Applying Principles of Management Innovation in Advertising Agencies

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Abstract

With the advertising industry and practice changing significantly in the last decade, it is likely that the existing management practices in advertising agencies also need some transformation. Through exploring management innovation principles and practices, novel practices might be applied by advertising agencies to exploit changes in their environment and enhance organizational performance. This paper explores the application and framework for novel management practices in an advertising agency. A proposed model is based on the principles of management innovation and the activities needed to drive management innovation. The topic is relevant for advertising agencies to understand better management innovation possibilities and enhancement it could create for them to compete in new markets and stay ahead of new competition.

Introduction

Over the past three decades, the advertising industry has shifted to a are more dynamic, interactive, and fragmented environment. Significant changes have occurred, like fast-changing markets, new competitors, and new market demands put pressure on advertising agency existing business models, forcing them to transform to stay competitive (Faulconbridge et al., 2010; Horsky, 2006). In response to changes, advertising agencies have adopted new organizational models and expanded their offerings (Beverland et al., 2007); specialized and full-service agencies arose to offer digital media expertise and address the new forms of communication (Horsky, 2006; Hackley et al., 2007). Therefore, advertising agencies have implemented changes focusing on the agency's business structure, model or reacting to the market with new services (Koslow et al., 2006). It is interesting to explore those changes and how advertising agencies adjust their management practice accordingly.

New challenges require new management processes, constantly reviewing current practices, and managing change toward new practices (Birkinshaw et al., 2006; Kerber et al., 2005). Many firms have a strategy and structure for innovating products and services, but these changes require a significant change in how management performs (Mol et al., 2009; Vaccaro, 2010). According to Birkinshaw et al. (2008), the purpose of management innovation is to invent and implement a novel management practice, process, structure, or technique to enhance organizational performance. It is not about transforming existing processes using old management practices or reorganizing existing organizational structures, management innovation remodels how management is performed (Birkinshaw et al., 2006). Understanding management innovation enables management to generate new ideas, thoughts, and action experiments that they apply in business within the organization and respond to changes in the market.

The development of technology and digital media change the advertising industry landscape and introduces new challenges for the management of the advertising agency (Sinclair, 2016). Many agencies react to changes by innovating their services and being more creative, but there is unexplored space for advertising agencies to transform their management practice to achieve sustainable business practices for the new market environment (Beverland et al., 2007). For an advertising agency, the modernization of an organizational structure (Horsky, 2006), a transformation of a business model, and a new business strategy (Wilkinson et al., 2005) demand implementing more inventive and less traditional management principles and practices to manage new challenges and uncertainties.

To compete in new markets or stay ahead of the competition, advertising agencies cannot benefit from using practices from the past and the traditional way of doing business. Therefore, introducing new management practices is an essential topic for advertising agencies as they seek to upgrade their productivity, improve customer offerings, and retain competitiveness (Pil et al., 1996). Management innovation is an opportunity to transform the organization for new challenges and new competition (Damanpour et al., 2009), and it is a valuable contribution in rethinking organizational change and innovation in management in advertising agencies. In doing so, the novelty in management practice enables new practices and processes crucial to an organization's ability to sustain itself to remain competitive (Hamel, 2006).

This paper explores new management principles and practices for advertising agencies, applying immediate and practical actions, and changing how management drives innovation. To respond to challenges faced by advertising

agencies, it assumes that an agency can identify and apply a relevant management innovation that may not always be the case. The application of management innovation is the future of change management in advertising agencies. The practical contribution of the paper will provide valuable knowledge to experts and scientists to consider the application of managerial innovations in advertising agencies. Another practical contribution is in the space of startups and other knowledge-intensive business services firms.

Theoretical frameworks of management innovation

In recent years, innovation management has surpassed research space and has gained an important role and interest in management practice (Hamel, 2006; Birkinshaw et al., 2006; 2008; Mol et al., 2009; Vaccaro et al., 2012). Management innovation, according to Hamel, is "the application of novel management principles and practices; a departure from traditional organizational forms that significantly alter the way the work of management is performed creating long-lasting advantages and producing shifts in competitive advantage" (Hamel, 2006). While Birkinshaw, Hamel, and Mol define management innovation as the invention and implementation of novel and diverse management practices intended to realize organizational objectives (Birkinshaw et al., 2008).

