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Marketing Analysis of the Higher Education Service Sector in Malaysia: Consumer Perspective

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ABSTRAK

Seperti mana organisasi servis yang lain, institusi pengajian tinggi mungkin mahu menyemak semula strategi pemasaran mereka supaya boleh bersaing di dalam pasaran masa kini. Adalah sangat penting bagi institusi pengajian tinggi untuk memahami tanggapan dan jangkaan pelajar-pelajar dan menterjemahkan pengetahuan ini kepada pembangunan aktiviti-aktiviti pemasaran yang boleh menarik dan mengekalkan pelajar-pelajar di institusi pengajian tinggi. Objektif kajian ini adalah untuk meneroka pandangan pelajar-pelajar tentang kriteria utama dalam membuat pilihan institusi pengajian tinggi. Temu ramah dengan 210 pelajar telah dijalankan di institusi pengajian tinggi awam dan swasta di Semenanjung Malaysia. Angkubah yang digunakan termasuk program akademik; staf akademik; kemudahan; harga; dan promosi. Data telah dianalisis menggunakan Analisis Faktor dan Perbandingan Min. Berdasarkan kajian yang telah dijalankan, pelajar-pelajar menganggap bahawa faktor personal (peluang pekerjaan, kursus yang disediakan, masa yang diperlukan untuk tamat pengajian, pengajian separa masa yang ada,dan nilai pasaran ijazah); kualiti akademik dan kemudahan yang ada (kualiti pengajaran, koleksi perpustakaan, reputasi institusi, kemudahan, struktur program); kampus (saiz dan rupa bentuk kampus); sosial (aktiviti luar, peluang bertemu rakan-rakan); dan bantuan kewangan serta prosedur (biasiswa/ bantuan kewangan, prosedur dan polisi); sebagai faktor penting dalam memilih institusi pengajian tinggi. Berdasarkan Perbandingan Min, angkubah yang mempengaruhi keputusan pilihan institusi mengikut kepentingannya adalah seperti berikut: kualiti pengajaran, reputasi institusi, reputasi ijazah yang ditawarkan, peluang pekerjaan, yuran pengajian, struktur program, masa untuk menamatkan pengajian,kemudahan, kursus yang disediakan, dan keperluan kemasukan.

ABSTRACT

Like many other service organizations, higher education institutions may want to review their marketing strategies in order to complete in the increasingly competitive market. It is crucial that higher learning institutions understand the perceptions and expectations of students and translate them into marketing activities that would attract and retain students. The objective of the reasearch is to explore student view on important criteria in selecting higher education institutions. Personal interviews with 210 student from both public and private higher learning institutions in Malaysia were carried out. Variables used include: academic programme, academic staff, facilities, pricing, and promotion. Data were analysed using Factor Analyis and Comparison of Means. Based on the study, students consider personal factors (job opportunities, availability of course, time required for completion, entry requirements, availability of part-time studies, marketability of degree); academic quality and facilities (quality of teaching, library collection, institution's reputation, facilities, programme structure); campus (campus size and layout, campus attractiveness, number of students); socialization (extra curricular activities, opportunity to meet friends); and financial aid & procedures (scholarship/financial aid, procedures and policies) as important criteria in selecting a higher learning institution. Based on Comparison of Means, rankings of variables influencing college choice decision by importance are as follows: quality of teaching, institution's reputation, marketability of degree, job opportunities, tuition fees, programme structure, time required for completion, facilities, availability of courses, and entry requirements.

INTRODUCTION

According to the Ministry of Education, the number of private higher educational institutions (PHEI) in Malaysia has increased to 415 as of June 1997 when compared to only 354 in 1996. These institutions offer pre-university courses, professional, semi-professional streams, and university courses in various disciplines. The enrollment in the private tertiary education in 1995 constituted around 25% of the total enrollment in tertiary education in local public and private universities. The demand for private higher education is expected to increase substantially in view of the significantly higher cost of education abroad and limited funding available to students.

Tertiary education is arguably a high-involvement product (Kolter 1976). For many students and their parents, it represents a substantial investment in monetary and temporal terms. Hence, prospective students and their sponsors would look carefully into the options available in the market. Educational marketers must therefore be able to answer these fundamental questions in their marketing attempts: why do students select a particular college or university from the large number of alternatives? In evaluating the many options available to them, how would students (and their sponsors) come to a purchase decision? On what criteria would they appraise their options? What are students' perceptions and expectations of Public and Private Higher Learning Institutions in Malaysia?

In light of these issues, the objectives of this study are:

1. To determine the criteria with which prospective students select the college or university of their choice.
2. To establish the rank of importance of the influencing factors in selecting a higher learning institution.
3. To recommend marketing strategies for higher education institutions based on the needs and wants of the customers.

LITERATURE REVIEW

Marketing of higher education institutions is moving toward student orientation. As competition among universities intensifies, a need for thorough understanding of the student perception is becoming more vital. Thus, the marketing of higher educational institutions is gaining more prominence among university administrators. In order to survive, these administrators need to understand how various student segments differ in their decision-making behavior (Coccari and Javalgi 1995). They also need to develop some degree of understanding on international students, and what these students will expect once they arrive in the Malaysian campus (Shank *et al.* 1996).

For service marketers, it is critical to understand which cues or attributes of the service offering are most valued in the decision-making process of current and potential customers. Students were found to select those colleges that match their selection criteria academically, socially, and financially (Brown 1991). Plank and Chiagouris (1998) reported that the choice of college to enroll depends on five components: i) academic programs offered, ii) leadership opportunities in college, iii) perceived good job after graduation, iv) financial aid, and v) value for money.

Webb *et al.* (1998) conducted a study suggesting ten criteria used by students in selecting a college namely i) academic programs available, ii) academic reputation of institution, iii) the marketability of the degree conferred, iv) faculty contact time, v) accreditation, vi) campus employment, vii) financial aid, viii) placement reputation, ix) completion time, and x) library size.

Seventeen college images were identified in a study using students at Ball State University (Brown 1991). These components were measuring the importance of each in predicting a student's selection of a college or university. They were as follows:

1. quality of education
2. recreational activities
3. educational facilities
4. faculty
5. advising
6. reputation
7. hospitality/friendliness
8. cost
9. job placement
10. physical attractiveness
11. social activities
12. campus organizations
13. convenient and accessible location
14. arts and entertainment
15. community surroundings
16. intercollegiate athletic facilities
17. intercollegiate athletics

Twenty-nine college image components were identified in a study of university students at the University of North Alabama (Absher *et al.* 1993). These components were further investigated by measuring the importance of each in predicting a student's selection of a college or university. Some of these factors include:

1. convenience and accessible location
2. types of academic programs
3. community in which college is located
4. overall quality of education
5. size of school
6. small size classes
7. faculty qualifications
8. low cost of attending school
9. availability of financial aid and/or scholarships
10. overall reputation of school

In a study on service quality in higher education, Joseph *et al.* (1997) found six factors to be important to students. They are programme issues, academic reputation, physical aspects, career opportunities, geographical location (of institution), and time (i.e. duration of studies). Plank and Chiagouris (1998) suggested that overall perceived quality of higher education is thought to have considerable impact on the decision making process to attend higher education institutions. It was found that a student's socio-economic background – such as family income; parental education, occupation, and encouragement aptitude and high school achievement-were directly related to college-aspiration formation.

METHODOLOGY

A survey was conducted through personal interviews, with students from both public and private higher learning institutions in Malaysia. The questions asked comprised a) respondent's personal characteristics, b) college choice decision factors, and c) institution's factors. The investigated variables include academic programme, academic staff, facilities, pricing, and source of information/promotion.

A total of 210 respondents, all of them full-time students enrolled in Malaysian public and private institutions of higher education were used in this study. The sample came mostly from eight institutions of higher learning, four of which were public universities and the other four, private institutions (Table 1). The

respondents were drawn from various ethnic backgrounds. The higher number of Chinese students were found due to the fact that they form the majority among students in private institutions. There was low participation from Indian students but it was reasonable and also reflects the demographic structure of Malaysian population.

TABLE 1
Respondents' profiles

Variables	Frequency (N=210)	Percent (%)
Institution		
UPM	35	16.7
UKM	20	9.5
UM	19	9.0
UTM	9	4.3
Other public colleges	1	.5
UNITEN	31	14.8
INTI College	36	17.1
Taylor's College	17	8.1
Stamford College	26	12.4
Other private colleges	16	7.6
Ethnicity		
Malay	60	28.6
Chinese	126	60.0
Indian	24	11.4
Age		
Below 18	8	3.8
18 and 19	65	31.0
20 and 21	87	41.4
22 and 23	33	15.7
24 and above	17	8.1
Monthly Family Income		
RM 1000 or less	27	12.9
RM 1001 – 2500	79	37.6
RM 2501 – 4000	52	24.8
RM 4001 – 6000	29	13.8
RM 6001 or More	23	11.0
Academic Qualification		
F5/SPM/O-Level	76	36.2
F6/STPM/A-Level	69	32.9
Diploma	42	20.0
Bachelors degree	13	6.2
Others	10	4.8

Comparison of means was carried out to establish the ranking of these factors according to students' point of view. Then, the factor analysis was used to determine the most important factors for students in selecting a particular college/university.

RESULTS

Variables Influencing College Choice

Comparison of means was carried out to establish the order of importance of the criteria when selecting higher learning institutions in Malaysia. Table 2 lists only the top ten variables that influence students' decision making. When making a selection, students appear to be very concerned about the quality of teaching, the institution's reputation, and the marketability of the degree with mean values of 4.55, 4.20 and 4.19, respectively. The lowest factor in the list was entry requirements with a Mean value of 3.86. The lowest ranking variable influencing institution choice with a mean value of 2.58 (not in table) was the availability of part-time studies. This supposedly did not concern the respondents, as they were all full-time students.

TABLE 2
Ranking of variables influencing institution choice decision by importance: top ten factors

Ranking	Variables Influencing institution choice	Mean value
1	Quality of teaching	4.55
2	Institution's reputation	4.20
3	Marketability of degree	4.19
4	Job opportunities	4.16
5	Tuition fees	4.11
6	Program structure	4.03
7	Time required for completion	4.01
8	Facilities	4.00
9	Availability of courses	3.99
10	Entry requirements	3.86

* Only top ten factors listed. Other lower ranking (i.e. less influencing) factors have been omitted.

Institution Choice Decision Factors

Table 3 indicated the factors affecting students' choice. Based on chi-square results, the findings show that four items were significant in affecting college choice decision. The four items were facilities, procedures and policies, entry requirements and extra curricular activities. Five characteristics were also found to be significant at 0.1 significant level. These factors were library collection, scholarship/financial aid, availability of courses, job opportunities, and availability of part time studies.

Institution's Factors

Factor analysis was used to analyse the interrelationships among the variables (college

TABLE 3
Chi-square results of college choice decision by various college characteristics

Characteristics	Chi-square	Significance
Institution's reputation	12.404	0.301
Library collection*	3.207	0.062
Facilities*	1.457	0.044*
Quality of teaching	9.356	0.202
Procedures and policies*	1.216	0.031*
Scholarship/financial aid*	1.947	0.096
Availability of courses*	1.835	0.076
Time required for completion	28.449	0.365
Tuition fees	9.748	0.146
Job opportunities*	4.374	0.074
Program structure	9.231	0.205
Entry requirements*	1.303	0.035*
Availability of part-time studies*	6.339	0.053
Campus location	5.366	0.145
Campus size and layout	14.659	0.252
Campus attractiveness	8.599	0.125
Number of students	15.189	0.205
Extra-curricular activities*	1.959	0.048*
Opportunity to meet friends	9.234	0.100
Marketability of degree	9.887	0.176

*Statistically significant factors

selection criteria). Through this analysis, five major components were extracted from the 20 variables. These components represent 60.19% of the variance. Only factors with eigen values of more than 1.00 were selected. Table 3.4 presents the five factor components as derived from the Varimax rotation method of factor analysis with each given an 'interpretative' name. Only sum of squared of more than .300 are considered.

Table 4 shows that the first institution choice decision factor has been named as "Personal factors" because the fact that every student has his/her own set of circumstances quite independent of others, hence the word 'personal'. There are 7 variables in this factor component, namely 'Job opportunities'; 'Availability of courses'; 'Time required for completion'; 'Tuition fees'; 'Entry requirements'; 'Availability of part-time studies'; and 'Marketability of degree'. In total, they account for 15.567% of the variance.

The second factor has been named as "Academic quality and facilities" to reflect variables such as 'Quality of teaching', 'Library collection', 'Institution's reputation', 'Programme

TABLE 4
Institution choice decision factors and variables

Institution choice decision factor	Institution choice decision variables
1. "Personal factors"	• Job opportunities • Availability of course • Time required for completion • Tuition fees • Entry requirements • Availability of part-time studies • Marketability of degree
2. "Academic quality and facilities"	• Quality of teaching • Library collection • Institution's reputation • Facilities • Programme structure
3. "Campus"	• Campus size and layout • Campus attractiveness • Number of students
4. "Socialization"	• Extra-curricular activities • Opportunity to meet friends
5. "Financial aid and procedures"	• Scholarship/financial aid • Procedures and policies

structure', and 'Facilities'. This second factor group explains 15.31% of the total variance.

The third group representing 12.71% of the variance, is named "Campus" as it contains variables such as 'Campus size and layout', 'Campus attractiveness', and 'Number of students'. The fourth factor, "Socialization" refers to extra curricular activities on the campus as well as the opportunity to meet friends. It represents 8.34% of the variance. And the fifth factor includes variables such as 'scholarship/ financial aid' and 'procedures and policies'. This explains 8.265% of the total variance.

CONCLUSION

The study aims to establish the important criteria for student selection when choosing a particular higher learning institution. Based on comparison of means, variables influencing college choice decision in order of importance are as follows: quality of teaching, institution's reputation, marketability of degree, job opportunities, tuition fees, programme structure, time required for completion, facilities, availability of courses, and entry requirements. From the factor analysis results, five factors were significant in their decision for selecting higher learning institutions:

• Personal factors (job opportunities, availability of course, time required for completion, entry requirements, availability of part-time studies, marketability of degree).
• Academic quality & facilities (quality of teaching, library collection, institution's reputation, facilities, programme structure).
• Campus (campus size and layout, campus attractiveness, number of students).
• Socialization (extra curricular activities, opportunity to meet friends).
• Financial aid and procedures (scholarship/ financial aid, procedures and policies).

The study also tested the hypothesis that students' perception of the characteristics of higher learning institutions influenced their choice of these institutions in Malaysia. It is established that, in order of importance, students consider quality of teaching, institution's reputation, marketability of degree, job opportunities, and tuition fees to be most important in making decisions before they actually select a higher learning institution.

University and college authorities must be aware of the requested student's needs and students' selection criteria. College and universities should strive to ensure that students are given a holistic educational experience and

not just paper qualification. In doing all these, higher learning institutions must deliver quality services that will serve the needs and expectations of students.

Using the criteria mentioned above institutions of higher education could revise their strategy in marketing services. Higher institution administrators and policy makers can now check how far they are providing their services in terms of customer orientation. With current strategies, are they serving the needs of students (and in most cases their parents and sponsors)? What areas should they improve in order to provide better education for future generations? Findings from the study can help policy makers and administrators of public and private institutions develop a better marketing strategy in attracting and retaining students.

Thus, several marketing strategies for the higher learning institutions in Malaysia are recommended:

1. To serve the customers' needs, the quality of teaching, institutions' image and campus surroundings must be considered by college operators in order to attract students.
2. Holistic exposure – offer unique experience to students. This includes a chance to meet a wider spectrum of students, especially those from other faculties and to take part in a whole range of college activities. This is especially lacking in private institutions. As indicated in the survey, opportunities to meet friends and to take part in extra-curricular activities feature strongly in students' college choice selection. Thus, when attempting to attract students to enroll, public and private institutions should publicise social or charitable events designed for them such as sports carnivals, charity sales, blood donation campaign, etc.
3. Image and reputation – promotion should be targeted to relevant groups such as the students, and their friends and families.
4. Information dissemination – TV, radio, education fairs, nationwide tours by institution representatives, etc.
5. Facilities – the increasing use of multimedia technology and/or information communication technology in all aspects of education service delivery.
6. Academic staff – emphasis on recruiting and training high caliber staff with extensive background in research, and business experience.

Future studies should use focus group or in-depth study to probe into the 'marketing thinking' of the institutions. Researchers could also consider looking into other aspects of a student's decision making process, such as personal factors, family background, academic achievements, etc. Another issue that is worth exploring is the relationship between college choice and post purchase behaviour, academic achievements, and satisfaction levels.

