 4). The quality of UK employees, as measured by gross income per employee, is far ahead of both US and French agencies[7], reflecting the widely recognised high quality and creativity of UK employees (Ogilvy 1988).

While poor performers in terms of most of the competitive advantages analysed relative to their US and UK counterparts, French agencies, perform best in terms of client loyalty. This characteristic of French agencies can be related to norms of business relations in France, which encourage long lasting relations between agencies and their clients. A survey of the largest 100 advertisers in France, conducted by the French advertising association in the early 1990s, has shown a notable preference for long business contacts with a single agency (though there was a slight decline in this pattern from the early 1980s) (AACC 1992). An UK survey, by contrast, has found a far greater tendency among advertisers to change agencies (James Capel Research 1990).

Taken together, the various analyses provide partial support for the existence of a country effect on the competitive advantages of advertising agencies (H1a). The introduction of the country dummy variables to the model has improved its overall explanatory power only slightly (Table 3), and the hierarchical structure that resulted from the cluster analysis has reflected the national origin of the agencies concerned only to a limited degree (Figure 2). Likewise, there are some significant differences between the firm-specific attributes of agencies originating from different countries (Table 4). These analyses suggest that the impact of home countries on the competitiveness of advertising agencies is confined to certain circumstances. It is particularly noticeable in relation to the differences between the European and the US agencies, while it is less pronounced between the European agencies. This seems to reflect corresponding differences between the home countries of the agencies concerned. Furthermore, home countries do not affect all the firm-specific attributes, and not to all of them to the same degree. They seem to have a strong and sustained impact on firms' attributes that are related to the core characteristics of firms, such as size and age. But in their strategic choices, which often have a more short-term nature, firms develop capabilities that are less related to the characteristics of their home country and reflect to a greater degree their firm-specific attributes.

To the extent that differences exist between agencies originating from different countries, these can largely be attributed to certain conditions and characteristics of the agencies' home countries (H1b). The different characteristics and conditions faced by advertising agencies in their home countries facilitate the developments of some different competitive attributes. Consequently, agencies of different countries excel in different activities.

The analyses also suggest that the impact of home countries on the competitiveness of advertising agencies tends to diminish as the latter expand their international scope (H2). The model of competitiveness has a somewhat stronger explanatory power when agencies with intense and mature international activity were excluded from the sample (Table 3). Likewise, the results of the cluster analysis suggest that the cluster structure of more multinational agencies reflect their national origins less than the structure of the less multinational ones (Figure 2). However, the analyses of individual firm-specific attributes in Table 4 suggest some variation in this influence. Certain attributes that firms develop initially in their home countries are not affected by their international activity, while other characteristics, those related to short-term strategies and operation routines, are more likely to be affected by the internationalisation of firms and their exposure to foreign influences. The latter are those that tend to lose their links with home country characteristics as agencies are exposed to foreign influences (either via their international activity or via foreign competition at home).

6. Concluding Remarks

The findings suggest that the international competitiveness of advertising TNCs is partly influenced by the location-specific characteristics of their country of origin. Certain national characteristics, such as national regulatory or economic conditions, the interaction with other firms which influence the industry in a given country (competitors, customers), and certain practices developed over time in a country, affect the nature of the attributes of advertising agencies. Countries differ in terms of these characteristics and these differences have consequences for the international competitiveness of their advertising agencies. Thus, while competitive advantages are characteristics of firms, they become generic to particular countries, reflecting broader country characteristics that have been imprinted similarly on all firms within the country (Kogut 1993).

However, competitive advantages are not completely determined by an agency's country of origin. There are certain strategic decisions over which an agency, though constrained by the legacy of home-based influences, has considerable discretion. Consequently, not all competitive advantages are affected by the resources of the home country, and not all of them to the same degree. Some advantages result from the strategic behaviour of firms which may not be directly related to the characteristics of their home countries, but rather developed in line with the unique characteristics of individual firms and in response to the competitive pressures of a global industry. These advantages show no significant variation across countries, but rather vary in line with the firm-specific attributes of firms.

The findings of the study imply that the competitive advantages of advertising agencies are partly determined at a national level, rather than entirely by specific attributes of individual agencies. As home countries partly affect the ability of advertising agencies to create competitive advantages, home-based factors, which are external to firms and mostly not under their individual control, should be incorporated in the strategies of firms.