Novel managerial processes bring a novel perspective to the nature of managerial work facing future challenges, not as a one-off process, but continuous review and openness to innovation. That change of management is a source of competitive advantage (Vaccaro et al., 2012). Transforming a firm's management assumes managing wanted changes with the interaction between new management practices and new management ideas. Even if a firm may initiate transformation internally, this is not isolated from the market environment (Mol et al., 2009).

Even though a firm may leverage management innovation by introducing novel management practices and principles in an existing organization, management innovation represents organizational change and change management. While in a broader sense, management innovation is the difference in the form, quality, or sustainability of management practices in an organization, it is a form of management transformation (Birkinshaw et al., 2006; 2008). Firms can act on various organizational and strategic activities to achieve management transformation in order to introduce new principles, new approaches, new business models, organizational structures, and manage change. Constant experimentation and new ways of doing business are essential when firms need to upgrade their business model, improve customer offering and maintain competitiveness (Mol et al., 2009). It focuses on a firm's business processes, different foundations, and routines within organizations on the operational level. Furthermore, that means designing a sustainable competitive advantage.

Given the complexity of the market, globalization, competition, technology development, and uncertainty, today is not enough to innovate solely in a new product or service space. Therefore, innovations in management for many firms drive competitive advantage and represent a way to survive in the fast-changing market. Firms that embrace management innovation as part of organizational processes and invest in its implementation consistently advance long-term in potential returns for performance and sustainability (Basile et al., 2015). Applying novel management principles and practices improve work and business performance (Hamel, 2006). Moreover, management innovations can be used to ignite and shape an

organization in terms of intrinsic motivation, ideation, experimentation, and learning (García-Morales et al., 2012; Stata, 1989).

There is an answer to modern organizations' challenges and problems in novel management principles and processes, especially for firms that face the challenges of new competition and new markets. Management innovation is a direction for managing change and the way managers do what they do.

Challenges for advertising agency management and organization

Challenges of new technologies and digital media

New technologies and digital transformation markets, bringing challenges and opportunities to the advertising industry and advertising agencies. In this new dynamic environment, the media is not just a channel where messages travel one way from brand to consumer. Today, the media are a communication platform where content and messages are exchanged interactively (Heller Baird et al., 2011; Fuchs et al., 2011). The challenges and changes impact advertising agencies' work from brand management and creative work to production and content creation (Hargadon et al., 2000). Changes also resulted in new communication channels, marketing communication strategies, and novel interaction opportunities for brands and consumers.

Challenges of new technologies and digital media bring significant opportunities to the advertising industry but have increased the risk of a sustainable business model for advertising agencies (Wind et al., 2009; Freytag and Clarke, 2012). Mainly in response to change, advertising agencies introduce new services or products for their clients while maintaining their existing business model (Freytag et al., 2012). Moreover, they combine new technologies and capabilities of digital media into their traditional services and activities.

Notwithstanding, new technologies and digital media require more than integrations into existing advertising agency services and activities. The application of these technologies and media introduces new possibilities in terms of brand management, marketing communication strategies, content creation, media planning and buying, creativity, and production, and as such, challenge advertising agencies from the point of organization and management.

Technology and digital media play a significant role in the business and lives of consumers. Both directions influence advertising agencies to transform their business models in terms of technology-related organization and in terms of their digital media-related services (Freytag et al., 2012). Historically according to traditional agency organizations, advertising agencies perform four main activities: brand management, creative work, production, and media planning and buying (de Gregorio et al., 2012). Within the traditional advertising agency model, there is a space for innovation in operational activities such as customer experience, integrated planning capabilities, real-time insights, the ability to integrate quantitative and qualitative real-time data analysis, co-creation, network media purchase optimization, and project management (Hipperson, 2012). In operational activities, creativity and innovation play an important role. That has been significantly increased with the complexity of technology and digital media.

Compared to traditional advertising, new technologies and digital media have opened new opportunities for brands and consumers - new communication channels and the possibility of creating an emotional connection between the brands and consumers (Hargadon et al., 2000). Recent development demonstrates

that digital media can generate new forms of advertising. Through diverse types of brand channels, consumers have the ability to interact with the brand or seek brand information when it suits them (Kotler, 2012).

