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Home Country Advantage, Ownership Advantage and Transnational Advertising Agencies: Implications for Media Companies

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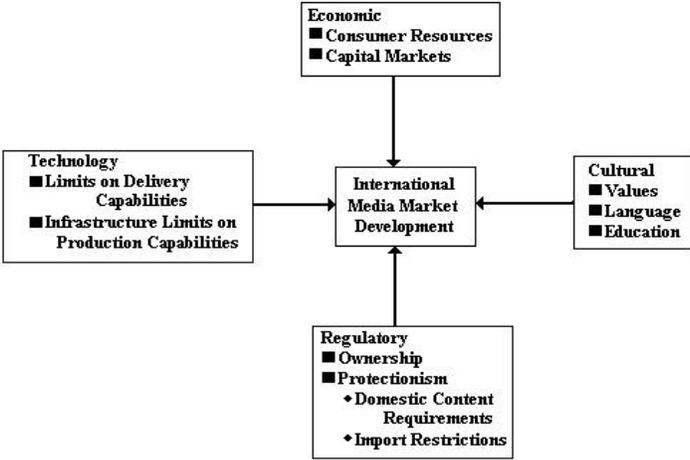
This study draws on data from the performance of the largest global advertising agencies to examine issues related to home country advantage and transnational competitive strategy. It examines the impact of home country assets in human resources, economic resources, import/export activities, domestic industry strength, national quality image, technological infrastructure and media abundance on economic performance and success in foreign markets. Suggestions are made for applications to other mass media industries.

Transnational media companies are a relatively recent development in mass media and relatively little attention has been given to the issues affecting their competitiveness. This study focuses on the impact of home country advantage and foreign direct investment strategies on the competitiveness of advertising firms venturing into foreign markets. Drawing on the performance of the largest transnational agencies over an 11-year period, it seeks to identify some of the important sources of location advantages.

Factors Affecting the Development of International Media Markets

Four kinds of factors have historically restrained the growth of international media markets. (See Figure 1) Limited economic resources (both consumer discretionary income and inadequate or non-existent capital markets in much of the world) presented little incentive for firms to cultivate many markets. Cultural issues—including social or religious values, educational levels, and language barriers—reduced the foreign marketability of much media content created for domestic audiences in media-rich countries. Regulations restricting ownership of newspapers and broadcast outlets posed a barrier to direct investment, as did protectionist rules mandating domestic production requirements and import restrictions. Technology imposed additional barriers where insufficient infrastructure existed to meet the production and distribution needs of media content producers.

Figure 1: Influences on Growth of International Media Markets



Not all media, of course, have been affected to the same degree by these barriers. Book publishing, for example, was less affected by technology and regulatory factors than by economic and cultural issues. Broadcast media were, perhaps, the most severely affected by all the limiting factors. Advertising firms have been perhaps the least affected.

The parameters, however, are shifting. Albarran and Chan-Olmsted (1998) identified a number of global trends reducing the inhibiting influence of these constraints. They include a reduction of trade barriers, movement toward deregulation, increasing sophistication of media infrastructure in less developed countries, the emergence of major media conglomerates actively interested in global markets, liberalization and privatization of formerly state-controlled media markets, increasing frequency of strategic alliances between local media firms and transnational media conglomerates, and the growth of the Internet and satellite services, potential delivery channels for a wide variety of media content.

The Nature of Home Country and Ownership Advantage

The characteristics of a firm’s home country have been shown to be key determinants of the firm’s competitive capabilities in international markets (Porter, 1990; Pauly and Reich, 1997; Nachum, 1999). Home country or location advantage is strongest for firms that perform value-added operations in their home country and export goods to foreign markets. Examples of this in media industries include the producers of recorded music and most television programming. A large domestic market and other technical and economic advantages allow the creation of a variety of content that can be successfully and profitably exported to smaller international markets.

