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What Drives Renewal of Sponsorship Principal/Agent Relationships?

The relationship between advertising agencies and their clients has been the subject of some research, including studies conceptualizing it from an agency theory perspective. The increasingly important relationship between sports (or art) properties and their sponsors, on the other hand, while recognized as crucial for the long-term success of the sponsorship agreement, has remained shrouded in mystery, with little or no research aiming to establish and understand the antecedent of sponsorship renewal. This article reports on an exploratory dyadic study examining the effects of market orientation, trust, and commitment on the principal’s willingness to renew the sponsorship relationship. The leading sponsorship property in Australia, the Australian Football League (AFL), and its major sponsors provided the empirical context for this study.

There is a notable lack of research, be it conceptual or empirical, into the mechanics of the focal sponsorship relationship (i.e., that between a property such as The New York Yankees, the IOC, or Manchester United and any of their sponsors). More particularly, how both parties work jointly to generate value from the relationship remains unclear. Similarly, there have been few attempts at considering sponsorship from a relationship marketing perspective despite the fact that the alliance between sponsors and sponsored properties clearly reflects the type of long-term business-to-business relationship from which the relationship marketing paradigm initially evolved (Gronroos, 1996). Noteworthy exceptions include articles by Cousins and Slack (1996) and Cousens, Babiak, and Slack (2001), who used the relationship marketing framework to examine particular relationships deemed important in the sports industry, including those linking professional sports properties with broadcasters, sponsors, and merchandising and licensing firms.

Companies engaging in marketing communication activities almost inevitably do so within the framework of business relationships. Today, rare are the companies whose advertising or sales promotion or sponsorship campaigns are developed in-house. Instead, outsourcing of communication has become the norm, and as a result, the bond that develops between firms and their advertising agencies has become important. This is reflected in the literature, with many studies investigating the antecedents of longer-term relationships such as those between advertising agencies and their clients (Davies and Prince, 1999; Mathur and Mathur, 1996; Michell and Sanders, 1995; Verbeke, 1989).

Based on a similar logic, some authors have applied an agency theory approach to their examination of the special relationship that binds advertising agencies and their clients (Ellis and Johnson, 1993). They have argued that considering the advertising agency as an agent and the advertiser as a principal places a much needed focus on those aspects of the relationship where goals may differ and conflict may arise, and that this is a useful first step in diagnosing opportunities to advance cooperative behaviors. Indeed, Logan (2000), in an article dealing with transportation issues, makes the case that any type of outsourcing (including advertising and, we argue, sponsorship) would benefit from such an agency theory approach.
Sponsorship Renewal

perspective. According to the agent theory school of thought, principal and agents enter into a relationship because of the benefits of specialization and as a means to control risk (Logan, 2000). However, problems may arise when the two parties have different goals or when there are difficulties for the principal in measuring what the agent is actually doing (Eisenhardt, 1989).

Sponsorship is an increasingly important tool of marketing communication for which the conditions between principals and agents described above clearly apply. Its effects have been observed in terms of product advertising, with sponsorship acting as an advertising cue associated with perceived quality (Dean, 1999), or in terms of corporate advertising, with sponsorship adding value to the company’s image (Stipp and Schiavone, 1996). Yet despite the flexibility and potential contribution of sponsorship to the overall communication strategy and its increasing importance in the communication budgets for many leading brands, the agency theory framework has never been applied to the specific context of the sponsor/property relationship.

Clearly, in the sponsorship relationship, the principal is the sponsor, if only because of the fees paid to the property for services rendered. However, the determination of the duties of the property is somewhat less clear than is the case for most other agents, due to the largely unspecified role they have to play. Moreover, the contribution in terms of brand image or association, which the property/agent can deliver to the sponsor/principal as part of this role, is largely intangible. Nevertheless, as with any other principal/agent relationship, the decision to renew the agreement must surely be based upon the sponsor’s perception that the property has delivered a valued outcome despite the notorious difficulties sponsors encounter in evaluating the tangible outcomes of their investment.