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Foreign Consumer Perception of Tourism Services

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ABSTRAK

Kajian ini menilai tanggapan pelancong terhadap kualiti perkhidmatan di dalam sektor hotel, restoran dan pengangkutan. Keputusan analisis menunjukkan bahawa kriteria tanggapan pelancong terhadap kualiti perkhidmatan bagi penginapan ialah: Layanan pekerja, kualiti bilik penginapan, kemudahan dalam melakukan urusan perniagaan, keselamatan Makanan yang bernilai serta memadai, dan lain-lain kemudahan. Dimensi tanggapan pelancong terhadap restoran adalah: Kualiti serta penghidangan makanan, lokasi dan kemudahan pengangkutan, dan Layanan dan reka bentuk restoran. Bagi dimensi yang berkaitan dengan pengangkutan, faktor-faktor yang telah dikenal pasti ialah: kualiti sistem pengangkutan, kemudahan untuk mendapatkan perkhidmatan pengangkutan, dan layanan pekerja. Melalui analisis regresi, faktor-faktor yang penting dalam mempengaruhi kepuasan pelancong telah dikenal pasti. Akhir sekali, kajian ini telah memberi cadangan tentang isu-isu yang perlu dipertimbangkan demi memajukan lagi sektor pelancongan.

ABSTRACT

This paper performs an assessment of tourists' perception towards services associated with lodging (hotel factors), dining (restaurant factors), and transportation (transportation factors). The results of the empirical analysis suggested that these are the underlying dimentions held by the tourists: (1) Hotel factors - Staff service quality, room quality, business services, security, value and food quality, and general amenities, (2) Restaurant factors - serving and food quality, accessibility, and general service and layout design, and (3) Transportation factors: system quality, accessibility, and staff service quality. By linking these factors with tourists' overall satisfaction level, those factors that significantly contribute to better travelling satisfaction have been identified. In addition, this paper provides information on level of service performance, and sheds light on areas that present great potential in retaining and attracting tourists.

INTRODUCTION

Today we can see the tremendous growth in the number of international travellers surfing all over the world. Based on the statistics compiled by the World Tourism Organisation (WTO), the number of international tourists has dramatically increased from 327.1 million in 1985 to 698.3 million in 2000. Also from the same source, the world international tourism receipts have jumped from USD 118.1 billion in 1985 to 476 billion in 2000. The surge of outbound travelling has transformed the tourism industry in most developing countries from a cottage industry to a lucrative foreign exchange earner. In other words, tourism industry is the only service sector that presents similar trading opportunities for all countries, regardless of their level of development (Diaz 2001).

This remarkable surge could be attributed to the long economic boom of developed and developing countries starting from the 1990s. Report by World Trade Organisation on tourism services has noted that the increase in global wealth has stimulated higher levels in tourism demand (World Trade Organisation 1998). Another factor that has contributed to the enormous growth of outbound travellers is the expansion of MNC operation. As the scale and

operation of many MNCs expand to countries abroad, outbound travelling of their personnel, and even chief executives, has become inevitable (The Economist 2001). WTO Secretary-General, Francesco Frangialli, pointed out that the surge of international tourists at the turn of the century, could also be due to the international occasions and sport events such as Summer Olympics, Expo 2000, etc (World Tourism Organisation 2001).

One of the main characteristics of the tourism industry is that its supply of products, tourism services, involves cross-border movement of consumers coming to suppliers (World Trade Organisation 1998). Although in most case the main concern of tourists lay on tourist destinations, the tourist destination is not confined to places alone. Mill and Morrison (1992) noted that these elements are the building blocks of tourist destinations: attractions, facilities, infrastructure, transportation, and hospitality. Laws (1995) considered those elements proposed by Mill and Morrison (1992) as secondary elements. Laws (1995) recognised these elements as the primary contributors to attractiveness of tourist destinations: climate, ecology, culture and traditional architecture. These primary factors are often the distinct characteristics of one country, and should be preserved and maintained in the course of tourism developments. On the other hand, the secondary factors become the major determinant in ensuring tourists' travelling satisfaction.

The secondary elements are produced jointly by different service sectors that are directly, or indirectly, supporting the tourism industry: hotel, restaurant, and transportation. One of the uniqueness of these service sectors, or tourism service providers (TSP), is that their product possesses these general characteristics, as opposed to the normal products (i.e. assets): *intangibility*, *variability*, *inseparability*, and *perishability*. The supply of services by TSP is not limited only to the contact personnel, but also include contact of customers with the physical environment, service systems, and other service customers (Stauss and Mang 1999). In other words, the TSP and the facilities they employ in the service delivery process determine the overall tourism performance in serving tourists' needs. Their level of performance could be judged through five service quality dimensions: *tangibles, reliability, responsiveness, assurance,* and *empathy*.

While good level of service is a must in attracting or retaining customers, a quality service could only be attained if it matches customer's perception of quality. This means that a service is considered to be of high quality only when the customer judges it so. Empirical analysis has suggested that considerable gap may occur between the service quality perceived between TSP and the customer itself (Camison *et al.* 1996). The role of customers is especially important for service evaluation because of their involvement in the service production process. Such participation in turn affects the customers' quality perception. Thus, asking tourists to express their degree of satisfaction towards attributes related to hotels, restaurants and transportation would provide inferences on the level of quality service performance of the TSP. This piece of information also reflects the general needs of tourists associated with hotel services, restaurant services, and transportation services. To sum, the findings of this study would provide information on:

1. The current level of service performance by TSP in fulfilling customers' needs and expectations, and

2. Which areas of operation they should act on so as to remain competitive, and better serve their existing customers and prospective ones.

The findings of this study would be beneficial to Malaysia that has great potential in the tourism industry. The weight of tourism industry in the coming Malaysia's Third Outline Perspective Plan reflects the importance of this particular industry in driving service sectors' growth. Various initiatives and plans are being formulated in order to expand the industry. Areas being considered include eco-tourism, research on travellers' characteristics and behaviour patterns, expansion of recreational and entertainment activities, human resource development and tourism education, regional co-operation among ASEAN countries, among others.

LITERATURE REVIEW

A large number of tourism researchers have been concentrating on investigation of hotel attributes, and its importance to the travellers. An extensive review by Choi and Chu (2000) has identified these important attributes from previous literature: "cleanliness, location, room

rate, security, service quality, and the reputation of the hotel or chain". Empirical analysis by Choi and Chu (2000) identified these seven hotel factors: "staff service quality", "room quality", "general amenities", "business services", "value", "security" and "IDD". In terms of importance, travellers survey by Ananth *et al.* (1992) have identified "price and quality" as the most important attribute, followed by "security" and "convenience of location". On the other hand, LeBlanc and Nguyen (1996) maintained that environmental cues are more useful in attracting new customers. The findings reported by Wong *et al.* (1999) indicated that employee related dimensions (i.e. behaviour and appearance) are more significant than the tangibles and reliability dimensions of hotel attributes.

In terms of restaurant attributes, Pizam and Ellis (1999) proposed three major groupings: "material product", "environment", and "behaviour and attitude". The first group covers items such as quality and price of F&B, portion size, range of tastes and textures, and availability of menu items. The second group comprises items such as cleanliness of restaurants, location and accessibility, furniture and fittings, noise level, availability of parking, and hours of operation. The third group comprises employee-related items such as friendliness, competence, courtesy, and professionalism. Koo *et al.* (1999), used nine restaurant attributes in their analysis: "location", "type of food', "variety of food", "uniqueness", car park", "price", "quality or taste of food", "decoration", and "service". Through their analysis, they have found that it is possible to segment the restaurant market based on customers' meal purposes (i.e. family meal, business meal, and tourists). With regard to the nature of the attributes, Cadotte and Turgeon (1988) have found that the following attributes of restaurants earn complaints more easily from customers: "availability of parking", "hours of operation", "traffic congestion", "noise level", and "spaciousness of the establishment". They also found other attributes where its unusual performance could earn compliments, but average performance or absence of it will not cause complaints: "clean and neat restaurant", neat employees", "ample portions", and "responsiveness to complaints".

Unlike hotel and restaurant attributes, relatively few research papers have addressed transportation attributes comprehensively. However, the importance of transportation attributes in promoting and supporting tourism industry should not be neglected easily. In Augustyn's (1998) point of view, "tourism generating area", "transit", and "tourism destination area" represents the three important components of tourism products at various stages of tourist purchase-consumption process. In Kozak and Rimmington's (1998) compiled list of tourist destination components, transportation-related factors are being included. In a recent study by Chen and Gursoy (2001), they discovered that different cultural experiences, safety, and convenient transportation have a positive relationship with tourists' loyalty towards destinations. Hence, the finding of this study on transportation attributes could provide more insight into the travelling dimensions perceived by tourists.

METHODOLOGY

The Instrument

Questionnaire survey technique was used in the data collection process. Two versions of self-administered questionnaires were used in the data collection process: Chinese version and English version. The questionnaire comprised two sections. The first section is designed to measure tourists' perception towards various dimensions of service performance in hotel services, restaurant services, and transportation services. Specifically, the samples were asked to reflect their degree of satisfaction in relation to the listed hotel attributes, restaurant attributes, and transportation attributes on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The list includes 29 hotel attributes covering areas such as: staff service quality, room quality, general amenities, business services, value, security, and IDD facilities. For restaurant attributes, 17 items covering the following aspects: location, layout design, customer service, and food and beverage quality. Finally, for transportation attributes, five dimensions described in 14 items were considered: staff service quality, accessibility, station quality, security, and others. The type of tourist destination is also listed in this section in order to obtain samples' perception and preferences in their choice of travelling destination. The respondents were also asked to indicate their overall satisfaction of Malaysia as a

tourist attraction compared to other Asian countries, using a 10-point scale with 1 (very not satisfied) and 10 (very satisfied). This response is used later in the regression analysis. The second section concentrates on capturing the samples' demographic and travelling characteristics. The questions asked in this section are gender, age, occupation, purpose of visit to Malaysia, and days stayed in Malaysia.

The Sample and Sampling Procedure

The samples used in this study were randomly selected from those international travellers whose departure was from the Malaysia Kuala Lumpur International Airport (KLIA) between 17 – 31 October 2000. A total of 506 sets of questionnaires were successfully collected, but only 483 sets of usable questionnaires were used in this study. For the definition of "traveller", this study followed those proposed by Ananth *et al.* (1992) and Choi and Chu (2000): "A traveller is any individual who is a temporary visitor, possessing a fixed place of abode, travelling in the expectation of business or pleasure, and staying overnight at a place other than his or her own, and involving an exchange of money". The characteristics of the respondents used in this study could be summarised as below:

1. Country of origin: Western (81%), Asian (19%)
2. Purpose of travelling: business (28.6%), vacation (54.5%), others (16.9%)
3. Age (years): below 25 (11.6%), 25-34 (39.3%), 35-44 (20.7%), 45-54 (16.8%), 55-64 (8.5%), over 64 (3.1%)
4. Travel arrangement: group-travel (12.9%), non-group travel (87.1%)
5. Length of stay (days): 1-10 (69.2%), 11-20 (18.2%), 21-30 (8.4%), 31 and above (4.2%)

Data Analysis

Before the mean score of the investigated attributes are assessed, the underlying dimensions perceived by tourists in term of hotel services, restaurant services, and transportation services must be identified. This piece of information would provide a more complete assessment on current service performance in each perceived dimension. Hence, the first step of the analysis was the principal component factor analysis, which was run separately on the hotel attributes, restaurant attributes, and transportation attributes. The orthogonal VARIMAX rotation

method was used in this study since it could produce clear factor structures with higher factor loading on the appropriate dimensions (Choi and Chu 2000). The VARIMAX rotation method is also recognised as the standard rotation method for factor analysis (Manly 1986; Ngai and Cheng 1997). The decision on the number of factors to be extracted from the analysis, was based on the criterion of "eigenvalue greater than 1". The eigenvalue is the total variance explained by each factor. After that, items were grouped to those components (or factors) where it had the highest factor loading score. An item would be removed if none of its factor loading is greater than 0.5. Then, the internal reliability of these factors was assessed using the Cronbach's alpha coefficient. This statistic measures the extent to which a set of variables is consistent in what it is intended to measure (Hair *et al.* 1998). Only those factors that have Cronbach's alpha value greater than 0.7 were considered as reliable, and retained in the following analysis (Hair *et al.* 1998).

In order to identify those factors that contribute to the tourists' overall satisfaction, three multivariate regression models were estimated. The dependent variable for these three models was the tourists' overall satisfaction of Malaysia as a tourist attraction compared to other Asian countries. The factors identified through the factor analysis would be used as the independent variables. Specifically, these three regression models were the interest of this paper:

$$O = C_1 + h_1H_1 + h_2H_2 + ... + h_nH_n \quad (1)$$
$$O = C_2 + r_1R_1 + r_2R_2 + ... + r_nR_n \quad (2)$$
$$O = C_3 + t_1T_1 + t_2T_2 + ... + t_nT_n \quad (3)$$

where O = tourists' level of overall satisfaction
h_i = beta coefficient for hotel factor H_i
r_i = beta coefficient for restaurant factor R_i
t_i = beta coefficient for transportation factor T_i
C_i = intercept

RESULTS AND DISCUSSION

Factor Analysis

The factor analysis results for the three tourism sectors are summarised in Tables 1, 2, and 3. Column "Mean" indicates the mean score for each item. Column "factor loading" indicates the degree of correlation between the item with

its associated factor. The grouping of attributes was based on its factor loading; an attribute is grouped to the factor that has the highest factor loading score. In other words, an item is grouped to the factor that it is highly correlated with. The column "communality" records the amount of variance an item share with all other items included in the analysis. Column "EV" represents the amount of variance accounted by each factor or component.

Hotel Factor

The principal component analysis with VARIMAX rotation of the 29 hotel attributes returned a factor matrix comprising seven factors, with 25 attributes falling under these factors (see Table 1). Four of the attributes have been omitted, as their factor loading is less than 0.5. The factor loading of those attributes listed under each factor was all greater than the minimum acceptable value of 0.5. All six factors account for 65.7% of the total explained variance. The internal reliability of each of the factor is considered reliable and consistent, as suggested by Cronbach's alpha coefficient value. The identified factors are interpreted as:

*   Staff service quality: this factor is associated with the staff's attitude when serving customers.

TABLE 1
Factor analysis results for hotel attributes

	Mean	F.L	Comm	C.A.	EV	V
Factor 1: Staff service quality	3.98			0.90	11.70	40.50
Staff provide efficient service	3.92	0.77	0.70			
Staff understand your request	3.68	0.76	0.64			
Staff are helpful	4.12	0.75	0.72			
Check-in/check-out is efficient	4.01	0.73	0.63			
Staff are polite & friendly	4.18	0.71	0.70			
Staff have multilingual skills	3.75	0.68	0.51			
Staff have neat appearance	4.17	0.62	0.62			
Factor 2: Room quality	3.95			0.85	2.40	8.20
Room is clean	4.06	0.75	0.77			
Good room temperature control	3.83	0.72	0.64			
Room is quiet	3.90	0.70	0.60			
Bed/mattress/pillow is comfortable	4.02	0.68	0.67			
Factor 3: Business services	3.46			0.95	1.50	5.30
Business meeting rooms are available	3.51	0.90	0.91			
Business facilities are available	3.52	0.90	0.91			
Secretarial service is available	3.35	0.86	0.84			
Factor 4: Security	3.72			0.75	1.30	4.40
Security personnel are responsible	3.76	0.76	0.71			
Loud fire alarms are reliable	3.40	0.72	0.64			
Safe box is available	3.99	0.66	0.63			
Factor 5: Value and food quality	3.77			0.79	1.10	3.70
Hotel's F&B is value for money	3.66	0.76	0.68			
Room is value for money	3.89	0.67	0.69			
F&B facilities are of great variety	3.73	0.54	0.58			
F&B facilities are of high quality	3.79	0.54	0.67			
Factor 6: General amenities	3.77			0.75	1.00	3.60
Wake-up call is reliable	3.72	0.67	0.54			
Valet/laundry service is efficient	3.67	0.67	0.63			
Information desk is available	3.88	0.59	0.60			
Room service is efficient	3.80	0.55	0.61			

Notes: (α =Cronbach's alpha, F.L = factor loading, comm = commonalities, EV = Eigenvalue, V = variance explained)

- Room quality: this factor refers to the hotel's performance in terms of providing room quality.
- Business services: this factor reflects the services hotels provide in supporting customers' business needs.
- Security: this factor is related to security features or facilities offered by the hotel.
- Value and food quality: this factor refers to aspects related to monetary value for the major services provided by the hotel, and its ability to provide quality food.
- General amenities: this factor deals with those secondary services provided by the hotel for the convenience of customers.

Restaurant Factors

The factor analysis on 17 restaurant attributes produced a factor matrix with 3 factors that possessed an eigenvalue greater than 1 (Table 2). The three identified factors represent 64% of the explained variance. None of the attributes are removed as their factor loading is greater than 0.5. The Cronbach's alpha coefficient for all three factors ranged from 0.78 to 0.92. These three factors are interpreted as:

- Serving and food quality: this factor reflects staff performance in their customer service, and the quality of food served.
- Accessibility: this factor explains whether the restaurants provide accessibility that is convenient to customers.
- General service and layout design: this factor covers the appearance of the restaurant in terms of layout design, and also provision of secondary or general services.

Transportation Factors

The VARIMAX rotation of the 14 transportation attributes indicates that three factors related to transportation could be derived (Table 3). The three factors accounted for 73.5% of the explained variance. The loading of the attributes for each factor ranged from 0.58 to 0.84, suggesting that these attributes are closely correlated with their respective factors. The Cronbach's alpha coefficient for the three factors is found greater than 0.70, implying substantial level of consistency among the attributes in each factor. The identified factors could be viewed:

- System quality: this factor covers issues related to the quality of the station, facilities, and value.