The impact of location advantage weakens, however, as firms shift increasing amounts of their value-added process to foreign subsidiaries (Cantwell, 1990) or if foreign competitors gain access to their home market. As location advantages decline, ownership advantages—based on home-country resources—may continue to influence the firm’s competitiveness in international markets (Hymer, 1976; Nachum, 2000). As location advantage declines, Foreign Direct Investment theory (FDI) suggests that firms may be able to maintain competitive ownership advantage by leveraging abundant resources and favorable institutional structures in their home country that may not be available to competitors in other countries (Dunning, 1996; Zaheer and Zaheer, 1997; Nachum, 1999).

Nachum (1999) identifies four possible outcomes in the struggle for competitive advantage. If firms are dominant enough in their domestic market to erect effective barriers to entry by foreign firms,

both location and ownership advantages are sustained. If they are unsuccessful in preventing other firms from gaining home country entry, their advantage may decline but they may maintain their ownership advantage through foreign investment. In this instance, they will face a significantly more competitive marketplace because they no longer have sole access to home-country resources. If firms fail to buttress their ownership advantage through foreign investment and remain focused on their domestic market, they may lose competitive strength and enter decline. Finally, if foreign firms succeed in accessing the resources of the advantaged country through foreign investment, they may succeed in undermining the competitive power of domestic firms.

Sources of home country advantage are varied and differ from industry to industry. Financial resources such as capital markets, institutional investment capability, and a strong domestic economy frequently provide competitive advantage. Sound governmental, technical and legal infrastructures and human resources, such as a skilled and available workforce, may play important roles. Cost advantages due to technology or the easy availability of raw materials are factors in many industries. One potential home country advantage that has been studied by marketers but has drawn relatively little attention from economists is the impact of national image on consumer behavior in international markets. Jaffe and Nebenzahl (2001) describe national origin images as complex and susceptible to change, but note that a series of surveys in the 1990s sponsored by organizations as diverse as The U.S. Federal Trade Commission, the Australian Federal Government, and the International Mass Retail Association provide compelling evidence that national image does impact consumer choices, though the effect appears to be more pronounced for durable goods than for soft goods. Nebenzahl and Jaffe (1993) attempted to monetize the impact of country image and found pricing and demand elasticities tied to country of origin images.

Little effort has been made to identify the implications of home country advantage issues for media firms. One reason is that developments have occurred relatively rapidly. In the 1979 edition of *Who Owns the Media?*, Compaine cited 13 firms for dominance in two or more U.S. media segments. All were domestically owned. By the third edition of his book, published in 2000, the number of firms with dominance in two or more media segments had grown to 23, and seven of the firms were of foreign ownership. During the same period, a number of U.S. firms -- Time Warner, Disney, General Electric and others--were making investments in foreign markets. Another barrier to understanding is created by the structure of these firms—broadly diversified media conglomerates with complex internal relationships between business lines that can confound efforts to separate effects. For these reasons, it is suggested that assessing the impact of home country advantage for transnational advertising agencies may offer some insights transferable to other media organizations.

Although some research has been performed on location advantages enjoyed by advertising agencies, most notably by Nachum (1999), the research has tended to focus on agencies as service industries rather than as players in media markets. Several characteristics of the advertising industry appear to provide a basis for identifying implications for other media industries.

Advertising essentially functions through the generation of mass media content. It faces cultural barriers similar to those encountered by other media content providers and must adapt successfully to succeed in foreign markets. Economic issues, too, are similar. The advertising industry requires a relatively well-developed industrial and consumer society to achieve and maintain profitability. Technology and media infrastructure are as important to the successful delivery of commercial messages as they are to delivery of other media content. The advertising industry, however, enjoys the advantage of significantly lower regulatory barriers to entering new markets than most other media firms have traditionally faced and has, therefore, evolved a transnational structure more rapidly.

The advertising industry is also in a complex situation with regard to leveraging location and ownership advantages. While able to draw on home country capital markets and utilize some technological and creative resources for business activities in foreign markets, the need to address cultural nuances effectively means that a significant portion of operational and content decision-making must be delegated to foreign subsidiaries, diluting home country advantages.