Given this premise, any investigation of sponsorship renewal must primarily examine the specific antecedents of the principal’s intention to renew. These antecedents, however, may stem from either or both sides of the relationship. To the authors’ knowledge, however, no research has been undertaken that seeks to identify critical business-to-business relationship concepts such as the level of market orientation of both sponsors and properties (that is, the extent to which they are market driven) or commitment and trust. This article reports the findings of an exploratory study that examines the impact that the market orientation of sponsor (principal) and property (agent) may have on the principal’s level of commitment and trust in the relationship and, in turn, its intention to renew.

The empirical context for this exploratory study is the Australian Football League (or AFL). AFL sponsors include the majority of major Australian sponsors and represent more than 60 percent of all major sports sponsors in Australia (CEASA, 2001). They include organizations such as Coca-Cola, NIKE, Toyota, Vodafone, Ford, and Adidas. As such, the results from this survey, while clearly not representative of all other sponsorships, may provide some relevant guidelines for other properties and sponsors globally.

The article begins with a brief definition of the key concepts examined in relation to the principal’s renewal, namely market orientation, trust, and commitment. A model and a series of related hypotheses are then developed based on this review. The methodology implemented for testing the model and hypotheses is then described, followed by the final sections detailing results, managerial implications, and recommendations for future research.

Market Orientation and Sponsorship

A market orientation is said to be a critical organizational resource (Hunt and Morgan, 1995) and is considered fundamental to generating superior performance for the firm and superior value for the customer (Deshpande, Farley, and Webster, 1993; Deshpande and Webster, 1989; Han, Namwoon, and Srivastava, 1998; Narver and Slater, 1990; Siguaw, Simpson, and Baker, 1998; Slater and Narver, 1994). Market orientation is essentially the implementation of the marketing concept. Customer focus and the generation of value are at the heart of the marketing concept and thus a critical feature of market-oriented companies. The theoretical basis for a link between market orientation and performance was elucidated as early as 1958 by McKitterick (1958), who highlighted that firms in a competitive environment must be aware and responsive to customer needs or rivals will outsmart them with products more attuned to these needs and capture their market share.

The definition of market orientation put forward by Cadogan and Diamantopoulos (1995) is adapted in this study to better represent the sponsorship relationship: “Sponsorship market orientation is indicated by intelligence generation, intelligence dissemination and responsiveness activities, characterised by a customer and competitor orientation, and guided by a coordinating mechanism which ensures that all sponsorship related activities are carried out effectively and efficiently” (p. 11). This definition was selected because it emphasizes market-oriented behaviors and refers to a “coordinating mechanism” that can account for exchange dynamics unique to business-to-business relationships, including sponsorship.

Importantly, we propose to include market orientation of both principals (sponsors) and their agents (properties) in this
study. Dyadic research of this nature is vitally important as organizations are increasingly using sponsorship as a platform on which the entire brand (and sometimes corporate) positioning is based (Cornwell, 1995). Examples include Visa and their long-term involvement with the Summer and Winter Olympics. Visa has utilized sponsorship as a focal hub of its branding strategy and activated a wide spectrum of above- and below-the-line initiatives based on this sponsorship association. They attribute much of their recent success to this sponsorship-led strategy (Farrelly, 1999).

COMMITMENT, TRUST, AND SPONSORSHIP
Anderson and Weitz (1992) conceptualized commitment as a preparedness to act (sacrifice) to generate positive commercial return over the long term. Commitment-related behaviors, including those associated with investment to activate the relationship, are central to this research as such behaviors and associated outcomes are what ultimately sustain the sponsorship relationship. In the present study, commitment is defined as “a willingness by the sponsor to make short-term investments with the expectation of long-term benefits from the relationship.”