Due to limitations of the data (notably the small number of observations), the conclusions of this study can only be viewed as indicative and suggestive rather than as a statistical confirmation of a theory. We believe that despite these limitations, some insight into the issue under consideration can be obtained. However, this insight should be confirmed by future research, based on larger samples of both firms and countries. Future research may also examine the validity of the findings reported here for different service and manufacturing industries. Another task for future research is to examine whether and to what extent the effect of home countries changes as a result of mergers and acquisitions. We have deliberately limited the scope of this study to advertising TNCs whose nationalities can be clearly identified, and excluded agencies of mixed nationalities (that is, a result of mergers between agencies of different nationalities). Examination of the issues addressed here might be particularly illuminating in this context, as such agencies are likely to combine influences from two countries. Such research may examine the balance between these influences, and the extent to which such agencies have a 'national identity' in the sense conceptualised here.

Notes

1. ABB was established as a result of a merger of two engineering companies, the Swiss Brown Boveri and the Swedish Asea. It is active in 140 countries.

2. Furthermore, most attempts to move the headquarters to foreign countries have been unsuccessful. Nestlé tried to run its global chocolate operation from the UK and its pasta business from Italy (after the purchases of Rowntree and Buitoni-Perugina respectively in 1988), but after several years switched the overall responsibility for both to Switzerland. These operations are only serving their respective local markets. IBM moved the world headquarters of its network systems division to the UK in 1991, but quickly returned it to the US as part of the group-wide restructuring process initiated in 1993.

3. International activity is spreading in most other professional service industries that thus meet our first criterion for the selection of a single professional service industry to be the focus of this study. However, the second criterion limits considerably the number of possible candidates. The leading management consultancy TNCs are concentrated in a single country (the US), and in accounting and law in two countries (the US and the UK), which limits the scope of the research to observation based on either one or two countries, and questions its validity. In engineering consulting the leading TNCs originate from a large number of countries, and no home country pattern can be observed (see Nachum 1999a, table 5.1 for a comparison between several professional service industries).

4. In 1993, advertising exports from the US accounted for 5.9% of total foreign transactions. The equivalent figure for 1990 was 2.5% (US, Dept. of Commerce, Survey of Current Business, various issues).

5. The index of transnationality is calculated as the average of three ratios: foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment (see UNCTAD 1998, table II.1).

6. Of the top 10 TNCs in this list by foreign assets, 6 are of US origin, 2 Japanese, 1 German and 1 UK/Netherlands TNCs. By contract, the top 10 according to the transnationality index is dominated by TNCs from small countries: 3 from Switzerland, 1 from Sweden, 2 from Canada, 1 from Belgium, 1 from Switzerland/Sweden and 1 from the Netherlands/UK (UNCTAD 1998).

7. The performance of UK agencies in terms of income per employee is strongly affected by one agency – Saatchi & Saatchi. Excluding the latter, the average income per employee is \$213,923 (\$214,404 standard deviation), still ahead of the French and US agencies, but the differences are smaller.

APPENDICES

Appendix

A. Competitive advantages in advertising and their possible link with home country characteristics

· **Size**. Unlike manufacturing firms, advertising agencies do not enjoy cost reduction with increased quantities of production, nor do they enjoy obvious advantages of internalisation. Yet, there are several size-related economies, giving considerable advantage to large agencies. First, size allows an agency to gain economies from greater efficiencies in capacity utilisation achieved by specialisation of personnel and the economies of common governance (Dunning 1989). Second, large agencies are able to absorb more easily the costs and risks associated with expansion abroad, and to offset the disadvantageous position which results from foreignness (Terpstra and Yu 1988, Li and Guisinger 1992, Li 1994). Third, to attract the most desired clients, agencies need offices in the world's most important markets, and only agencies at a certain size can have such operations. Fourth, large international agencies are better able to attract the best employees because they can offer them a more challenging and stimulating career (Aharoni 1997).

