THE EFFECT OF AGENCY CREATIVITY ON CAMPAIGN OUTCOMES

The Moderating Role of Market Conditions

Hairong Li, Wenyu Dou, Guangping Wang, and Nan Zhou

ABSTRACT: This study examines the effect of agency creativity on campaign outcomes as moderated by different levels of market dynamism and competitive intensity. Using data from matched interviews of advertisers and agency creative teams in China, the study reveals complicated relationships among agency creativity, market conditions, and campaign outcomes. The impact of agency creativity on campaign outcomes is positive but the impact of excessive creativity is negative, and agency creativity is more powerful in high rather than low competitive intensity and in low rather than high market dynamism. Theoretical and managerial implications as well as directions for future advertising creativity research are derived from findings of the study.

Creativity lies at the core of the advertising profession (Reid, King, and DeLorre 1998; Smith and Yang 2004; Vanden Bergh, Smith, and Wicks 1986; Zinkhan 1993). Creative advertising can provide a competitive edge for a brand, add to its value, and give it an advantage over its rivals in terms of more positive market response (Frazer 1983; Newman 1993). Researchers have explored various aspects of advertising creativity, such as definitions and measurement of creativity (El-Murad and West 2004; Koslow, Sasser, and Riordan 2003; White and Smith 2001); the relationship between myth and creativity (Johar, Holbrook, and Stern 2001) and between psychographics and creativity (Winter and Russell 1973); impacts of marketer characteristics and actions on agency creativity (Koslow, Sasser, and Riordan 2006); and links between creativity and risk taking by advertisers (West and Berthon 1997; West and Ford 2001 and by agencies (West 1999; West and Ford 2001). These studies have advanced our understanding of advertising creativity and many institutional and situational factors that may affect advertising creativity and its effects.

Agency creativity is an integral part of advertising creativity; it refers to the creative quality of agency teams in producing innovative ads (O’Conner, Willemain, and MacLachlan 1996; Smith and Yang 2004). Koslow, Sasser, and Riordan (2006) examined the influence of advertisers on the creativity of their advertising agencies and identified three ways in which advertisers can actively affect agency creativity: direction setting, resource allocation, and performance evaluation. Because creativity involves risks, researchers have explored agency creativity from the risk-taking perspective (Hill and Johnson 2004). West’s (1999) findings suggest that the characteristics of both the advertiser and the agency affect agency creative risk taking. West and Ford (2001) further investigated the relationship between agency creative philosophies and employee risk-seeking behaviors and found that personnel working in agencies with clear creative philosophies are more likely to take creative risks than those without such philosophies.

Despite the significant advances in advertising creativity research, little is known regarding the impact of agency creativity on campaign outcomes under different market conditions. The conventional wisdom is that creative ads result in better advertising effects (e.g., in brand recalls), but how the creativity of advertising agencies affects sales outcomes of specific campaigns has rarely been examined. As Taylor (2005) points out, “advertising studies have not been examining advertising’s contribution to successful strategic performance or to bottom-line measure of performance, such as profitability” (p. 11). His calls for studying the effect of advertising on campaign outcomes differs from testing the effect of creative ads on individual consumers in that the former involves the incorporation of the market context of advertising campaigns in the analysis. This kind of research is necessary as campaign outcomes become increasingly important for advertisers; many advertisers have begun compensating their agencies on the basis of market outcomes of their campaigns (Geist 2006; Spake et al. 1999). As a result, better knowledge about the agency

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creativity and campaign outcome relationship is especially valuable for advertisers and their agencies that jointly make strategic decisions (Low and Mohr 1999; West and Paliwoda 1996). To further our knowledge of advertising creativity, it is essential to examine the consequence of creativity at the market level.

Different market forces may jointly affect the creativity and outcome relationship. Two market factors of particular interest to advertisers and researchers are market dynamism and competitive intensity, which have received heightened attention in recent research of firm performance because of accelerated technology development and globalization of markets (Cui, Griffith, and Cavusgil 2005). For advertising agencies, market dynamism and competitive intensity constitute both market opportunities and challenges, and they are likely to moderate the impact of advertising creativity.

