CHAPTER 1: INTRODUCTION

1.1 INTRODUCTION

This chapter introduces the thesis and sketches its structure and intent. The main research problem is first presented followed by the key objectives of the research. The importance of the research is then outlined. An overview of the thesis is presented next.

1.2 RESEARCH PROBLEM

Brand equity has acquired increased prominence in the marketing literature since the 1980s (Aaker 1992; de Chernatony, Halliburton & Bernath 1995; Hulland 1994; Keller 1998). Brand equity is considered a key indicator of the state of health of a brand and monitoring brand equity is believed to be an essential step in effective brand management (Aaker 1991). Both researchers (e.g., Shocker, Srivastava & Ruekert 1994) and practitioners (e.g., Biel 1992; Blackston 2000) have argued for the importance of understanding the concept of brand equity.

The country of manufacture/assembly/design has been found to be an important marketing variable influencing consumer product evaluations, purchasing decisions (Chao 1993; Erickson, Johansson & Chao 1984; Han 1989, 1990; Johansson, Douglas & Nonaka 1985; Schooler 1965) and brand images (Han & Terpstra 1988; Johansson & Nebenzahl 1986; & Nebenzahl & Jaffe 1996). Consumers are known to have images of countries both at country level (*macro*) (e.g., Martin & Eroglu 1993) and at product level (*micro*) (e.g., Nagashima 1970, 1977). The impact of country-of-origin on consumer perceptions or product evaluations is called the 'country-of-origin effect' (Jaffe & Nebenzahl 2001). Study of this influence also falls under the label 'country-of-origin effects' (Samiee 1994).

Researchers have suggested that country-of-origin effects may impact the equity of certain brands (Shocker, Srivastava & Ruekert 1994; Thakor & Katsanis 1997). For example, Aaker (1991) and Keller (1993) argued that country-of-origin could affect a brand's equity by generating secondary associations for the brand. Even foreign sounding names are known to affect brand equity (Leclerc, Schmidt & Dube 1994).

Increasingly, brands from one country are available to consumers in other countries, for a variety of reasons such as achieving economies of scale and globalisation (see Shocker, Srivastava & Ruekert 1994 for a detailed discussion). Sometimes, brands are introduced in competitors' home country for strategic reasons such as tying their resources. For example, Kodak introduced its brands in the Japanese market so that Fuji who was

aggressively competing in the American market was forced to focus on its domestic market (Shocker, Srivastava & Ruekert 1994). Thus, when brands from one country are available to consumers in other countries, it becomes important for marketers to understand the sources of brand equity in the international context.

However, brand equity is a complex phenomenon in the international context (Onkvisit & Shaw 1989). Despite prolific research in the area of country-of-origin effects (Peterson & Jolibert 1995), there appear to be no studies explaining how country-of-origin affects consumer-based brand equity and its dimensions. It is also not clear how the *macro* and *micro* images of a country impact the consumer-based equity of a brand originating from that country.

Consumers like or dislike products partly because the products are made in, designed in, or associated with, a particular country. In other words, *country-of-origin effects* influence consumers' perceptions. Similarly, consumers value products above/below their functional value because the products carry a particular brand name. In other words, consumers associate equity with brands. What effect does the *country-of-origin* of a brand have on its consumer-based equity? When a brand is made in different countries associated with the given product category to varying degrees, how does the equity of the brand vary? How does consumers' notion of country image affect various components of a brand's equity? Does the effect of country-of-origin on brand equity differ from one product category to another? These remain unanswered questions in the marketing literature. Marketing managers need answers to these questions, so that they can leverage and exploit these variables in order to enhance consumers' perceptions of their offerings and gain competitive advantage.

1.3 RESEARCH OBJECTIVES

The principal objective of this thesis is to understand the relationships between country-of-origin effects and consumer-based brand equity for selected product categories and in a given market. Literature in the areas of brand equity and country-of-origin effects is integrated to develop the conceptual framework. An empirical study is designed to test the proposed framework in two product categories.

Brand equity is conceptualised according to the definitions offered by Aaker (1991) and Keller (1993). Country image is conceptualised based on Martin and Eroglu (1993) and Nagashima (1970, 1977). Country-of-origin is defined consistent with the definition provided by Thakor and Katsanis (1997). The *associative network memory model*

(Anderson 1993) is used in developing the theoretical framework for evaluating the impact of country-of-origin effects on consumer-based brand equity and its dimensions.

1.4 NEED FOR THE RESEARCH

The present research project stems from the need to provide better information to marketing decision makers in the international marketing arena. The present research develops a theory that is highly relevant in the market place. Understanding brand equity in the international context has relevance for both marketing academics and practitioners. The present research extends brand equity theory by incorporating the country-of-origin effects into it. The present study is important for a number of other reasons as well.

Several researchers have stated that international marketing lacked a strong theoretical framework (Albaum & Peterson 1984; Boddewyn 1981; Cavusgil & Nevin 1981). Country-of-origin research is generally criticised for its lack of theory or conceptual frameworks, and a prevalence of empirical generalisations (Samiee 1994). For example, Jaffe (1996), from a citation analysis of international marketing textbooks, observed that there was a lack of advancement towards theory development in the area of international marketing, particularly in relation to country-of-origin effects. Samiee (1994) advocated the integration of country-of-origin effects into the existing body of marketing literature to enhance their validity and practical utility. To the author's knowledge, this thesis is the first study integrating and testing empirically two important areas of marketing, namely brand equity and country-of-origin effects. An empirical study was designed to test the proposed framework. Following the tradition of earlier researchers (e.g., Erickson, Johansson & Chao 1984; Han 1989; Hong & Wyer 1989; Johansson, Douglas & Nonaka 1985; Nebenzahl & Jaffe 1996; Roth & Romeo 1992; Samiee 1994) the present research contributes to knowledge in the form of a theoretical framework.

Measurement of brand equity across international boundaries is essential if brand managers are 'to manage and control brand equity effectively' (Shocker, Srivastava & Ruekert 1994, p 156). As previously mentioned, brand equity is a complex phenomenon in the international context (Onkvisit & Shaw 1989). The present study provides insight into the sources of brand equity in the international context. More specifically, the effect of country-of-origin on a brand's consumer-based equity and its dimensions is examined in the present study.

de Chernatony, Halliburton & Bernath (1995) have argued that managers need to maintain the 'core essence of a brand' in their international branding decisions. The present

research examines how country-of-origin impacts various dimensions of brand equity (e.g., perceived quality, brand associations). 'The "essence" of the brand is a single simple value, easily understood and valued by consumer' (Arnold 1992, p 17). Thus, the present research would be helpful for marketing managers seeking to understand how to maintain the 'core essence' of a brand across international boundaries, and to optimise any brand extension decisions.

The rapid increase in international business is a motivating factor behind the present study. The current global environment is conducive to international business. For example, many developing nations are importing foreign products worth several times their GDP. International business involves billions of dollars. 'The advent of international trade and worldwide production capabilities for a growing list of goods make the country of production an important producer-controlled mix variable for the firm' (Cordell 1992, p251). This is clearly important from the marketers' perspective.

In addition, understanding the relationships between country-of-origin effects and consumer-based brand equity would be helpful in order to facilitate better plant location decisions, positioning of products, product promotion decisions (Terpstra & Sarathy 2000), sourcing decisions (Keegan 2002) and standardisation of marketing programs. Thus, the present research can help marketing decision-makers in improving marketing productivity. Further, country-of-origin effects have implications for better purchasing decisions by consumers and better strategies by marketers (Chao & Gupta 1995).

Branding is increasingly recognised as a powerful element of differentiation for acquiring and retaining customer base (Aaker 1991). Better understanding of brand equity is considered helpful for mergers, acquisitions, divestitures and improving of market productivity (Keller 1993). Hence, it is important for marketers to understand more about the impact of country-of-origin effects on brand equity. It may be difficult for competitors to imitate a firm's differentiation strategies based on extrinsic cues such as brand name (Riezebos 1994), or country-of-origin (Chao & Rajendran 1993; Cordell 1992; Elliott & Cameron 1994). Hence understanding the interactions between country-of-origin effects and brand equity becomes important. The present research provides input into the decision of whether or not country-of-origin could be used as the basis for differentiation in a given market and in a given product category.

Modern marketing emphasises the need for formulating marketing strategies that take the perceptions and requirements of consumers into view. Information regarding consumers' perceptions and product evaluations of products and brands from different

countries can be valuable to marketing decision makers and, consequently, may help them adjust their marketing mix and formulate their strategies accordingly. Though the country-of-origin effects are widely researched in the international marketing literature (Peterson & Jolibert 1995), relatively few studies have examined the attitudes of Australian consumers (e.g., Amonini, Keogh & Sweeney 1999; Cameron & Elliott 1999; Patterson & Tai 1991; Quester, Marr & Yeoh 1996) or purchasing agents (e.g., Dzever & Quester 1999; Quester, Dzever & Chetty 2000) or New Zealand consumers (e.g., Howard & Block 1992; Lawrence, Marr & Prendergast 1992) towards foreign products. The present study complements existing research in this area, by providing more insight into Australian consumers' attitudes towards foreign products (e.g., televisions and cars).

From a practitioner's point of view: 'quantification of brand equity' and 'identification of elements that are likely to impact changes in consumer behaviour and lead to changes in brand equity' are two important issues in brand equity research (Biel 1993, p 77). The present research addressed the above two issues in the international context. First, brand equity was measured for a particular product category. Second, the impact of country-of-origin on the dimensions of brand equity was investigated. Overall, in the face of the increased significance attached to branding and measurement of brand equity, it is important for marketers to understand the influence of country-of-origin on the equity of a brand.

1.5 OVERVIEW OF THE THESIS

The thesis contains seven chapters. Chapter Two provides a focussed review of the relevant literature in the areas of country-of-origin effects and brand equity. Gaps in the literature are identified. The literature review is integrated to develop a theoretical framework in Chapter Three.

Chapter Three provides the conceptual framework for the present research and develops the hypotheses to be empirically tested. Brand equity is conceptualised consistent with Aaker (1991) and Keller (1993), based on consumer perceptions. Country image is conceptualised consistent with Martin and Eroglu's (1993) and Nagashima's (1979, 1977) work, considering both at the *macro* as well as the *micro* levels. The associative network memory model (Anderson 1993) provides a basis for the conceptual framework. The variables and constructs included in the conceptual model are defined and the linkages between them are explained.

Chapter Four describes the research methodology adopted for the study. The description of a pilot study conducted to provide input for the main empirical study is included as an appendix. The main empirical study designed to test the theoretical framework in the product categories 'cars' and 'televisions' is described. The data collection procedures involving a mall-intercept survey using a systematic sample of consumers are also discussed. The structured questionnaire used as the instrument for data collection is also described. The analytical approach employed techniques such as: confirmatory factor analysis conducted to establish the multidimensionality of consumer-based brand equity, repeated measures multivariate analysis of variance (MANOVA) conducted to examine consumer-based brand equity differences by country-of-origin, factor analysis conducted to refine the two country image scales, repeated measures one-way analysis of variance (ANOVA) conducted to examine consumers' country image differences and canonical correlation analysis conducted to examine the relationship between *macro* and *micro* country images and consumer-based brand equity dimensions.