In a study of transnational advertising agencies, Shaver and Shaver (2003) identified statistically significant relationships between home country advantage and the companies' operating margin and percentage of international billings. Specifically, the country of origin accounted for 6 percent of the variance in operating margins and 10 percent of the variance in international billings. In that study, home country or location advantage was operationalized only by the identification of the country in which the firm was headquartered. The purpose of this study is to further that analysis by looking more closely at the relationship between key economic and human resource variables associated with the four primary markets in which the firms were headquartered to assess their impact and identify advantages that might be enjoyed by other media firms.

Research Questions

R₁: What economic, human and other resource variables appear to be most strongly associated with home country advantage for transnational advertising agencies?

R₂: To what degree does national image contribute to home country advantages for transnational advertising agencies?

The Sample and Methodology

The sample consisted of advertising firms identified by *Advertising Age* as one of the top 30 global firms during the years 1990-2000. Because some information was unavailable for some firms, particularly during the early years of the sample, the final data set consisted of 286 cases. All but 11 cases were headquartered in the U.S., Japan, Great Britain, or France. The 11 cases, which were located in several different countries, were eliminated from final analysis. Data on the firms analyzed were obtained from *Advertising Age*, corporate annual reports, Lexus Nexus, and Dow Jones Interactive.

The analysis used correlation and regression to identify the impact of specific home country characteristics on the operating efficiency measure of margins and on the percentage of non-domestic billings in the firm's revenue stream.

Operationalizing Variables

Human Resources

Five variables were combined into an index to capture measurements of the quality of workforce offered by the home country. Data on average years of educational attainment by adults (expressed as a percentage of 16), national spending on education as a percentage of GDP, and average annual percentage grown in the workforce were obtained from The World Bank (2001). Unemployment percentages and the size of the workforce relative to the largest workforce in the group were obtained from The World Factbook (2003).

Economic Resources

Three variables were combined to create a variable measuring the strength and size of home country economies. Calculations of the relative size of country GDPs were based on information from The World Factbook. Data regarding average annual growth in the GDP and in domestic investment were secured from The World Bank.

Export/Import Activity

The World Bank provided data on the average annual growth in exports and imports and on the average growth in Foreign Direct Investment. The World Factbook provided information that allowed the calculation of exports as a percentage of GDP. All four variables were combined into a single index.

Domestic Industry Strength

The relative strength of domestic advertising industries was determined by dividing domestic expenditures by total world expenditures. These data were obtained from Zenith Optimedia Group.

National Quality Image

A 1993 poll conducted by JMA Research Institute, Inc., and the Gallup Organization asked respondents from Europe, the U.S., and Asia to rate their quality image of other countries. The results were reported by Jaffe & Nebenzahl (2001) and served as the basis for constructing a quality image rating.

Technological Infrastructure

An index consisting of the number of landline phones, cellular phones, and computers per thousand people was used to operationalize the concept of technological infrastructure.

Media Abundance

Data from The World Bank were used to construct a measure of accessibility to media in each country based on the number of newspapers, radio sets, and television receivers per 1,000 population.

Dependent Variables

Two dependent variables were utilized. Economic efficiency was operationalized as profit margin. Success in foreign markets was measured by the percentage of the firm's total revenues that were derived from non-domestic activities.

Findings

A correlation analysis of the relationship between the home country indexes and operating margins, the measure of economic efficiency, indicated no relationship. Table 1 shows the results of the analysis.

Table 1: Relationship of Home Country Effects and Operating Margins

Independent Variable	Pearson Correlation	2-Tail Sig.	N
Human Resources	.041	.510	273
Economic Resources	.053	.390	273
Export/Import Activity	.089	.146	273
Domestic Industry Strength	.050	.420	273
National Quality Image	-.100	.103	273
Technological Infrastructure	.092	.132	273
Media Abundance	.069	.263	273

Correlation analysis did show a relationship between four of the independent variables and levels of international revenues, however. Table 2 illustrates the results.