The purpose of this study is to examine the impact of agency creativity on campaign outcomes at different levels of market dynamism and competitive intensity. Specifically, it examines both the linear and nonlinear relationships between agency creativity and campaign outcomes by accounting for the possibility that excessive creativity may turn out to be counterproductive. In addition, we expand the scope of advertising creativity research by investigating the impact of agency creativity in the market context where advertising campaigns are developed and executed. To deal with such a broad and complicated issue, this study adopts a dyadic method in collecting data from multiple informants of advertisers and their agencies. The sophisticated study design is effective in terms of minimizing methodological concerns that are associated with survey research (Slater and Atuahene-Gima 2004). Finally, the study was conducted in China, one of the fastest-growing yet most turbulent and competitive advertising markets in the world (Prendergast, West, and Shi 2006), where the impact of agency creativity has never been examined but may have useful implications for multinational advertisers and advertising agencies in emerging markets.

In the following sections, we first discuss the theoretical concepts and hypotheses. We then describe a dyadic survey study conducted to test the hypotheses. Our analysis results largely support the research propositions that creativity has a nonlinear effect on campaign outcomes and that competitive intensity and market dynamism regulate this effect in different ways. We conclude with theoretical and managerial implications.

THEORETICAL BACKGROUND AND HYPOTHESES

This study takes a contingency perspective to examine the effect of agency creativity on campaign outcomes. The contingency perspective in management theory emphasizes that performance of a firm is reliant on the interplay of the firm's strategy and its external environment (Joshi and Campbell 2003; Oszomer and Prussia 2000; Wright and Ashill 1998). In his study of marketing control mechanisms, Jaworski (1988) defines environmental context as general situational circumstances of the marketing unit, which includes macro and operating environments. The macro environment is the national and global context of social, political, regulatory, economic, and technological conditions, such as market uncertainty and dynamism. The operating environment is the set of suppliers, customers, and other interest groups that the firm deals with directly, such as competitive intensity. In the international business setting, Cui, Griffith, and Cavusgil (2005) empirically test the impact of market dynamism and competitive intensity on a multinational corporation subsidiary's knowledge management capabilities and resultant performance. Their results indicate that both competitive intensity and market dynamism individually influence knowledge management capabilities. In advertising, Stanton and Herbst (2006) contend that market conditions may play a greater role in campaign outcomes than advertising creativity.

In this study, we examine how market dynamism and competitive intensity can moderate the effect of agency creativity on campaign outcomes. We speculate that competitive intensity may function to facilitate the impact of agency creativity on campaign outcomes because high competition requires greater product differentiation, which in turn demands creative advertising. On the other hand, market dynamism may hinder the impact of creative advertising on campaign outcomes due to the unpredictability of high market dynamism, which may blunt the power of creative advertising. Furthermore, market dynamism and competitive intensity may interact to regulate the effect of agency creativity. These effects are empirically examined in this study.

Agency Creativity

Advertising creativity is characterized by the process of developing and producing creative advertisements (El-Murad and West 2004; Reid, King, and DeLorme 1998; Sasser, Koslow, and Riordan 2007). It refers to either the creative quality of an advertisement as perceived by the target audience or the creative quality of an agency team that develops the advertising strategy and produces the actual ads, which we call "agency creativity" and is the focus of this study. Both types of creativity share key commonalities.

Smith and Yang (2004) identify divergence and relevance as two characteristics of advertising creativity and their conceptualization of determinants of divergence includes elements such as originality, unusual perspective, and provocative questions. Koslow, Sasser, and Riordan consider originality a key aspect of advertising creativity and operationalize it as being
"unexpected, different, novel and original" (2003, p. 105). They compared the perceptions of advertising creativity across different agency roles (creatives, account executives, media and researchers, and others) and concluded, "originality predicts subjective creativity consistently across all groups" (p. 108). Their study established originality as an essential dimension of advertising creativity.

Divergence and originality alone are not sufficient for advertising creativity, which also must be "relevant" (Smith and Yang 2004) or "appropriate" (Koslow, Sasser, and Riordan 2003) for the task at hand. Creative advertising must be able to communicate effectively and achieve the advertiser's goals efficiently. El-Murad and West (2004) argue that creativity in advertising is different from creativity in art; advertising creativity must achieve objectives set by others (i.e., advertisers), which is not necessarily the case for art. This study's conceptualization of advertising creativity as a two-dimensional concept consisting of originality and relevance is consistent with previous research (Amabile 1983; Lumsden 1999; Mumbford and Gustafson 1988).