Table 2
Factor analysis results for restaurant attributes

	Mean	F.L	Comm	∝	EV	V
Factor 1: Serving & food quality	3.96			0.92	8.20	48.20
Server is willing to serve	4.00	0.82	0.80			
Server is polite & friendly	4.08	0.82	0.79			
Server provide efficient service	3.93	0.81	0.76			
Individualized serving	3.86	0.72	0.70			
Food presentation is good	3.97	0.61	0.66			
Food is tasty & delicious	3.97	0.59	0.71			
Food is in wide variety of choice	3.91	0.54	0.63			
Factor 2: Accessibility	3.92			0.78	1.50	8.70
Distributed all around & convenient	3.82	0.75	0.67			
Easy to reach	3.88	0.68	0.60			
Dining experience is value for money	3.97	0.66	0.55			
Payment through cash	3.99	0.64	0.47			
Factor 3: General service & layout design	3.75			0.85	1.20	7.10
Easy to access parking	3.44	0.79	0.65			
Handling of telephone reservations	3.48	0.66	0.46			
Easy entrance & exiting of restaurant	3.94	0.65	0.68			
Convenient & pleasant waiting area	3.81	0.64	0.69			
Easy movement in the restaurant	3.94	0.61	0.67			
Easy payment through credit card	3.90	0.57	0.40			

Notes: (∝ =Cronbach's alpha, F.L = factor loading, Comm = commonalities, EV = Eigenvalue, V = variance explained)

- Accessibility: this factor contains items explaining whether the transportation system provides sufficient reach of destination and places.
- Staff service quality: this factor covers items associated with staff behaviour during the service delivery process.

Regression Analysis

The factor scores derived from the factor rotation were then used to estimate the 3 regression models stated in the Methodology section. The estimated regression models are reported in Table 4. The Multiple R (or multiple correlation coefficient) indicates the degree of linearity between dependent variable with the independent variables (or factors). R square (or coefficient of determination) indicates the proportion of the total variation in tourists' overall satisfaction that is accounted for by the variation in the factors. The F-ratio explains whether the estimated regression model could have occurred by chance. All these statistical values represent the measure of goodness-of-fit of the estimated regression model. The "Variables" column lists out the factors that are being entered into the regression model. During the estimation process, all factors are put in the regression model. If the result suggests that some factors were statistically insignificant, these factors would be omitted and the regression model is re-estimated again using the retained factors. The process is continued until all factors in the regression model are statistically significant. The criterion of retaining a factor in the model is that the *p-value* for that factor must be less than 0.01. The "Beta value" column indicates the relative impact each factor makes on tourists' overall satisfaction levels. A higher beta value would mean that its associated factor is significant in influencing tourists' overall satisfaction, as compared to those factors that have lower beta value.

Regression Model for Hotel Factors

The results for Hotel Regression Model (see Table 4: Panel A) suggest that Staff service quality (beta = 0.599) is the most important factor in influencing tourists' overall satisfaction. This is followed by Room quality (beta = 0.394), Value and food quality (beta = 0.356), and General amenities (beta = 0.295). All these factors explained about 22% of the variation in tourists' overall satisfaction levels. The significant F-ratio

TABLE 3
Factor analysis results for transportation attributes

	Mean	F.L	Comm	$\propto$	EV	V
Factor 1: System quality	3.56			0.92	7.50	53.70
Convenient & pleasant waiting areas	3.81	0.84	0.80			
Fully facilitated	3.46	0.84	0.82			
User friendly facilities	3.51	0.84	0.82			
Environment is clean	3.52	0.81	0.75			
Security personnel are responsible	3.49	0.69	0.64			
Safety instructions are noticeable	3.43	0.68	0.64			
Easy ticket purchasing system	3.58	0.64	0.65			
Fare is reasonable	3.70	0.56	0.58			
Factor 2: Accessibility	3.61			0.87	1.50	10.80
High frequency of trips	3.57	0.85	0.80			
Wide area of trip travelling	3.65	0.82	0.78			
Punctuality of every trip	3.60	0.71	0.68			
Factor 3: Staff service quality	3.54			0.87	1.30	9.00
Driver drives safely	3.32	0.85	0.81			
Driver is responsible	3.51	0.82	0.84			
Driver is polite & friendly	3.78	0.62	0.68			

Notes: (α =Cronbach's alpha, F.L = factor loading, Comm = commonalities, EV = Eigenvalue, V = variance explained)

implied that the estimated model could have not occurred by chance.

Regression Model for Restaurant Factors

Observing the estimated restaurant regression model (see Table 4: Panel B), it is found that Serving and food quality (beta = 0.564) is the most important restaurant factor in determining tourists' overall satisfaction. The Accessibility (beta = 0.480) of restaurants to tourists was also found to be significant, although its relative importance is less than the Serving and food quality. The explanatory power of these two factors is quite weak; both factors accounted

only about 14% of variation in tourists' overall satisfaction. The model is however valid, judging from its F-ratio value.

Regression Model for Transportation Factors

The transportation regression model in Table 4: Panel C indicates that System quality (beta = 0.379) is the most prominent transportation factor when tourists' satisfaction is concerned. This is followed by the Accessibility (beta = 0.400) aspects of transportation, and Staff service quality (beta = 0.264) for transportation services. This model again suffered the same problem of restaurant regression model. The explanatory

TABLE 4
Regression results

Panel A: Hotel	Beta Value	Significance
Goodness-of-fit		
Multiple R	0.472	
R square	0.223	
Adjusted R square	0.215	
Standard error	1.570	
$F = 28.359$; Signif. $F = 0.000$		
Variables	Beta Value	Significance
Staff service quality	0.599	0.000
Room quality	0.394	0.000
Value and food quality	0.356	0.000
General amenities	0.295	0.000
Panel B: Restaurant		
Goodness-of-fit		
Multiple R	0.414	
R square	0.171	
Adjusted R square	0.167	
Standard error	1.620	
$F = 41.132$; Signif. $F = 0.000$		
Variables	Beta Value	Significance
Serving & food quality	0.564	0.000
Accessibility	0.480	0.000
Panel C: Transportation		
Goodness-of-fit	0.338	
Multiple R	0.114	
R square	0.107	
Adjusted R square	1.670	
Standard error		
$F = 17.046$; Signif. $F = 0.000$		
Variables	Beta Value	Significance
System quality	0.375	0.000
Accessibility	0.396	0.000
Staff service quality	0.264	0.002

power of this model is quite weak if compared to the one for hotel factors.

DISCUSSION

Based on the mean scores documented in Tables 1, 2 and 3, it appears that the overall service performance is considered acceptable in the eyes of tourists. This can be seen from the overall mean score that scored above 3.00. Nevertheless, there still lies room for improvement and enhancement of current service quality level.

Focusing on hotel factors, the *Staff service quality, Room quality, Value and food quality,* and *General amenities* are significant in influencing tourists' overall satisfaction. For *Staff service* quality, it is found that those items associated with staff's communication skills (staff understand your requests and are multilingual) need to be enhanced in order to serve tourists better. The staff's attitudes have been considered as courteous and helpful in fulfilling customers' demand. The *Room quality* is also found to be quite satisfactory in its cleanliness and environment. However, those services associated with provision of food and beverages have been perceived as less favourable compared with staff's attitude and room quality. The same thing happened on *General amenities.* It seems that the tourists would like a dining experience that is more value for money. Tourists also felt that there is a greater need for enhancing the supporting services in terms of lodging. The finding of *Staff service quality* as the most critical hotel attribute contradicted with those reported by Ananth *et al.* (1992) and Rivers *et al.* (1991). The findings reported by Ananth *et al.* (1992) showed that *Price and quality* is the most significant factor, followed by *Security* and *Convenience of location.* Rivers *et al.* (1991) identified *Convenience and location,* and *Overall service* as the critical hotel attributes. Nonetheless, disregarding the relative importance of the factors, the attributes identified in this study correspond to the research findings reported by Choi and Chu (2000), Ananth *et al.* (1992) and Rivers *et al.* (1991), among others.

For restaurant factors, the regression results suggest that *Serving and food quality,* along with *Accessibility,* are the critical factors in determining tourists' overall satisfaction. Again, the core services have been the tourists' main concerns, rather than the secondary services. This finding

should not be surprising as it has been noted that service encounter between the employees working in high-contact services (i.e. hotels, restaurants, and airlines) with customers is one of the significant elements determining customers' overall satisfaction (Bitner *et al.* 1990 and Rhonda *et al.* 2000). Focusing on the Serving and food quality items, it has been found that the food being served could be further improved in its presentation, taste, and choices. However, restaurant managers should not pursue the approach of offering higher food quality at the expense of over-charging the customers. Empirical analysis by Tse (2001) reports that customers tend to unwillingly pay extra for a higher level of services, with other things being held constant. Combining the evidence reported here with those by Tse (2001), restaurant managers should be aware that in their attempt to provide greater level of food quality, it is wise to keep the price as low as possible. In terms of restaurant staff's services, they have perceived to be performing well in shaping a delightful and satisfactory dining experience for tourists. This level of tourists' enjoyment could however be elevated if the location of restaurants is easily identified and within reach.

In terms of transportation factors, the regression analysis outcomes indicate that *Accessibility* is the main contributing factor towards tourists' overall satisfaction level. This is followed by the *System quality,* and *Staff service quality.* Judging from the mean scores for items associated with Accessibility, it appears that the transportation-related services could enhance its performance by addressing its frequency, area of coverage, and punctuality. Other areas that need to be taken into account are the safety features in provision of transportation services, and transportation supporting facilities. This has been reflected through the relative score of items such as Fully facilitated, User friendly facilities, Security personnel are responsible, and Safety instructions are noticeable. Attention should also be placed on the staff's service quality during provision of transportation services.

To sum, the core products of hotels, restaurants, and transportation are the main factors that influence tourists' overall satisfaction level. By concentrating on improving these core services, the tourists' experience of travelling in Malaysia would certainly be more enjoyable and memorable.

CONCLUSION

Basically, this study has revealed three major areas that need to be attended by the TSP. The first improvement-needed area is enhancement of hotel staff's communication skills, including their multilingual abilities. This aspect is becoming more important than ever as the number of outbound travelling has been increasing over the past years, bringing more distant travellers speaking different languages. The hotel's top management could encourage and provide incentives for their staff to learn and be equipped with foreign languages. The education institutions could also play their part by offering more foreign language courses.

The second area that needs to be considered is the food itself. With more diversity in composition of tourists, the choices of food should also be increased. This move would increase the chances of matching the food served with tourists' preferences, apart from giving the tourists more choices. The increase in food types should not be accompanied with sloppy food presentation and taste. Another aspect is offering food that is value-for-money in the eyes of tourists. However, to accomplish this would first require information on tourists' perception of value-for-money. Future research could explore the perception of value-for-money between tourists from different countries of origin.

The third area concerns with transportation services. The current transportation route covered by transportation service providers may need to be analysed more closely, taking into account the locations or places that attract tourists. Punctuality of transportation service and passengers' safety are another two aspects that should be looked into by the transportation services providers.

This study is limited in the sense that the perception of travellers with different cultural backgrounds on hotel factors, restaurant factors, and transportation factors is not being explored here. There is ample evidence suggesting that needs and expectation of tourists with different cultural backgrounds may vary (Liu and McClure 2001; Choi and Chu 2000; Reisinger and Turner 1999). This means that the weight they place on factors related to hotels, restaurants, and transportation may be different as well. A clearer understanding of these issues would provide valuable information to TSP on customer segmentation based on cultural backgrounds.

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The Importance of Oral Communications Among UPM Business Students

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ABSTRAK

Kajian ini berdasarkan maklum balas pelajar bidang perniagaan dari Universiti Putra Malaysia tentang soalan yang berkaitan dengan kepentingan komunikasi percakapan. Juga persoalan tentang tahap penggunaan kemahiran ini di dalam perhubungan dan cara mana kemahiran ini didapati. Keputusan kajian menunjukkan yang pelajar prihatin tentang kepentingan kemahiran perhubungan dan menggunakannya semasa berkomunikasi. Juga didapati mereka mendapat kemahiran ini melalui televisyen, video, mendengar ucapan, buku komunikasi dan teguran dari kawan.

ABSTRACT

In this short study, business students in Universiti Putra Malaysia were requested to respond to a set of questionnaires pertaining to their awareness of the importance of oral communication. Also, there were questions on their use of these skills when conveying messages and other information on how they acquired these skills. Results of the study show that business students in Universiti Putra Malaysia are aware of the importance of these skills and in fact, they use these skills when communicating. The study also revealed that they had acquired the skills from watching television, videos, real life speeches; communication books and, comments from friends.

INTRODUCTION

To compete well in the job market today, graduates must be equipped with the skills and knowledge required by the employers, a role typically entrusted to educators. It is therefore important that institutions understand the relative importance of specific knowledge which the employers place on different recruitment criteria when hiring graduates (Floyd and Gordon 1998). A number of earlier studies have identified communication skills as one of the employers' skill preferences when recruiting an employee for business positions (Beamish and Calof 1989; Deckinger *et al.* 1990; Ducoffe and Ducoffe 1990; Gifford and Maggard 1975; Hafer and Hoth 1981; Joby and Needel 1989; Kelley and Gaedeke 1990; Kim *et al.* 1993; McKendrick 1986; Neelankavil 1994; Scott and Frontczak 1996).

As more 'soft' skills are needed in keeping organizations going and producing, employers are now looking for recruits who can effectively manage people, work with people and communicate with people. This is because in the workplace, managers spend 75% of their time communicating some messages to an other. When conveying messages, people prefer oral communication channels compared to written ones. The reason is because talking takes less time and needs no computing, keyboarding, rewriting, duplicating or distributing. More importantly, it provides the opportunity for feedback. When people communicate orally, they can ask questions, share ideas and clarify doubts and work together to solve problems. It is also the best channel if there is an emotional component in the message.

It is the authors' interest to find out whether business students are aware of the importance of oral communication skills during a recruitment process and in the workplace. This paper reports preliminary findings on students' awareness of the importance of oral communication and the sources of these skills. A look at their background could spur some ideas as to what could be the contributing factor to these skills. It is hoped that from the findings in this study, further research would be done to reveal the factors that contribute to these skills and thus provide to organizations an important input to develop communication-training modules for their employees.

LITERATURE REVIEW

Many studies were done to identify the skills required in managerial positions. Fayol (1949) identified the five management functions; planning, organizing, commanding, controlling and coordinating as the basic roles of managers. Katz (1974) classified managerial skills as technical, human and conceptual. Stewart (1967) reported that people skills are needed as managers spend the majority of their time interacting with other people. Then, Mintzberg (1973) proposed ten managerial roles, five of which clearly represent communication capabilities: liasion, monitor, disseminator, spokesperson and negotiator. The other five roles (figurehead, leadership, entrepreneur, disturbance handler and resource allocator) are extricably dependant upon communication skills as suggested by Penley et al. (1991).

A typical day for a manager includes doing desk work, attending scheduled and unscheduled meetings, placing and receiving telephone calls, reading and answering correspondence, and tours (Griffin 2000). Most of these activities involve communication. In fact, managers spend more than half of their time on some form of communication.

What then is communication? There are several communication theories that intrinsically yield their own definition of communication. For example, by using semiotic linguistic theory, Liska and Cronkhite (1995: 22) defined communication as "the exchange of certain types of signs". There are six other general communication theories defined respectively as information, argument, chaining fantasies, question-asking and disclosing, story-telling and the talk of diffusing novel ideas (Cragan and Shields 1998). However, for the purpose of this study, we will use the general definition used in most Business Communication books which is, "a process of sending and receiving messages (Bovee and Thill 2000)".

Communication is generally either oral or written. Oral communication takes place face-to-face, in group discussions, during telephone calls, and other circumstances in which the spoken words are used to express meaning. Written communication on the other hand is done through letters, memos, reports and proposals.

Buckley et al. (1989) compared the results of two studies conducted in 1975 and 1983 that investigated the importance of specific applicant qualification in hiring decisions. Results illustrated how the importance of certain qualifications changed between 1975 and 1983. In 1975, oral and written communication were not among the five most important qualifications but, eight years later, communication was the top ranking qualifier, followed by work habits, which moved from the fifth ranked qualification to second. The authors anticipated that as the economy moved toward service-oriented businesses the importance of communication is likely to increase.

In a study on oral communication competency, Maes et al. (1997) found that competency in oral communication was ranked in the top five by 231 out of 354 managers (number 1 by 65, and in the top 3 by 163) and received the largest weight score (ws=2237). A study by Bednar and Olney (1987) discovered that oral communication skills are mandatory and 64% of the time are spend in oral communication in today's organizations. They recommended that educators continually update the business communication curriculum to focus on these skills.

Mintzberg (1973) discovered that most managers spend between 50 and 90 percent of their time talking to people. In another survey, 55% of the executives sampled believed that their own written communication skills were fair or poor, so they chose oral communication to avoid embarrassment (Griffin 2000). A similar survey indicated that the written communication managers received were of fair or poor quality. A survey on a sample of managers revealed that only 13% of the mail they received was of

immediate use to them (Mintzberg 1973) while more than 80% of the managers who responded to another survey indicated that the written communication they received were of fair or poor quality.