The role of traditional media, television, radio, print, outdoor advertising is one-direction communication in conveying information from a brand to a consumer. Therefore, the content is consumed as a brand's information or a message delivered through a particular medium to the consumer (Fuchs et al., 2011).

Traditional and digital media do not exclude each other; on the contrary, they are planned through an integrated marketing communication strategy to generate more effective results for the brand (Kotler, 2012). Although the importance and possibilities of digital media are increasing, traditional media still have their role and importance (Danaher et al., 2011). Data can be seen in research results, as a slow decline in television advertising spending, a sharper decline in print advertising costs, and the significant increase in digital advertising investments over the recent years (WARC Global Ad Trends, 2020). The traditional and digital marketing communication strategy considerably influences the effectiveness of advertising (Danaher et al., 2011), where digital media is used innovatively and with the right content can effectively help brands in the effectiveness of advertising (Hargadon et al., 2000).

Until recently, the relationship among advertising agencies, brands, and consumers was based on traditional media and advertising. On the same assumptions, this affected the organization and business in the agency.
The complexity of today's industry leads to a shift in the interaction and collaboration of advertising agencies, brands, and consumers (Deuze, 2007; Auletta, 2005), and consequently, to the need for innovations in management. Innovations are required not only in advertising agency work but also in collaboration and processes, in the approach to how advertising agencies do what they do.

Brands and consumers seek new ways of collaboration from advertising agencies (Deuze, 2007). The role and power of consumers in digital media are significant, and advertising agency no longer has the exclusive creator and producer role. Their role is changed to moderator and co-creator in the communication serving brands in digital media (Deuze, 2007). The position of advertising agencies and how they realize their services for brand and with consumers are changed for good.

Digital media is a platform for brand-building strategy and a platform for establishing communication and relationships between brands and consumers (Heller Baird et al., 2011). New relations provide new ways to manage communication, interaction, information delivery, and new dimensions for the brand-consumer relationship. This is the reason why brands are changing their advertising strategies and advertising budget on all media channels.

Challenges of new technologies and digital media imply challenges for advertising agency management and organization. We can summarize three groups of changes for advertising agencies. The first relates to the increase in the number and diversity of media channels resulting in new knowledge, strategies, planning, and management. The second group is to manage constant changes in the advertising market. Furthermore, the third is the organization and cooperation of advertising agencies, clients, media, and consumers. Consequently, the types of services provided by advertising agencies have been changed and resulted in the need for innovations in management - in the approach to how advertising agencies do what they do.

Challenges of the traditional organization and management

Today, advertising agencies face new competition challenges, including consulting firms, in-house marketing departments, freelancers, and software solutions that are replacing agency services. Accordingly, attempting to reorganize existing practices using old approaches or introducing new services in response to market needs did not result in new competitive advantages or the desired progress for advertising agencies (de Waal Malefyt et al., 2010).

The market has changed, the roles of market players have changed, the media have changed, the market changes are constant. Therefore, they need to be translated in the form of modernization of the advertising agency business, more specific management. That leads to a need for new business models, new ways to organize, plan, lead, and collaborate (Freytag et al., 2012). Resilience, sustainability, and innovation in management are needed for the future.

Many advertising agencies have changed their business services or business model to take advantage of market opportunities. In hindsight, primarily as reactions to the market changes and ensuring survival. Today, advertising agencies are not an innovation-driven engine that builds markets for brands (Kotler, 2012; MacRury, 2018) as they were in the 20th century.

Accordingly, little attention is paid to innovations that are equally or perhaps more important: management innovations. Management innovations design and implement new management practices, processes, structures, or techniques (Birkinshaw et al., 2008). The benefits of these innovations assure advanced organizational performance in terms of innovation, productivity, and competitiveness.

Changes in technology and digital media are a source of needs and inspiration for advertising agencies' businesses. New ways of doing business refer to leveraging new capabilities and innovation within the advertising agency to create value and business performance (Figure 1).