"Effectiveness" as the third aspect of advertising creativity is also discussed, but is more controversial. Kover, Goldberg, and James (1995) note that advertisers tend to value effectiveness, usually measured by changes in awareness or sales, whereas creative people generally do not care much about these measures. Smith and Yang (2004) state that incorporation of the notion of effectiveness confounds advertising creativity with its consequences. They further argue that the reason researchers and practitioners are interested in advertising creativity is to use it as an explanatory variable of advertising effectiveness; as a result, making effectiveness part of creativity itself is to eliminate its usefulness as an explanatory variable. This study adopts this position because we believe that market conditions play important moderating roles in the impact of creative advertising on campaign outcomes. Therefore, to assess the moderating roles of marketing conditions in the impact of advertising creativity, we need to separate advertising effectiveness from advertising creativity. The basic proposition of this study is that the impact of advertising creativity on campaign outcomes varies in different market conditions.

Advertising Accountability

Recent industry trends call for an accountability from marketing that involves the assessment of the return on marketing investment in concrete business performance terms (Rust et al. 2004). For advertisers, the effect of advertising campaigns is often measured in terms of sales, and in many cases, agency compensations are associated with the outcomes of advertising campaigns. Performance-based compensations move the evaluation of advertising effectiveness from the message level to the campaign level. At the message level, advertising effectiveness is typically tested by audience recall, recognition, liking, and buying intent (Stewart and Koslow 1989). Moving beyond the message level, this study explores the impact of creativity on campaign outcomes because such effects have become key measures of return on advertising investment. Following Korgaonkar, Moschis, and Bellenger (1984), we define campaign outcome as the degree to which an advertising campaign has accomplished the sales objective from the client's perspective. Such an assessment can be either subjective on the basis of the client's perception or objective on the basis of the goal that is specified contractually.

While it is advantageous for advertisers to use sales as the primary criterion of campaign outcome, we should note that advertising is only one of several factors that affect the sales. As Dutka states, "Many variables intercede between an advertising-induced positive disposition on the part of a consumer to buy a product (which advertising may have helped induce) and its actual purchase" (1995, p. 11). In addition to market dynamism and competitive intensity, which are elaborated on later, an advertiser's other elements in the marketing mix, such as product quality, product life cycle, price, distribution, and target market likely combine to mediate the impact of advertising on the outcome of an advertising campaign (Vakratsas and Ambler 1999). Media mix, ad repetition, and length of ad placement also affect the impact of advertising (Tellis et al. 2005; Tellis, Chandy, and Thaivanich 2000). As a result, the relationship between advertising and sales cannot always be assumed to be direct and linear (Dutka 1995).

Creativity and Campaign Outcomes

With the complicated relationship between advertising and sales duly emphasized, we are ready to explore the relationship between advertising effectiveness and advertising creativity. Researchers agree that the most important and irreplaceable driver of advertising effectiveness is advertising creativity (Stewart and Furse 1986; Stewart and Koslow 1989). Advertising creativity can make the focal product stand out from the crowd and is instrumental in enhancing sales (Ang and Low 2000; El-Murad and West 2004; Koslow, Sasser, and Riordan 2003). The impact of advertising creativity may be more intricate than it appears to be, however, in that creative ads may not always result in the intended outcomes for various reasons (Broadbent and Colman 1986; Stewart and Furse 1986; Stewart and Koslow 1989). We further argue that "excessive" creativity may even lead to decreased return on advertising investment in terms of sales. Advertisements that are too novel and original may score better in recalls, but not in likability measures.

For example, Ang and Low (2000) found that unforeseen novelty accompanied by negative feelings tend to cause unfavorable attitudes toward advertised brands and to reduce
purchase intention. A case in point is the Cartoon Network’s Mooninutes Invading Boston advertising campaign, which strived for excessive creativity, but resulted in unexpected social consequences (van den Heuvel 2007). While research in this regard is conducted largely at the consumer level, it is logical to assume that such negative responses to advertised brands, when aggregated among target consumers, may translate into damaging impact on campaign outcome measures such as sales.