Recognizing the importance of effective communication, many companies today recruit people who have communication skills and train those who are already in the workplace. Various studies done on employer criteria for new recruitment place emphasis are the importance of oral communication skills. Are students aware of this? Do they realise that sending messages using appropriate gestures and words may give a more positive outcome compared to not using these skills? With these questions in mind we have the statement of the problem.

PROBLEM STATEMENT

Many studies have been done to discover the most important skills employers look for in their recruitment process. Are the ten managerial skills, as proposed by Mintzberg (1973), still the priority in employee selection in today's world of global information technology? Recent research indicates a shift from technical competence to the more 'soft' skills such as interpersonal and communication skills. In fact, Maes *et al.* (1997) found that competency in oral communication was ranked the top five by 231 out of 354 managers.

Considering this development, a few questions are highlighted:

* Are graduates seeking employment aware that oral communication is an important skill to acquire?
* Are there any differences in awareness of oral communication between gender and between ethnic groups?
* How do they acquire these skills? What are the sources?

This paper attempts to find answers to these questions by investigating business students of Universiti Putra Malaysia.

RESEARCH OBJECTIVES

The main purpose of this study is to discover students' awareness of the importance of oral communication and the use of these skills in their communication. Other research objectives are:

1) To find out whether students have effective communication skills.
2) To investigate the sources of acquiring these skills.
3) To determine the relationship between awareness of the importance of oral communication and the sources of skills.
4) To determine any significant difference in terms of awareness between the two categories of gender.
5) To determine any significant difference in terms of awareness between the ethnic groups.

METHODOLOGY

Instrumentation

A questionnaire was developed to solicit information for the current study. It was divided into three sections: Section A is on awareness of the importance of oral communication. In this section respondents had to answer questions that relate to the elements of oral communication like gestures, voice qualities and body language. Some general questions such as respondents' perception on the use of oral communication skills were also given. Section B refers to the sources of skills. This section investigates how and where students acquire their oral communication skills. And finally, the last section, asked for respondents' demographic profile and some information on childhood back-ground.

Validity and Reliability of the Instruments

A pilot study was conducted to test the adequacy of the instrument and based on the responses from 30 students, the questionnaire was revised to discard confusing questions and to replace them with two new items. Students who participated in the pilot study were eliminated from participation in the subsequent study. A reliability analysis was run for each section and the Cronbach alpha coefficient was .82 for awareness, .83 for source of skills and .90 for overall reliability.

The questionnaire was administered to thirty Bachelor of Economics students, sixty Bachelor of Accounting students and four Bachelor of Business Administration students all of whom are in their second or final year. Of the 100 questionnaires distributed, 5 were discarded due to missing information resulting in a response rate of 95%. Out of the 95 respondents, 13 were male and 82 female with 48 Malays, 40 Chinese, six Indians and one Others (Table 1).

TABLE 1
Demographic profile of respondents

Variables	Frequency (y)
Program	N = 95
Bachelor of Economics	30
Bachelor of Accounting (or Accounting with Education)	61
Bachelor of Business Administration	4
Pre-School Years	
Kindergarten	53
Nursery	2
Home	35
With grandparents	1
Missing value	4
Brought up in	
Town area only	25
Village area only	19
Both town and village areas	37
Mostly town area	10
Mostly village area	2
Missing value	12
Ethnic Group	
Malay	48
Chinese	40
Indian	6
Others	1
Gender	
Male	13
Female	82

Statistical Analysis

A *t*-test of two independent samples was carried out to see whether there exists any significant difference for awareness between male and female students. On the other hand, the one-way ANOVA was used to see if there exists any significant differences for awareness between the three major ethnic groups : the Malay, Chinese and Indian business students of Universiti Putra Malaysia. The Pearson correlation was to determine the relationship between awareness and sources of skills.

FINDINGS

Two statistical analysis were run for awareness of importance of oral communication and sources of skills, and awareness of importance and use of oral communication (Table 2). The results

TABLE 2
Statistical analysis

Descriptive Statistics	Maximum Score	Mean	Standard Deviation
Awareness of Importance of Oral Communication and Source of Skill			
Awareness	90	59.33	8.50
Source of skill	40	28.61	5.35
Awareness of Importance and Use of Oral Communication			
Importance	45	31.61	4.88
Use	50	27.72	4.29

show that 68% of the responses had a score between 51 and 67 for awareness of the importance of oral communication and between 24 and 34 for sources of skills. This indicates respondents are aware of the use and importance of oral communication symbols when conveying messages and many acquired their skills through the courses they took in campus, teachers and lectures, books, listening to renowned speakers, watching television from videos and practicing.

Results show that 68% of respondents who are aware of the importance of oral communication had a score between 27 and 37 while those using the skill had a score between 24 and 32 respectively. This indicates that when the questionnaires were run for statistical testing on groups of questions for awareness on the importance and the use of oral communication skills, more than 68% are aware of the importance of oral communication when conveying messages and they use these skills when communicating.

Two sources of skills (Table 3) were ranked highest: watching television, video and real life speeches (79%) and, practice (73%). Courses in campus were the lowest (49%) probably because these are elective courses and students have the option whether or not to take it. Also, listening to speeches by renowned speakers (52%) was low. This could be due to the lack of opportunities students have in attending seminars or conferences during their college days.

TABLE 3
Respondents' response on sources of skills

Sources of Skills	Number of Responses	%
Courses in campus	47	49
Books	58	61
Renowned speakers	49	52
Teachers and lecturers	54	57
Friends	57	60
Television, video and real life speeches	75	79
Practices	69	73

INFERENTIAL ANALYSIS

Correlation between Awareness and Sources of Skills

Result in Table 4 shows that there is a significant relationship between students' awareness of the importance of oral communication and the

sources of skills $[r (94) = .823, p < 0.01]$. This indicates that students who are aware of the importance of oral communication are likely to acquire their skills through practising, watching presentations on television and videos, reading books and training from their lecturers.

TABLE 4
Correlation between awareness and sources of skills

Mean Awareness	Mean Sources of Skill	df	r	Sig r	r^2
61.46	6.11	94	.823	.000*	.677
58.98	8.79				

** Correlation is significant at the 0.01 level of significance

Difference of Awareness between Male and Female

As for awareness between male and female, there is no significant difference $[t (93) = 0.976, p> 0.05]$ as can be seen from Table 5. Both male and female know the importance of these skills, in the same manner.

Table 5
Awareness of importance of oral communication skill between male and female

Gender	Mean	SD	df	t value	Sig. t
Male	61.46	6.11	93	0.976	.332
Female	58.98	8.79			

Note: not significant at .05 level of significance

Difference of Awareness between Ethnic Groups

There is no significant difference of awareness between ethnic groups $[F(3, 91) =1.063, p>0.05)$ as can be seen in Table 6. This shows that business students of Universiti Putra Malaysia from all ethnic groups – Malay, Chinese, Indian and others – are aware of the importance of oral communication.

DISCUSSION

The findings of this study were stimulating. We can conclude that most of the business students of Universiti Putra Malaysia, regardless of gender. and ethnic group, are aware of the importance of oral communication. This indicates that instructors of communication at Universiti Putra Malaysia would be one step ahead when teaching these courses. They can now concentrate on motivating students rather than creating

TABLE 6
Difference between awareness and respondents' ethnic groups

Variable	Source	Sum of Squares	df	Mean Square	F	Sig. F
Awareness	Between groups	229.597	3	76.532	1.063	369
	Within groups	6549.287	91	71.970		
	Total	6778.884				

Note: not significant at .05 level of significance

awareness for communication courses.

Also, the results on sources of skills could be used when developing such courses. Televisions, videos, books, communication classes and practices would enhance the teaching of oral communication courses so instructors have to consider incorporating them into the teaching modules. Some researchers like Wardrope and Bayless (1994) have attempted to investigate how instructors of business communication teach oral communication skills in their classes. They discovered that the degree to which oral communication skills are taught in the business classroom is contingent upon class time constraints, instructor preparation, and readiness to discuss various aspects of oral communication.

IMPLICATIONS

Findings from this study are consistent with the studies that have been done concerning the importance of oral communication. Business students of Universiti Putra Malaysia are aware that oral communication is important and they apply these skills when they communicate. Gender and ethnic groups show no significant differences in terms of their awareness of the importance of these skills because they believe that oral communication is an important tool in getting work done. As Williams (1978) says, "There is a strong connection between communication effectiveness and organizational effectiveness."

The results of this study give a positive indication that business students at Universiti Putra Malaysia are ready for oral communication training. Teachers of communication courses such as Business Communication could use this information to investigate further as to how and where students acquire these skills. Then by using these findings, they can promote and enhance the teaching of Business Communication in their classes.

CONCLUSION

The findings in this study show that business students of Universiti Putra Malaysia are aware that they should have oral communication skills before going into the job market. Although this is a preliminary study on investigating students' awareness on the importance of oral communication, the results obtained give a good indication on the area for future research. It is found that students are aware that oral communication is important, so researchers could now focus their future studies on finding out what other sources students use to acquire these skills, and the availability of these sources to students. When these sources are uncovered, instructors of communication courses could then design teaching methods that suit the characteristics and limitations of the sources. This study could also be extended to other higher learning institutions. Future studies could also focus on investigating factors that relate to awareness of oral communication, such as family background, and how this knowledge could be used to enhance the teaching of oral communication.

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Factors Determining Client Loyalty to Advertising Agencies

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ABSTRAK

Hubungan agensi-klien pegiklanan merupakan unsur penting untuk mengekalkan ketaatan klien. Sehubungan dengan itu, kajian ini bertujuan untuk menerangkan kenapa sebilangan klien mengekalkan hubungan baik dengan agensi pengiklanan mereka. Ketaatan dalam hubungan agensi-klien umumnya ditentukan oleh fakor-faktor seperti persekitaran perniagan dalam mana mereka beroperasi, struktur organisasi, polisi am yang baik, ciri-ciri antara perorangan yang sesuai, prestasi akaun sebenar, sikap positif terhadap pembekal dan proses berkesan yang melibatkan pembekal.

Untuk tujuan kajian ini, temu bual telefon dan soal selidik tertadbir-sendiri digunakan untuk mengumpul data. Responden terdiri dari personel organisasi klien yang berpengetahuan tentang amalan pengiklanan. Sejumlah 133 responden sebagai sampel diperolehi dari Kawasan Lembah Klang untuk mewakili industri pengiklanan. Data dianalisis untuk Analisis Deskriptif Pembolehubah Tunggal dan Analisis Faktor. Analisis Deskriptif memberi gambaran menyeluruh kajian. Dari Analisis Faktor, 16 faktor yang diperoleh menghuraikan hubungan agensi-klien pengiklanan meyumbangkan 72.05% varians diterangkan dengan Cronbach alpa 0.909 (90.9%), menunjukkan butir-butir adalah amat boleh dipercayai.

16 faktor diperolehi mempunyai kuasa penjelas yang baik terhadap ketaatan agensi-klien yang meliputi pengkongsian berorientasi prestasi, kawalan klien dan kepimpinan agensi, keformalan struktur organisasi, keterpusatan klien dan kestabilan pasaran, kecekapan pengurusan agensi, kuasa terpusat, kesamaan minat, kesesuaian, penyelesaian konflik dan kerjasama, kreativiti, saling kebergantungan, penyelarasan dan pengkhususan, persaingan dan perubahan teknologi yang rendah, produk yang matang, keberterusan dan keakuran norma, ketiadaan perubahan tak menentu pada strategi dan objektif, dan janji sanggup yang tinggi.

ABSTRACT

The advertising agency-client relationship is an important element in maintaining client loyalty. In this regard, the study attemps to explain why a number of clients maintain loyal relationships with their advertising agencies. Loyalty in advertising agency-client relationship is generally determined by such factors as the business environment in which they operate, organizational structure, well developed general policies, compatible interpersonal characteristics, actual account performance, positive attitudes towards suppliers and effective processes involving suppliers.

For the study, both telephone interviews and self-administrated questionnaires were used to collect the data. The respondents consisted of personnel within client organizations who are knowledgeable about advertising practices. A final sample of 133 respondents was obtained from the Klang Valley area to represent the advertising industry. The data was analysed using Univariate Descriptive Analysis and Factor Analysis. Descriptive Analysis gave the overall picture about the study. For the factor analysis, 16 factors were extracted that illustrate the advertising agency-client relationship contributing 72.05% of the variance explained, with Cronbach alpha of 0.909 (90.9%), showing the items used were highly reliable.

The 16 factors obtained have a good explanatory power with respect to agency-client loyalty which includes performance oriented partnership, client control and agency leadership, formally structured organization, client centereness and market stability, agency management competency,

centralized authority, mutuality of interest, compatibility, conflict resolution and co-operation, creativity, interdependence,co-ordination and specialization, low competition and technological change, matured product, continuity and conformity of norms, absence of erratic changes in strategies and objectives, and strong commitment.

INTRODUCTION

The advertising environment in the 21st century promises to be knowledge rich yet turbulent. The increasing competitive nature of business has forced many companies to re-examine and reconsider their approaches in sustaining a competitive advantage. As a result, advertising agencies have come to realize that they must be allied to their clients' interests, and establish close relationships with clients, to sustain their own survival and prosperity (Nowak *et al.* 1997).

The reasons for loyal relationships between advertising agencies and their clients are quite general (Michell and Sanders 1995). While situation-specific account characteristics are important, the impact of a nation's economy on organizational structure as well as its policies and attitudes toward the advertising agency should also be taken into account. The technology advances, the expansion of non-traditional media capabilities and integrated marketing communication also have substantial influence on client loyalty. Indeed, Michell and Senders (1995) were of the opinion that, to a certain extent, organizational and business-environment factors are more pervasive.

Since prior research has established a range of broad specific variables, consisting of external environment, organizational, interpersonal and actual account features (LaBhan and Kholi 1997; Crosby *et al.* 1990), it is therefore reasonable to speculate that there would be a significant difference in terms of their relative importance as determinants of account durability. To that effect, the objective of this paper attempts to determine the various forces in the business environment and within an organization that influence the organization's decision to maintain or terminate its account with the advertising agency. Through this, it will generate valuable insights into various factors that promote client loyalty in this era of stiff competition.

LITERATURE REVIEW

The Evolvement of Agency-Client Relations

In earlier days, an advertising agency was simply a seller of advertising space and then matured quickly from selling agent to become supplier of copy, artwork and printing block. There on, advertisers began to solicit services from these agencies. And as they did, they learned to appreciate the agencies' impartial media advice and their position as informative sources of advertising materials.

Nevertheless, those early days saw few clients recognizing the need for a continuous relationship. Hart and O'Connor (1978) had described the relationship as business problems that were never brought up for discussion. As agencies developed their marketing and research intelligence skills, it became apparent to the advertisers that they could only take full advantage of those skills if they were willing to discuss more openly. The importance of such disclosure soon become clear when the advertiser realized how much an agency could contribute from its great bank of experience. This led to the realization of the long-term association.

The formation of alliances or strategic networks between businesses and advertising agencies seeks to improve advertising quality and cost. Every industry is turning towards long-term collaborative relationships with their advertising agency to secure valued skills, facilities and technologies (Glover *et al.* 1989; Schultz and Zinser 1978). Due to resource limitations and management constraints, businesses began to rely on the agency's strengths and skills (Dwyer *et al.* 1987). Anderson and Narus (1990) defined collaborative relationships as a relationship in which a client and an agency form a strong and extensive social, economic and technical tie over time, with the intention to lower total cost and increase value and achieve mutual benefit.

Loyalty in Agency-Client Relations

Loyalty is the relationship between agent and client. Loyalty can be defined as a construct that embodies a willingness to support the object of one's loyalty and to continue that support over the long run, thus forming an attachment and commitment on the part of the client to a supplier's offering. Anderson and Narus (1990), Dwyer *et al.* (1987), and Newsome (1980) stated that clients could benefit from a loyal relationship

with supplier, i.e. the reduction in transaction costs. Besides, Nyquist and Booms (1985) suggested that loyalty bring forth long-term thinking and more effective and tailored service quality. For the service supplier, the expectation of future purchases by the client acts as an incentive to ensure quality (Crosby *et al.* 1990; Moriarty, Kimball and Gray 1983).

The Economy of Client Loyalty

Advertising agencies were found to be heavily pursuing strategies to attract, develop and retain clients because they believed partnerships allow better co-ordination of effort which directly translates into better customer service at lower costs. Existing clients were regarded highly as showcase accounts and sources of new service ideas (Jackson 1985). Kalwani and Narayandas (1995) found that a significant number of advertising agencies have resorted to creating barriers to clients' account switching so as to establish long-term relationships.

Relationship Life Cycle

Similar to the product life cycle concept, Wackman *et al.* (1986) suggests four stages of the relationship life cycle, which include (i) Pre-relationship, (ii) Development, (iii) Maintenance, and (iv) Termination. In the pre-relationship phase, both parties are learning about each other's expectations and objectives. During the development stage, the first advertising copies are created. At this phase, one party expects a lot from the other. In the maintenance stage, a more meaningful relationship is formed and the more successful advertising campaigns are typically achieved. The termination stage is the point when both parties no longer maintain a relationship, either at the client's wishes or the agency's refusal. Termination can happen abruptly or peacefully (Verbeke 1989).