The size of firms is often related to the size of their home markets. Large home markets may facilitate the emergence of large firms, because they provide advantages to firms that are able to benefit from economies of scale. National attitudes towards mergers, conglomeration, and internalisation are likely to affect the size of national firms. The extent and nature of the link between the size of firms and the size of their home market varies in line with certain characteristics of countries and industries. The size of the home market is most likely to affect the size of firms in industries in which there are strong economies of scale and when the output is not tradable. This link is held to be particularly strong in service industries, where the possibility to compensate for the size of the home market by export is limited (UNCTC 1990). Indeed, the size of the home market is cited as a main reason for variation in size among advertising agencies of different national origins (Mattelart 1991; Ogilvey 1988).

· **Scope**. There seems to be considerable potential for economies of scope in advertising, arising from factors such as shared client databases or shared teams of creative employees. Indeed, many advertising agencies have diversified into closely related areas (such as marketing research, direct marketing, public relations, sales promotion) in order to provide their clients with various marketing and communication services by units of the same group or agency. They thus seek to ensure that the entire marketing communications of the clients is synergistic (Enderwick 1992). Such need to expand the scope of agencies into the provision of closely related services has been particularly notable over the last two decades, when non-media advertising (e.g. sales promotion, direct marketing) has been growing much more rapidly than media advertising (WPP 1998).

National attitudes towards sales promotion activities seem to affect the diversification strategies undertaken by advertising agencies. When clients consider the entire communication strategy as a whole, and exhibit a preference for multiple promotion tools, rather than for advertising alone, agencies tend to respond by diversifying into related areas.

· **Experience and maturity**. The accumulation of the most essential assets for competitive position is a process that typically lasts over a long period of time. If an advantage can be created quickly, competitors will have fast access to it through imitation, and will erode its competitive value. Advertising is an experience good and the availability of past experience often affects customers' choices. Therefore the duration of business activity is a critical determinant of competitive performance. Indeed, almost as a rule, the winners in the advertising industry are older. The notable exception to this generalisation is Saatchi & Saatchi, which accumulated competitive assets very rapidly and acquired a dominant position not reflected in the duration of its business activity. However, such examples are very rare.

The maturity of firms tends to reflect the development of demand for their products and services in the home countries. This link is particularly strong in the early stages of the development of the industry and it may diminish as industries mature, due to entry and exit of firms over decades. But initially, firms are established in response to demand, and the role of home demand has been held to be more important in this context than demand elsewhere (Porter 1990).

• **International experience.** International experience is a valuable advantage for firms' operations. There is a learning curve or experience effect in the process of internationalisation (Johanson and Vahlne 1977), a result of the time and resources needed to break into new markets and to build up reputation in foreign countries. Transnationality often also enhances the other advantages of the firm by offering wider opportunities, more favoured access and better knowledge about international markets. Terpstra and Yu (1988) found that international experience, gained through continuous operation in the international environment, had a positive impact on the international expansion of US advertising agencies.

The international activity of advertising agencies is linked, to a certain extent, with the international activity of their home clients. Advertising agencies often use their home clients as a vehicle for their own international expansion, and they expand abroad in order to service their home clients in foreign markets (Terpstra and Yu 1988, Li and Guisinger 1992, West 1996). The 'push' from home clients is more common in some countries than in others, and it explains, at least partly, differences in the intensity of international activity among advertising agencies of different nationalities.

· **Employee quality.** The creation of advertisements involves a strong human content. To a large extent, the service which advertising agencies supply is embodied in the employees producing it. It is produced by the capabilities of the employees to respond in a creative manner to specific client needs. Therefore humans are the most important assets of these firms (Aharoni, 1997; Lowendhal 1997), and their success depends primarily on the ability of their professionals relative to that of their counterparts in rival agencies (Sveiby and Lloyd 1987). Given the low mobility of labour across countries, the availability of qualified employees in a country is critical for the success of advertising agencies. Agencies based in countries with an abundant supply of this asset are better able to develop competitive strength.

· **Creative ability.** Most of the value-added in the creation of an advertisement lies in the creative work. Each advertising campaign is designed for a different set of clients' needs, and it has to be tailored to their specific situation by proposing new ideas and approaches. Hence, advertisements have to be different from each other and this uniqueness is an essential part of their value creation.