In the sponsorship context, these additional investments as “activation”-related activities comprise the allocation of additional resources (over and above the initial rights fees) to promote or leverage the brand association. The importance of activating or leveraging the sponsorship relationship has been continually highlighted in the sponsorship literature. Farrelly, Quester, and Burton (1997) studied the comparative importance attributed to activation by U.S.- and Australian-based sponsors, and the positive effect of leveraging on performance has been demonstrated empirically in a number of studies (e.g., Cornwell, Roy, and Steinard, 2001; Quester and Farrelly, 1998; Quester and Thompson, 2001).

The broader business-to-business literature highlights that one critical factor determining the performance of an alliance is the degree of trust between partners (Siguaw, Simpson, and Baker, 1998). Trust is often discussed as encompassing a cognitive element (based on credibility and task reliability) and a strong affective element (based on benevolence and goodwill). Indeed, trust is so important to alliances that it is considered the “cornerstone of the strategic partnership” (Spekman, 1988, p. 79). The definition adopted in this study is a minor adaptation of the one put forward by Rousseau, Sitkin, Burt, and Camerer (1998) after they carried out an extensive review of the trust concept. Trust is defined as “a psychological orientation comprising the intention to accept vulnerability based upon positive expectations of the intentions or behaviour of the other party in sponsorship dyad (p. 395).”

Trust reassures sponsors that the association has been or will be worthwhile and that the property has endeavored to ensure success for both parties. Because trust has been shown to precede commitment in channel relationships (e.g., Morgan and Hunt, 1994), it is reasonable to assume that a sponsor’s preparedness to invest further resources into the relationship may be contingent on the level of trust prevailing between the sponsor and property. Trust should also play a major role in the renewal of a sponsorship agreement from which both parties are likely to seek even greater returns by virtue of the cumulative benefits accruing through earlier marketing communications efforts.

Model and hypotheses for this study
The model shown in Figure 1 reflects a causal ordering derived from the literature

![Figure 1 Hypothetical Model](image-url)
reviewed above and an understanding of sponsorship practice. This model posits that the market orientations of both sponsor and property market orientation are important antecedents of sponsor commitment (H1 and H2, respectively) and trust (H3 and H4, respectively). It also posits that trust will act as an antecedent to commitment (H5) and that trust and commitment will in turn determine the principal’s intention to renew the sponsorship relationship (H6 and H7, respectively).

**METHODOLOGY**

Given the exploratory nature of the study, our empirical context was one of convenience. The AFL is the most prominent domestic sponsorship entity in the Australian marketplace, based on the major indicators (attendance, TV audience, media attention, members, fan loyalty, and broad socioeconomic impact) used by sponsors when considering a sponsorship prospect (Street-Ryan Research, 1998). Excluding the Olympic Games, the AFL attracted 60 percent of all domestic sponsor revenue spent on both rights fees and sponsorship leveraging for 2000 (Burbury, 2001).

The data were collected using a structured questionnaire completed either during a personal interview (when examining multiple relationships) or sent to sponsors and clubs for self-administration (when examining single relationships). Despite the costs and efforts involved, administering the questionnaire via personal interviews was deemed essential to ensure the accurate completion of questionnaires when measuring multiple relationships from either the principal’s or agent’s perspective. The questionnaire was developed after an extensive qualitative phase and its wording made it clear that its purpose was to identify the respondent’s opinion based on their own experience rather than a right or universal answer.

Before proceeding to the analysis, however, a comparison of the responses obtained by the two data collection modes was undertaken. Only 5 of the 23 grouped questions included in the survey were found to have significantly different mean responses between those who were interviewed and those who self-completed, at the .05 percent significance level. However, given that the average difference in mean in each case was less than 1 percent, the effect of the data collection method was deemed minimal and unlikely to distort the findings.