Considering the complicated relationships between advertising and sales and advertising effectiveness and creativity as previously discussed, we hypothesize:

H1: Agency creativity has a diminishing incremental effect, that is, (a) a positive linear effect, but (b) a negative quadratic effect on campaign outcomes.

Market Dynamism

Market dynamism refers to the degree of change, uncertainty and unpredictability of the external environment (Jaworski 1988; Miller 1983). In highly dynamic environments, the bases for competitive advantage, industry structure, and product performance standards are generally short lived because of rapid economic transitions, market reforms, and technological innovations (Li, Zhang, and Chan 2005). Consumer preferences and demands are rapidly changing and difficult to anticipate (Reid 2005; Rust et al. 2004).

This kind of market condition constitutes a real challenge for advertising agencies that develop creative strategies on the basis of their understanding of the marketplace and their perception of how consumers may respond to advertising campaigns. Given the difficulty in obtaining and comprehending market information in a highly dynamic environment, agency creativity may end up being misguided because creative teams may encounter difficulty in pinpointing a distinctive creative selling point. Not surprisingly, organizational researchers suggest that in a highly turbulent market, the firm’s strategic consistency may be more critical than swift adaptation to changing market conditions (Harris 2001). As a result, agency creativity may lose much of its power in a highly dynamic market due to the difficulty of focusing on the right creative challenge. Therefore, we hypothesize:

H2: The effect of agency creativity on campaign outcomes is negatively moderated by market dynamism such that the effect is stronger when market dynamism is low than when it is high.

Competitive Intensity

Competitive intensity refers to the degree of rivalry among firms producing products that are close substitutes (Porter 1980). In a highly competitive market, to differentiate their own products from those of competitors, advertisers must develop unique positioning strategies and formulate distinctive appeals for the target audience (Newman 1993). Marketing scholars posit that creative and differentiating advertising campaigns are valuable investments in marketing assets that can be leveraged to create brand equity, hence making the firm less vulnerable to competition (Rust et al. 2004). Because creative advertising can make products stand out and also help form a brand shield against competitive influence, we expect that the effect of agency creativity on campaign outcomes will be stronger in a more competitive market than in a less competitive market.

These two market conditions—market dynamism and competitive intensity—are likely to join forces in shaping the relationship between agency creativity and campaign outcomes. As previously discussed, high market dynamism means fast changes in market situations and the unpredictability of consumer needs and preferences. In this kind of market condition, the agency’s ability to develop creative ads is challenged. Thus, we suspect that in a highly dynamic market, even creative agencies are less capable of generating positive campaign outcomes, even if competitive intensity is high.

In comparison, when the market is highly competitive but less dynamic, agencies can better pinpoint customer needs and develop captivating advertisements. Because the differentiation and brand shield effects that are rendered by creative advertising are essential in a highly competitive market, agency creativity is likely to generate better campaign outcomes. Considering this possible interaction of market dynamism and competitive intensity, we hypothesize:

H3: There is a three-way interaction such that the positive effect of agency creativity on campaign outcomes is strongest when market dynamism is low and competitive intensity is high.

METHOD

Data Collection

The hypotheses of this study are tested with matched responses from advertisers and their advertising agencies in China. China is the setting of this study for two reasons. First, its advertising business has been continuously growing during the past two decades and is increasingly dynamic and competitive. Second, given the diverse types of agencies (e.g., multinational, state-owned, private) in the Chinese advertising industry (Pendergast, Shi, and West 2006), we anticipate that the level of agency creativity will vary considerably. An adequate level of variance in advertising creativity is essential for a robust test of our hypotheses.

A professional marketing research firm in Shanghai, China, was contracted for assisting with data collection. It first
compiled a list of advertisers who had entered their advertisements in the 2005 Great Wall Advertising Awards contest, the largest contest for advertising in China. The contest received approximately 3,000 entries, representing more than 2,000 advertisers and their agency teams. Excluding entries from government and nonprofit advertisers whose campaign outcomes were not necessarily product sales, there was a pool of 856 unique advertisers in the sampling frame. Interviews were conducted after the contest was completed.