Certain country characteristics may facilitate the creative capabilities of firms. Studies have shown how national systems of innovations (Lundvall 1992) affect the innnovativeness of firms within these countries. A large body of research suggests that the innovative activities of firms are shaped by the structural components of their countries which influence the accumulation and diffusion of knowledge required for innovation (see Bartholomew 1997 for review of this literature). In a similar manner, the creative capabilities of advertising agencies are likely to reflect certain national characteristics. For example, the amount and quality of art institutions in home countries is likely to affect the creative capabilities of agencies because they can use the knowledge generated by these institutions as a basis for the development of their own creative capabilities.

· **Reputation.** Reputation is used by advertising agencies to signal quality, as the intangible nature of their output makes it difficult to assess its value. This is so not only before the service is produced, but also after it is delivered and consumed (Aharoni 1997; Enderwick 1992). In addition, the large human involvement in the production and the great need for 'tailor-made' solutions induce variability of the services (Dunning 1989). The 'same' service might differ every time it is produced. Therefore, consumers regard firms' reputation as an indicator of the quality of their services. The reputation of a firm exists in the eye of its actual and potential clients, and is largely location specific. Reputation developed in one country will not translate automatically into a similar advantage in other locations, and often has to be built afresh in any new market.

B. Operationality of the competitive advantage constructs

For the purpose of the statistical analysis, we operationalise the theoretical constructs identified above as the critical competitive advantages in advertising as follows:

• **Size**. Total gross income from advertising activities is used as a proxy for the size of agencies. There are two common measures for the size of business activity in the advertising industry: billing and gross income. Billing is a misleading indicator because it measures the amount which agencies spend for the purchasing of media space on behalf of their clients. Agencies are usually paid a commission of that amount (traditionally 15%) which is called 'gross income'. This is the more meaningful measure of the size of their business activity.

• **Scope.** An operation measure for scope should be based on measurement of the variety of different services offered by an agency, to capture the dispersion of their activity. Several measures can be used such as the number of marketing services offered or the share of advertising in total revenues. We chose the latter since it is more informative regarding the distribution of economic activity. While many agencies diversified into closely related areas, most of them continue to draw most of their revenues from media advertising. A measure of the number of services offered would provide a misleading picture as it would give undue weight to a wide dispersion of activities that account for only a small proportion of agencies' total business.

• **Experience and maturity.** Measured by number of years from establishment.

• **International experience**. Measured by years of activity outside the home market and share of overseas revenues in total revenues. This second measure is added to avoid a possible bias arising from high correlation between years from establishment (the measure of experience and maturity) and years of activity outside the home market (see table 2).

• **Employees quality**. Two measures are used as operations for the quality of the employees: 1. salaries paid (by production department: creative department director; media department director; account manager; copywriter; art director) relative to the average pay level in the local market. Agencies should rank themselves above, like or under the average. The assumption underlying this choice is that there is a positive correlation between employees' quality and their pay levels. Better employees are in a better negotiating position and can demand and get higher salaries. They are highly valuable for the agency employing them, which will compensate them accordingly in order to retain them. This operation measure might be biased on the ground of positive correlation with size of agencies. There is very little empirical evidence to reject or support this argument, as agencies typically do not disclose their pay levels. A rare salary survey conducted by IPA, the British advertising association in the early 1990s, found some evidence for correlation between agency size and pay levels, but there was considerable variation across job categories (Campaign 1991). The correlation analysis conducted for our sample (table 2) shows no correlation between size and pay levels.

2. Turnover (gross income) per employee, a widely used measure for the level of productivity of the employees (see Nachum 1999b, 1999c for a review).

• **Creative ability**. The average number of awards obtained by an agency in the Cannes festival (a competition in which judgement of advertisements is based primarily on assessment of the creative work) during the last 5 years is used as an operational measure for creativity. This measure might be biased on the ground that due to the high costs associated with participation in these competitions, some of the agencies interviewed reported have a policy of staying away from them. Thus, some agencies compete less or not at all, and their chance to get rewards is smaller or does not exist. It might be argued that this measure should be adjusted to size, because large agencies may compete more in the Cannes competitions. However, size of agencies was found to be unrelated to their tendency to take part in these competitions (Advertising Age, 1991), and we therefore use absolute numbers.