Table 2: Relationship of Home Country Effects and Foreign Market Revenues

Independent Variable	Pearson Correlation	2-Tail Sig.	N
Human Resources*	-.176	.005	273
Economic Resources	-.080	.205	273
Export/Import Activity*	.789	.000	273
Domestic Industry Strength	-.106	.089	273
National Quality Image*	-.766	.000	273
Technological Infrastructure*	.315	.000	273
Media Abundance	.070	.268	273

* Significant at .05

Further analysis of the components of the indexes revealed correlations between four of the five elements of the human resources variable and international billings. Although the average educational attainment of adults was not related, levels of educational spending, unemployment, the relative size of the domestic workforce and the average rate at which that workforce grows were. Table 3 shows the findings.

Table 3: Relationship of Human Resources Components and Foreign Market Revenues

Independent Variable	Pearson Correlation	2-Tail Sig.	N
Average Adult Educational Attainment	-.119	.056	273
Average Domestic Unemployment Levels *	.323	.000	273
Relative Size of the Domestic Workforce *	-.223	.000	273
Education Spending as a Percentage of GDP *	.659	.000	273
Average Annual Workforce Rate of Growth *	.365	.000	273

* Significant at .05

Export/Import Activities factors also were positively and significantly correlated with transnational revenues.

Table 4: Relationship of Import/Export Activities Components and Foreign Market Revenues

Independent Variable	Pearson Correlation	2-Tail Sig.	N
Average Annual Growth in Exports	.550	.000	273
Average Annual Growth in Imports	.500	.000	273
Average Annual Growth in Foreign Direct Investment	.275	.000	273
Exports as a Percentage of GDP	.468	.000	273

* Significant at .05

The significant but negative correlation between the National Quality Image variable and foreign business activities could not be further analyzed because it had a single component. However, several possible explanations are immediately apparent. Jaffe and Nebenzahl (2001) note that images can change over time and that their role in consumer decisions can vary according to the nature of the product being considered. Since the survey was conducted fairly early in the period examined, it may be that views changed. It may also be true that the concept of quality in the minds of the respondents related more to durable goods than to the functions fulfilled by advertising agencies. Somewhat surprisingly, the strongest relationship in the technological infrastructure variable related to the number of telephones rather than the number of computers in use by the population.

Table 5: Relationship of Technological Infrastructure Variable to Foreign Market Revenues

Independent Variable	Pearson Correlation	2-Tail Sig.	N
Number of Cellular and Land Line Phones per 1,000 People	.387	.000	273
Number of Computers per 1,000 People	.023	.314	273

* Significant at .05

When stepped regression analysis was applied at the compound variable level, using only those variables that had correlated significantly, the Import/Export Activities variable appeared to provide sufficient explanatory power alone ($R^2 = .623$, $f=419.557$, $p<.001$) and the Human Resources, National Quality Image, and Technological Infrastructure variables were eliminated. When an analysis was conducted on the indexes that composed the Import/Export Activities variable, it was discovered that either the rate of growth of imports plus exports as a percentage of GDP or the rate of growth of exports plus exports as a percentage of GDP offered sufficient solutions as is shown in Table 6.

Table 6: Regression Solutions Using Import/Export Activities Indexes

Variable	R ²	R ² Change	F	2-Tail Sig.
Model 1: Average Annual Growth in Imports	.250	.250	84.737	.000
Model 1: Exports as a Percentage of GDP	.628	.377	213.105	.000
Model 2: Average Annual Growth in Exports	.302	.302	110.160	.000
Model 2: Exports as a Percentage of GDP	.608	.306	196.443	.000

When the other three compound variables with significant correlations were regressed, the National Quality Image variable demonstrated the greatest explanatory power, significantly overshadowing the Human Resource and Technology variables.

Table 7: Regression Solution Using Image, Human Resource and Technology Variables

Variable	R ²	R ² Change	F	2-Tail Sig.
National Quality Image	.587	.587	360.650	.000
Human Resource	.604	.017	192.823	.000
Technological Infrastructure	.628	.24	141.516	.000

Of the two remaining variables, Human Resource proved the more powerful.