Figure1
Advertising agency framework from capabilities to business performance
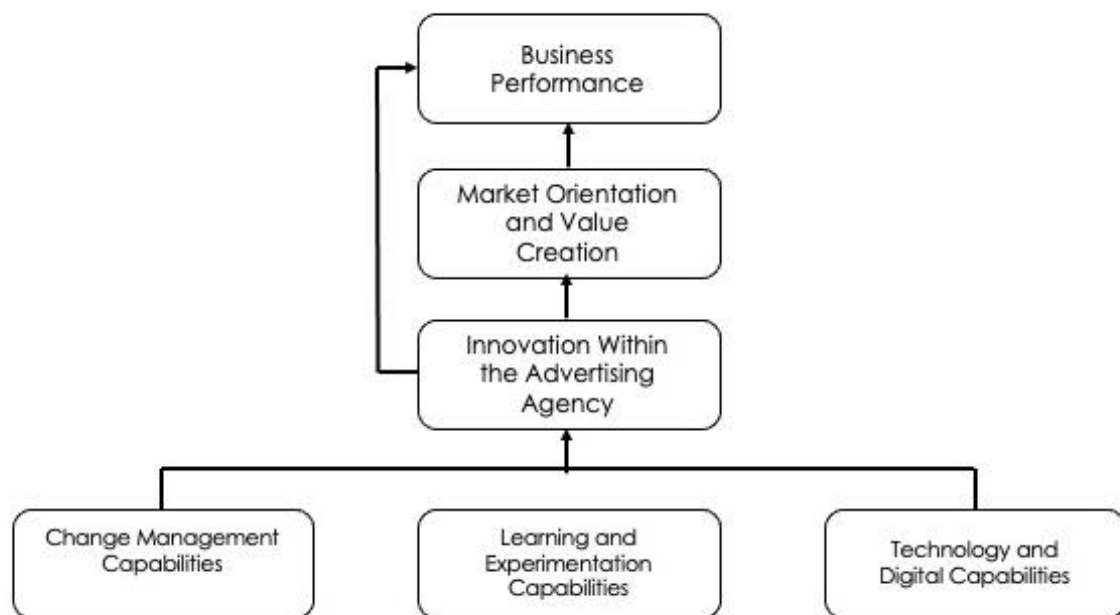
Source: Author's illustration

Changing markets require new management practices focused on navigating the current, planning for change, and implementing management innovation activities (Freytag et al., 2012; Mol et al., 2009).

There is an opportunity to take advantage of change and target business goals regarding new markets. Because it is not good enough to respond to market changes in the traditional way, innovation is needed for the organization's future and management.

Changes obtain opportunities for advertising agencies in a new way of doing business, collaborations, and a new business model (Freytag et al., 2012). Experiencing fast-changing markets and uncertainty, the business performance of advertising agencies will depend on how effectively they test, learn, and innovate in terms of management practices and processes.

Marketing is the business that best understands and even anticipates the needs and opportunities of the market (Kotler, 2012; MacRury, 2018). Advertising agencies are part of that industry; therefore, they must understand the changes and leverage for novelties in organization and management. How well an advertising agency can innovate in the management space will significantly determine how its business will manage change and business performance.

Model for the application of management innovation in an advertising agency

Management innovation can serve as a foundation for managing change and a catalyst for future business performance (Hamel, 2006). Novel practice enables business performance allowing firms to redeploy resources where they matter most.

For advertising agencies, it is vital to build capabilities alignment and accelerate innovation in an organization as part of the management practice. This includes designing novel practices through management innovation initiatives. There are several considerations when assembling the management team that will drive management innovation initiatives. It is essential to select a cross-functional management team of collaborators, change agents, and future leaders, inspired and inspiring individuals who want to make a difference (Anderson et al., 2007; MacRury, 2018).

Advertising agency workplace is a combination of creativity and problem-solving, organizing work through the collaboration of creative and analytical skills. Leaders manage different types of talents, internally cross-functional and externally collaborative. In addition to complexity for management, there is an extended team of external advisers, freelancers, and supporters who act as a functional extended project-based team. Everyone mentioned has a role to play in the management innovation, and novel practice can make a difference. Organization and whole management should feel purpose and motivation derived from an innovation that delivers energy and enthusiasm.

Advertising agencies start transforming their business models (Freytag et al., 2012). Thus, innovation management practices and processes are a way to support innovation behavior and enhance capabilities for business performance.

Management innovation is an important initiative necessary for a modern advertising agency to move with speed and flexibility. With novel management principles, agencies should be aware of its transformational impact on organizations and processes (Mol et al., 2009).

A significant change in the organizational design of advertising agencies is agility. As a decentralized and collaborative model, agile is crucial for working in a fast-

changing environment (MacRury, 2018; Rigby et al., 2018). Organizing agile teams around specific project goals ensures connection to an innovative way of working (Rigby et al., 2018). Agility has contributed to this novel practice, quickly replacing anything that does not create value.