Chapter Five summarises the results of respondents' 'product category-country' and 'product category-brand' associations. This chapter also summarises the results of the confirmatory factor analyses, which establish that consumer-based brand equity is a four-dimensional construct as hypothesised. Results of exploratory factor analyses are also included in this chapter, which establish the dimensionality of the *macro* and *micro* country images. Further, the results of repeated measures one-way ANOVA are also presented in this chapter, which establish that respondents hold a favourable image for Japan followed by Malaysia and China at both the *macro* and *micro* levels.

Chapter Six summarises the results of a multi-factorial repeated measures MANOVA which indicate that each of the dimensions of consumer-based brand equity significantly varied by the (i) country-of-origin, (ii) product category and (iii) brand name within a product category. Further, results of canonical correlation analysis are presented, which indicate that the relationship between the consumer-based brand equity variables and the *macro* and *micro* country image variables is positive and product category specific. The findings of the empirical study are related to the hypotheses previously developed in Chapter Four.

In Chapter Seven, the findings of the study are compared and contrasted with other studies in the selected area and some general conclusions are drawn. The present research contributes to international marketing in the form of a theoretical framework. This chapter also summarises the investigation and critically discusses main findings of the research

from Chapters Five and Six. Implications of the research and practice are discussed and limitations of the study are provided. Directions for future research are provided towards the end of the chapter.

1.6 SUMMARY

This chapter presented the research problem and the research objectives of the study. A layout of the thesis was also provided. The principal contribution of the present research is a theoretical framework explaining the influence of country-of-origin on the consumer-based equity of a brand. An empirical study is designed to test the proposed framework. Rapidly increasing international business, aiding effective brand management, call for a better understanding of the complexity of brand equity and suggest the need for advancing theory in this area of international marketing. The present research is important because it integrates two important areas of marketing, namely brand equity and country-of-origin effects, extends theory in the area of brand equity and country-of-origin effects, identifies a theory that is applicable to market place, and provides improved understanding of the measurement of brand equity in the international context. Thus, the present research is helpful for both practitioners and academics. Further, the present research complements existing research on the attitudes of Australian consumers toward foreign products.

CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION

Chapter One provided an overview of the thesis, including a discussion of the need for research in the selected area. This chapter presents the theoretical foundations of the study. The key research findings in the areas of 'country-of-origin effects' and 'consumer-based brand equity' are presented here. Further, some gaps in the literature are identified and research questions are provided. The literature reviewed is subsequently integrated into a conceptual framework in Chapter Three.

2.2 BRANDING AND BRAND EQUITY

Brands are different from products. While a product is 'something that offers a functional benefit (Farquhar 1989, p 24), a brand is something which 'enhances the value of a product beyond its functional value' (Farquhar 1989, p 24). According to Keller (1998, p 4), 'A brand is a product, then, but one that adds other dimensions to differentiate it in some way from other products designed to satisfy the same need'. Levitt (1980) argued that *any* product could be branded, a view supported by other researchers such as Murphy (1990).

2.2.1 Branding

Branding is recognised as a powerful means of differentiation. Differentiation is one of the key competitive positioning strategies suggested by Porter (1990). Branding focuses on creating differentiation and on communicating it to consumers (Riezebos 1994). Kapferer (1994) also argued that brands are a part of a strategy aimed at differentiating supply.

There are two types of brand cues which a company can use to differentiate its products from those of its competitors: the *extrinsic cues* and the *intrinsic cues*. The *intrinsic* cues refer to product-related attributes such as ingredients, which cannot be manipulated without also altering physical properties of the product. The *extrinsic* cues refer to product-related attributes such as price, brand name and packaging, which are not part of the physical product (Richardson, Dick & Jain 1994). Differentiation based on *extrinsic* cues may be the sole basis of competition in saturated markets. Consumers may get more involved in the associations invoked by these *extrinsic* cues than in the

associations invoked by the *intrinsic* cues (Arnold 1992). Hence, it may be very difficult for competitors to copy associations based on *extrinsic* cues.

The strategic impact of branding is duly recognised in the marketing literature (Aaker 1991, 1992; de Chernatony & McDonald 1998). Aaker (1989) suggested that brands might develop sustainable competitive advantage for firms. That is, if consumers perceive a particular brand favourably, then the firm may have a competitive advantage. Doyle (1989) even argued that it is important to position organisations as 'brands' in the minds of consumers, in order to achieve and sustain an objective comparative advantage over the competitors. Some attempts have been made by governments or industries to brand countries such as Germany, New Zealand, Scotland and United Kingdom (Jaffe & Nebenzahl 2001, p 125).

Brand management is considered useful in *fully* exploiting the assets of an organisation and in generating additional value from the investments already made into brands. The high costs associated with the launching of new brands and the high failure rates of new products (Aaker 1991; Crawford 1993; Ourusoff 1992) as well as increasing costs of advertising and distribution (Aaker 1991) are some of the reasons for the growing interest in brand management.

Brand building is considered the best way of doing business because of the constant changes in the marketing environment (Aaker 1996b, 1996c; King 1991; Lannon 1993). Successful brand building could strengthen a producer's competitive position to withstand the increasing power of retailers (Park & Srinivasan 1994). Brand building is also believed to bring advantages such as defending against competitors and building market share (Adams 1995).

2.2.2 Brand Equity

Building brand equity is considered an important part of brand building (Keller 1998). Brand equity is supposed to bring several advantages to a firm. For example, high brand equity levels are known to lead to higher consumer preferences and purchase intentions (Cobb-Walgren, Ruble & Donthu 1995). Firms with high brand equity are also known to have high stock returns (Aaker & Jacobson 1994).

There is a multitude of definitions for brand equity in the literature (Farquhar 1989; Park & Srinivasan 1994; Shocker & Weitz 1988; Simon & Sullivan 1993; Srivastava & Shocker 1991). However, there is little consensus in the literature on what brand equity exactly means (Keller 1998; Leuthesser 1988; Park & Srinivasan 1994; Srivastava &

Shocker 1991). Nor there is a general agreement among researchers, at the conceptual level, on what brand equity comprises.

The broad meaning attached to the term brand equity is similar to the definition provided by Farquhar (1989) as the value endowed by the brand to the product. Most researchers provided definitions that are similar to Farquhar's (1989) definition (e.g., Aaker 1991; Keller 1993; Leuthesser 1988; Srinivasan 1979; Srivastava & Shocker 1991). The definitions of brand equity can be broadly classified into two categories. Some definitions are based on the financial-perspective (e.g., Brasco 1988; Mahajan, Rao & Srivastava 1990; Shocker & Weitz 1988; Simon & Sullivan 1993) whereas others are based on the consumer-perspective (e.g., Aaker 1991; Kamakura & Russell 1993; Keller 1993; Kim & Lehmann 1990; Rangaswamy, Burke & Olive 1993).

Financial perspective

Brand equity can be defined based on the financial value the brand generates for the firm. Such definitions stress the value of a brand to the firm. For example, Brasco (1988) defined brand equity based on a brand's present and future earnings. Mahajan, Rao and Srivastava (1990) defined brand equity based on the potential value of a brand to an acquiring firm. Simon and Sullivan (1993, p 29) defined brand equity as 'the value of incremental cash-flow which accrue to a branded product over and above the cash flows which would result from the sale of a product with no brand name'.

Consumer perspective

Brand equity was also defined based on the value of a brand to the consumer. For example, Aaker (1991) and Keller (1993) defined brand equity based on consumers' memory-based brand associations. Kamakura and Russell (1993) defined brand equity as a measure of perceived quality, after discounting for situational factors such as price and promotions. Kim and Lehmann (1990) defined brand equity based on the overall reputation and the image that the brand name stands for in the minds of consumers. Rangaswamy, Burke and Olive (1993) defined brand equity as a residual value in the form of favourable impressions, attitudinal dispositions, and behavioural predictions among all those stakeholders who are exposed to the marketing activities related to the brand, such as consumers.

In addition, several brand equity measurement methods have been used by marketing practitioners or consulting firms based on the marketing or consumer perspective (see Winters 1991 for a complete discussion). Some of the methods are listed below.

- Image power (Landor Associates)
- Equitrend (Total Research Corporation)
- The conversion model (Market Facts, Inc.)
- Equity monitor (Yankelovich Clancy Shulman)
- Brand equity index (Longman-Moran Analytics, Inc.)
- Brand awareness X Liking X Perceived quality (DDB Needham Worldwide)

Consumer-Based Brand Equity

When reflecting a consumer or marketing perspective, brand equity is referred to as *consumer-based brand equity.* Mackay, Romaniuk & Sharp (1997) stated:

> The marketing approach (often referred to as *consumer based brand equity* [emphasis added]) refers to the added value of the brand to the consumer. Subscribers to this approach tend to focus on the value created by marketing activities as perceived by customers. (p 1153)

Several researchers (e.g., Cobb-Walgren, Ruble & Donthu 1995; Sinha & Pappu 1998; Yoo & Donthu 2001; Washburn & Plank 2002) have conceptualised brand equity similarly to Aaker (1991) and Keller (1993) and used the term *consumer-based brand equity* to refer to brand equity. The present research conceptualises brand equity in accordance with Aaker (1991) and Keller (1993) based on consumer perceptions. Though Aaker (1991) and Keller (1993) conceptualised brand equity differently, both have defined brand equity from a consumer perspective. Keller (1993) provided a theoretical conceptualisation of brand equity based on consumer perceptions. Keller (1993, p 8) referred to brand equity as 'customer-based brand equity' and defined it as 'the differential effect of brand knowledge on consumer response to the marketing of a brand'. According to Keller, customer-based brand equity consisted of two dimensions, *brand knowledge* and *brand image*. Aaker (1991) provided the most comprehensive definition of brand equity available in the literature, defining brand equity as:

> a set of brand assets and liabilities linked to a brand, its name and symbol, that add to or subtract from the value provided by a product or service to a firm and/or to that firm's customers. (p 15)

In effect, Aaker conceptualised brand equity as a set of assets (or liabilities). Brand awareness, brand associations, perceived quality, brand loyalty and other proprietary assets were the five assets of brand equity he proposed. These assets (or liabilities) are referred to as 'dimensions' in the present study. From the consumer perspective, brand awareness, brand associations, perceived quality and brand loyalty are the four most important dimensions. There is some empirical evidence (e.g., Sinha, Leszeczyc & Pappu 2000; Sinha & Pappu 1998) that these four are substantive dimensions of brand equity. The following sections provide a description of the four dimensions of consumer-based brand equity.

Brand awareness. Brand awareness refers to the strength of a brand's presence in consumers' minds. Brand awareness is an important component of brand equity (Aaker 1991; Keller 1993). Aaker (1991) mentioned several *levels* of brand awareness, ranging from mere *recognition* of the brand to *dominance*, which refers to the condition where the brand involved is the only brand recalled by a consumer. Rossiter and Percy (1987) defined brand awareness as the consumers' ability to identify or recognise the brand, whereas Keller (1993) conceptualised brand awareness as consisting of both brand recognition and brand recall. According to Keller, brand recall refers to consumers' ability to retrieve the brand from memory, for example, when the product category or the needs fulfilled by the category are mentioned. Keller (p 3) argued that 'brand recognition may be more important to the extent that product decisions are made in the store'. Hence, in the present study, brand awareness is conceptualised as consisting of both brand recognition and brand recall.