• **Reputation.** An operational measure for reputation may be based on clients' opinions. These document the perceived value of agencies in the eyes of their clients. A desired operation measure would thus be advertisers' (clients) opinions of agencies' work, but such data is not available for the three countries studied. We use marginal profitability (the ratio of profits to gross income) and clients' loyalty, measured by the ratio of accounts lost to total accounts handled by an agency in a given year.

Table 1. Some characteristics of the US, the UK and France

1.1 General characteristics

	GDP		GDP per capita		Trade, % of GDP, 1995	Distribution of GDP, % value added, 1995		Outward FDI		Exports, % of GDP, 1995	Private consumption, % of GDP, 1995
	Million $, 1995	Ave. annual growth 1990-95	PPP estimates, $ 1995	Ave. annual growth 1985-95		Industry	Services	Flows, % of GFCF, 1996	Stocks, % of GDP, 1996		
US	6,952,020	2.6	26,980	1.3	24	26	72	6.9	10.4	11	68
UK	1,105,822	1.4	19,260	1.4	57	32	66	19.1	30.7	28	64
France	1,536,089	1.0	21,030	1.5	43	27	71	11.3	13.1	23	60

Sources: World Bank, World Development Report 1997 Oxford University Press, Oxford and New York; UNCTAD, World Investment Report 1998: Trends and Determinants New York and Geneva, United Nations

1.2 Characteristics of the advertising industry

	Advertising expenditure	Communication services	Buyers concentr	Sellers Concentr	No. of advertis	Share of TV

	Mill ion $, 1997	Growth 1990-97, Annual average	Per capita $, 1997	% GDP, 1997	expenditure /a, Million $, 1997	ation /b, 1994	ation /c, 1994	ing agencies , 1994	advertising in total ad. Expenditure, 1995
US	106, 997	0.047	401.3	1.33	472,000	0.090	.140	12,000	0.600
UK	17,9 93	0.069	308.6	1.47	69,200	0.040	.190	na	0.295
Fran ce	10,4 39	0.035	178.8	0.66	28,800	0.146	.300	2,200	0.248

a/ include advertising, market research, public relations, sales promotion, and direct marketing and specialist communications. Advertising agencies often diversify into these related areas (see ahead).
b/ share of total advertising expenditure held by the top 10 advertisers.
c/ share of the advertising market held by the top 10 agencies operating in the market (includes both local and foreign owned).

Sources: various issues of Advertising Age; unpublished data, national advertising associations; WPP Group, WPP Annual Report and Account 1997.

Table 2. Descriptive statistics and correlation coefficients of the operation measures for firms' characteristics

(Mean, Standard deviation, Pearson coefficients)

	Mean	S.D.	Maturity	Client loyalty	Creativity	International - shares	International - years	Profits	Employees - salaries	Employees - Income	Scope	Size
Maturity and experience	42.80	34.29	1									
Client loyalty	.09	.14	-.267	1								
Creative ability	6.71	10.51	.538 (*)	-.128	1							
International experience – share revenues	.33	.30	.483 (*)	-.361 (**)	.490 (*)	1						
International experience – years overseas	21.09	23.02	.808 (*)	-.353 (**)	.343 (**)	.433 (*)	1					
Marginal profitability	.08	.05	.000	-.061	-.024	-.032	-.138	1				
Employees quality - salaries	.79	2.64	.084	-.085	.385 (**)	-.172	.123	-.053	1			
Employees quality - Income/employ ($)	212,863	355,647	-.205	-.122	-.104	.199	-.149	-.115	.055	1		
Scope	.78	.17	.171	.318 (***)	.083	.117	.049	-.141	-.020	.075	1	
Size (mil. $)	249,169	385,143	.544 (*)	-.259	.484 (*)	.725 (*)	.532 (*)	-.143	.151	.450 (*)	.148	1

Two-tailed test of significance:
(*) p<0.01
(**) p<0.05
(***)p<0.1

Table 3. Estimation of a model linking the competitiveness of advertising agencies with their firm-specific attributes and nationality

Regression coefficients (t-values)