During the development and maintenance phases, four groups of attributes were found to be important in maintaining a relationship, according to Wackman *et al.* (1986). They are the work product factor, work pattern factor, organizational factor and relationship factor. A "good personal relationship with the account people" and "agency charges fairly" were crucial to the overall relationship. The factors of "effectiveness of the meetings between the firm and the advertising agency" and "quality of creative work" are also important.

Michell (1988b) discovered that many clients' accounts do indeed go through the exponent contractor stages of the relationship life cycle, with the exception of some extremely loyal advertisers and other extremely disloyal ones.

Components of Loyalty

While many accounts go through stages that are analogous to the relationship life cycle, there are many others that do not. For example, West and Paliwoda (1995) and Michell (1988a) determine that accounts of very large, established organizations have substantially more durable advertising relationships than other clients. Michell (1988a) maintained that larger advertisers do not necessarily mean larger accounts and vice versa. A later study done by Michell and Buchanan (1991) found further supporting evidence in that there was a linear relationship between account size and account durability.

Another element that influences the degree of loyalty is the advertised product category. Separated by product category, there is a tendency for fast-moving consumer goods accounts, in more matured markets, to be more loyal to their agencies. These include Household Stores, Food, Tobacco, Toiletries and Apparel. In addition, the worth or size of individual account was no larger than those of disloyal accounts such as Publishing and Office Equipment (see West and Paliwoda 1995; Michell 1988a).

The period in which an account is established also carried some weight in degree of loyalty. New accounts, consisting of accounts introduced no more than five years, are found significantly more volatile in their relationships with the advertising agency. Only a small portion of them progressed through the later stages of the hypothesized relationship life cycle (see Novack 1991; Ford 1990; Dwyer *et al.* 1987).

CONCEPTUAL FRAMEWORK

Modeling the Determinants of Agency-Client Relations

For the purpose of the study, the model produced by Michell and Sanders (1995) consisting 7-factor and 57-variable is adopted. The model shows that the advertising agency-client relations as a decision-making process involving individuals interacting within the boundaries of the formal context of the

organization (Webster 1991). The organization is influenced by a variety of force in the business environment (Barclay 1991). From the literature, seven factors were developed which appear to influence the likelihood of the agency-client relationship remaining loyal (Fig. 1).

General Business Environment

Evidence indicates that the classic vertical organization will be replaced by new forms of networked organizations consisting of a number of functionally specialized firms tied together in co-operative relationships (Achrol 1997). Environments are being disturbed by an increasing pace of technological change. In dealing with the dynamic and unpredictable environment, organization efficiency is defined in terms of a firm's speed and agility in processing information, from detection of marketing signals

to transformation into delivered satisfaction (Achrol 1997; Anderson and Narus 1990).

It was posited that a more stable and durable agency-client relations were likely to be the resulting situation if a high level of stability exists in the client's general business environment. The rate of technological change experienced by virtually all organizations today also have an effect in changing supplier strategies (Cooper and Schendel 1976). Other research studied on market growth rates and business strategies gave the same results (Ford *et al.* 1986; Hambrick 1983).

Organizational Structure

It was postulated that the size and complexity of the client organization would influence the level of client loyalty to advertising agencies. When the size of the organization increases, so will the
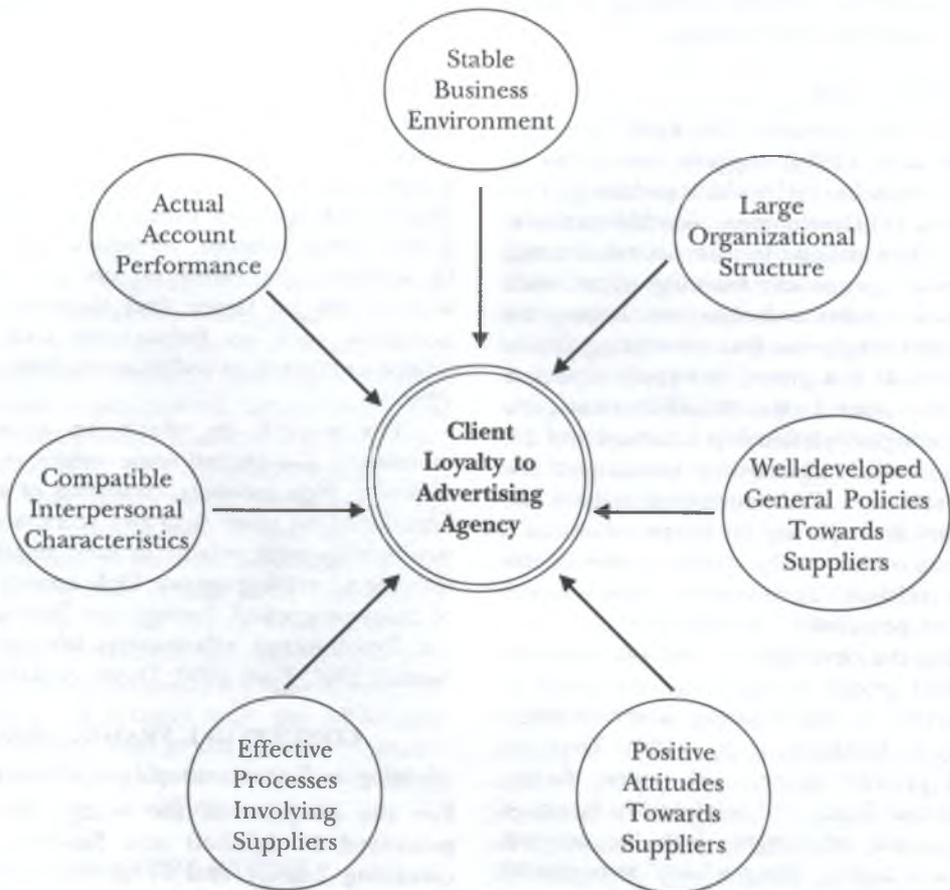
Source: Michell and Sanders (1995), Journal of Advertising Research, March/April: 10.

Fig. 1: Modeling the determinants of agency-client loyalty

complexity of the organization's structure. More specialization means more coordinating problems and tends to result in more structured hierarchy and procedures (Achrol 1997). Therefore, increased size will typically lead to greater need for formalized control and specialization. As such, larger companies with larger accounts have stronger tendency to demonstrate more loyalty to their agencies (Michell and Buchanan 1991).

Interestingly, prestigious advertisers have tended to develop an advertising relationship with an agency compatible with their own self-image (Michell 1988b; Cagley and Roberts 1984). The author also saw value in parallel agencies, recognizing that an advertising agency must achieve a certain large size to attract highly skilled employees and profitable clients. Similarly, Smith, Venkatraman and Wortzel (1995) suggest that compatibility and congruence of marketing strategies and activities between members of a partnership will increase the achievement of both partners' market goals and objectives.

General Policies Towards Agencies

Many articles relating to the environmental boundaries between partnering organizations suggest that the effectiveness of the relationship may be handicapped in the event that the prestige and the size of both organizations do not commensurate (Cagley and Roberts 1984). Harvey and Rupert (1988) advised advertisers to evaluate the size of agency and the compatibility of services needed by the organization. The size of the agency, in terms of gross advertising billings and the range of services offered are important considerations in the agency selection process.

It was also posited that if both partnering organizations held on to policies which encourage higher levels of inter-organizational collaboration, the likelihood that long-term relationships with suppliers be maintained is increased (Lefton 1980). Mutual commitment to the future (Morgan and Hunt 1994) and a balanced powerful relationship are essential to the collaborative process (Bucklin and Sengupta 1993). Segil (1996) proposes collaborative problem solving as the best approach for reaching compromise in a relationship. This approach offers the possibility of creating a better alternative, different from what either party had previously considered as an option.

Moreover, as the relationship between the partnering organizations prolongs, the chances of improving or correcting inter-organizational shortcomings are much higher (Hotz *et al.* 1982). Team approach was also evident in selected agency-client relationships. This positively correlated with blurred inter-organizational boundaries.

General Attitude Towards Agencies

Basically, general attitudes that clients have towards suppliers consist of variables derived from the beliefs and values of their employees. For example, in developing account team spirit, high performance is crucial and is indeed sufficient. Additional benefits of account team spirit included the increased ability of the account team to rectify differences in the operational perspective (Frankel 1976). According to Gerlach (1992), relationships should be characterized by shared values, long-term commitment and affiliated sentiments. Five social norms that underlie relational governance were proposed - solidarity, mutuality, flexibility, role integrity and harmonization of conflict. With regard to role integrity, Beard (1996) found that client role ambiguity is a source of dissatisfaction in client-advertising agency relationships.

Furthermore, Michell (1984) pointed out that common understanding and commitment between client and agency build trust in the relationship. In addition, according to the results of a recent survey by Nowak *et al.* (1997), client trust and commitment increases creative quality and implementation diligence. Open discussions and supportive relationships can also improve the quality of the creative work (LaBahn and Kohli 1997).

General Processes Involving Agencies

General processes constitute the framework within which agency-client relations are maintained. Effective agency performance has been attributed to consistent inter-organizational interaction and frequent communication. According to Michell (1987), very regular, usually day-to-day contact may induce continuity in the relationship.

However, Doyle, Corstjens and Michell (1980) found that shared communication and periodic reviews appear to contribute to valuable communication and the much-needed feedback. Feedback has been said to have the ability to

overcome disenchantment, which is a major cause of break-ups in many agency-client relations.

Trust seem to be particularly important in long-term relationships (MacNiel 1980). A large number of conflicts with the supplier appear to have been caused by poor communication (Bourland 1993) and disagreement over priorities (Thambain and Wilemon 1975). Achrol (1997) explained that in a collaborative relationship, there is a presumption that if the relationship is to endure, mutual sentiments must exist to harmonize conflicts. And harmony is sought via constant social interactions.

Interpersonal Characteristics

Compatibility in terms of interpersonal characteristics has been determined to bring more favorable business outcomes (McGarth and Hardy 1988; Evans 1973). The ground rules of the relationship between the agency and the client are typically set based on norms and standards of conduct of the partners. Adopting norms and standards are believed to ensure relationship continuity (Dwyer, Schurr and Oh 1987).

Sharman (1981) claimed that clients expect high-caliber personnel from the agency. Ogilvy (1977) has singled out leadership ability of top agency personnel as an important ingredient in any agency's success. Likewise, McClelland and Burnham (1976) suggested that effective account team members tend to prefer situations in which personal responsibility may be undertaken.

Actual Account Characteristics

In terms of actual account characteristics, Shank, Niblock and Sandalls (1973) claimed that there has been a long-running compromise between creativity and business. However, Flecther's (1980) study indicated that respondents were quite capable of ranking agencies separately in terms of their marketing abilities and creative abilities.

Furthermore, Michell, Cataquet and Hague (1992) have identified several crucial agency account characteristics, common over time and between countries, which were found to cause disharmony. These include poor marketing advice, poor account management, agency "not close to our business", weakness of campaigns in image or sales effectiveness, unfulfilled full-service needs, conflicting accounts, weak top agency

personnel, and relatively poor value for money. Stern and El-Ansary (1992) demonstrated that the motivation behind business-to-business relationships is to enhance the value of the relationships' market offering to the clients and to lower the relationships' costs.

The literature is enough to support the probable influence of the business, organizational, interpersonal and account factors to the advertising agency-client relationships. Loyalty to working relationships has been found to be enhanced by stable business environment, mutual beneficial client's general processes, attitudes and procedures involving the advertising agency, compatible interpersonal characteristics and actual account characteristics.

Sample and Sampling Procedures

The data of this study was collected through questionnaire survey. The self-administered questionnaires were mailed to the senior marketing executive/marketing manager of the clients' organizations. These executives or managers have a direct responsibility for the adver-tising accounts and are knowledgeable based on the duration of their relationship with the advertising agency. The surveyed advertising companies are those located in Kuala Lumpur. The non-probability sampling technique was employed in the distribution of questionnaires, where the probability of selecting population elements is unknown. From the returned questionnaires, 133 set of usable questionnaires are being used in this study. The respondents' profile is summarized in Table 1, along with the characteristics of their advertising agency (Table 2).

RESULTS AND DISCUSSION

Advertising Agency-Client Relationship Profile

The advertising agency-client relationship profile is documented in Table 3. In terms of relationship, about 58 per cent of accounts were maintained for *more than 4 years*; 21 per cent *more than 10 years*; only 9 per cent *over 14 years*. About 51.2 per cent of the respondents had a *1 to 6 year* relationship with their agency and approximately 67 per cent responded *"Yes"* to being bound by contract. *Formal Evaluations* were conducted in 41.4 per cent of the companies, whereas 45.1 per cent only carried out *Informal Evaluations*.

TABLE 1
Client organization profile

Variables	N	Percentage (%)
1. Respondent's Job Title		
a. Marketing / Advertising Executive	39	29.3
b. Marketing / Product / Brand Manager	55	41.4
c. Marketing Director	15	11.3
d. Public Relations / Corporate Communications Executive	14	10.5
e. Managing Director / Chief Executive	2	1.5
f. Business / Area Market Development Manager	8	6.0
2. Product Category		
a. Automobile	9	6.8
b. Food, Confectionery, Beverage (Including alcohol)	26	19.5
c. Electrical Appliances	9	6.8
d. Electronics	7	5.3
e. Energy	2	1.5
f. Finance, Banking, Insurance	5	3.8
g. Petroleum, Lubricants	2	1.5
h. Retailing	5	3.8
i. Telecommunications	8	6.0
j. Tobacco	4	3.0
k. Toiletries	13	9.8
l. Wearing Apparel	10	7.5
m. Other	33	24.8
3. Number of Employees		
a. Less than 500	33	24.8
b. 500 – 999	37	27.8
c. 1000 – 1499	18	13.5
d. 1500 – 1999	15	11.3
e. 2000 – 2499	13	9.8
f. 2500 – 3000	9	6.8
g. Greater than 3000	8	6.0
4. Estimated Annual Sales Volume		
a. Less than RM1 million	5	3.8
b. RM1 million – RM49 million	9	6.8
c. RM50 million – RM99 million	15	11.3
d. RM100 million – RM149 million	14	10.5
e. RM150 million – RM199 million	16	12.0
f. RM200 million – RM249 million	17	12.8
g. RM250 million – RM299 million	20	15.0
h. RM300 million – RM349 million	18	13.5
i. Greater than RM350 million	19	14.3

In terms of "most valued" agency characteristic, *Agency Creativity* was ranked first with 27.1 per cent, *Agency's Complete Knowledge of Our Product(s) / Service(s) and Advertising Strategies* was second (25.6 per cent) and *Availability of a Comprehensive Range of Service* was third (24.1 per cent). At this point, it is safe to conclude that agencies with a high degree of creativity, knowledge and diversity in the service rendered are most likely to have more loyal clients.

Factor Analysis

The factor analysis focussed on 16 factors (extracted from 56 variables used in the study) that gave a total variance of 72.05 per cent. The factors were summarized in Table 4 including the items included into every factor groups. The Cronbach Coefficient of Reliability, a = 0.9097 (90.97%), whereas standardized a = 0.9152 (91.52%). And the sampling adequacy for this data is 0.698 (69.8%).

TABLE 2
Advertising agency profile

Variables	N	Percentage (%)
1. Types of Advertising Agency		
a. Local, Full-service Agency	60	45.1
b. Global, Full-service Agency	55	41.4
c. Creative Consultancy	13	9.8
d. Media Independent	2	1.5
e. Multimedia Advertising Design Firm	1	0.8
f. Below-the-line Agency	2	1.5
2. Account Handler		
a. Account Executive	54	40.6
b. Account Manager	60	45.1
c. Account Director	19	14.3
3. Number of Agency Personnel		
a. Less than 20	9	6.8
b. 20 – 39	39	29.3
c. 40 – 59	23	17.3
d. 60 – 79	21	15.8
e. 80 – 99	19	14.3
f. 100 – 119	15	11.3
g. Greater than 120	7	5.3
4. Estimated Total Billings		
a. Less than RM10 million	23	17.3
b. RM10 million – RM19.9 million	15	11.3
c. RM20 million – RM29.9 million	14	10.5
d. RM30 million – RM39.9 million	12	9.0
e. RM40 million – RM49.9 million	15	11.3
f. RM50 million – RM59.9 million	16	12.0
g. RM60 million – RM69.9 million	13	9.8
h. RM70 million – RM100 million	14	10.5
i. Greater than RM100 million	11	8.3

Factor 1: Performance Oriented Partnership

Factor 1 is the most influential to the advertising agency-client loyalty variable. This factor explained 20.05 per cent of the variance and has an eigenvalue of 11.23 in the study. *Willingness of senior agency personnel to be personally responsible for the achievement of the result* was viewed as very crucial by the respondent, with the factor loading of 0.776. *Team members should also take pride of the performance achieved* by the group (0.763). The other significant items are like *Client strives to be accommodating* (0.600), *Diplomacy and mediating skills* are important (0.574) and *Ads produced by the agency projected very strong image* (0.506). *Agency has enjoyed many positive recommendations* (0.411), *Information-sharing* (0.409) and *Team approach* (0.368) are also important items. Wills (1992) found the main factors in winning accounts were positive recommendation by satisfied clients,

personal contacts with top management and presentations. High-caliber personnel in agencies are likely to be a central requirement of clients because it improves their perception of advertising creativity. And high performance in itself appears to develop team spirit with more effective account groups.