To avoid potential method bias, this study used a multiple-informant, dyadic data collection method (Slater and Atuahene-Gima 2004), in which we recruited two respondents from each advertiser and one respondent from the advertiser’s agency. The research firm contacted each of the advertisers and its agency team individually and a total of 149 advertisers and their agency teams participated in the study, resulting in a response rate of 17.4%. Given the difficulties of obtaining full cooperation from paired advertisers and their creative teams, this response rate is reasonable. To check for nonresponse bias, we compared a sample of participating and nonparticipating advertisers. The analysis of variance test shows no significant difference between the two groups in terms of sales in the most recent year ($F = 1.21$) or number of employees ($F = 1.09$).

Similar to previous studies in China (Atuahene-Gima 2005), the interviews were conducted onsite. Among the four variables of this study, three (marker dynamism, competitive intensity, and campaign outcome) were measured in the advertiser survey and one (agency creativity) was measured in the agency survey. In the advertiser survey, the marketing director or manager was interviewed as the first informant, who then recommended a knowledgeable colleague as the second informant. The interviewer surveyed the two informants independently. To ensure the response quality of the two informants, the interviewer asked each informant about his or her level of involvement with the advertising agencies and the campaign development processes. Response categories ranged from 1 (not involved at all) to 7 (highly involved). The means of each pair of informants for the two measures were 5.57, 5.60 and 5.48, 5.59, respectively, indicating no significant difference in involvement between the paired informants. On the agency side, one person in charge of the overall creative process for the advertiser’s campaign was interviewed. In most cases, this person was the lead member of the creative team for the campaign.

The survey instrument was drafted first in English and then translated into Chinese by a bilingual researcher fluent in both English and Chinese. A standard backtranslation procedure was applied to ensure its accuracy. Finally, ambiguities in questions were identified and eliminated through pretests of 15 marketing managers and 15 agency team leaders before the questionnaires were finalized.

Variable Measures

Our measures of agency creativity are adopted from Koslow, Sasser, and Riordan’s (2003) study and consist of six items: three items on originality and three items on relevance/appropriateness (see Table 1). They are used with advertising agencies. Measuring agency creativity with agency teams is a unique advantage of our study design because creative work is professional in nature, often opaque to the advertiser, and therefore difficult for advertisers to judge accurately (Sharma 1997). Thus, measuring agency creativity with creative teams can produce more reliable responses. Although Koslow, Sasser, and Riordan (2003) find some level of interaction between originality and appropriateness for one segment of their respondents (i.e., those currently in creative positions), the effects of originality and appropriateness on creativity across all respondents are mostly main effects. We therefore take an additive approach in constructing our creativity scale by averaging the subtotals.

Campaign outcomes was measured with advertisers and consists of four items adopted from Korgaonkar, Moschis, and Bellenger (1984). Prior research has shown that subjective measures of performance correlate well with objective measures of performance (e.g., Powell 1992). Besides, our use of perceptual measures of performance is consistent with other research in China where actual data on performance was deemed difficult to obtain (e.g., Ambler, Styles, and Wang 1999). Market dynamism and competitive intensity were also in the advertiser survey, each consisting of three items adapted from DeSarbo et al. (2005). Response categories for all measures ranged from 1 to 7. Descriptive statistics and correlations among the measures are presented in Table 2.

In addition to these four variables, we included a set of control variables, such as client size, past cooperation between the advertiser and agency, and the agency’s creative philosophy, all of which were used in regression analyses.

ANALYSIS AND RESULTS

Data analysis was conducted using multivariate moderated hierarchical regressions (Aiken and West 1991). Before testing the hypotheses, we examined measurement dimensionality and reliability of the construct scales with exploratory factor analysis and reliability analysis. A principal component factor analysis with varimax rotation extracted a clear four-factor structure with 66% variance explained. All items loaded on their respective factors and no significant cross-loadings were detected, suggesting unidimensionality of the construct scales (see Table 1). The Cronbach’s $\alpha$ estimates for scale reliability ranged from .86 to .92, above the recommended .70 level. Each scale was summed and then standardized to create a single measure for each construct. Standardization
### TABLE I
Measurement Scales and Factor Loadings with Varimax Rotation