The questionnaire was thoroughly pre-tested to ensure that appropriate meanings were ascribed to the items included in the questionnaire and that the constructs effectively captured the desired concepts. The pretest involved 20 of the largest sponsors of sports properties (but not AFL ones) that had been involved in sponsorship with a number of sport properties for at least three years. The relationships considered in the pretest were all major investments in sponsorship in Australia, involving deals in excess of AUD $1M (Farrelly, 1999). As a result of the pretest, a small number of items were modified and six items were deleted.

All constructs in this study, with the exception of the intention to renew, were measured using multi-item Likert-type scales adapted from prior studies (e.g., Dawes, 2000; Jaworski and Kohli, 1993; Narver and Slater, 1990) and hence previously validated in other contexts. Likert-type scales are commonly used in empirical studies pertaining to each of these constructs (e.g., Anderson and Weitz, 1992; Baker, Simpson, and Siguaw, 1999; Mohr, Fisher, and Nevin, 1996). The “intention to renew” construct was measured in the principal’s questionnaire using a Juster scale to determine the likelihood that the sponsorship agreement would be renewed where zero indicated no chance of renewal, and 100 percent indicated that the sponsorship relationship would definitely be renewed at the end of the current contract period. The decision to use a Juster rather than a Likert scale was made based on feedback from the pretest: a participant in the pretest noted that pre-planning decisions about sponsorship renewal are often made based on a rationale and “justification level” (expressed in percentage terms) as to why such a relationship should be renewed.

The total number of items was kept to a minimum as the questionnaire had to be completed several times by many respondents. Seven sponsors and all club respondents had responsibility for multiple relationships (e.g., a major apparel company sponsored five clubs with four of the five club relationships the responsibility of one individual). Consequently, some of our respondents completed the questionnaire as many as four times. Wording was also adapted to suit the sponsorship context. Finally, the agent/property questionnaire mirrored the principal/sponsor questionnaire in terms of item number and sequence, with minor wording changes as appropriate to reflect their different perspective.

A managerial focus influenced the selection of items, which covered intelligence gathering, dissemination, and responsiveness. Senior management perception of sponsorship and involvement in decision making (which may indirectly affect intelligence dissemination) was included in the market orientation construct, as senior management involvement has been shown to have a positive effect on sponsorship sourcing and perceived outcomes (Farrelly, Quester, and Burton, 1997). The five items used to measure behavioral commitment were adapted from those originally developed by Anderson and Weitz (1992). Ganesan (1994) argues that trust appears to consist of at least two important dimen-
sions: credibility and benevolence. In this study, seven items were used to tap into the two aforementioned dimensions.

RESULTS

From a total of 54 protected sponsor relationships in the AFL, 46 matched sets were captured (or 92 completed questionnaires from both parties to 46 different sponsorship relationships), representing a total response rate of 86 percent. This response rate is very high relative to comparable studies. The model shown in Figure 1 was examined and tested using AMOS. AMOS is an appropriate tool for examining measurement models, allowing an assessment to be made regarding the convergent validity of the constructs. The advantage of using covariance structure analysis was that it provided a test of the theoretical structure of the measurement model. A correlation matrix of the variables in the model was constituted, as shown in Table 1, suggesting several highly significant correlations between the variables included in the conceptual model.

The analysis then proceeded to examine the causal relationships between these variables in explaining the levels of trust and commitment and the intention to renew. The model, shown in Figure 2, provided good indicators of fit (\( \chi^2 = 8.774, \ p = .187 \)). The GFI (0.91) and AGFI (0.97) are close to 1 signifying an almost perfect fit with the data. Similarly, the RMSEA (0.001) confirms that the model fits very well. Good model comparisons between the null model and hypothesized model were found, with TLI (1.00), NFI (0.97), and CFI (1.00) very close to 1, indicating a very good fit.

According to the test of the model, five of our seven hypotheses are supported by the data. The results concerning the testing of propositions are summarized in Table 2 where some unexpected results are shown. While the sponsor’s market orientation had a positive effect on its trust and commitment, the property’s market orientation impacted upon its sponsor’s trust but not on its level of commitment. The results also show that the level of the sponsor’s trust had a positive impact on its commitment to the relationship but did not directly impact renewal intention. The sponsor’s commitment, by way of the activation of the relationship, did however directly (and positively) impact renewal intentions.