Brand associations. Brand associations are another important component of brand equity (Aaker 1991; Keller 1993). Brand associations are supposed to contain 'the meaning of the brand for consumers' (Keller 1993, p 3). While a brand may derive associations from a range of sources, *brand personality* and *organisational associations* are the two most important types of brand associations, which influence the brand's equity (Aaker 1991, 1996c). *Brand personality* is a key component of *brand equity*, and is defined in terms of the various traits or characteristics that brands can assume from the perception of consumers (Aaker 1991; Keller 1993). In the present study brand personality is defined as 'the set of human characteristics associated with a brand' (Aaker 1997, p 347). The concept of brand personality is well established in the marketing literature (Batra,

Lehmann & Singh 1993; Biel 1993; Phau & Lau 2000). Aaker (1991) argued that a brand association has a level of strength, and that the link to a brand (from the association) will be stronger when it is based on many experiences or exposures to communications, and when a network of other links supports it. Further, Aaker (1991) suggested that brand associations could provide value to the consumer by providing a reason for consumers to buy the brand, and by creating positive attitudes/feelings among consumers.

Perceived quality. Perceived quality is another important dimension of brand equity (Aaker 1991). Perceived quality is not the actual quality of the product but the consumer's subjective evaluation of the product (Zeithaml 1988, p 3). Similar to brand associations, perceived quality also provides value to consumers by providing them with a reason to buy and by differentiating the brand from competing brands.

Brand loyalty. Brand loyalty is a major component of brand equity. Aaker (1991, p 39) defined brand loyalty as 'the attachment that a customer has to a brand.' Oliver (1997) defined brand loyalty as:

> a deeply held commitment to rebuy or repatronize [sic] a preferred product or service consistently in the future, despite situational influences and marketing efforts having potential to cause switching behavior [sic]. (p 392)

Oliver's (1997) definition emphasises the behavioural dimension of brand loyalty, whereas Rossiter and Percy (1987) argued that brand loyalty is often characterised by a favourable attitude toward a brand and repeated purchases of the same brand over time.

Brand loyalty is also conceptualised based on an attitudinal perspective. For example, Chaudhuri and Holbrook (2001, p 82) argued that 'attitudinal brand loyalty includes a degree of dispositional commitment in terms of some unique value associated with the brand.' From an attitudinal perspective, brand loyalty was defined as 'the tendency to be loyal to a focal brand, which is demonstrated by the intention to buy the brand as a primary choice' (Yoo & Donthu 2001, p 3).

While the definitions of brand loyalty based on the behavioural perspective emphasised the consumer's actual loyalty to the brand as reflected in purchase choices, the definitions based on an attitudinal perspective accentuated consumer intentions to be loyal to the brand. As previously mentioned, in the present study brand equity is conceptualised on the basis of consumer perceptions not on the basis of their behaviour. Hence, brand

loyalty is conceptualised in the present study based on an attitudinal perspective and consumer perceptions.

Factors influencing brand equity

Marketing mix elements such as price, retailer image, distributor intensity, advertising and price promotions are known to influence brand equity (Yoo, Donthu & Lee 2000). Yoo, Donthu and Lee (p 206) suggested that high advertising spending, high price, distribution through retailers with good images, and high distribution intensity are good examples of brand building.

Several firm-level and consumer-level factors are known to influence the equity of a brand. For example, Buchanan, Simmons and Bickart (1999) demonstrated that the way retailers display their brand portfolio could influence a brand's equity. They found that the equity of an established brand was influenced by the display structure of the brand portfolio. For example, when a low-equity brand was given precedence in the display over a high-equity brand, the equity of the high-equity brand was found to be diluted.

Cornwell, Ray and Steinard (2001) found that sponsorship of events could influence the equity of brands. Aaker and Biel (1993) have argued that advertising influences brand equity. Advertising is designed to influence consumers' quality perceptions of a brand and consequently its equity. Sometimes firms recall their products from the market place because of product contamination or product defects, identified after the products are released into the market. For example, automobile manufacturers such as Ford have recalled certain models from the markets upon realising that certain components of the automobile were defective. Dawar and Pillutla (2000) demonstrated that such crises may affect the equity of the brand involved.

Within a family, beliefs, information and resources are passed on from one generation to the other. Moore, Wilkie and Lutz (2002) showed that such *intergenerational influences* within a family could influence brand equity. Consumer's nationality or home country could influence the equity of a brand. For example, Kish, Riskey and Kerin (2001) measured the equity of Pepsi's brands in 14 different countries and found that the equity of the brands differed from country to country. That is, the equity of a brand was found to vary by consumer's country of residence.

2.3 COUNTRY-OF-ORIGIN EFFECTS

Country-of-origin effects seek to represent how consumers perceive products emanating from a particular country (Janda & Rao 1997; Roth & Romeo 1992). Current research in this area attempts to examine issues such as:

> how consumers respond to products exported from another country; designed in one country yet manufactured in another; manufactured in more than one location; and manufactured in one country but branded in another. (Roth & Romeo 1992, pp 477-478)

Country-of-origin is an extensively researched area in the international marketing literature (Peterson & Jolibert 1995). The excellent literature reviews on this topic provided by Bilkey and Nes (1982) and Al-Sulaiti and Baker (1998) indicate the vast amount of research conducted in this area. Yet, some researchers argued that country-of-origin effects are 'not well understood' (Peterson & Jolibert 1995, pp 894-895) and that the area is 'still poorly understood' (Verlegh & Steenkamp 1999, p 521).

> 'Country-of-origin is an extrinsic product cue in the class of intangible product traits such as brand, price and warranty...a change in these cues has no direct bearing on the product's performance' (Cordell 1992, p 252).

However, extrinsic cues such as brand name and price have been shown to influence consumer judgment (Rao & Monroe 1989). This is because intangible extrinsic cues such as price, brand reputation, seller reputation and promotional messages are often used by consumers as surrogate indicators, when the intrinsic cues are missing and/or difficult to evaluate (Johansson, Douglas & Nonaka 1985).

2.3.1 Country-of-Origin

Country-of-origin is conceptualised in a variety of ways in the present literature. For example, Samiee (1994, p 581) defined country-of-origin as 'the country with which a firm is associated, which usually is the home country for a company'. Johansson, Douglas and Nonaka (1985, p 389) defined country-of-origin as 'the country where corporate headquarters of the company marketing the product or brand is located'. Thakor and Kohli (1996) called the home country of the company *brand origin*. Thakor and Katsanis (1997, pp 79-80) defined country-of-origin as 'the country in which the product is made'. Maheswaran (1994, p 358) suggested that country-of-origin referred to the place a product

was 'manufactured in'. That is, the term country-of-origin was used in the extant literature to refer to both the home country of the brand as well as the country of production.

Most of the earlier studies in the area of country-of-origin have focused on the country in which the product is originally branded/designed and/or manufactured (Chao 1993; Ozsomer & Cavusgil 1991). Many firms have started employing multi-country input into the design, sourcing and manufacture of any single product (Hastak & Hong 1991). With the advent of multinational production, researchers (e.g., Chao 1993; Ettenson, 1993; Han & Terpstra 1988; Samiee 1994; Ulgado & Lee 1993) have begun distinguishing between traditional *country-of-origin* and the actual *country-of-manufacture*.

Researchers have suggested that it would be useful to think about more specific aspects of country-of-origin, such as country of assembly, country of design, country of manufacture, country of brand and country of parts (e.g., Chao 1998, 2001; Hulland & Chow 1994). Nebenzahl, Jaffe and Lampert (1997) recommended that researchers need to distinguish between consumers' home country, origin country of the brand, the country in which the brand is made and the country in which the brand is designed. Products branded in a given country and manufactured in the same country have been called uni-national products whereas products branded in a given country and manufactured in a different country have been called bi-national products or hybrid products (Han & Terpstra 1988).

Some researchers have partitioned the country-of-origin construct further. For example, Acharya and Elliott (2001) and Chao (1993) divided country-of-origin into *country of design* and *country of assembly*. Amonini, Keogh and Sweeney (1998) focused their investigation on the *country of brand* and the *country of manufacture*.

Some researchers have argued about the importance of understanding the impact of *country of production* (country where a product is produced) on consumers' perceptions. For example, Lee and Schaninger (1996) argued that the country in which a product is manufactured or assembled gives rise to the *country of production/assembly effect*. Haubl and Elrod (1999) referred to the source country as *country of production*. The present study investigated changes in consumer-based equity of a brand produced in different countries. The definition adopted by the present study is provided in Chapter Three (see section 3.2.2).

Country-of-origin and consumer perceptions

Country-of-origin seems to influence consumers' perceptions at the cognitive level. For example, Hulland and Chow (1994) argued that memory-based processes played a

prominent role both in establishing and moderating country-of-origin effects. Verlegh and Steenkamp (1999) also argued that country-of-origin operated at the cognitive level. Cordell (1992, pp 252-253) argued that country-of-origin 'leads the consumer to greater cognitive elaboration about tangible product traits.' This would be the case particularly when the consumer knows the country-of-origin in advance of making a formal product evaluation (Hong & Wyer 1989, 1990).

Country-of-Origin Associations

Aaker (1991) and Keller (1993) argued that consumers have memory-based associations towards countries. For example, consumers may have associations such as 'perfumes' and 'fashion' towards France, and associations such as 'reliability' and 'engineering' towards Germany. Consumers are known to associate certain traits with certain countries. For example, consumers may think that German products are 'high on prestige value, but low on economy' (Han & Terpstra 1988, p 251), French products are 'fashionable', and American products are 'safe and roomy' (Terpstra & Sarathy 1997). Furthermore, consumers are known to associate countries with product categories (Jaffe & Nebenzahl 2001). Out of consumers' country-of-origin associations, the 'product category-country' associations seem to play a prominent role in country-of-origin effects. Consumers' 'product category-country' associations are discussed next.

'Product Category-Country' Associations

Researchers have argued that consumers associate product categories with countries (Aaker 1991; Agarwal & Sikri 1996; Roth & Romeo 1992; Shimp, Samiee & Madden 1993). Hong and Wyer (1990) have observed that a product's country-of-origin information often activates a product category level knowledge structure. Shimp, Samiee and Madden (1993) while examining consumers' cognitive structure, noticed that a majority of the consumers' thoughts regarding countries were associated with products or brands from some countries.

Consumers may associate France with perfumes, Germany with automobiles, and so on (Terpstra & Sarathy 1997). Aaker (1991, p 129) also suggested that Germany is associated with beer and upscale automobiles, Italy with shoes and leather goods and France with fashion and perfumes. Shimp, Samiee and Madden (1993) found that most of consumers' thoughts are associated with product category level. Agarwal and Sikri (1996) argued that consumers' country image beliefs are generalised at product category level.

The extant literature provides several examples of consumers' 'product category-country' associations. Roth and Romeo (1992) examined the fit between countries and product categories and found that respondents from three countries (Mexico, US, and Ireland) associated certain countries (e.g., Germany, Japan and US) favourably and other countries (e.g., Mexico and Hungary) unfavourably with the product categories automobiles and watches. Roth and Romeo (1992) also found that respondents did not strongly associate the countries Korea, England, Ireland, France and Spain with any of the product categories bicycles, shoes, crystal, automobiles and watches. Further, they found that respondents did not associate the product categories bicycles, shoes, and crystal strongly with any of the above countries.

In another study, Agarwal and Sikri (1996) found that respondents associated both Japan and Germany with the product category cars. Recently, Jaffe and Nebenzahl (2001, p 115-116) reported results of a survey conducted by Time magazine, in which respondents were found to associate beer with Germany, Holland and Denmark; vodka with Russia, Sweden and Poland; consumer electronic goods with Japan, Holland and Germany; and mobile phones with Sweden, Finland and USA.