<table>
<thead>
<tr>
<th></th>
<th>Agency creativity</th>
<th>Market dynamism</th>
<th>Competitive intensity</th>
<th>Campaign outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. suitable for the advertiser</td>
<td>.756</td>
<td>.076</td>
<td>.097</td>
<td>-.018</td>
</tr>
<tr>
<td>b. appropriate for the campaign</td>
<td>.735</td>
<td>.214</td>
<td>-.065</td>
<td>.190</td>
</tr>
<tr>
<td>c. based on a good creative strategy</td>
<td>.643</td>
<td>.143</td>
<td>-.101</td>
<td>.357</td>
</tr>
<tr>
<td>d. commonplace (reverse coded)</td>
<td>.671</td>
<td>-.134</td>
<td>.022</td>
<td>.146</td>
</tr>
<tr>
<td>e. novel</td>
<td>.806</td>
<td>-.004</td>
<td>-.041</td>
<td>.135</td>
</tr>
<tr>
<td>f. different from others</td>
<td>.832</td>
<td>-.068</td>
<td>-.022</td>
<td>.134</td>
</tr>
</tbody>
</table>

With regard to the market environment that coincided with your advertising campaign, it could be judged as ...

|                      |                   |                 |                      |                  |
| a. consumer preferences were changing rapidly | -.032             | .831            | .222                  | .048              |
| b. consumers were looking for new products | .117              | .797            | .235                  | .049              |
| c. consumer needs were changing rapidly | -.043             | .771            | .339                  | .219              |

With regard to the competitive environment that coincided with your advertising campaign, it could be judged as ...

|                      |                   |                 |                      |                  |
| a. competition was cutthroat | .137              | .299            | .797                  | .067              |
| b. many “promotion wars” existed in the industry | -.023             | .335            | .801                  | .052              |
| c. price competition was intense | .151              | .276            | .805                  | .052              |

With regard to the outcomes of your company’s advertising campaign, it can be concluded that the campaign ...

|                      |                   |                 |                      |                  |
| a. increased sales | .053              | .058            | .209                  | .750              |
| b. enhanced brand image | .046              | -.019           | .009                  | .746              |
| c. improved market share | .280              | -.140           | -.168                 | .684              |
| d. was successful overall | .183              | .028            | .020                  | .734              |

helps minimize the multicollinearity problem associated with interaction and quadratic terms.

To test the hypotheses, we estimated a series of regression coefficients in three models using hierarchical regressions. We first regressed campaign outcome in Model 1 on a set of control variables including client size, past cooperation (0 = no, 1 = yes), and whether the agency has an agency-wide creative philosophy (0 = no, 1 = yes), based on West and Ford (2001). We then added agency creativity, market dynamism, and competitive intensity to Model 2. Finally, in Model 3, we added the quadratic term of creativity and added two- and three-way interaction terms to the model to test the curvilinear and moderation effects of creativity. The coefficient of determination increased from .07 for Model 1 to .22 for Model 2 and to .33 for Model 3, suggesting that agency creativity, market dynamism, competitive intensity, and their interactions contributed significantly to explaining the variance in campaign outcomes. In Table 3, we present the standardized regression coefficients for the three models.

As the final model (Model 3, Table 3) shows, agency creativity has a positive linear main effect on campaign outcome (b = .38, t = 4.40, p < .01). However, the squared term of creativity has a negative coefficient (b = -.16, t = -2.11, p < .05, one-tail). These two findings lend support to H1a and H1b, which posit that agency creativity has a decreasing incremental effect on campaign outcomes.

H2 posits that market dynamism interacts with agency creativity such that the effect of creativity on campaign outcomes is stronger when market dynamism is low. In support of this hypothesis, we found a negative coefficient for market dynamism in the creativity interaction term (b = -.23, t = -1.91, p < .05, one tail).

H3 specifies a three-way interaction among agency creativity, market dynamism, and competitive intensity. The three-way interaction coefficient was statistically significant (b = -.15, p < .05). To facilitate interpretation, we plotted the regression slopes in Figure 1 based on the coefficient estimates from Model 3. The high and low levels of the explanatory variables were set at one standard deviation above and below the mean. We further used the t test method of Dawson and Richter (2006) to test the slope differences under high and low levels in two market conditions.