Innovation management implies more than reorganization, new services, or establishing multifunctional collaboration. Advertising agency innovation in management requires the participation of the whole organization (Birkinshaw et al., 2008).

Current issues of transformation practice in an advertising agency are a lack of commitment to change and a lack of clarity about addictions. Without understanding the need for novelty in management practices, firms naturally gravitate to work on things they know best or are most excited about, in a way neglecting opportunities.

Modernizing advertising agency capabilities requires management innovation. Framework for approaching the activities needed to drive management innovation is a three-pillar shift that could provide a foundation for change (Figure 2).

Figure 2
Framework for approach the activities needed to drive management innovation
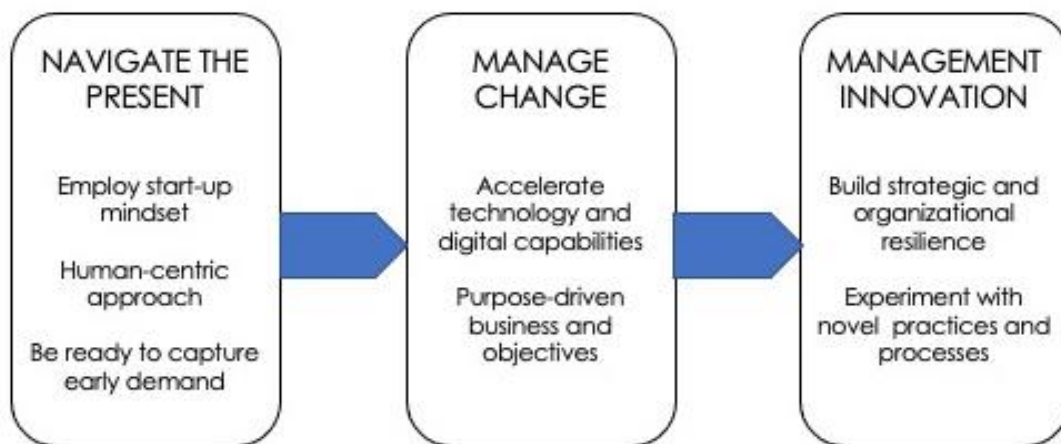
Source: Author's illustration

Given the complexity of the advertising agency and advertising industry, three initiative pillars should be considered in management: to navigate present, manage constant change and uncertainty, and organizational design capability to innovate management practices. The relation between a business model and management innovation may operate through the management's practices concerning the activities at the operational level, planning, and coordination in the workplace environment (MacRury, 2018). On the strategic and organizational level, everyone in an advertising agency organization has a role to play in management innovation for a novel practice to make a difference.

Conclusions

This paper suggests that in the new advertising industry landscape, implementing novelty in established advertising agency management practice as a particular form of organizational change will be a requirement to enhance business performance. At the same time, those challenges accelerate access to a broad

range of new possibilities. Building new practices is about learning, experimentation, and creativity, which are essential for management innovation.

In recent years some advertising agencies have changed their organizational structure or even business model to benefit business performance (Koslow et al., 2006), and only a few consider innovation in management (Hackley et al., 2007). Attempts to transform existing practices using old management principles and processes leave advertising agencies with many challenges. Management innovation can change the focus to novel management practices from managing change to enhancing organizational performance and competitiveness.

Advertising agencies' business is changing with new technologies and digital media, while the advertising industry landscape is reshaping at an accelerated pace. Therefore, management innovation initiatives represent a powerful approach to enabling advertising agencies to sustain competitiveness in times of change. First, management should look beyond externally created best practices, frameworks, techniques, and tools. The second significant activity is to adapt to market opportunities using lean and agile processes designed to fit an organization's culture and structure. Third, to involve diverse talents in the design of the transformation process, and fourth, to meet customer demands by embedding the means for continuous innovation that illuminate new approaches to business.

In conclusion, advertising agencies should be aware that implementing management innovation can play a significant role in ensuring their businesses navigate uncertainty and position them to succeed in fast-changing markets. As management innovation focuses on building new practices, learning, experimentation, and creativity, novel management practices could accelerate access to a broad range of new possibilities for advertising agency organization performance.

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