2.3.2 Country Image

The notion of country image is well established in the international marketing literature. Similar to brand image, the country image is a set of country-of-origin associations that is organised into groups in a meaningful way.

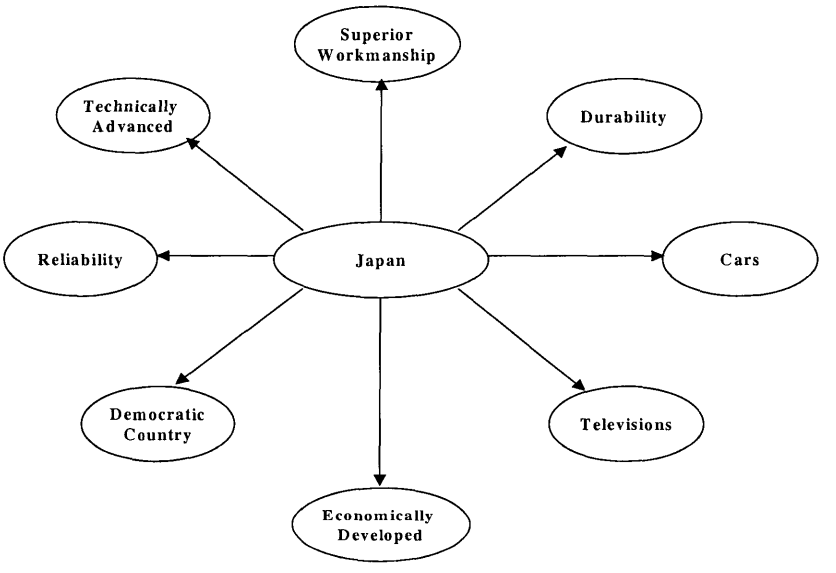
As previously mentioned, the country-of-origin/design/manufacture variable is known to give rise to country-of-origin associations in consumers' minds. These country-of-origin associations may be based on consumer knowledge of other variables such as 'the degree of economic development of the country involved', 'political freedom' and 'workmanship'. These associations may refer to the *macro*-economic picture/stage of the country and also to the products produced in the country (see Figure 2.1). Consumers believe there is something special about the labour, technology or manufacturing processes within a particular country (Samiee 1994). The beliefs may range from labour and technology of the host country to workmanship and innovation (Kim & Chung, 1997; Samiee, 1994).

Several researchers contributed to the improved understanding of the role of country image (e.g., Han 1989; Hong & Wyer 1989; Johansson, Douglas & Nonaka 1985; Samiee 1994). The marketing literature offers different conceptualisations for country image.

Country image is conceptualised both at the country (*macro*) level and the product (*micro*) level. At the *macro* level, country image is conceptualised based on consumers' attitudes towards the country (e.g., Martin & Eroglu 1993). At the product (*micro*) level country image is conceptualised based on consumers' attitudes towards products from that country (e.g., Agarwal & Sikri 1996; Bilkey & Nes 1982; Han 1989). Amonini, Keogh and Sweeney (1998) stated:

> The perception of the country is termed the *country image* and consist of two interrelated but distinct set of beliefs...*Macro country image* relates to a broad perception of the country in terms of the economical, political, technological and sociocultural internal environment. *Micro country image* (sometimes referred to as product image) focuses more specifically on the perceived quality of products and services originating from a particular country. (p 16)

Figure 2.1 Country image for Japan.



Country image could operate as a halo construct as well as a summary construct (Han 1989). Previous studies suggested that country image operates as a halo construct especially when consumers had limited knowledge of the country's products (e.g., Erickson, Johansson & Chao 1984; Johansson, Douglas & Nonaka 1985). The halo effect model suggests that country image could serve as a stereotype measure or surrogate for other product attributes for individuals unfamiliar with it or the product category (Han 1989). That is, when consumers do not know much about a product category, they may

infer that a particular product (e.g., car) has certain superior features because of its origin country (e.g., Germany).

Country image could also serve as a summary index or heuristic that reduces the amount of information processing required in making a decision (Han 1989). The summary model suggests that, when consumers possess more familiarity with the products, country-of-origin effects operated more as a summary construct. That is, if consumers are familiar with perfumes from France, and consider that perfumes from France are of good quality, they may infer information about the perfume quality into France's country image, and associate France with perfumes. Haubl (1996) found evidence of the summary model.

Factors influencing country-of-origin effects

Several product-level, individual consumer-level, country-level and situational factors are known to influence the country-of-origin effects including: product characteristics, consumer's home country, culture and nationality, consumer's national loyalty, patriotism, ethnocentrism and animosity towards the country being evaluated, political and cultural affinity between consumer's home country and the country being evaluated, development of the country being evaluated. Some of the key findings in these areas are presented here.

Product-Level Factors

Country-of-origin was found to be an important factor influencing the consumers' purchase decision for certain types of products such as perfumes, cars, high fashion clothes and consumer electronics (Terpstra & Sarathy 2000). Previous research established that country-of-origin effects varied by product class (e.g., Eroglu & Machleit 1989; Kaynak & Cavusgil 1983; Wall, Liefeld & Heslop 1991). Eroglu and Machleit (1989) found that country-of-origin effects were stronger for typewriters than for beer. Kaynak and Cavusgil (1983) found that Canadian consumers preferred fashion products compared to electronic items from France whereas consumers preferred electronic items compared to food items from Japan. Chao and Gupta (1995) found that for automobiles, country-of-origin effects varied not only by the product category but also by the type of vehicle. They observed that country-of-origin effects varied between *sub-compact* cars and *mini-compact* cars.

Country-of-origin effects were found to influence product selection, even for selecting a service provider (Harrison-Walker 1995). Willingness to buy a product from a

particular country was found to be high when the country image was an important characteristic of the product category (Nebenzahl & Jaffe 1996).

Erickson, Johansson and Chao (1984) found that the impact of country-of-origin was not identical across all product attributes. Country-of-origin effects were found to be different for different attributes of the product (Eroglu & Machleit 1989). That is, country-of-origin influences not only buyers' overall evaluation of a product but also their perception of specific attributes (Haubl 1996). For example, consumers might think that German products are high on quality but low on economy.

Individual-Level Factors

Country-of-origin effects on consumer product evaluations seem to be moderated by variables which operate at individual consumer level. For example, individual differences can determine how consumers process country-of-origin information. Country-of-origin effects tend to vary depending on a person's willingness and readiness to process information (Han 1989; Hong & Wyer 1989; Lim & Darley 1997; Wall, Liefeld & Heslop 1991).

Country-of-origin effects were found to be stronger when consumers were not cognitively predisposed to evaluate the products (Zhang 1996). Country-of-origin effects did not seem to significantly influence consumer information search. For example, Chao and Gupta (1995) found that consumers engaged in no less or more information search because of the country-of-origin. However, it is not clear from the literature, under what conditions consumers search for country-of-origin information. Okechuku (1994) argued that it is sometimes difficult for consumers to determine the country-of-origin of a product because of the globalisation of businesses.

Demographics. There is no consensus in the literature on the moderating role of demographics on country-of-origin effects. Some researchers observed that demographic variables were important moderators of country-of-origin effects (e.g., Chao & Rajendran 1993; Johansson, Douglas & Nonaka 1985; Maronick 1995; Schooler & Sunoo 1971). Older consumers and workers who felt threatened by imports (Shimp & Sharma 1987), and were less educated and politically conservative (Anderson & Cunningham 1972) might be averse to foreign products. Conversely, Smith (1993) observed older respondents favouring foreign products compared to younger respondents, contrary to findings from previous

studies. Wall, Heslop and Hofstra (1988) found differences between men and women regarding how they viewed countries as producers of goods.

Consumer product knowledge. There are contrasting findings in the literature on the impact consumers' product knowledge has on the country-of-origin effects. While some researchers (e.g., Eroglu & Machleit 1989) argued that consumers use country-of-origin more when they do not have much knowledge of the product being evaluated, others (e.g., Johansson 1989) argued that consumers with higher product knowledge are likely to use country-of-origin more in their evaluations. Maheswaran (1994) showed that consumers' level of expertise and the strength of attribute information presented to them moderate country-of-origin effects. He found that novices used country-of-origin information whether or not attribute information provided to them was ambiguous, whereas experts used country-of-origin information only when the attribute information presented was ambiguous. Schafer (1997) found that consumers' knowledge of the product category increased their reliance on country-of-origin. However, he found this increased reliance on country-of-origin only when the brand name was not familiar to the consumers. Consumers with product knowledge were found to rely less on country-of-origin when the brand name was familiar to them.

Consumer nationality and culture. Johansson, Douglas and Nonaka (1985) showed that country-of-origin effects vary by consumer nationality. Gurhan-Canli and Maheswaran (2000) showed that country-of-origin effects vary depending on whether the consumers belong to an individualistic or a collectivistic culture. They found that in collectivistic cultures a home country's product is evaluated favourably regardless of product superiority, whereas in individualistic cultures a home country's product is evaluated favourably only when the product was considered superior. Individuals of foreign culture live in a host country for a variety of reasons. Parameswaran and Pisharodi (2002) showed that, in such instances, the impact of country-of-origin on purchase intent of consumers from the foreign culture depended on the degree of their *assimilation* into the host country. Assimilation is the process through which individuals of a foreign culture become integrated with the standard culture (Thompson 1996) in a host country.

Animosity. A product's origin could influence consumers' buying decision directly and independently of product judgements. The animosity model of foreign product

purchase proposed that *animosity* towards a foreign country could affect consumers' purchase behaviour (Klein, Ettenson & Morris 1998). These authors showed that animosity generated between two countries because of border rivalry, previous wars (war-based animosity), economic (economic-based animosity) and diplomatic issues could influence consumers' perceptions of products from the selected countries. Animosity was negatively related to willingness to buy the products and was independent of product quality judgements.

Ethnocentrism. Macro-level factors also seem to influence country-of-origin effects. Country-of-origin effects varied by consumer nationality, reflected regional patriotism and or close cultural, political and social affinity between the respondent's own country and the country of brand (Bilkey & Nes 1982; Cattin, Jolibert, & Lohnes 1982; Heslop & Papadopoulos 1993; Hulland & Chow 1994; Wall, Liefeld & Heslop 1991). Consumers in certain countries preferred domestic alternatives to imported goods because they viewed their own in-group as central and possessing proper standards of behaviour (Shimp & Sarma 1987). This phenomenon was called ethnocentrism.

National loyalty. Consumers' attitudes and loyalties towards products seem to be affected by their sense of loyalty to nation and to other macro-oriented groups. For example, Bruning (1997) observed the influence of country-of-origin on consumers' product choice even in international air travel. Bruning found that country-of-origin influence was second only to price in terms of its effect. Bruning argued that national loyalty is a component of country-of-origin effect.

Country-Level Factors

Consumers seem to look favourably upon products from prosperous countries and unfavourably upon products from poor countries. Consumers' product specific preferences were found to be more significant when products were from industrialised countries than when they were from less developed countries (Ahmed & d'Astous 1996; Chao 1993). Cordell (1992) found that US consumer perceptions of newly industrialised countries (e.g., South Korea) were more negative than their perceptions of developed countries (e.g., West Germany). However, as previously mentioned, additional information about variables such as brand name, price and warranty, if available, was found to reduce the perceptional differences between developed and newly industrialised countries (Cordell 1993).