As Panel A shows, when competitive intensity is low, agency creativity has a positive effect on campaign outcome regardless of the levels of market dynamism. Although this effect seems greater when market dynamism is low, the t test for slope difference between high and low market dynamism was not significant (t = -1.02, p > .05). Panel B suggests that when
competitive intensity is high, agency creativity has a positive effect on campaign outcomes only when market dynamism is low. When both competitive intensity and market dynamism are high, agency creativity has almost no effect on campaign outcomes. The t test result shows that the slope for the high competitiveness and low market dynamism condition is significantly steeper than that for the high competitive intensity and high market dynamism condition (t = 2.36, p < .01). In other words, the effect is strongest when competitive intensity is high and dynamism is low, providing support for H3.

**SUMMARY AND DISCUSSION**

Using dyadic data collected from advertisers and their agency creative teams, this study explores the effect of agency creativity on campaign outcomes as well as the moderating role of environmental market conditions. Findings of the study have important theoretical and managerial implications for creativity researchers, advertisers, and advertising agencies.

**Theoretical Implications**

The theoretical implication for this study centers on the positive yet nonlinear effect of advertising creativity on campaign outcomes. Although creativity has been a key issue of advertising research for many years, most studies investigate its effect in terms of consumer-level responses rather than market outcomes in terms of sales, especially from the advertiser's perspective. Thus, by expanding the research scope to creativity outcomes, the study provides fresh evidence on whether agency creativity is indeed beneficial for generating sales outcomes (Kover, Goldberg, and James 1995). In addition,
FIGURE 1
Plots for Three-Way Interactions

Low Competitive Intensity

Agency Creativity

Panel A

High Competitive Intensity

Agency Creativity

Panel B

by detecting the diminishing return of excessive creativity on campaign outcomes, we offer a more balanced view of the creativity effect than previous research. We contend that the characteristics associated with creativity effect in this study are probably closer to reality than either an optimistic or pessimistic view regarding the effect of advertising creativity on campaign outcomes.

Another contribution of this study rests on the contingency perspective it adopts. While the contingency perspective on moderating roles of market conditions in the firm strategy-performance link is well established in the strategy field, it has been largely overlooked by advertising creativity research. That research has focused primarily on characteristics of advertisers, advertising agencies, and the relationships between the two. The introduction of the contingency perspective in this study is important because it helps incorporate factors that are germane to real market situations of advertising campaigns. The study thus represents a more realistic and accurate rendering of advertising creativity effects. For example, while creativity is generally constructive for generating positive campaign outcomes, our study results suggest that this effect may be lessened in dynamic conditions and augmented under...
competitive conditions. Had we not examined these market conditions, we would have had difficulty explaining why some advertising campaigns perform satisfactorily under certain market conditions but not under others.

To investigate advertising creativity effect from the contingency perspective, we further differentiated between the moderating roles of market dynamism and competitive intensity. This distinction is necessary because the two seem to exert influences through different mechanisms. Market dynamism is related more to the challenge in developing creative ads when consumer tastes and preferences are rapidly changing. Competitive intensity, on the other hand, is concerned more with the ability of creative ads to make products stand out and build brand equity to shield products from competitions. By contrasting the influence mechanisms of these environmental factors, we have derived and confirmed an interaction effect between them. The finding that creative advertising functions better in low market dynamism is more pronounced in a highly competitive market than in a less competitive one. The implication of this finding for creativity research is that environmental factors set boundaries for the creativity effect; they each may play different roles and even interact with each other. Therefore, future studies on creativity effect should take into account the complex roles of environmental factors and explore the interactions of these and other market factors.

Managerial Implications

The results also offer useful guidelines for advertisers and advertising agencies. We provide evidence that creative advertising does matter and can deliver tangible marketing outcomes. Therefore, advertisers should take necessary risks in encouraging their agencies to develop innovative advertising campaigns. Accordingly, agencies should build creative capacities as their core competency and continue to hone their creative skills. On the other hand, the zest for creative advertising should be checked and balanced, as excessively creative advertisements may be counterproductive. Given that advertisers do not possess the same level of professional knowledge as agency creative teams, they may not easily discern the difference between creativity and excessive creativity. Therefore, agencies should share more of the responsibility and take the initiative to avoid the trap of being creative for its own sake.