Explanatory variables		Whole sample		Agencies operating overseas 25 years or less		Agencies generating overseas 0.50 or less of their total revenues	
Constructs	Operation measures	Without country variables	With country variables	Without country variables	With country variables	Without country variables	With country variables
Experience and maturity	Age	4,973 (4.538) (*)	4,845 (3.872) (*)	542 (0.440)	2,130 (1.835) (***)	-2,366 (-0.778)	-825 (-0.246)
Goodwill	Client loyalty	526,997 (1.602)	591,273 (2.019) (**)	-324,664 (-1.138)	-329,096 (-1.232)	-320,973 (-0.967)	-346,073 (-1.116)
Employees quality	Income per employee	0.4611 (4.447) (*)	0.5718 (5.737) (*)	0.5660 (8.430) (*)	0.6061 (10.388) (*)	0.4669 (4.461) (*)	0.5839 (5.096) (*)
International experience	Years of international activity	283,892 (2.761) (***)	166,125 (1.701) (***)	6,081 (1.995) (***)	5,613 (2.084) (**)	13,337 (2.848) (**)	12,103 (2.735) (**)
Creative capabilities	Cannes rewards	12,626 (3.027) (**)	12,621 (3.444) (*)	7,917 (2.092) (**)	10,619 (3.132) (**)	12,495 (2.359) (**)	11,722 (2.301) (**)
Scope	Share of media advertising in total revenues	NS[a]					
Home country influence	Country dummy (Z1)		-207,532 (-2.733) (**)		-146,048 (-3.141) (*)		-189,086 (-1.975) (***)
	Country dummy (Z2)		45,534 (0.508)		-58,077 (-0.939)		-60,170 (-0.497)
Adj. R^2		0.7943	0.8418	0.8606	0.9000	0.8910	0.9054
p-values		0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Standard error		205,904	180,601	113,614	96,251	190,497	177,473
N		35		27		29	

(*) p<0.01; (**) p<0.05; (***) p<0.1

[a]Not significant. The exclusion of this variable improved the overall fit of the model.

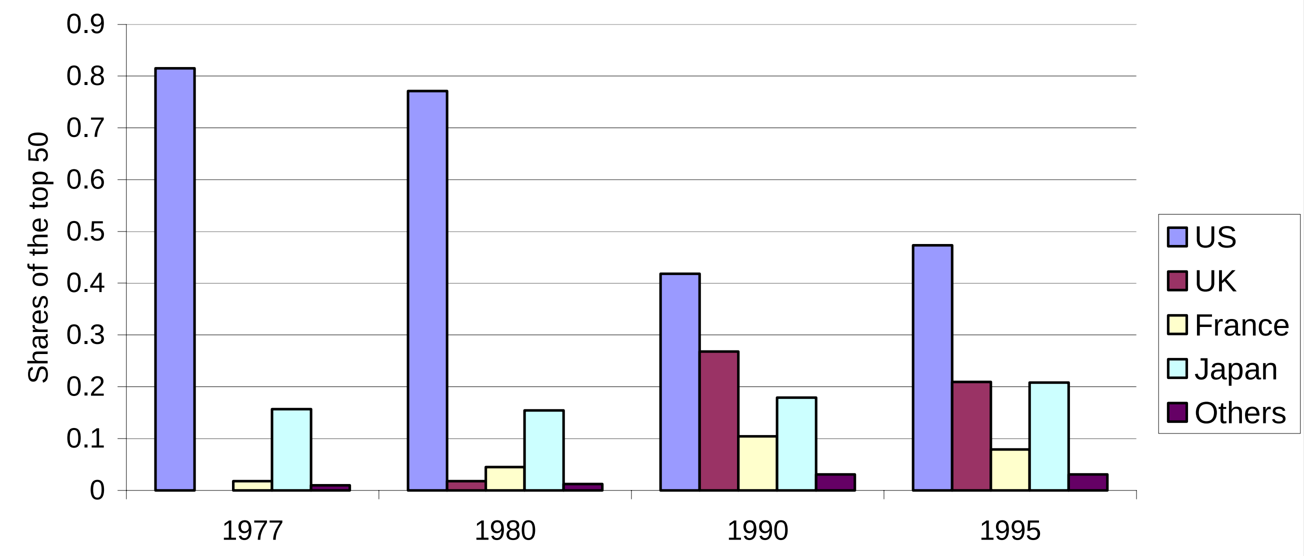
Table 4. Characteristics of advertising agencies in France, the UK and the US
Averages and standard deviations of country samples