Situational Factors

The country-of-origin effect on the overall evaluation of a product appeared to be mediated by the availability of information about any other features of the product. For example, Lim, Darley and Summers (1994) observed that single-cue studies provided stronger country-of-origin effects compared to multi-cue studies. Other studies (Chao 1989a, 1989b; Davies, Kern & Sternquist 1990) found that country-of-origin effects were moderated by the prestige of the store outlet through which the products were distributed. Ettenson, Wagner and Gaeth (1988) found that price and material contents could influence the country-of-origin effects. Other researchers found that warranty of a product could attenuate the country-of-origin effects (Schooler, Wildt & Jones 1987; Thorelli, Lim & Ye 1989).

Performance risk. Performance risk was found to influence country-of-origin effect (Baumgartner & Jolibert 1977). If a product has high performance risk, then it is more likely that, consumers would have lower perceptions of products from less-developed countries than they would have from more-developed countries. Derogation associated with a less developed country-of-origin is found to increase as product performance risk increases (Cordell 1992).

Time. Consumers' perceptions of countries/products from countries are known to change over time (Jaffe & Nebenzahl 2001). For instance, consumer perceptions of the quality of Japanese products steadily improved as Japanese products gained worldwide acceptance (Nakanishi 1981). Darling and Wood (1990) in a longitudinal study (1975-1985) observed that Finnish consumer perceptions of US and Japanese products improved over the ten years. Kamins and Nagashima (1995) found that the image of US goods declined over a period of 15 years (between 1977 and 1992) both in Japan and in the US, whereas the image of Japanese goods improved. Consumers' perceptions were known to vary depending on how well the country's perceived production and marketing strengths were related to the product category (Roth & Romeo 1992).

2.3.3 Country-of-Origin and Brand

A review of the literature shows that consumers often use both brand name and country-of-origin while making product judgements. Country-of-origin effects were also known to influence consumers' brand images. This section provides key findings in the

literature regarding the relative importance of country-of-origin and brand name, and the impact of country-of-origin effects on consumers' brand images.

Relative importance of country-of-origin and brand name

Several studies investigated the relative importance of the attributes, brand name and country-of-origin (e.g., Ahmed & d' Astous 1996; Cordell 1992; d' Astous & Ahmed 1992; Han & Terpstra 1988; Haubl 1996; Johansson & Nebenzahl 1986; Leclerc, Schmitt & Dube 1994; Bilkey & Nes 1982; Okechuku 1994; Tse & Gorn 1993; Wall, Liefeld & Heslop 1991; Witt & Rao 1992). However, the evidence is inconclusive on which of these two variables play a more important role in consumer evaluations.

Nevertheless, both brand name and country-of-origin were found to have a significant impact on consumer attitude towards a product. For example, Ahmed and d' Astous (1996) found that both brand name and country-of-origin significantly affected consumer product evaluations. However, they found that the combined effects of country-of-design and country-of-assembly cues had stronger impact than brand name alone on consumer evaluations, whereas the relative importance of brand name and country-of-origin varied across consumers' home countries.

Haubl (1996) also found that both brand name and country-of-origin had significant impact on consumers' attitude towards a product (new automobile). Okechuku (1994) also observed that country-of-origin and brand name were equally important for consumers. The relative importance of brand name and country-of-origin was observed to vary by product class, and by country in their study. Wall, Liefeld and Heslop (1991) found that both country-of-origin and brand name are likely to influence consumers' perceptions of product quality and consumers' purchase intentions.

The literature does not provide a satisfactory explanation on whether brand name or country-of-origin plays the dominant role in consumer evaluations. For example, d' Astous and Ahmed (1992) observed that country-of-origin was not a very important cue in consumers' product evaluations. Furthermore, brand name was found to be a more important attribute than country-of-origin for household consumers than organisational buyers (Ahmed & d'Astous 1996). Cordell (1992) found that country-of-origin assumed a greater importance in product evaluation when the brand name was unfamiliar than when the brand name was familiar. Han and Terpstra (1988, p 244) noted that 'sourcing country has greater effects on consumer evaluations of product quality than does the brand name'.

Overcoming a negative country-of-origin bias in the minds of consumers might be extremely difficult (Hulland 1999). Consumers seem to favour unknown brand names only when they are from highly sought after countries enjoying very good reputations. Wall, Liefeld and Heslop (1991) observed that even well-known brand names could not compensate for the poor reputation of a country-of-origin. Conversely, Johansson, Douglas and Nonaka (1985) observed that consumers' negative perceptions of country-of-origin could be countered by associating the products with a highly valued brand name. Smith (1993) suggested that the negative country-of-origin perceptions could be overcome to some extent by labelling a product with the name of the region of origin (e.g., North America) rather than the specific country-of-origin (e.g., Mexico).

Country-of-origin effects and brand image

The literature suggests that brands from different countries possess country specific intangible assets (Erickson, Jacobson & Johansson 1992; Kim & Chung 1997). Hence, relocating the production of a brand from one country to another country could result in the change of consumers' brand image. Lee and Schaninger (1996, p 234) argued that even in the case of prestigious global brands, consumers' perception of quality and purchase decisions are likely to be influenced not only by the brand name but also by where the products are manufactured or assembled. Lee and Schaninger called this country of production/assembly effect.

Previous studies found that even global brand names lose their brand image when produced in less developed countries (e.g., Johansson & Nebenzahl 1986; Han & Terpstra 1988; Nebenzahl & Jaffe 1996). Han and Terpstra found that brand image of Japanese cars suffered an erosion when production was shifted to South Korea. Nebenzahl and Jaffe (1996) study found that Sony suffered brand image erosion when made in the USA, whereas GE's brand image improved when made in Japan. However, Nebenzahl and Jaffe observed that both brands (Sony and GE) suffered brand image erosion when made in East European countries. On the other hand, Haubl and Elrod (1999) found that consumers' quality perceptions of the Slovenian brand Elan were higher when the brand was made in Slovenia compared to when the brand was made in Germany.

2.4 GAPS IN THE LITERATURE

The following are identified as the specific relevant gaps for the purpose of investigation in the present research. Adequate explanation is not yet available in the extant

literature for the relationships between country-of-origin effects and brand equity. Despite prolific research on country-of-origin over the past few decades, the extant literature does not explain how a change in the country-of-origin of a brand would affect its consumer-based equity. Further, it is not clear whether the impact of country-of-origin on the consumer-based equity of a brand is product-category specific.

It is also not clear whether the consumer-based equity levels for a brand made in different countries would be different. Further, the relationships between *macro* and *micro* images of a country and the consumer-based equity of a brand from that country are not satisfactorily explained. These issues provide avenues for further research in the area of country-of-origin effects.

We also acknowledge that adequate explanation is not available for a range of other important issues in the literature. For example, it is not very clear which market segments of consumers seek and use source country-of-origin information. It is not clearly understood if consumers' search for country-of-origin information is more important in some product classes than others. The process of integration of country-of-origin information into consumer's decision is not well understood. Also, it is not clearly known if consumers more often use the country-of-origin information as a screening device to determine whether a product enters the consideration set.

The literature purports that intangible assets are created in consumers' minds regarding the country-of-origin (e.g. Erickson, Jacobson & Johansson 1992; Kim & Chung 1997). However, it is not understood if there is any regularity of pattern of intangible asset creation (in consumer minds) among products because of country-of-origin. What factors contribute to the country-of-origin effects? Why are the country-of-origin effects different for products of different countries? Under what conditions would country-of-origin information be particularly salient to the consumer? The literature does not provide satisfactory responses to these other important questions, but the present study must leave these other gaps unaddressed for reasons of scope.

2.5 RESEARCH QUESTIONS

The present research aims to examine whether country-of-origin effects influence a brand's consumer-based equity. This research also aims to design an empirical study to test these relationships. Specifically, this research aims to answer the following research questions:

1. How does a change in the *country-of-origin* of a brand affect its *consumer-based equity*?

2. Is the impact of country-of-origin on the *consumer-based equity* of a brand product-category specific?
3. If a brand is made in different countries, how does consumers' notion of *micro country image*, affect the *consumer-based equity* of the brand?
4. If a brand is made in different countries, how does consumers' notion of *macro country image*, affect the *consumer-based equity* of the brand?

2.6 SUMMARY

This chapter presented the key research findings in the areas of country-of-origin effects and consumer-based brand equity. A review of the literature in the areas of country-of-origin effects and brand equity reveals that the country-of-origin is believed to operate at the cognitive level. Consumers' country-of-origin associations, 'product category-country' associations and consumers' *macro* and *micro* country images appear to influence consumer perceptions. At the same time, several firm-level and consumer-level factors and various marketing mix elements seem to influence brand equity. Country-of-origin also seems to influence consumers' brand images. However, answers for several important questions regarding the relationships between country-of-origin effects and consumer-based brand equity, were not available in the extant literature. Some gaps in the literature were identified and several research questions were provided in this chapter.

CHAPTER 3: CONCEPTUAL MODEL AND HYPOTHESES

3.1 INTRODUCTION

Chapter Two presented a review of the literature in the areas of country-of-origin effects and consumer-based brand equity. The research questions were also presented in Chapter Two. This chapter presents the conceptual model articulating the relationships between country-of-origin effects and consumer-based brand equity. First, definitions of the constructs and variables used in the model are presented. Next, the literature from the areas of country-of-origin effects and brand equity is integrated to provide a conceptual model. Consumers' perceptions are explained based on the associative network memory model (Anderson 1993). This is followed by an explanation of the linkages between and among the constructs and variables. The research hypotheses are then presented.

3.2 DEFINITIONS OF VARIABLES

The definitions of the constructs and variables included in the model are provided in this section. In the present research, brand equity is conceptualised in accordance with Aaker (1991) and Keller (1993), based on consumer perceptions. Country-of-origin is defined as per Thakor and Katsanis (1997, p 79-80). Country image is conceptualised consistent with Martin and Eroglu (1993) at the *macro* level and with Nagashima (1970, 1977) at the *micro* level.

3.2.1 Consumer-Based Brand Equity

The present research conceptualises brand equity based on a consumer (or marketing) perspective as opposed to a financial one in accordance to Aaker (1991) and Keller (1993). Accordingly, brand equity is referred to as *consumer-based brand equity* and defined as a set of four assets (or liabilities). While Aaker (1991) treated brand loyalty as a behavioural dimension, the present research conceptualises brand loyalty as an attitudinal dimension, similar to Yoo and Donthu (2001). As a result, consumer-based brand equity is defined as (in the present research) 'the value consumers associate with a brand, as reflected in the dimensions of brand awareness, brand associations, perceived quality and brand loyalty'. This definition was adapted from (Aaker 1991, p15). The definitions of the individual dimensions of consumer-based brand equity are provided next.

Brand awareness is defined as:

> the ability of a potential buyer to recognize [sic] or recall that a brand is a member of a certain product category. A link between product class and brand is involved. (Aaker 1991, p 61)

A brand association is defined as 'anything linked to the memory of a brand' as per Aaker (1991, p 109).

In the present study perceived quality is defined as 'customer's perception of the overall quality or superiority of a product or service with respect to its intended purpose relative to alternatives' (Aaker 1991, p 85).