Discussion, implications, and directions for future research

The fact that AFL sponsors/principals’ perception of their properties’ market orientation is not an antecedent of their commitment to the relationship suggests that properties/agents may not be investing sufficiently in the ongoing activation of the relationship. Clearly, while properties’ market orientation may signal to their sponsors some commitment to the relationship, their level of marketing involvement in relation to this relationship does not appear to suffice in compelling sponsors to commit further resources to activate the relationship.

The results suggest that when AFL sponsors do decide to commit to the relationship, they do so based on their own market evaluation and independently from the

![Figure 2 Results in Standardized Regression Coefficients](image-url)
TABLE 2

Summary of Results for Hypotheses Testing

<table>
<thead>
<tr>
<th>Propositions</th>
<th>Expected Sign</th>
<th>Standardized Regression</th>
<th>t-Value</th>
<th>Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1: Sponsor MO → sponsor commitment</td>
<td>+</td>
<td>.529</td>
<td>5.036***</td>
<td>Yes</td>
</tr>
<tr>
<td>H2: Property MO → sponsor commitment</td>
<td>+</td>
<td>-.005</td>
<td>-.0641</td>
<td>No</td>
</tr>
<tr>
<td>H3: Sponsor MO → sponsor trust</td>
<td>+</td>
<td>.232</td>
<td>2.045*</td>
<td>Yes</td>
</tr>
<tr>
<td>H4: Property MO → sponsor trust</td>
<td>+</td>
<td>.244</td>
<td>2.381*</td>
<td>Yes</td>
</tr>
<tr>
<td>H5: Sponsor trust → sponsor commitment</td>
<td>+</td>
<td>.390</td>
<td>2.896*</td>
<td>Yes</td>
</tr>
<tr>
<td>H6: Sponsor trust → renewal</td>
<td>+</td>
<td>.222</td>
<td>1.567</td>
<td>No</td>
</tr>
<tr>
<td>H7: Sponsor commitment → renewal</td>
<td>+</td>
<td>.435</td>
<td>3.070**</td>
<td>Yes</td>
</tr>
</tbody>
</table>

*p < .05, **p < .01, ***p < .001.

property. Such a scenario is consistent with other findings concerning sponsorship investment in Australia. Properties have been described as passive in the relationship (Farrelly, 1999). Furthermore, properties’ marketing aptitude in relation to their core business activities (i.e., presenting an event, marketing to fans, members, spectators, etc.) has often not carried over to the sponsorship relationship (Burbury, 2001).

That sponsor commitment is a significant driver of the intention to renew, when trust is not, highlights the distinction between trust and commitment in a sponsorship relationship. While trust is most indicative of the overall “affective atmosphere” of the relationship, commitment is a more tangible signal of the commercial intent of the parties in the relationship. Trust in the relationship is likely to promote cooperation, which translates into activation efforts (as shown by the positive result found between trust and commitment). However, it does not, by itself, provide a compelling commercial justification for sponsors to renew. Our results in relation to the AFL are consistent in this regard with the agency theory literature where performance assessment and measure are found to predicate the principal’s continuous engagement in the relationship with its agent (Eisenhardt, 1989; Logan, 2000).

The managerial implications of our findings are quite clear. Quite aside from getting the results expected by their principals, a particular challenge faced by AFL properties is to raise their level of market orientation and/or ensure that sponsors accurately perceive their level of market orientation. To do this, they need to identify ways to favorably influence this perception, such as presenting and being involved in joint activation opportunities. Strategically, the property’s market orientation will be less effective if it does not fully devise a modus operandi that produces superior value for the sponsor. Hence, properties/agents must engage in a dialogue to establish what market-oriented activities their sponsors/principals value. The judicious display of market-oriented behaviors by the agent should reinforce its principal’s trust in the relationship and, in doing so, may encourage further investments by the sponsor in the relationship. Once it has established effective communication processes, a property should also continually work to improve its level of market orientation in order to further foster its sponsor’s trust and commitment.