	France		UK		US		Europe	
Firms' characteristics	Mean	S.D.	Mean	S.D.	Mean	S.D.	Mean	S.D.
Maturity and experience (*)	20.70	16.86	35.58	26.54	66.46	37.49	28.82	23.42
Client loyalty	0.15	0.16	0.03	0.03	0.10	0.17	0.07	0.10
Creative ability – Cannes (**)	0.30	0.94	2.00	2.82	5.23	6.57	1.22	4.12
International experience – share revenues	0.27	0.25	0.26	0.32	0.40	0.30	0.27	0.29
International experience – years overseas (*) (**) /a	8.20	7.31	16.41	24.35	35.3	23.19	12.68	18.73
Marginal profitability	.06	.02	.08	.07	.07	.04	0.07	0.03
Employees quality - Salaries (***)	-0.22	2.82	0.28	2.39	2.03	2.38	0.05	2.54
Employees quality - Income/employ ($)	126,886	83,321	370,337	579,114	133,640	89,352	259,677	440,501
Scope	0.77	0.17	0.77	0.16	0.78	0.17	0.77	0.16
Size (**) mil. $	44,208	68,293	162,433	421,285	486,895	387,738	108,695	313,999
N	10		12		13		22	

ANOVA test between the three countries and t-test Europe and the US:
(*) Significant at .00
(**) Significant at .01
(***) Significant at .05

With one exception, the results of the two test were similar, and the level of significant reported in the first column of table 4 refers to both tests.
/a between the three countries and Europe/US respectively.