Table 8: Regression Solution Using Human Resource and Technology Variables

Variable	R ²	R ² Change	F	2-Tail Sig.
Technological Infrastructure	.099	.099	27.894	.000
Human Resource	.446	.347	101.814	.000

Within the Human Resource variable, the percentage of GDP spent on education proved most important, followed by the relative size of the labor force.

Table 9: Regression Solution for Human Resource Index Variables

Variable	R ²	R ² Change	F	2-Tail Sig.
Percentage of GDP Spent on Education	.434	.434	194.778	.000
Relative Size of the Domestic Labor Force	.554	.120	157.426	.000
Average Annual Growth in Labor Force	.628	.073	141.516	.000

Discussion

The confounding role of the Import/Export Activities variable offers both insight and questions. Since the two indexes are highly correlated (.974, $p < .001$), it is likely that they are not independent variables but simply the expression of one or more as yet unidentified factors or forces that are driving increasing levels of international commercial activities. Even if they are not movers, however, their dominance suggests that those conditions that stimulate international trade act broadly across the economic system. That increases the importance of understanding more clearly how media organizations may be affected.

Although only a portion of the factors that may contribute to the development of advantages of location or ownership were operationalized for this analysis, the suggestion of some order does emerge from the data. It is clear that firms operating from countries where conditions encourage foreign operations benefit in some ways from their location. Whether this is due to infrastructure, legal considerations, financial/economic amenities, all of the above, or some other constellation of factors, is yet undetermined.

It is also clear that national image appears to affect the operations of transnational corporations. How this relationship works and how it can be turned to the firm's advantage is again an issue for additional research. Jaffe and Nebenzahl (2001) assert that national images can be managed in the same way that brand images are manipulated. If that is true, it represents a potentially powerful tool for creating the kind of management/home country advantage that cannot simply be accessed by direct foreign investment by competitors in other parts of the world.

The human resource issues raised by this analysis bring economics into social and political policy issues. While those who decry inadequate support for existing educational systems routinely argue that their nation's future is being damaged through neglect, developing the ability to monetize the impact of inferior educational institutions—and show dollar returns for investment through increased transnational competitiveness—could add a new dimension to an old debate. Equally complex is the finding that the size and growth rate of the workforce is positively related to generation of revenues from foreign markets. Most of the heated debates over immigration issues have centered around the impact on social and domestic economic institutions. A finding that there is also a positive effect on transnational competitiveness would add an entirely new set of issues.

The implications—and benefits—for media companies in generally in understanding how location/ownership advantage works—and can be managed—are significant. As noted above, most of the resources for creating home country advantage, no matter what the country, have been breached over the past 25 years through direct foreign investment. Whether it is Time Warner's CNN broadcasting to Japan, or Sony showing movies in Europe, or Bertelsmann selling books in the U.S., markets and access to resources are open to any firm with pockets deep enough to pay their way. The kinds of transnational competition that have already profoundly affected relatively unregulated media segments such as book publishers, video and recorded music content producers and the advertising industry will only deepen and spread as the changes predicted by Albarran and Chan-Olmsted and described above play themselves out in traditionally more protected markets.

Limitations

The data on which this analysis is based is limited in several dimensions. The number of firms included was drawn from *Advertising Age's* Top 30 list. A longer, more complete list of advertising firms operating internationally would add value to the conclusions. Additionally, needed information was simply not available for some years for some firms, resulting in their being dropped from the study. And, a longer time period of coverage would help to enrich the conclusions.

It's also clear that the measures used to operationalize some of the key concepts would benefit from further refinement. The Import/Export Activities variable is one example. Better measures—and perhaps more current data—would improve the National Quality Image variable. The Human Resource

variable probably needs additional measures to cover a wider range of workforce development issues. The Technology Infrastructure needs expansion and refinement.

Future Research

The issues of home country/ownership advantage are important to media firms that must increasingly compete on a transnational playing field. Previously, most of the research in this area has focused on manufacturing and, more recently, service firms. Although media companies frequently display some characteristics of both, they often do so in ways that make them poor fits for either category. Exploring these issues and assessing their implications for transnational competition offers a rich range of research opportunities.

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