Our findings on the moderating roles of environmental factors highlight the significance of environment scanning and monitoring in creative advertising. We recommend that advertisers and agencies refrain from chasing creative ideas without giving due consideration to market conditions. For example, a market characterized by high competitive intensity and low market dynamism (e.g., the grocery food market) would be an ideal context for creative advertising. On the other hand, for market conditions that are less conducive, such as high market dynamism and low competitive intensity (e.g., China’s mobile services industry), the best strategy for the advertiser and its agency is probably to stick to “tried-and-true” types of advertising or to consider other forms of promotions.

Following this line of reasoning, advertisers should be less demanding but more objective in assessing the effects of creative advertising. They should realize that the effects of creative advertising on campaign outcomes also depend on external environmental conditions, which are out of the control of both parties. Merely blaming agencies for disappointing campaign outcomes without accounting for environmental factors would demoralize agency creative spirit, and in the long run, damage the relationship between the advertiser and its agency.

Limitations and Future Research Directions

The above findings should be interpreted with caveats in mind, which point to future research directions. First, this study was conducted in China. While the high level of growth and relative novelty of advertising make China an ideal test bed for studying the relationship between advertising creativity and campaign outcomes, the findings about the moderating role of market dynamism and competitive intensity may not be representative of other markets. This limitation calls for validation studies comparing China with more mature markets such as the U.S. and European markets, preferably using objective measures where appropriate.

Second, our sample selection, in a country with a very dynamic and competitive advertising industry, may not be representative of the advertising business in other countries. In particular, given that the sampling frame consists of advertisers who entered their advertisements in a nationwide advertising contest, creativity levels of the firms studied may be higher than average advertisers. To be more generalizable, future studies should use a larger random sample of advertisers and compare results from samples in different countries. Third, while our findings confirm the notion that excessive creativity bears considerable risks, we did not attempt to quantify the limit of creative risk taking or the extremity of advertising creativity. We encourage interested researchers to explore this intriguing issue in greater depth.

Finally, the possibility of common method variance (CMV) exists for our study, as it is prevalent in almost all survey studies (Podsakoff et al. 2003). One key remedy to minimize CMV is to collect dependent and independent variables from different sources. We measured creativity (independent variable) from agencies and campaign outcomes (dependent variable) and environmental factors (moderating variables) from advertisers as a way to address this issue. In addition, we had two informants from the same advertiser company to minimize the common method bias among the dependent and moderating variables (Slater and Atuahene-Gima 2004). Yet the fact that we asked
the first informant to recommend a second informant in the same advertiser company might have introduced some selection bias. Selection of a second informant with similar opinions is possible due to implicit theories and illusory correlations that the respondents might hold (Podsakoff et al. 2003). Because our study focuses on the interactions between creativity and environmental contingencies, however, such complicated two-way and three-way interactive relationships are almost impossible for the respondents to comprehend or manipulate (Podsakoff et al. 2003). We believe that the possibility is minimal that common method variance arising from informant selection bias could distort the interaction findings. Nevertheless, future research in this area should strive to further minimize CMV.

Although we have discovered that the impact of creativity on advertising campaigns can be moderated by environmental factors, additional research is necessary to investigate the specific intervening mechanisms that may have contributed to this effect. In this regard, studies may consider using more complex designs in which market-level and consumer-level data are collected in tandem so that they can delineate how advertising creativity affects consumers and how these consumer-level influences are aggregated into sales outcomes in different market conditions.

In sum, advertising creativity is essential for generating positive marketing outcomes. The investment in developing creative advertising is well justified and should be actively pursued by both the advertiser and its agency. At the same time, it is significant to recognize that the power of creative advertising is influenced by market conditions and any valid performance metrics of advertising effectiveness should consider these environmental factors.

REFERENCES


Sasser, Sheila L., Scott Koslow, and Edward A. Riordan (2007), "Creative and Interactive Media Used by Agencies: Engag-