Factor 2: Client Control and Agency Leadership

This factor proposes that, a client would like to have control over the advertising budget, resources and specifications detailing their expectations and they would like agency personnel to take the lead because the agency knows best. The variance explained for this factor is 6.88 per cent whereas the eigenvalue is 3.85. The item *Frequent monitoring/controlling of campaign activities required* (0.807) is the highest loading item followed by *Periodic review systems are necessary*

TABLE 3
Advertising agency-client relationship profile

Variables	Frequency (N = 133)	Percentage (%)
1. Length of Relationship		
a. Less than 1 year	16	12.0
b. 1 – 3 years	40	30.1
c. 4 – 6 years	28	21.1
d. 7 – 9 years	21	15.8
e. 10 – 13 years	16	12.0
f. 14 – 16 years	8	6.0
g. 17 – 19 years	2	1.5
h. Greater than 19 years	2	1.5
2. Relationship Bound by Contract / Agreement		
a. Yes	89	66.9
b. No	44	33.1
3. Similarities between Hierarchical Positions of Account Handler and Respondent		
a. Match	102	76.7
b. Mismatch	31	23.3
4. Manner of Performance Evaluation		
a. Formal Evaluation	55	41.1
b. Informal Evaluation	60	45.1
c. No Evaluation	18	13.5
5. Most Valued Agency Characteristics		
a. Agency's Creativity	36	27.1
b. Agency's Complete Knowledge of Product(s)/ Service(s) and Advertising Strategies	34	25.6
c. Agency's Understanding of the Market We Serve	18	13.5
d. Agency's Management Strength	4	3.0
e. Availability of a Comprehensive Range or Services that Matches our Advertising Needs	32	24.1
f. Agency's Ability to Keep to Schedules/Deadlines	5	3.8
g. Agency's Sensitivity towards Budget Constraints	4	3.0

TABLE 4
Results from factor analysis

Extracted Factors' Items	Factor Loading	Eigenvalue	Percent Variance	Cumulative Variance
Factor 1: Performance Oriented Partnership		**11.23**	**20.048**	**20.048**
1. Senior agency personnel take personal responsibility for outcomes	0.776			
2. Group performance is a source of pride	0.763			
3. Client strives to be accommodating/adaptive	0.600			
4. Diplomacy/mediating skills are important	0.574			
5. Ads produced by the agency projected very strong image	0.506			
6. Agency has enjoyed many positive recommendation	0.411			
7. Information-sharing is vital	0.409			
8. Team approach is practiced	0.368			

TABLE 4
Results from factor analysis (continued)

Extracted Factors' Items	Factor Loading	Eigenvalue	Percent Variance	Cumulative Variance
Factor 2: Client Control & Agency Leadership		3.85	6.880	26.928
1. Frequent monitoring/controlling campaign activities required	0.807			
2. Periodic review systems are necessary	0.677			
3. Strong leadership is required on agency side	0.560			
4. Client policy encourage inter-organizational collaboration	0.526			
5. Top management encourages open, supportive relations	0.476			
Factor 3: Formally Structured Organization		3.18	5.667	32.605
1. Client organization has formalized structure	0.735			
2. Marketing department is multi-tiered	0.724			
3. Marketing department has specialized professionals	0.666			
4. Marketing department is large	0.566			
5. Frequent interaction/communication is necessary	0.437			
Factor 4: Client Centredness & Market Stability		2.96	5.284	37.889
1. Agency's prompt recognition of client's impending dissatisfaction is expected	0.751			
2. Agency is client-oriented	0.747			
3. Market uncertainty/variation is relatively low	0.578			
4. Ad campaigns are strong in sales effect/ creative standards	0.466			
5. Client is optimistic over general economic climate	0.454			
6. High-caliber agency personnel are required	0.416			
Factor 5: Agency's Management Competency		2.48	4.427	42.316
1. Agency has excellent account management skills	0.782			
2. Compatible objectives/goals are developed	0.602			
3. Anticipated benefits from relationship exceed costs of partnership	0.576			
4. Social exchange is necessary	0.482			
5. Agency is of similar prestige	0.424			
6. Agency provides on-line advertising facilities	0.371			
Factor 6: Centralized Authority		2.27	4.055	46.370
1. Organizational authority is centralized	0.828			
2. Decision-making is formalized	0.571			
3. Minimal disagreement during campaign development is desired	0.464			
Factor 7: Mutual Interest		2.12	3.783	50.153
1. Client strives for common understanding	0.723			
2. Mutual agreement on priorities is necessary	0.610			
3. Mutual professional competence is crucial	0.554			
4. Common high professional values/standards shared	0.422			

TABLE 4
Results from factor analysis (continued)

Extracted Factors' Items	Factor Loading	Eigenvalue	Percent Variance	Cumulative Variance
Factor 8: Compatibility		1.83	3.274	53.427
1. Interpersonal friction is rare	0.812			
2. Agency understands and fulfils needs precisely	0.502			
3. Agency size is important	0.502			
4. Team members from both sides have similar levels of expertise	0.434			
Factor 9: Conflict Resolution & Cooperation		1.64	2.936	56.363
1. Inter-organizational differences are rectified positively	0.739			
2. Agency offers good marketing advice	0.654			
3. Client's product portfolio seldom changes	0.396			
Factor 10: Creativity		1.53	2.738	59.101
1. Client's trust in agency's creative judgement	0.773			
Factor 11: Interdependence, Coordination & Specialization		1.40	2.495	61.595
1. Client encourages mutual task independence	0.721			
2. Efficient coordination/scheduling of resources is preferred	0.666			
3. Client's marketing team have varied specialization	0.342			
Factor 12: Low Competition & Technological Change		1.33	2.380	63.976
1. Competitors present little/no threat	0.813			
2. Technology has changed relatively slowly	0.468			
Factor 13: Mature Product		1.23	2.202	66.179
1. Product is mature in life style	0.847			
Factor 14: Continuity & Conformity of Norms		1.62	2.075	68.253
1. Personnel continuity within agency is critical	0.782			
2. Agreed norms of behavior need to be conformed with	0.681			
Factor 15: Absence of Erratic Changes in Strategies and Objectives		1.09	1.951	70.204
1. Advertising on satellite television is not contemplated at present	0.681			
2. Clear-cut objectives eliminate risks	0.499			
Factor 16: Strong Commitment		1.03	1.842	72.046
1. High levels of commitment is exhibited towards the achievement of results	0.439			

Note:

Reliability Coefficient	- Alpha	= 0.9097
	- Standardized Item Alpha	= 0.9152
Kaiser-Meyer Olkin Measure of Sampling Adequacy		= 0.698
Bartlett's Test of Sphericity - Approx Chi-Square		= 4198.137
	- Significance	= 0.000
	- df	= 1540

(0.667). At the same time, clients would expect *Strong leadership on agency side* (0.560). *Having policies* (0.526) and *Top management's encouragement of inter-organizational collaboration* (0.476) also promotes loyalty. By implication, clients naturally want to have a say in all matters pertaining to the campaign such as budgets and creative specifications. Reviews and evaluation of past performance are important to the client because they serve as a platform for future campaign activities. Top agency personnel are also expected to have the ability to lead in the campaign process.

Factor 3: Formally Structured Organization

The third important factor that affects advertising agency-client loyalty relationship is client's organization structure. Increased size has typically led to greater complexity and need for formalized control and specialization. Larger advertisers prefer more stable and lasting relationship with channel members (Michell and Buchanan 1991; Michell 1988b). The significant items for this factor were *Client organization has formalized structure* (0.735) and *Marketing department is multi-tiered* (0.724). Also important items were *Have qualified/specialized professionals in the marketing departments* (0.666) *and Marketing department that is large in size* (0.566). In addition, *Frequent interaction is necessary* (0.437). The eigenvalue for the factor is 3.18 and the percentage of total variance explained is 5.677 per cent.

Factor 4: Client Centredness and Market Stability

This factor contributes 5.284 per cent of the variance explained and the eigenvalue of 2.96. The factor suggests that clients expect their *Agency to promptly recognize their dissatisfaction* (0.751) and *Be client oriented* (0.747). Besides, a *Stable economic climate* (0.578) and *Client's optimistic over general economic climate* (0.454) may induce clients to remain in the agency-client relationships longer. Lastly, clients were found to be more loyal to the agency that *Produced advertising works that were strong in sales effect* in the past (0.466). The item, *Ad campaign are strong in sales effect/creative standards*, is logical because in the first place, advertising agencies are hired to produce advertisements that will improve sales. Thus, *High caliber personnel* are required (0.416). This implies that stable market conditions and productive partnership are crucial to a working relationship.

Factor 5: Agency Management Competency

The percentage of variance explained of this factor was 4.427 and the eigenvalue of 2.48. *Agencies should have excellent account management skills* (0.782). In addition, client and their agency should develop *Reachable and measurable goals and objectives* (0.602). Client also like to be assured that the relationship is worthwhile, i.e., *Anticipated benefits from relationship exceed costs of partnership* (0.576) and had the opinion that *Social exchange* (0.482) and an equally *Prestigious agency* (0.424) was necessary in order to build trust in the agency. Finally, respondents considered it a necessity for agencies to be equipped with *On-line advertising facilities* (0.371). Williamson (1997) found that some clients switched agencies solely because their traditional above-the-line agencies failed to include interactive/multimedia advertising technologies in their services.

Factor 6: Centralized Authority

Authority (0.828) and *Decision-making* (0.571) within client organization should be formalized and centralized in order to ensure a durable account. The item, *Minimal disagreement during campaign development is desired* (0.464), indicates that stress produces tension in the relationship that subsequently reduces productivity. The variable loading jointly explains 4.06 per cent of the variance and secures an eigenvalue of 2.27.

Factor 7: Mutual Interest

The seventh factor stresses the importance of clients and their agencies to have mutual interests. Both sides have to perceive that the partnership is beneficial or profitable to them in the long-term. It was ascertained that *Client strives for common understanding* (0.723). Moreover, *Mutual agreement on priorities is necessary* (0.610). To achieve this, the respondents felt that personnel from both sides should have the same level of *Professional competence* (0.554) and *Common high professional values and standards must be shared* (0.442) to sustain a longer agency-client relation. About 3.8 per cent of the variance is explained by this factor and the eigenvalue is 2.12.

Factor 8: Compatibility

Compatibility describes the ability of the client's organization and the advertising agency to work in a harmonious and agreeable manner with each other. To do so, the analysis suggested that

Interpersonal friction is rare (or ought to be rare) (0.812). Additionally, the *Size of the agency* should be compatible with the client's organisation (0.502) and the *Agency must have the ability and know-how to understand and fulfill its client's needs* (0.502). Effective relationship is also a function of both sides having team members with *Similar levels of expertise* (0.434). This implies that compatibility between account team members help develop team spirit as it is derived from the beliefs and values of the client personnel towards agency competence. This factor explains 3.27 per cent of the variance and has an eigenvalue of 1.83.

Factor 9: Conflict Resolution and Cooperation

Slightly above 2.9 per cent of variance is explained by this factor with an eigenvalue of 1.64 indicated that, besides being offered *Good marketing advice* (0.654), clients want *Inter-organizational differences to be rectified in a way that ensure positive outcomes for the teams* (0.739). Having a lesser importance in the factor group is *Client's product portfolio seldom changes* (0.396) item. It could be concluded that agencies must develop negotiation and conflict skills to handle any discrepancy that may arise.

Factor 10: High Creative Standards

Factor 10 proposes a single point that advertising agencies must have good creative judgements in order to gain the client's respect and trust. The item, *Client's trust in agency's creative judgement* (0.773) explained 2.74 per cent of total variance and secured an eigenvalue of 1.53.

Factor 11: Interdependence, Coordination and Specialization

In a working relationship, clients and ad agencies should encourage *Mutual task dependence* in the campaign development process (0.721). *Efficient coordination and scheduling* of human, technical and physical resources are found to be necessary to ensure maximum benefits for the partners (0.666). Finally, *Client's marketing teams (should) have varied specialization* (0.342). This implies that increased perception of interdependence may lead to stronger task motivation among team members and pride in group performance. Total variance explained for this factor is 2.50 per cent with the eigenvalue of 1.40.

Factor 12: Low Competition and Technological Change

Competition was found to be impediment to client loyalty (0.813). An environment of stiff competition usually exists when a product or service has achieved acceptance by most potential buyers (Kotler *et al.* 1996). In order to defend a brand from competition, a company would have to increase its marketing outlays to differentiate itself. *An improvement in technology* (0.468) by the ad agencies is important to deal with this situation. Total variance explained by these items is 2.38; an eigenvalue is 1.33.

Factor 13: Mature Product

This factor expressed a single item that manufacturers of products in the mature stage of life cycle tend to more loyal, evident by the variable *Product is mature in life cycle* (0.847). Similarly, Media Expenditure Analysis Limited (MEAL) found that the most loyal product categories are fast-moving consumer goods in more mature markets. The factor accounts for 2.20 per cent of variance and secures an eigenvalue of 1.23.

Factor 14: Continuity and Conformity of Norms

This factor, which explains 2.08 per cent of the variance, suggests that high turnover within the ad agency is less favorable to clients (0.782). A possible explanation is that, when an agency personnel, i.e., an account executive, resigns, the client has to begin a new relationship with his/her replacement. And it takes time for the new personnel to fully understand the client's needs and strategies, which is deemed unprofitable. Moreover, the respondents also felt *Agreed norms of behavior need to be conformed with* (0.681) and a new agency personnel is usually not familiar with norms of behavior. This implies that clients typically avoid agency switching that discontinues the existing strategies.

Factor 15: Absence of Erratic Changes in Strategies and Objectives

Factor 15 implies that if the clients decided to advertise on satellite television, the agency might not have the technology or expertise to assist them (0.681), particularly if the decision was rash. Satellite technology enables advertising campaigns to be centralized and be broadcasted in all markets simultaneously. This finding is consistent with the conclusion reached by

Howard and Ryans (1988), that advertising on satellite television will change the traditional agency-client relationships. Secondly, the factor suggested that having *Clear-cut objectives* (0.499) at the start of the relationship would eliminate any potential risk or problem. This factor explains 1.95 of the variance and has an eigenvalue of 1.09.

Factor 16: Strong Commitment

The last factor accounted for only 1.84 of the variance explained, with an eigenvalue of only 1.03. The factor focuses solely on the importance of commitment by the partners to ensure that the desired outcomes are accomplished. Commitment plays a key role in business relationships between parties who invest time and resources, which cannot be put to use elsewhere and require to be managed. When two parties are satisfied, they often choose to invest in the relationship further, which leads to commitment and bonding. Thus, alternative relationships are rarely considered as a result of the rising switching costs (West and Paliwoda, 1995).

In contrast to the 7 factors that influence ad agency-client relations as proposed by Michell and Sanders (1995), the current factor analysis produced 16 factors that can influence the agency-client relationship in Malaysia as discussed above and illustrated by Fig. 2.
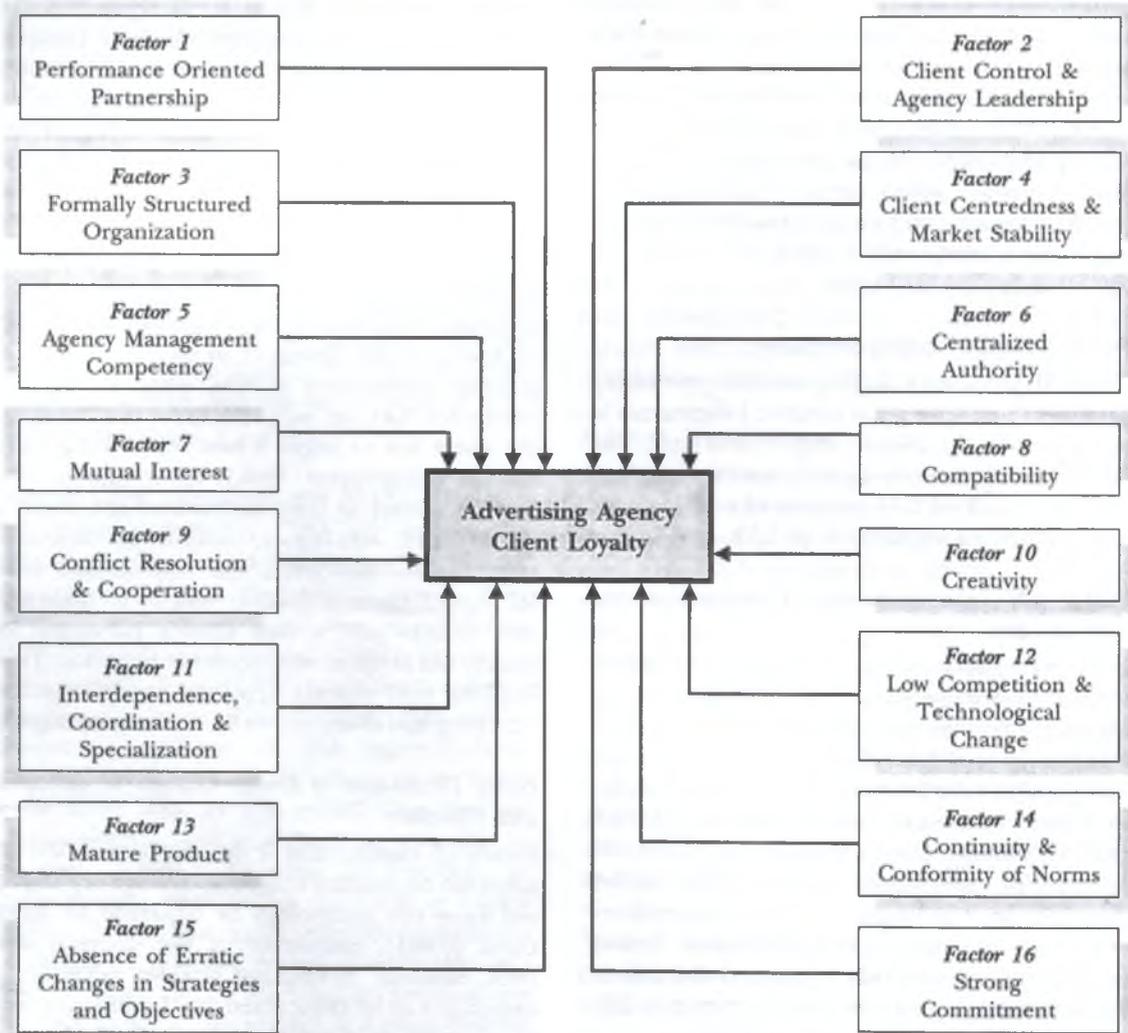

Fig. 2: A proposed model of the agency-client loyalty in Malaysia

IMPLICATIONS OF STUDY

Theoretical Implication

The differences that exist between our study, and a similar one conducted in the U.K. by West and Paliwoda (1995), clearly reflect how key success factors vary over time. This inconsistency shows that the business community evolves continuously. Therefore, the factors that contribute to clients' loyalty towards advertising agencies will also change to suit the demands of the prevailing business trends.