Brand loyalty in the present study is defined as 'the tendency to be loyal to a focal brand, which is demonstrated by the intention to buy the brand as a primary choice' (Yoo & Donthu 2001, p 3).

3.2.2 Country-of-Origin

The principal objective of the present study was to examine possible differences in consumer-based brand equity, according to the country where the product is made. As previously mentioned, different terms were used in the extant literature to refer to the country where a product is produced, such as country-of-production (e.g. Lee & Schaninger 1996; Haubl & Elrod 1999) or country of manufacture (e.g., Amonini, Keogh & Sweeney 1998; Samiee 1994) and country-of-origin (e.g., Maheswaran 1994; Thakor & Katsanis 1997). In the present study, country-of-origin is defined as 'the country in which the product is made', consistent with the definition offered by Thakor and Katsanis (1997, pp 79-80).

3.2.3 Country Image

In the present study, country image is conceptualised both at the country level and at the product level. The present research investigates the 'overall' or 'general' *micro* country image, similar to Schooler (1965), Reierson (1967) and Anderson and Cunningham (1975), rather than the *micro* country image specific to any product category. Han and Terpstra (1988), for example, measured country image for specific product categories (e.g., televisions and cars).

***Macro* country image**

The definition of country image proposed by Martin and Eroglu (1993) was adopted for the *macro* country image. Martin and Eroglu (p 193) defined country image as 'the total of all descriptive, inferential and informational beliefs one has about a particular country'. *Macro* country image is argued to be different from a consumer's attitude towards products from a given country. Martin and Eroglu proposed that country image had three underlying dimensions, namely economic, political and technological.

***Micro* country image**

The definition proposed by Nagashima (1970, 1977) was adopted for *micro* country image. Nagashima (1970) defined country image as 'the total of beliefs one has about the products of a given country' (p 68). Nagashima's conceptualisation of country image was at product level and has been widely adopted by several researchers (e.g., Cattin, Jolibert & Lohnes 1982; Darling & Wood 1990; Han 1989; Han & Terpstra 1988; Parameswaran & Pisharodi 1994; Roth & Romeo 1992).

3.2.4 Associations

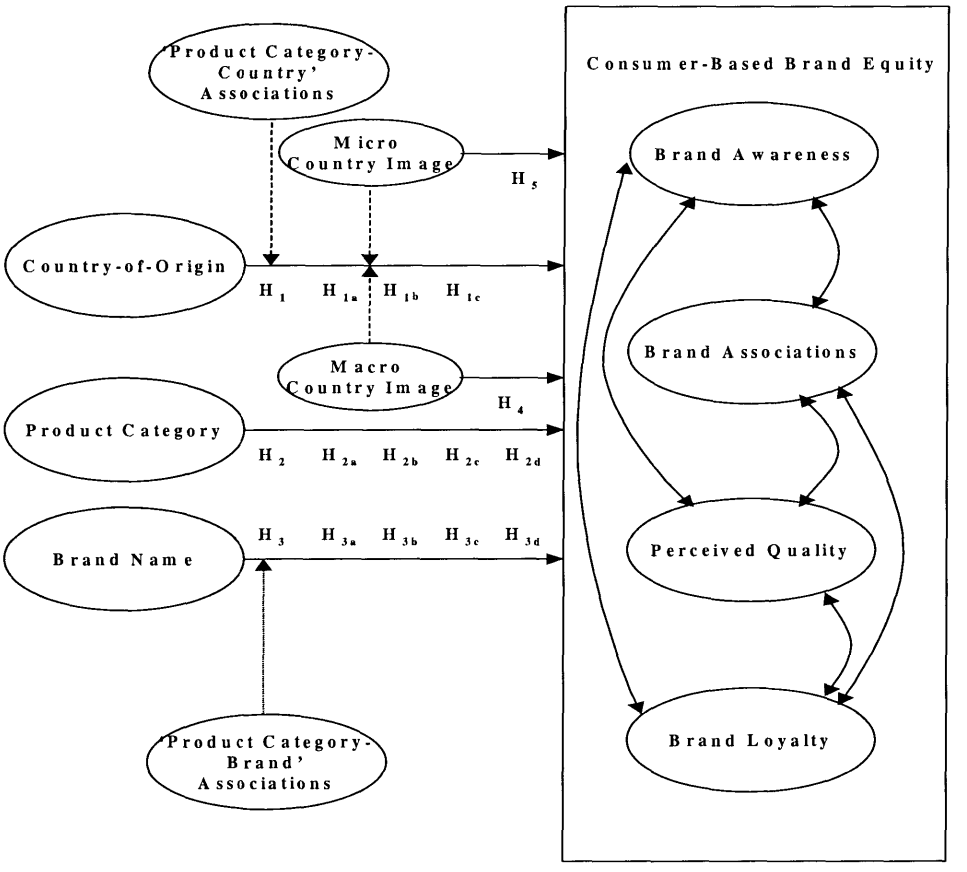
As shown in the conceptual model, represented in Figure 3.1, consumers' *product category-country associations* and *product category-brand associations* are expected to influence the impact of country-of-origin and brand name on consumer-based equity of a brand, respectively. The definitions of these two terms are provided in section 3.3, after their memory model basis has been developed.

3.3 MODEL DEVELOPMENT

Consumer-based brand equity is hypothesised as a four-dimensional construct, as shown in the large rectangle in Figure 3.1. The linkages between and among the constructs included in the model are discussed in the following paragraphs. Country-of-origin, product category and brand name are the independent variables included in the model. Each of the consumer-based brand equity dimensions is a dependent variable. Country-of-origin, product category and brand name are hypothesised to affect the consumer-based brand equity dimensions. Consumers' *product category-country associations* are believed to influence the effect of the country-of-origin on consumer-based brand equity dimensions. Similarly, consumers' *product category-brand associations* are believed to influence the effect of the brand name on consumer-based brand equity dimensions.

Consumers' *macro* and *micro* country images are also expected to be related to the consumer-based equity of a brand from that country.

Figure 3.1 A model of country-of-origin effects on consumer-based brand equity.



3.3.1 Associative Network Memory Model

The notion of associations is established in cognitive psychology, a discipline which aims to understand the nature of human intelligence and how people think (Anderson 1990). The associative network memory model (Anderson 1993) provides a good basis for explaining the relationships between country-of-origin effects and consumer-based brand equity. Both Aaker (1991) and Keller (1993) used the associative network memory model to explain consumers' brand associations and the notion of brand equity.

The associative network memory model postulates that semantic memory consists of networks, with each network composed of several 'nodes' (Anderson 1976; Rumelhart, Hinton & McClelland 1986). The 'nodes' are stored information (Keller 1993). These

nodes are supposed to be *linked* to each other in some way. That is, if brand is a node in the memory, then brand associations are the other informational nodes, which are linked to the brand node. For example, the product attribute 'reliability' could link to the brand node and serve as a brand association.

Not only can there be associations, but the associations can have 'direction' and 'strength'. For example, the link between a pair of nodes could be uni-directional or bi-directional. If the link between the nodes 'brand' and 'product category' is bi-directional, a brand node will be *activated* when the product category node is *activated* and also the product category node will be *activated* when brand node is *activated.*

The links between nodes in memory also have 'strength'. Activating one node in memory is argued to lead to the activation of other linked nodes (Collins & Loftus 1975). Whether or not the activation of a node leads to the activation of other linked nodes is supposed to depend on the strength of association between the nodes. For example, activating the node brand might/might not lead to activation of the node 'reliability', depending on how strongly the brand and the attribute 'reliability' are associated with each other. Repeated exposure to two stimuli (e.g., brand and reliability) could lead to the activation of memory nodes representing those stimuli and an associative link between the two nodes (Domjan & Burkhard 1986; Klein 1991; Rumelhart, Hinton & McClelland 1986; Till & Shimp 1998)

Associative strength or 'dominance'

The 'brand-product category' associations can be bi-directional (Farquhar & Herr 1993). That is, consumers may recall a product category when they think of a brand name and they may recall a brand name when they think of a product category. Farquhar and Herr (p 268) refer to the strength of the directional association between a brand and an 'associate' (e.g., product category or product attribute) as 'dominance'. Farquhar and Herr mentioned two types of dominance, *category dominance* and *instance dominance. Category dominance* referred to the strength of 'product category-to-brand' association, whereas *instance dominance* referred to the strength of 'brand-to-product category' association:

> Category dominance is the strength of the directional association from a product category to a brand...Category dominance is measured by the degree to which the label of the product category ...evokes the subordinate brand. (Farquhar & Herr 1993, p 268).

'Category dominance' extended to countries

As previously mentioned, consumers have countries in their memory structure. For example, consumers are known to associate countries with certain product categories (Terpstra & Sarathy 2000, p 240). Hence, the concept of category dominance (Farquhar & Herr 1993) can be extended to *countries*. It can be argued that consumers' 'country-product category' associations are bi-directional. That is, consumers may recall a product category (e.g., cars) when they think of a country (e.g., Germany) and they may recall a country (e.g., Germany) when they think of a product category (e.g., cars). If consumers have used or owned a product (car) originating from a country (e.g., Germany), the country in question (Germany) is more likely to be accessed (simply because they own a product from that country) when they think of the product category of cars and vice versa. Since consumers already own the product from the given country, there is more scope for associating the product with the country positively or negatively. Their memory structure is more likely to be reactivated and there is more scope for the activation level to be high.

'Product category-brand' and 'product category-country' associations

Thus, two types of *category dominance* are of interest when examining the relationships between country-of-origin effects and consumer-based brand equity. They are: the *category dominance* as proposed by Farquhar and Herr (1993), which refers to 'product category-brand' associations, and the *category dominance* with respect to 'product category-country' associations. Two different terms are used in the present study to distinguish between the *category dominance* with respect to a brand and that with respect to a country.

'Product Category-Brand' Associations

In the present study, the *category dominance* with respect to a brand is coined as 'the strength of product category-brand associations'. That is, this term refers to the associative strength of the link between the node 'product category' and the node 'brand' in consumers' minds.

'Product Category-Country' Associations

The category dominance with respect to a country is referred to as 'the strength of product category-country associations'. That is, this term refers to the associative strength

of the link between the node 'product category' and the node 'country' in consumers' minds.

Product category–country associations and consumer-based brand equity

It is argued that the strength of product category-country associations influences the way country-of-origin influences the consumer-based equity of a brand. For example, the consumer-based equity of a brand made in a country with a favourable image and strong product category-country associations (e.g., Germany) is likely to be substantially higher than that for the same brand made in a country with less favourable image and weaker product category-country associations (e.g., Mexico), where consumers perceive substantive differences between the two countries, in terms of their country images and product category-country associations. That is, the strength of consumers' product category-country associations could influence the way the country-of-origin affects brand associations, perceived quality and brand loyalty dimensions of consumer-based brand equity.

'Product category–brand' associations and consumer-based brand equity

It is also argued that the strength of the product category-brand associations influences the effect of the brand name on its consumer-based equity. For example, the consumer-based equity of a brand with strong product category-brand associations (e.g., car/Honda) is likely to be substantially higher than that of a brand with weaker product category-brand associations (e.g., car/Suzuki), where there are substantive differences between the two brands, in terms of their product category-brand associations. The strength of product category-brand associations could influence the way the brand name affects the brand associations, perceived quality and brand loyalty dimensions of consumer-based brand equity.