Our results also show that AFL properties/agents would also do well to identify the degree to which their sponsors/principals are market-oriented before formalizing further any proposed agreement. To the extent that a sponsor’s own market orientation influences both its trust and commitment to the relationship, a considerable benefit would be gained if the selection of sponsors were based on such preliminary investigations.

Our findings also suggest that AFL clubs that can generate a level of trust in the relationship have an excellent basis upon which to advance the relationship, because trust drives commitment in the form of activation, which in turn determines a sponsor’s intention to renew. However, this may also be a double-edged sword. If and when trust in the relationship fails to materialize in joint leveraging activities, then a sponsor may perceive the relationship as underachieving and this may harm its intention to renew its sponsorship.
...trust drives commitment in the form of activation, which in turn determines a sponsor’s intention to renew.

Many researchers have noted that trust grows as it is used more and more, and that without increasing responsibility, and constant use and expansion in a relationship, trust dissipates (e.g., Dasgupta, 1989). Given the role of measurable performance (Eisenhardt, 1989) on a principal’s willingness to continue the relationship, our findings should provide an incentive for a property to measure the impact of any sponsorship agreement it has entered into, taking into account the specific objectives sought by its sponsor.

This research represents an important first step in understanding the dynamics of one specific focal sponsorship relationship. In the absence of the type of performance measures typically expected by their principals, sports and art properties, as agents, can still influence a sponsor’s intention to renew by (1) providing evidence of marketing orientation and (2) fostering, directly in the case of commitment and/or indirectly in the case of trust, important relationship drivers.

Clearly, the model and related hypotheses tested in this article in the context of the AFL need to be validated and tested in a variety of sponsorship settings and environments, preferably in several countries, before any further generalization can be made of these findings. This exploratory study, however, has demonstrated the feasibility of a methodology measuring for the first time both sides of the principal/agent sponsorship relationship. We believe that a rich agenda for research will follow from the application of this methodology to a wider and more representative sample of sponsorship relationships in the future.

Francis Farrelly is a senior lecturer in the department of marketing at Monash University in Melbourne, Australia. He is the subject leader of strategic marketing and course leader of the master of marketing offered off-campus. His main area of interest includes strategic marketing, business-to-business marketing, sport marketing, and sponsorship. Dr. Farrelly has been published in the European Journal of Marketing and Marketing Management, the International Marketing Review, and the Journal of Marketing Communications. He has consulted on a range of marketing projects for numerous organizations both in Australia and in international markets including Carlton United Breweries, the Australia and New Zealand Banking Group (ANZ), Telstra, the Australian Football League (AFL), the National Basketball League of Australia (NBL), the National Football League of North America (NFL), and many professional sports teams. He has also conducted major research projects on the sponsorship planning and impact on the Sydney 2000 Olympics and the Melbourne Grand Prix.

Pascale G. Quester is a professor in the School of Commerce of the University of Adelaide. She completed her undergraduate business studies in France before being awarded a scholarship to study at Ohio State University where she received a master’s degree in marketing in 1986. In 1987, she moved to New Zealand where she lectured at Massey University while completing a Ph.D. on sales promotions. She joined the University of Adelaide in 1991. She is the author of two leading marketing textbooks and has written or coauthored more than 100 journal articles and conference papers. Her work has appeared in the Journal of Advertising Research, the Journal of Business Research, the European Journal of Marketing, the International Journal of Advertising, the Journal of Consumer Marketing, the International Business Review, the Journal of Product and Brand Management, and many others. She is a founding director of FACIREM, the Franco-Australian Centre for International Research in Marketing.

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