When there is prolonged dissatisfaction with an agency's service, the account and the agency-client relationship will be terminated. Break-ups appear to be a process consisting of several incidents rather than a single, rash decision. The reasons for the switch also differ over time, depending on the economic, structural and account characteristics. Therefore, this study is an eyeopener in this field.

Managerial Implication

It is apparent that clients engaging in sustained relations do not only perceive ad agencies as reservoirs of creative talent, but also as equal business partners and team members. To retain loyalty, agencies must be up-dated on the impact of a wide range of variables, the account must be run as an inter-organizational team effort, and the partners must have mutually beneficial policies and attitudes in their dealings. Equally important, especially in the case of multinationals, is that, home country decision-making units are highly influential in any advertising activities of subsidiaries. And the effects of multimedia and satellite broadcast technologies on traditional agencies are strong and immediate. Agencies should not continue to produce advertisements without fully understanding the impact of these changes on the buying public. In other words, traditional agencies need to expand their non-traditional media capabilities and integrate marketing activities via databases and other means to reach different consumers with tailored messages.

Loyalty is directly related to the campaigns that have an effect on sales or awareness. Personal affinity, compatibility and complete understanding of norms or expected behaviors are identified with loyalty. Successful partnerships tend to have processes such as periodic reviews and contracts. Coordination, commitment and responsibility undertaken by both sides will ensure the smooth running of campaign activities. No single factor stands out as being the determinant for loyalty because loyalty is indicated to be the result of the interplay within a set of factors.

CONCLUSION

This study indicates the general conditions, values and behaviors that exchange partners should demonstrate to achieve mutually beneficial outcomes. Importantly, more studies will enable agencies and academicians alike to better understand client behavior patterns, the required level of agency input and how the partnerships work in different political and socio-economic environments.

In general, the client looks for the competence of the advertising agency, in addition to its expertise, reputation and compatibility before they decide to engage the agency. Another important consideration is cost consciousness related to the agency-client relations, where agency management may believe that the client is asking for more than the agency can deliver on the revenue it earns from that account (Bovee *et al.* 1995). To build a good relationship between the agency and the client, both parties should communicate what they want from each other, to ascertain that both parties understand the role they should play in order to ensure the success of this relationship in the future.

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Testing for Causality Between Taxation and Government Spending: An Application of Toda-Yamamoto Approach

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ABSTRAK

Kajian ini bertujuan menyelidik hubungan penyebab antara hasil cukai kerajaan dengan perbelanjaan kerajaan. Kaedah jangka panjang bukan penyebab Granger yang dicadangkan oleh Toda dan Yamamoto (1995) digunakan untuk menguji hubungan penyebab tersebut untuk tempoh masa 1960 hingga 1997. Hasil kajian menunjukkan kewujudan hubungan penyebab dua hala di antara perbelanjaan kerajaan dengan hasil cukai kerajaan.

ABSTRACT

The purpose of the present study is to investigate the causal relationship between the government tax revenues and government expenditures in Malaysia. We employ the Granger long run non-causality test as proposed by Toda and Yamamoto (1995) to test the causal relationships between government spending and tax revenues for the period 1960 to 1997. The evidence generally supports the existence of bi-directional casuality between government spending and tax revenues.

INTRODUCTION

Government expenditures in Malaysia have almost consistently exceeded government revenues throughout most of the past decades since 1959 except for the 1959-61 and 1993-97 periods. The government's commitment in pursuing rapid economic development programmes as embodied in the various five year Malaysian develoment plans largely accounts for the fiscal deficits incurred. The expanded role of the public sector resulted in rapid growth of government expenditures.

Government budget deficits have significant impact on the economy. Such fiscal imbalance tends to reduce national savings which in turn has the effect of impeding rapid economic growth. The options available to stimulate economic growth in a budget deficit economy include reducing government expenditures and/ or raising tax revenues. Both options serve the objective of reducing the fiscal deficit.

One of the most researched topics in macroeconomics is the empirical testing of the relationship between government expenditures and tax revenues. Establishing the direction of interdependence between the two macro-economic variables, namely, government expenditures and tax revenues would assist policy makers in identifying the source of any fiscal imbalances that might exist. Consequently this would facilitate efforts to develop a suitable fiscal reform strategy.

The purpose of this study is to investigate the causal relationship between the government tax revenues and government expenditures for the period 1959 to 1997. We have utilised the more recent technique proposed by Toda and Yamamoto (1995) in the attempt to determine the interdependence between the two variables mentioned. According to Toda and Yamamoto, their Granger long-run non-causality analysis, provide a simplistic approach in determining the association between integrated variables without having to worry about the order of integration and/or the cointegrating rank in a Vector Autoregression (VAR) system.

LITERATURE REVIEW

The relationship between government revenue and expenditure can be categorized into three main competing hypotheses. First, the fiscal synchronization hypothesis implies that taxation

and spending decisions are simultaneously made by the fiscal authorities. In the Granger sense, this is known as a bi-directional relationship between tax revenue and government spending. Second, a unidirectional causality that runs from revenue to expenditure supports the so-called tax-and-spend hypothesis. The hypothesis indicates that, since government revenue causes changes in government expenditure, the control of tax revenue should represent a good policy to reduce the size of the government expenditure. On the other hand, the spend-and-tax hypothesis implies that government expenditure leads to changes in tax revenue. In other words, the chain of causality is running from government spending to tax revenue.

Empirical evidences with respect to the above three competing hypotheses are at best mixed. Musgrave (1966), Meltzer and Richard (1981), Miller and Russek (1990), Bohn (1991) and Bhat *et al.* (1993) supported the fiscal synchronization hypothesis. Studies by Friedman (1972, 1978), Buchanan and Wagner (1977, 1978), Darrat (1998), Blackley (1986), Marlow and Manage (1987) and Joulfaian and Mookerjee (1990); all indicated that government tax revenues lead expenditures. On the other hand, the spend-and-tax hypothesis is supported by studies done by Peacock and Wiseman (1961, 1979), Jones and Joulfaian (1991), Anderson *et al.* (1986), von Furstenberg *et al.* (1986) and Provopoulos and Zambaras (1991). Conversely, apart from those studies, Baghestani and McNown (1994) found that government expenditure and revenue are not interdependent.

Other studies on the government revenue-expenditure nexus found a diversity of results, depending on the time period used, lag length and also between different levels of government. For instance, Manage and Marlow (1986) found out that using different lag lengths gave different sets of results. Varying the lag length between two and five, the result indicates that in all cases the lower and most upper lag lengths suggest unidirectional relationship; a causal relation that runs from expenditures to revenues. On the other hand, the intermediate lag length provides support for bi-directional causal relationship between the two variables. Ram (1988) used both annual and quarterly data to examine the expenditures-revenues nexus for both Federal government and State and Local government.

The study arrived at conflicting results too. For example, using annual data, the results support the fiscal synchronization hypothesis at the federal government level. However, when quarterly data was used, the results suggest that causality runs from revenues to expenditures, thus, supporting the tax-and-spend hypothesis. But, at the state and local level, both annual and quarterly data indicate results that support the spend-and-tax hypothesis. In another study, Owoye (1995) studied the causal relationship between taxes and expenditures in the G7 countries. Despite the similarities in terms of the economic settings of the sample countries, Owoye found that the results of the causality relationships are not similar. The empirical results obtained from the error-correction models support the fiscal synchronization hypothesis for the U.S, Germany, U.K, France and Canada. This implies that the fiscal authorities in these countries make tax and spending decisions jointly. On the other hand, causality runs from revenues to expenditures in Japan and Italy, thus, supporting the tax-and-spend hypothesis.

METHOD OF ESTIMATIONS

It has been noted that the traditional Granger (1969) causality test for inferring leads and lags among integrated variables will end up in spurious regression results, and the F-test is not valid unless the variables in levels are cointegrated. New development in econometric offers the error-correction model (Engle and Granger 1987) and the vector autoregression error-correction model (Johansen and Juselius 1990) as alternatives for testing of non-causality between economic time series. Unfortunately, these tests are cumbersome and sensitive to the values of the parameters in finite samples and therefore their results are unreliable (Toda and Yamamoto 1995; Zapata and Rambaldi 1997). Furthermore, pretests are necessary to determine the number of unit roots and the cointegrating ranks before proceeding to estimate the Vector Error-Correction Model (VECM).

Toda and Yamamoto (1995) propose a simple procedure requiring the estimation of an 'augmented' VAR, which guarantees the asymptotic distribution of the MWald statistic even when there is cointegration. The Toda-Yamamoto causality procedure has been labelled as the long-run causality tests. One needs to determine the maximal order of integration d_{max}

which is expected in the model and construct a VAR in their levels with a total of $p = (k + d_{max})$ lags. Toda and Yamamoto point out that for $d=1$ the lag selection procedure is always valid since $k(1=d$. If $d=2$, then the procedure is also valid unless $k=1$. Moreover, according to Toda and Yamamoto, the MWald statistic is valid regardless whether a series is $I(0)$, $I(1)$ or $I(2)$, non-cointegrated or cointegrated of any arbitrary order.

To examine the causality between government expenditure and government revenue our structural VAR model consist of three $(p=3)$ variables; government revenues (GR), government expenditures (GE) and national output (Q).[1] Using Akaike's Information Criteria (AIC) as the lag selection criteria, say, the lag length chosen $k=2$. If $d_{max}=1$, then we must estimate a VAR(3). Suppose we want to test that GE does not Granger cause GR, we then test that GE_{t-1} and GE_{t-2} do not appear in the GR_t equation. The estimated system is:

$$\begin{bmatrix} GR_t \\ GE_t \\ Q_t \end{bmatrix} = A_0 + A_1 \begin{bmatrix} GR_{t-1} \\ GE_{t-1} \\ Q_{t-2} \end{bmatrix} + A_2 \begin{bmatrix} GR_{t-2} \\ GE_{t-2} \\ Q_{t-2} \end{bmatrix}$$
$$+ A_3 \begin{bmatrix} GR_{t-3} \\ GE_{t-3} \\ Q_{t-3} \end{bmatrix} + \begin{bmatrix} e_{GR} \\ e_{GE} \\ e_Q \end{bmatrix} \quad (1.1)$$

where A's are three by three matrices of coefficients with A_0 as an identity matrix. The null hypothesis is $H_0 : \alpha_{12}^{(1)} = \alpha_{12}^{(2)} = 0$, where $\alpha_{12}^{(i)}$ are the coefficients of GE_{t-i}, i=1, 2, in the first equation of the system. The existence of a causality from government expenditure to government revenue can be established through rejecting the above null hypothesis which requires finding the significance of the MWald statistic[2] for the group of the lagged independent variables identified above. A similar testing procedure can be applied to the alternative hypothesis that government revenue does not

Granger cause government expenditure, is to test $H_0 : \alpha_{12}^{(1)} = \alpha_{12}^{(2)} = 0$, where $\alpha_{12}^{(i)}$ are the coefficients of $GRt-i$, i=1,2, in the second equation of system equation (1.1) where the system is being estimated as a VAR(3).

Sources and Description of Data Used

The study utilised annual data series for all three variables, namely government revenues, government expenditures and output for the period 1960 to 1990. The real GDP series were utilised to proxy for national real output. All variables were compiled from various issues of the *Quarterly Bulletin* published by Bank Negara Malaysia.

THE EMPIRICAL RESULTS

The application of the Toda-Yamamoto approach requires information about the lag length (k) and the maximum order of integration (d) of the variables. The order of integration of each variable is not examined as a pretest. This is because in most cases, the order of the integration of macroeconomic variables are at most two. The causality test for both $d_{max}=1$ and $d_{max}=2$ is done after selecting the lag length.

In this study, the optimal lag length was determined using the AIC. Although the AIC chose k=1 as the optimal lag, we have presented k=2 and k=3 to show the robustness of the results at various lag lengths. We therefore estimated a system of VARs (p) where $(p=d_{max}+k=2, p=d_{max}+k=3, p=d_{max}+k=4; p=d_{max}+k=3, p=d_{max}+k=4, p=d_{max}+k=5)$ and then calibrated the MWald test statistics The result for $d_{max}=1$ and $d_{max}=2$ are presented in Tables 1 and 2 respectively. In each table we have also presented the respective p-values.

The test results in Table 1 clearly suggest that government revenue and government expenditure are bi-directional in nature. The results are robust irrespective of the number of lag length estimated. For all lag length chosen, lag 1, 2 and 3, indicate that the null hypothesis of Granger non-causality from government revenues to government expenditures is rejected

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1. Output is included in the analysis as a third variable because both government expenditures and government revenues are related to the overall conditions in the economy (see Payne, 1997). Furthermore, the inclusion of output is to alleviate the problem of spurious causal effects due to omitted important variable from the investigated relationship.
2. With the degree of freedom equal to the number of restriction imposed.

at the five percent significance level. At the same time, the null hypothesis of Granger non-causality from government expenditures to government revenues can be rejected at the five percent significance level for all lag length. These results support the fiscal synchronization hypothesis for Malaysia.

Our results in Table 2 suggest similar bi-directional causality that runs from government expenditures to government revenues and from government revenues to government expenditures in the case of $d_{max}=2$. The null hypothesis of Granger non-causality running from government revenues to government expenditures and from government expenditures to government revenues is rejected at the five percent significance level. The robustness of the results of both the $d_{max}=1$ and $d_{max}=2$ supports the existence of a two-way causal relationship between government expenditure and tax revenues in Malaysia.

CONCLUSION

Most of the empirical studies addressing the debate about the causal relationships between government expenditures and revenues have focused on developed nations. In addition, the procedures employed were based on the testing for unit root, cointegration, error-correction modeling and the vector error-correction modeling and Granger causality.

This study, however, adopts the methodology

TABLE 1

Results of long-run non-causality test due to Toda-Yamamoto (1995) for $d_{max}=1$

Null hypothesis	Test statistics	
	MWald statistics	p-values
k=1:		
Government revenue does not Granger cause government expenditure	18.484	0.000**
Government expenditure does not Granger cause government revenue	8.161	0.004**
k=2:		
Government revenue does not Granger cause government expenditure	33.110	0.000**
Government expenditure does not Granger cause government revenue	18.453	0.000**
k=3:		
Government revenue does not Granger cause government expenditure	36.663	0.000**
Government expenditure does not Granger cause government revenue	13.312	0.004**

Notes: Asterisk (**) denotes statistically significant at one and five percent level respectively.

TABLE 2

Results of long-run non-causality test due to Toda-Yamamoto (1995) for $d_{max}=2$

Null hypothesis	Test statistics	
	MWald statistics	p-values
k=1:		
Government revenue does not Granger cause government expenditure	18.960	0.000**
Government expenditure does not Granger cause government revenue	18.430	0.000**
k=2:		
Government revenue does not Granger cause government expenditure	31.962	0.000**
Government expenditure does not Granger cause government revenue	13.264	0.001**
k=3:		
Government revenue does not Granger cause government expenditure	53.645	0.000**
Government expenditure does not Granger cause government revenue	18.093	0.000**

Notes: Asterisk (**) denotes statistically significant at one and five percent level respectively.

of Granger non-causality recently proposed by Toda and Yamamoto (1995) to test the causal relationship between government expenditures and government revenues for Malaysia. The evidence, based on MWald-tests, generally supports the existence of the bi-directional causality between government spending and government revenues. The results are robust with respect to our assumption that the variables are $I(1)$ and $I(2)$.