3.3.2 Country-of-Origin and Consumer-Based Brand Equity

Consumers have associations toward entities such as products, places, brands and countries of origin. Country-of-origin of a product is an extrinsic cue (Thorelli, Lim & Ye 1989), which similar to brand name, is known to influence consumers' perceptions and to lead consumers to cognitive elaboration (Cordell 1992; Hong & Wyer 1989). Country-of-origin is known to create country-of-origin associations (Aaker 1991; Keller 1993) in the minds of consumers. For example, consumers might associate the countries Germany and

Spain with the intangible attributes 'reliability' and 'durability', to a different degree. The country-of-origin associations of consumers could influence the consumer-based equity of a brand from the country.

> Country-of-origin is not merely a cognitive cue for product quality, but also relates to emotions, identity, pride and autobiographical memories. Such symbolic and emotional connotations transform country-of-origin into an "expressive" or "image" attribute...Such attributes have been shown to be significant determinants of consumer preferences and important sources of brand equity. (Verlegh & Steenkamp 1999, p 524)

The country-of-origin information for a product has the ability to influence (positively/negatively) the consumer-based equity of a brand in a given product category in a given market. Keller (1993) stated that:

> a brand may be associated with its "country of origin" (i.e., the country in which the company makes the product or provides the service) in such a way that consumers infer specific beliefs and evaluations. (p 11)

Researchers have argued that country-of-origin effects may be part of the brand equity of certain names (Shocker, Srivastava & Ruekert 1994, p 150). For brands operating in the international arena, such as Japanese brands available to consumers in Australia, consumer-based equity should be influenced by the very fact that the brand's country-of-origin is Japan. Japanese products are positively perceived in several product categories (Heslop & Papadopoulos 1993). Furthermore, brand names such as Sony or Toyota clearly signal their country-of-origin to consumers. Such origin cues are similarly entrenched within many well-known brand names (Phau & Prendergast 1999). For example, Thakor and Kohli (1996, p 28) proposed the concept of brand origin as 'the place, region or country to which the brand is perceived to belong by its target consumers'. Thakor and Kohli argued that brand origin is a demographic variable, which is part of a brand's personality. Aaker (1991) argued that brand personality is a key component of brand associations, which in turn is an important dimension of consumer-based brand equity. Thode and Maskulka (1998, p 1) also suggested that country-of-origin helps a firm attain brand equity for that product category. Thus, the country-of-origin effects for Japan may be part of the equity of the brands from Japan available in the Australian market (Sony/Toyota).

Country-of-origin information can influence consumers' judgments about the brand and, consequently, the consumer-based equity of the brand. For example, the way in which a retailer displays a brand in the company of competing brands is known to influence a brand's equity positively or negatively. Buchanan, Simmons and Bickart (1999, p 345) found that the equity of a brand is affected by 'inconsistencies in brand communication' created by the presentation of the brand by a retailer. Further, earlier researchers showed that consumers' judgments are influenced by the inputs made salient by the *context* (Feldman & Lynch 1988; Wilson & Hodges 1992). Retailers often display country-of-origin at the point of contact because of statutory/legal obligations (Thakor & Katsanis 1997). Thus, the country-of-origin information of a brand could lead consumers into cognitive elaboration, make certain characteristics of the brand salient in their minds, influence consumers' judgments and consequently affect positively or negatively the equity of the brand.

Country-of-origin information was also found to affect consumers' ratings of certain attributes of a product (Johansson, Douglas & Nonaka 1985). That is, consumers are known to rate the attributes of a product from a country with a favourable image significantly higher than those of a product from a country with a less favourable image. This in turn could affect a brand's equity. Aaker (1991) and Keller (1993) argued that consumers' attribute-based associations are part of the equity of a brand.

Foreign sounding brand names have also been found to influence consumers' perceptions and attitudes (Leclerc, Schmitt & Dube 1994). For example, depending on whether a brand name sounded French or not, consumers perceived that the brand possessed certain positive characteristics in certain (hedonic) product classes and certain negative characteristics in other (utilitarian) product classes. This in turn was found to influence a brand's equity. Similarly, it could be argued that when consumers know about the country-of-origin of a brand, they may perceive the brand to possess/lack certain special characteristics, which may in turn affect the consumer-based equity of the brand. Hence, country-of-origin is expected to affect the consumer-based equity of a brand.

An inferior country-of-origin could *tarnish* a brand name (Thakor & Katsanis 1997). That is, if the country-of-origin of a brand were to change from a country towards which consumers have favourable associations (e.g., USA), to a country towards which consumers have less favourable associations (e.g., Mexico), the brand names in question could be *tarnished.* Since brand equity is the value associated with a brand name, a change in the value of the brand for consumers is nothing but a change of the consumer-based

equity for the brand. For example, Johansson and Nebenzahl (1986) found that Japanese brands of automobiles (Honda/Mazda) made in Korea/Mexico/Philippines lost their attractiveness compared to when they were made in Japan. Nebenzahl and Jaffe (1996) found that Sony (in the product category VCRs) suffered erosion in its brand image when made in countries such as USSR (now called Russia)/Poland/Hungary. The preceding discussion leads to the following general hypothesis:

H_1: In a given product category, the consumer-based equity of a brand varies significantly according to the country-of-origin of the brand.

Specifically, the consumer-based equity of a brand made in a country with a favourable image and strong product category-country associations is likely to be significantly higher than that of the same brand made in a country with a less favourable country image and weaker product category-country associations, where consumers perceive substantive differences between the countries in terms of their images and association with the selected product category. Given that consumer-based brand equity is conceptualised as a four-dimensional construct, this general hypothesis needs to be refined in relation to each of the dimensions.

Country-of-origin and brand awareness

As previously mentioned, in the present study *brand awareness* is defined as consumers' ability to recall the brand name when the product category is mentioned. It is easier for consumers to recall brand names from certain countries than from others. For example, in the product category of televisions, it is possible for consumers to easily recall a brand name from Germany (a country which they associate with the product category in question) compared to France or Slovenia (countries which they associate with the product category to a lesser extent). That is, consumers' brand awareness could be influenced by the country-of-origin of the brand. According to Farquhar and Herr (1993), 'brand - product category' associations could be bi-directional. This argument can be extended to 'country-brand' associations. Consumers have 'country-brand' associations. That is, consumers might think of certain brands (e.g., Grundig) when they think of certain countries (e.g., Germany).

However, no hypotheses were made in the present study regarding the impact of the country-of-origin on the brand awareness component of consumer-based brand equity. It

was felt that it would be difficult to manipulate consumer mindset with respect to brand awareness. For example, consumers could be asked if they were aware of the brand Honda (without providing the country-of-origin), to test for their brand awareness level. However, asking consumers whether they were aware of the brand Honda made in USA (or some other country) could create demand artefacts. For example, consumers were known to associate a brand with its home country even when the country-of-origin information was not made available to them.

Country-of-origin and brand associations

A brand could generate and leverage secondary associations from an array of entities. For example, people, places and events could be linked to a brand (Keller 1993) and generate secondary associations. According to Aaker (1991), country-of-origin *associations* are one type of consumers' brand associations. Similarly, Keller (1993) argued that consumers' country-of-origin associations serve as secondary associations to their brand associations. Brand associations are supposed to contribute to brand equity when consumers are aware of the brand and hold 'strong, favourable and unique brand associations' in their minds (Keller 1999 p 2). Rossiter & Percy (1987) suggested that secondary associations should be emphasised in marketing communications based upon consumers' awareness, beliefs and attitudes of the concerned people, places or events. The inference is that favourable secondary associations are beneficial to the brands. Keller (1993) also argued that favourable associations contribute to the equity of a brand. Brand associations are argued to be a component of brand's equity, as discussed in section 3.2.1. Hence, it could be argued that when brands operate in the international arena, consumers' country-of-origin associations serve as secondary associations and could influence their *brand associations*, thereby affecting brand equity.

For example, consumers might hold favourable associations towards a country such as Germany. Consumers' associations towards Germany might influence their associations towards brands made in Germany. In a product category such as luxury cars, consumers might associate brands from Germany with 'reliability' and 'attractive design' because of the influence of country-of-origin. It is hypothesised that consumers' associations for brands are likely to vary by the country-of-origin of the brand. That is, the brand associations for the brand Mercedes made in Germany are likely to be more favourable than those for Mercedes made in Ireland or Spain, in the product category luxury cars. Consumers are also likely to hold strong brand associations, when the brands are known to

be produced in countries strongly associated with the product category (e.g., Germany), compared to when the brands are known to be made in countries not strongly associated with the product category (e.g., Ireland/Spain).

Further, Aaker (1991, p 109) argued that associations could influence the interpretation of facts and the recall of information. He even stated that some associations are liked by consumers and stimulate positive feelings that get transferred to the brand. Consumers' country-of-origin associations might influence how consumers interpret facts about a brand, and what type of information consumers would recall about a brand. For example, consumers could interpret facts about a brand differently depending on whether the country-of-origin was Germany or Spain. Consumers might also recall different types of information about a brand depending on whether the brand was made in Germany or Spain. Aaker (1991, p 111) argued that associations could create 'a compact information chunk' for the customer. The country-of-origin can summarise a variety of information related to the consumer knowledge of the technology, innovation, people and resources of the country in question. Hence, it is logical to assume that the type of 'information chunk' created would depend on the country in which the brand is made. That is, a brand made in Germany might create a different type of 'information chunk' than a brand made in Spain. The preceding discussion leads to the following hypothesis.

H_{1a}: In a given product category, brand associations, a dimension of consumer-based equity of a brand, varies significantly according to the country-of-origin of the brand.

In other words, the brand associations for a brand made in a country with a favourable country image and strong product category-country associations are likely to be significantly more favourable and stronger than those for the same brand made in a country with a less favourable country image and weaker product category-country associations, where consumers perceive substantive differences between the countries in terms of their images and association with the selected product category.

Country-of-origin and perceived quality

A number of researchers have established that country-of-origin influences perception of quality of products (e.g., Heslop, Liefeld & Wall 1987; Kaynak & Cavusgil 1983; Nagashima 1970, 1977; Reierson 1966). Perceived quality (Zeithaml 1988) is argued to be a key dimension of brand equity (Aaker 1991). As previously mentioned, perceived

quality is believed to enhance the value of the brand by providing consumers with a reason to buy.

It is hypothesised that country-of-origin information affects the perceived quality of products. That is, consumers are likely to hold favourable perceptions of quality of a brand, when the brand is known to originate from countries with favourable images and strong association with the product category (e.g., Sweden), compared to when the brand is known to originate from countries with less favourable images and weaker association with the product category (e.g., Mexico or Hungary). Consumers' perception of the quality of products is known to be product category specific (Kaynak & Cavusgil 1983). Perceived quality levels of a brand are likely to vary by the country-of-origin of the brand. That is, the perceived quality level of Ericcson made in Sweden is likely to be higher than the perceived quality level of Ericcson made in Mexico or Hungary, for the product category 'mobile phones'. The preceding discussion leads to the following hypothesis.

H_{1b}: In a given product category, perceived quality, a dimension of consumer-based brand equity, varies significantly according to the country-of-origin of the brand.

Specifically, the perceived quality dimension of consumer-based equity for a brand made in a country with a favourable country image and strong product category-country associations is likely to be significantly higher than that for the same brand made in a country with a less favourable country image and weaker product category-country associations, where consumers perceive substantive differences between the countries in terms of their images and association with the selected product category.