By share of revenues of the top 50 worldwide



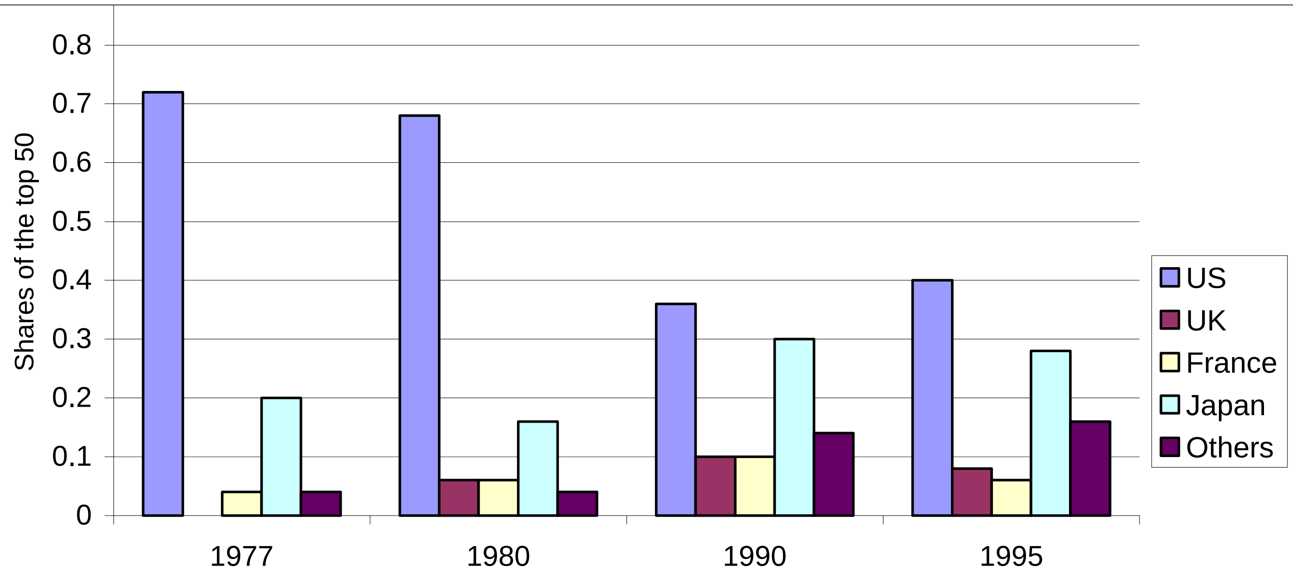
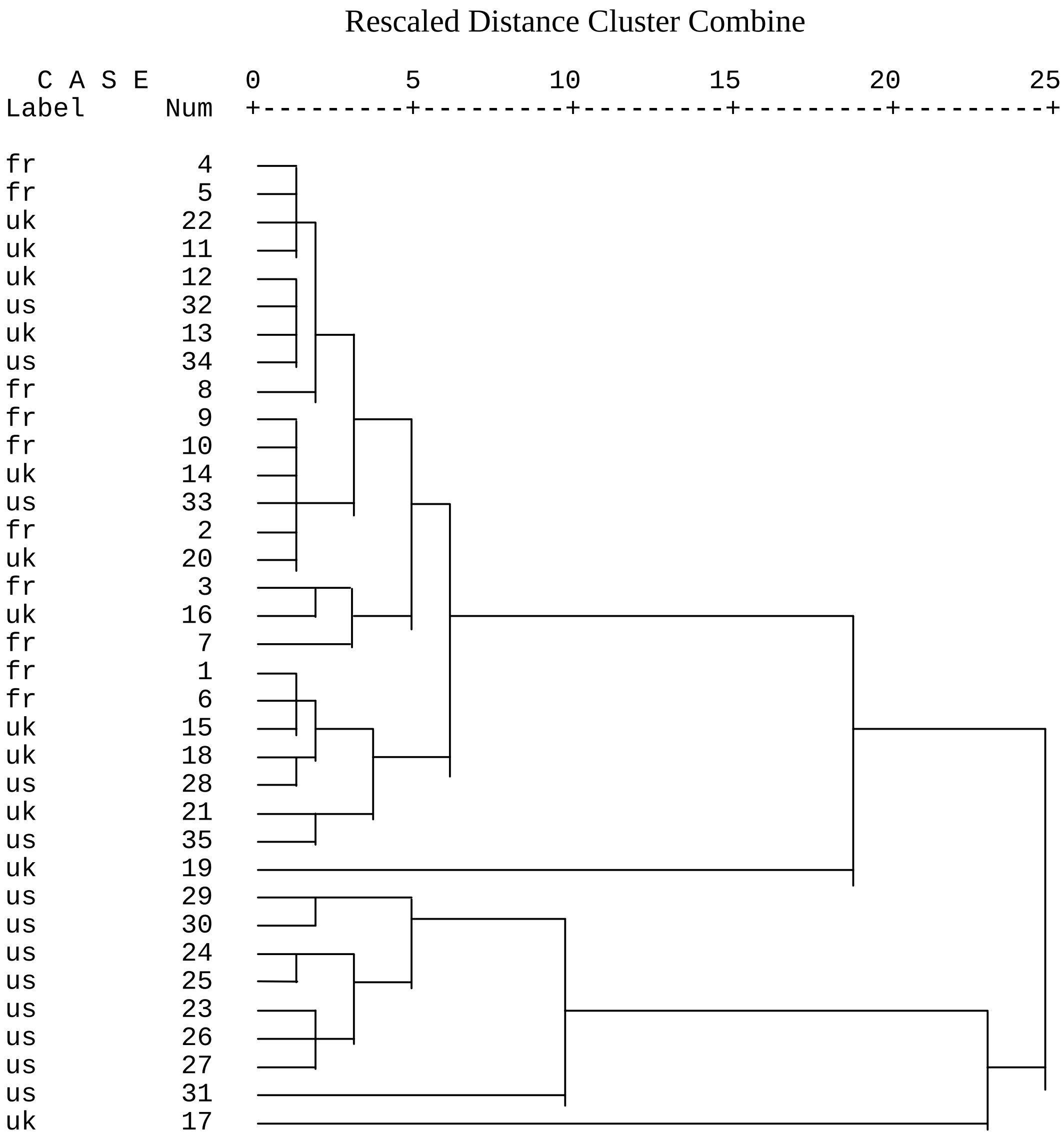


Figure 2. Hierarchical Cluster Analysis

Dendrogram using Average Linkage (Between Groups), Euclidean distance.



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