The empirical evidence of bi-directional causal relationship implies fiscal synchronization in Malaysia. This suggests that the government compares the marginal benefits and marginal costs of any balanced budget change when formulating a decision in terms of the appropriate levels of government revenues and expenditures.

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The Relevance of Financial Development for Economic Growth: A Bounds Test Approach

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ABSTRAK

Tujuan kajian ini ialah untuk menentukan sama ada perkembangan kewangan adalah relevan untuk pertumbuhan ekonomi negara Malaysia bagi tempoh masa 1955 hingga 1997. Menggunakan "bounds test" yang dicadangkan oleh Pesaran *et al.* (1996), keputusan kajian daripada spesifikasi "linear" dan "log-linear" mencadangkan bahawa data tidak menyokong kewujudan hubungan jangka panjang di antara perkembangan kewangan dan pertumbuhan ekonomi bagi tempoh masa kajian.

ABSTRACT

The purpose of the study is to determine whether financial development is relevant for economic growth in Malaysia for the period 1955 to 1997. Using a bounds test proposed by Pesaran *et al.* (1996), our results suggest that using both linear and log-linear specifications, the data do not support the existence of long-run relationships between financial development and economic growth during the period under study.

INTRODUCTION

It has long been recognized that financial markets play a central role in economic development. Cameron-McKinnon-Shaw proposition has provided a recipe for developing countries to achieve fast economic growth by liberalizing the financial sector to interact with market forces. McKinnon (1973) argues that pervasive government intervention and involvement in the financial system through the regulatory and supervisory network, particularly in controlling interest rates and the allocation of credit, tends to distort financial markets. Recent study by Fry (1998) supported Cameron-McKinnon-Shaw contention where Fry found out that less financial distortion has contributed to the fast economic growth in the Asian region.

Currently in recent literature development, there are four strands surrounding the debate on financial development and economic growth. The first strand argues that the liberalization of the financial market can lead to further development in the financial sector and consequently support the economic growth. The conducive financial environment leads to the creation and the promotion of modern and sophisticated financial structure and system so

that it can meet the demand for financial services by the real sector can be matched. The proponents of the Cameron-McKinnon-Shaw have denoted this relationship as the supply leading or financial-led hypothesis.

However, the second strand disagrees on the role of financial sector as engine for economic growth. For example, Patrick (1966) and Ireland (1994) argue that instead financial sector the development of the financial markets is a result of economic growth.

The third strand however, argues that there is a possibility that economic growth and financial development grow hand in hand over time, the so-called bi-directional relationships. Finally, the fourth possible relationship between financial market and economic growth is that financial development is irrelevant for economic growth. For example, Lucas (1988) has pointed out that financial sector play a minor role in the progress of economic growth. Lucas contention is supported through an empirical study conducted by Dornbusch and Reynoso (1989). Dornbusch and Reynoso conclude that the evidence of financial factors playing an important role in economic development is an episodic and vast exaggeration.

The purpose of this study is two-fold. The first is to determine the nature of the relationship between financial development and economic growth in Malaysia using post-independence annual data from 1955-1997. For the last forty years, financial liberalization has been extensive and one of the prominent features of it is the liberalization of interest rates. Malaysia's Central Bank introduced a new interest rate scheme for commercial banks in October 1978. According to which commercial banks were freed to set interest rates on deposits and lending rates. However, since November 1983, all interest rates on loans and advances have been tied to the base lending rates of the two largest commercial banks. In fact the deposit rates of the finance companies, as well, became linked to the deposit rates of the two leading domestic banks (namely, Malayan Banking Berhad and Bank Bumiputra Malaysia Berhad) as of October 1985. In February 1987, all deposits rates at financial institutions were fully liberalized, although it was only in February 1991 that interest rates on loans became freed from the administrative control of the Central Bank. Apart from this, financial deregulation has promoted the development of modern and sophisticated money, foreign exchange and capital and futures market in Malaysia. The availability of various types of financial instruments will of course help in accelerating the growth of the economy.

Second, in this study we employ a recent technique proposed by Pesaran *et al.* (1996) to test for cointegration among I(1) or I(0) or fractional integrated variables.

METHODOLOGY

Review of Related Literature

Goldsmith (1969), McKinnon (1973), Shaw (1973), Fry (1988) and more recently King and Levine (1993) are among others who have provided evidence that financial development is a prerequisite for economic growth. Nevertheless, other researchers are skeptical with respect to the financial-led growth hypothesis. Dornbusch and Reynoso (1989) have questioned the conclusions of previous influential studies and have argued that the evidence in support of the financial-led growth paradigm is "episodic" and a "vast exaggeration". We believe that there are at least three reasons why the financial-led growth hypothesis is rejected in more recent studies. First, the conclusions reached by previous influential studies are subject to what Granger and Newbold (1977) dubbed as "spurious regression results". Traditionally, it has became general practice to regress one integrated series against another integrated series. However, Granger and Newbold have warned against using integrated series as it will invalidate the statistical tests on which hypotheses are commonly tested, and frequently leads to the acceptance of a spurious regression. Recently, Engle and Granger (1987) have introduced the cointegration methodology to avoid spurious regression problems. The cointegration approach provides a way in which the long-run information of the integrated series in level is conserved into equations that comprise stationary components (called the error-correction model) that give valid statistical inferences.

Secondly, as noted by Fry (1996 p. 1), "whatever positive effects of financial liberalisation were detected in the 1970s appeared to have become smaller over time". Several factors could contribute to the diminishing effect of financial liberalisation on economic growth. For example, it may be that other forms of financial repression exist in the economy, or that there are financial distortions in the form of high real interest rates and black market exchange rates.

Third, there may also be a "crowding-out effect" from other macroeconomic policies (The World Bank 1989; Fry 1996).

Since the work by Engle and Granger (1987), the method of cointegration has been a popular approach used in testing economic hypotheses; among others are the financial-led hypothesis, export-led hypothesis, law of one price, purchasing power parity, capital mobility, Wagner's law and so on. However, testing for the financial-led hypothesis using the cointegration approach is of recent application. Demetriades and Hussein (1996), Luintel and Khan (1999), Darrat (1999), Habibullah (1999), Lyons and Murinde (1994), Murinde and Eng (1994) and Thornton (1994, 1996) are among the few studies that have tested the financial-led hypothesis on several Asian countries.

Until now, however, there are only four studies that have incorporated Malaysia in their analysis. For example, using annual data for the period 1955 to 1990, Thornton (1994) found out that both ratios of broad money to nominal GDP and bank deposits to nominal GDP as

proxies for financial deepening, and real GDP as measure of real output are I(0). With two measures of financial development, Thornton arrived at two different inferences about the relationship between economic growth and financial deepening. Using ratio of broad money to nominal GDP, the causality runs from growth to financial deepening, but using bank deposits to nominal GDP, the causality is bi-directional. Using bank deposits to nominal GDP for the period 1956 to 1994, Luintel and Khan (1999) found that the financial depth variable and level of output (real GDP per capita) in Malaysia are I(1) process. This makes the cointegration analysis possible. Using a multivariate autoregression framework, Luintel and Khan found a two-way causal relationship between financial development and economic growth. On the other hand, using quarterly data for the period 1981:1 to 1994:4, Habibullah (1999) found that two measures of financial development – traditional broad money M2 to nominal GNP and divisia broad money M2 to nominal GNP, and economic growth proxy by real GNP are stationary in levels. Granger causality test results suggest that economic growth precedes financial deepening in Malaysia during the period under study.

Method of Estimation

Our task is to determine the causal direction between the two variables in question. Does financial development leads economic growth, or economic growth lead financial development, or two-way relationship exists between the two variables or financial development is irrelevant for economic growth?

In recent years, it has been the standard practice that before proceeding to estimation, the time series properties of the variables involved in the analysis has to be tested for their order of integration. After determining that the series are of the same order of integration, cointegration analysis is made possible. However, it has been pointed that the various integration test has low power and different approach of testing for integration can lead to different results (Bahmani-Oskooee 1998). This will impair the testing for cointegration when some of the variables are stationary and some are non-stationary in their levels. However, more recently, Pesaran *et al.* (1996) and Pesaran and Pesaran (1997) have proposed a robust testing technique

of testing for cointegration. The technique known as the Autoregressive Distributed Lag (ARDL) approach, has the advantage of testing for the existence of a long-run relationship irrespective of whether the underlying regressors are I(1) or I(0) or fractionally integrated process or mutually cointegrated. Using this approach, the pre-testing for the order of integration is not needed.

The unrestricted error-correction version of the ARDL model regression of y on x and time trend t, is as follows:

$$\Delta y_t = \alpha_0 + \alpha_1 t + \phi y_{t-1} + \delta x_{t-1}$$
$$+ \sum_{i=1}^{p-1} \varphi_i \Delta y_{t-i} + \sum_{i=0}^{q-1} \gamma_i \Delta x_{t-i} + \varepsilon_t \qquad (1.0)$$

The ARDL procedures involve two steps. First, the null of no cointegration defined by H_0: $\phi = \delta = 0$ is tested against the alternative of H_1: $\phi \neq \delta \neq 0$ by means of F-statistics. However, the asymptotic distribution of the F-statistic is non-standard irrespective of whether the variables are I(1) or I(0). Pesaran and Pesaran (1997) have tabulated two sets of appropriate critical value bounds – the upper and the lower bounds. One set assumes all variables are I(1) and another assumes that they are all I(0). This provides a band covering possible classifications of the variables into I(1) and I(0) or even fractionally integrated. If the computed *F*-statistics falls outside the critical value bounds, a conclusive decision may be drawn without having to know the order of integration or cointegration rank of the underlying variables. If the *F*-statistics falls inside those bounds, inference would be inconclusive and one would need to know the order of the integration of the underlying variables to proceed further. With respect to cointegration between variables, if the computed *F*-statistics lies above the upper level of the band, the null hypothesis of non-cointegration is rejected, indicating cointegration. If the computed *F*-statistics lies below the lower level of the band, the null of non-cointegration cannot be rejected, thus supporting lack of cointegration. To determine the effect of y on x, the following regression is then tested,

$$\Delta x_t = \beta_0 + \beta_1 t + \theta y_{t-1} + \lambda x_{t-1}$$
$$+ \sum_{i=1}^{p-1} \pi_i \Delta y_{t-i} + \sum_{i=0}^{q-1} \varphi_i \Delta x_{t-i} + \eta_t \qquad (2.0)$$

The *F*-statistics is then computed to determine whether the x and y is cointegrated. There are four possible outcomes that we can infer from the results from estimating equations (1.0) and (2.0). First, if non–cointegration can be rejected in equation (1.0) but not in equation (2.0), then x is said to have long-run causal for y. Second, if noncointegration can be rejected in equation (2.0) but not in equation (1.0), then y is said to have long-run causal for x. Third, if non-cointegration can be rejected in both equations (1.0) and (2.0), then y and x is said to have two-way causal effect. Finally, if non-cointegration cannot be rejected in both equations (1.0) and (2.0), then y and x is said to be independent of each other in the long-run.

Sources of Data

In this study we used annual data from the period 1955 to 1997. We defined financial development indicator (FD) as a ratio of bank deposits to nominal GDP (that is, broad money M2 excluding currency in circulation) and real output (EG) as real GDP (1990=100). Both data series were compiled from various issues of the International Financial Statistics Yearbook published by the International Monetary Fund.

The Empirical Results

In this study, in order to see the robustness of the results with respect to trend, in the analysis we estimate both equations (1.0) and (2.0) with and without linear time trend. Also, we consider the possibility of a simple non-linear long-run relationship between economic growth (EG) and financial development (FD) by examining the error-correction model in the logarithms of EG and FD. Further, since the choice of the orders of the included lagged differenced variables in the unrestricted error-correction model specification have a significant effect on the test results we estimate model in equations (1.0) and (2.2) of order p=q=1,2,...6.

In estimating equation (1.0), the F-statistics for testing the null hypothesis that the coefficient of EG_{t-1} and FD_{t-1}, ϕ_{EG} and δ_{FD}, are jointly zero, denoted by F(EG|FD) are given in Table 2.1 for the case of linear long-run relationship. The 95 percent lower and upper critical values of the *F*-statistic are given in Table F in Pesaran and Pesaran (1997). For models without linear time trends (Case II) they are (4.934, 5.764) whereas for models with linear time trends (Case III) they are (6.606, 7.423). The *F*-statistics reported in Table 1.0 for regression without and with linear time trend, did not exceed the 95 percent upper critical value bound in all cases except for p=q=1. Hence, we cannot reject the null hypothesis that there is no long-run relationship between the levels of EG and FD. On the other hand, for the log-linear models, our results suggest that the *F*-statistics calculated for the

TABLE 1.0

Test results for the existence of the long-run relationship between financial development (FD) and economic growth (EG)

p,q	Linear model: No trend	With trend	Log-linear model: No trend	With trend
A. *F*(EG|FD)				
1,1	9.15*	22.26*	1.63	1.93
2,2	1.79	5.50	1.38	1.36
3,3	1.40	5.80	1.49	0.76
4,4	0.88	3.55	1.32	0.43
5,5	0.79	3.43	1.76	1.37
6,6	0.43	3.51	1.72	0.94
B. F(FD(EG)				
1,1	3.42	2.25	5.11	8.53*
2,2	2.62	1.43	2.39	3.23
3,3	2.79	1.53	1.53	2.56
4,4	3.62	1.89	1.21	1.99
5,5	3.72	1.72	1.02	3.04
6,6	3.90	2.14	0.80	2.63

Notes: Critical values at 5 percent level are 4.934 and 5.764 for no linear trend, and 6.606 and 7.423 for linear trend in the model. Asterisk (*) denotes statistically significant at the 5% level.

logarithmic specifications give similar results, in that the null hypothesis of non-cointegration cannot be rejected (except one). Therefore, the test results in Table 1.0 taken together strongly suggest non-existence of a long-run relationship between economic growth and financial development in Malaysia for the period under study.

Having established that there is no long-run relationship between economic growth and financial development (in other words, they are independent in the long-run), we test for the existence of a short-run causal relationship using the traditional Granger (1969) causality testing procedure. Using truncation lags from 1 to 6, the results for both variables in linear and logarithmic specification for testing the short-run relationship are reported in Table 2.0. In the table, we report the results for both series stationary in levels (I(0)) and stationary in first-difference (I(1)). The results clearly indicate that in the short-run, when variables are specify linearly, irrespective whether they are I(0) in levels or I(1) in levels, causality runs from economic growth to financial development. Whereas when the variables are specified in log-linear form, financial development and economic growth are independent of each other.

CONCLUSION

In this study we have investigated the long-run and short-run relationship between financial development and economic growth in Malaysia. The annual data from 1955 to 1997 provide us with more than forty observations to test for the existence of a long-run relationship between the two variables. It is interesting to note that the second half of the data covers the deregulation era of the late 1970s until early 1990s. It is expected that the relationship between financial

TABLE 2.0
Test results of Granger causality between financial development and economic growth

Truncation lags	Financial development does not Granger cause economic growth:		Economic growth does not Granger cause financial development:	
	Levels I(0)	Levels I(1)	Levels I(0)	Levels I(1)
A. Linear model				
1,1	0.88	3.89	12.82	4.81
	[0.35]	[0.06]	[0.00]*	[0.03]*
2,2	0.63	2.82	10.65	13.81
	[0.53]	[0.07]	[0.00]*	[0.00]*
3,3	0.38	1.27	7.54	8.60
	[0.76]	[0.29]	[0.00]*	[0.00]*
4,4	0.49	0.98	5.47	7.80
	[0.73]	[0.42]	[0.00]*	[0.00]*
5,5	0.83	0.64	4.97	6.82
	[0.53]	[0.66]	[0.00]*	[0.00]*
6,6	0.92	0.50	4.32	4.87
	[0.49]	[0.79]	[0.00]*	[0.00]*
B. Log-linear model				
1,1	1.59	1.86	11.41	0.01
	[0.21]	[0.18]	[0.00]*	[0.89]
2,2	2.87	1.01	6.71	0.00
	[0.07]	[0.37]	[0.00]*	[0.99]
3,3	1.70	1.55	2.72	0.01
	[0.18]	[0.21]	[0.06]	[0.99]
4,4	1.93	1.12	2.00	1.06
	[0.12]	[0.35]	[0.11]	[0.39]
5,5	1.49	1.14	1.73	0.76
	[0.21]	[0.35]	[0.15]	[0.58]
6,6	0.98	0.77	1.00	0.54
	[0.45]	[0.59]	[0.44]	[0.77]

Notes: Asterisk (*) denotes statistically significant at the 5% level.

development and economic growth during this period would be stronger and significant.

In general, our results suggest that using both linear and log-linear specifications, the data does not support the existence of a long-run relationships between financial development and economic growth during the period under study. This implies that in the long-run, the growth of financial sector is irrelevant for the growth of the Malaysian economy. However, in the short-run, our Granger causality test results show that there is a unidirectional causality that runs from economic growth to financial development when using the linear specification. For the log-linear specification, the financial sector development and economic growth is independent in the short-run.

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