Country-of-origin and brand loyalty

The extant literature does not provide much insight on the relationship between country-of-origin and brand loyalty. The present research argues that country-of-origin could affect the brand loyalty component of the brand's equity. Brand loyalty in the present study is defined based on consumers' intention to buy a brand as a primary choice (see section 3.2.1). Country-of-origin effects in one product category are known to transfer to new product categories offered from the same country (Agarwal & Sikri 1996). Similarly, consumers might prefer a brand partly based on its country-of-origin. This might be because consumers have experienced or are convinced about, either the features or attributes or benefits offered by the brand (e.g., Nike) originating from the particular

country (USA). Therefore, it can be argued that, similar to brand loyalty, consumers exhibit *country loyalty*. It is hypothesised that country-of-origin affects consumers' loyalty towards a brand.

The loyalty towards a brand is likely to vary depending on its country-of-origin. That is, consumers' brand loyalty towards Nike made in the USA is likely to be higher than their brand loyalty level towards Nike made in Korea or Taiwan, in the product category sports shoes. For example, a consumer might be loyal to Nike since s/he believes the brand is made in the USA and since s/he is convinced about products from the USA. If consumers come to know that the same brand (e.g., Nike) is made in a different country (e.g., Korea or Taiwan), consumers may not continue to be as loyal to the brand as they are to the brand made in the USA. The preceding discussion leads to the following hypothesis.

H_{1c}: *In a given product category, brand loyalty, a dimension of consumer-based brand equity, varies significantly according to the country-of-origin of the brand.*

Specifically, the brand loyalty dimension of consumer-based equity for a brand made in a country with a favourable country image and strong product category-country associations is likely to be significantly higher than that for the same brand made in a country with a less favourable country image and weaker product category-country associations, where consumers perceive substantive differences between the countries in terms of their images and association with the selected product category.

Relationships among consumer-based brand equity dimensions

The model also proposes associative relationships amongst the four consumer-based brand equity dimensions of brand awareness, brand associations, perceived quality and brand loyalty. It is envisaged that consumers' perception of quality will be associated with their brand loyalty. The more brand loyal a consumer is, the more s/he is likely to perceive the brand as offering superior quality and vice versa. Similarly, the more favourable associations consumers have towards a brand, the more their loyalty and vice versa. Consumers who hold favourable associations towards a brand are also likely to develop favourable perceptions of quality and vice versa. Brand awareness in the present study has been defined as consumer's ability to recall that the brand is a member of the product category. Consumers' brand awareness is likely to be high when they have strong associations for the brand and when they perceive the quality of the brand to be high and

vice versa. Similarly, consumers' perception of quality of a brand is likely to be high when they have strong association with the brand and vice versa.

3.3.3 Product Category and Consumer-Based Brand Equity

It is expected that the consumer-based brand equity levels will also vary by product category. The consumer-based equity of brands in the product category 'vodka' should be substantially different from that of the product category 'wines'. This is because consumers are likely to possess varying degrees of brand awareness, brand associations, perceived quality, and brand loyalty levels, for different product categories. Given that brand awareness is defined as the consumers' ability to recall a brand name when a product category is mentioned, it is expected that consumers' ability to recall brand names would vary by product category. Furthermore, since brand associations are defined as 'anything linked to the memory of the brand', it is believed that consumers would have varying type and degree of brand associations in different product categories. Consumers' perception of quality of products is known to be product category specific (Kaynak & Cavusgil 1983). Consumers are also likely to have varying degree of brand loyalty in different product categories. For example, consumers are known to use brand name more in low involvement product categories compared to high involvement product categories. The consumer-based brand equity levels for two product categories that have varying degree of involvement therefore, are likely to be different. Jaffe and Nebenzahl (2001) argued that consumers' beliefs might vary 'by specific product lines produced under the brand name' (p 55). This would suggest that consumer-based equity would be product category specific. The preceding discussion leads to the following hypotheses.

H_2: The consumer-based equity of a brand varies significantly according to product category.

H_{2a}: Brand awareness varies significantly according to product category.

H_{2b}: Brand associations vary significantly according to product category.

H_{2c}: Perceived quality varies significantly according to product category.

H_{2d}: Brand loyalty varies significantly according to product category.

3.3.4 Brand Name and Consumer-Based Brand Equity

As previously mentioned, brand equity is the value added by the brand name to the product (Farquhar 1989). The equity of brands in a given product category thus should differ by brand, because equity is determined by the brand name. The preceding discussion leads us to the following general hypothesis and its associated four hypotheses.

H_3: In a given product category, the consumer-based equity of a brand varies significantly according to the brand name.

H_{3a}: In a given product category, brand awareness varies significantly according to brand name.

H_{3b}: In a given product category, brand associations vary significantly according to brand name.

H_{3c}: In a given product category, perceived quality varies significantly according to brand name.

H_{3d}: In a given product category, brand loyalty varies significantly according to brand name.

Consumers' product category-brand associations are likely to influence the impact of brand name on the consumer-based equity of a brand. In a given product category, everything else being equal, the consumer-based equity of a brand with strong product category-brand associations is likely to be significantly higher than that of a brand with weaker product category-brand associations, where consumers perceive substantive differences between the brands in terms of their association with the product category. Similarly, everything else being equal, each of the four dimensions of consumer-based equity, for a brand with strong product category-brand associations is likely to be significantly higher than that for a brand with weak product category-brand associations, where consumers perceive substantive differences between the brands in terms of their association with the product category.

3.3.5 Country Image and Consumer-Based Brand Equity

Consumers have images of countries in their minds, at both *macro* and *micro* levels (Martin & Eroglu 1993; Nagashima 1970). It is argued in the present research that consumers' *macro* and *micro* country images can affect the consumer-based equity of a brand from the country. That is, for a selected product category (e.g., Computers), in a given market (Australia), consumers' image of a country (e.g., USA) and image of the products from that country, can affect the consumer-based equity of a brand's (e.g., IBM/Apple) from that country (e.g., USA). Country image can influence the key dimensions of brand equity such as brand associations, perceived quality and brand loyalty.

Shimp, Samiee and Madden (1993) suggested that brands from the same country share images or association and refer to this as *country equity*. Kim and Chung 1997 (p 367) also suggested that brands originating from a particular country (e.g., Japan) can create intangible assets or liabilities in consumers' minds, shared by other brands originating from the same country. Shimp, Samiee and Madden argued that *country equity* 'disentangles the equity contained in a brand' (p 328). *Country equity* is believed to be derived from the product's association with a country. For example, brands such as Toyota, Mitsubishi and Suzuki could share certain associations such as 'reliability' because of their common home country. When the country-of-origin of products bearing these brand names (e.g., Toyota/Mitsubishi/Suzuki) changes from Japan, to say China, the consumer-based equity of these brands is likely to change significantly. Thakor and Katsanis (1997, p 93) suggested that *country equity* would be product category specific. Since countries generate intangible assets in consumers' minds and countries possess equity, a country's image could influence (positively or negatively) the equity of the brands from that country, in a selected product category. Cordell (1993) observed that the combined effect of country image and brand image was less than the effect of individual country and brand images:

> The value perceived by the consumer of these two traits (brand and country) is non-additive in a redundant, or counter synergistic, fashion, that is the sum of the values the consumer accords the cues independently exceeds the values of the cues together. (p 15)

A logical explanation for Cordell's observation could be that country image affects, and is part of, the brand image for certain brand names, particularly those operating in the international arena. Since the country image is part of the brand image, Cordell might have observed the combined effect of brand and country images to be less than their individual

brand and country image effects. Certain portions of the brand image originate from its country-of-origin, particularly when brands from one country are made available to consumers in other countries. There will be certain market segments who are knowledgeable about the country of the brand. These consumers would have formed positive/negative associations towards the country, and their country image is likely to influence their brand image.

Agarwaal and Sikri (1996) investigated whether or not country image was transferable to new products perceived to be similar. They observed considerable association between product category (most well known) and new products. Transference of beliefs was found to be higher when the perceived similarity between well-known and new product category was higher. They argued that the country-of-origin cue operated in a manner very similar to brand name in the transference of beliefs.

It is hypothesised that the relationships between consumers' image of a country and the consumer-based equity of brands from that country would be positive. That is, everything else being equal, the consumer-based equity of a brand made in a country with favourable image would be significantly higher than that for the same brand made in a country with a less favourable image. The two country image variables (*macro* and *micro*) are the independent variables. The four consumer-based brand equity variables are the dependent variables. The preceding discussion leads to the following hypotheses:

H_4: Macro country image is substantively linked to consumer-based brand equity.

H_5: Micro country image is substantively linked to consumer-based brand equity.

3.3.6 Justification for the Model

Hunt (1991) specified several normative criteria for evaluating the explanatory adequacy of a model. According to him, (i) the phenomenon to be explained should be *expected to occur* and (ii) the model should be *pragmatic*, *intersubjectively certifiable*, and have *empirical content* (p 51). This section details how the proposed model meets those normative criteria. Brand equity, which is being explained by the proposed model, is a phenomenon established in the marketing literature, and is *expected to occur*. The proposed model is *pragmatic* since it explains variance in consumer-based equity of a brand with change of the country-of-origin, product category and brand name. The model is also useful in measuring consumer-based brand equity and parcelling it into components. The proposed model is *intersubjectively certifiable* since other researchers can use the

model for determining the appropriateness of the explanation. Finally, the proposed model has *empirical content* since the model is empirically testable.

3.4 SUMMARY

This chapter provided the definitions of the constructs and variables used in the present study. This chapter also presented the conceptual model articulating the relationships between country-of-origin effects and consumer-based brand equity, based on the associative network memory model. The effect (whether positive or negative) of the country-of-origin on consumer-based brand equity is examined. Several hypotheses were developed from this discussion, which are summarised in Table 3.1. Country-of-origin, product category and brand name within a product category were expected to affect the consumer-based equity of a brand and its dimensions. Consumers' product category associations, country-of-origin associations and country image perceptions were expected to influence the consumer-based equity of a brand from the country.

Table 3.1 Hypotheses tested.

H_1: In a given product category, the consumer-based equity of a brand varies significantly according to the country-of-origin of the brand.

- H_{1a}: In a given product category, brand associations, a dimension of consumer-based equity of a brand, varies significantly according to the country-of-origin of the brand.
- H_{1b}: In a given product category, perceived quality, a dimension of consumer-based brand equity, varies significantly according to the country-of-origin of the brand.
- H_{1c}: In a given product category, brand loyalty, a dimension of consumer-based brand equity, varies significantly according to the country-of-origin of the brand.

H_2: The consumer-based equity of a brand varies significantly according to product category.

- H_{2a}: Brand awareness varies significantly according to product category.
- H_{2b}: Brand associations vary significantly according to product category.
- H_{2c}: Perceived quality varies significantly according to product category.
- H_{2d}: Brand loyalty varies significantly according to product category.

H_3: In a given product category, the consumer-based equity of a brand varies significantly according to the brand name.

- H_{3a}: In a given product category, brand awareness varies significantly according to brand name.
- H_{3b}: In a given product category, brand associations vary significantly according to brand name.
- H_{3c}: In a given product category, perceived quality varies significantly according to brand name.
- H_{3d}: In a given product category, brand loyalty varies significantly according to brand name.

H_4: *Macro* country image is substantively linked to consumer-based brand equity.

H_5: *Micro* country image is substantively linked to consumer-based brand equity.