CHAPTER -1
COUNTRY OF ORIGIN

This chapter introduces the Country of Origin (COO) concept and then provides the various definitions given by different authors. It is followed by a brief literature review and background and justification of study. The chapter ends with listing down the objectives of study, a brief outline of research methodology and limitations of the study.

1.1 Introduction:

Globalization and liberalization have opened the doors for various types of firms to do business across the globe. These firms have seized the opportunity and provided the customers with different types of products and services. At the same time we are witnessing a decrease in the growth of the economies of major developed countries as compared to the growth of the economies of developing countries like India, China, Brazil, Russia, etc. This is also seen by the marketers of the developed countries, as an option to expand their business to developing countries.

The firms from various countries have adopted different entry strategies for different countries as per the requirement to start their businesses in new locations. Various marketing tools which are used are product variety, superior quality, country of origin image, customization or standardization (as per the case), brand image etc. Out of all these country of origin (COO) has been one of the three extensively researched areas in the domain of International Marketing. The other two being:

- Standardization vs. customization; and
- Modes of entry (S.C. Jain, 2007).
Country of origin effects has been studied since early 1960s. It is the legal requirement for disclosing the product’s country of origin, all across the world. Hence the customers utilize this information as an extrinsic cue along with other intrinsic and extrinsic cues. When brands go global their COO can play a vital role. It is one of the drivers of the customer perception and intention to buy. So, marketing researchers and practitioners have shown profound interest in the study of COO.

Every country has its own image for technological superiority, product quality, and product design and product value for different categories of products. But consumers give same image of the country to a wide variety of product categories. This stereotyping is because of attitudes towards a particular country; familiarity with the country (Nagashima, 1970 and Wang and Lamb, 1980); background of the consumer, such as their demographic characteristics (Schooler, 1971 and Wall and Heslop, 1986) and their cultural characteristics (Tan and Farley, 1987). Mass media may also shape the reputation of a country as a producer (Nagashima, 1977).

A product draws its image from various sources namely design, performance, brand name and even its COO. The importance of COO can be understood when a product is introduced in a foreign country for the first time, or as a reference point or as a unique selling preposition. The COO effect is due to the halo construct i.e. the country image is transposed to the product or due to the summary construct i.e. positive image of the country may evolve from the image of products with which consumers are familiar, and then this image may in turn facilitate the export expansion of other domestic producers (Han Min, 1989). COO effect provides bases for inferring the quality of the product without considering
other attribute information when the purchase decision does not involve much effort to be put in. COO may activate concepts and knowledge that affect interpretation of other available product attribute information. COO may even act as feature of the product and be used in the product evaluation in case of product that requires higher levels of information search and processing. The COO effect is also seen negatively as producers who try to conceal it because of the fear of creation of negative associations. Thus country names are responsible for associations that add or subtract from the perceived value of a product. Country images are likely to influence people’s decisions related to purchasing, investing, changing residence and traveling (Kotler and Gertner, 2002).

Globalization and liberalization have forced nations to open up their economies. Firms of the developed countries all over the world have utilized this opportunity to establish manufacturing facilities all over the world with the sole criteria of cutting down costs of operations, in the present situation of competitive environment. This multinational production facility produce products which are designed in one country, their parts are manufactured in more than one country, are assembled in some other countries and ultimately sold in altogether different countries. These products are called hybrid products. (Chao, 1993, and Han and Terpstra, 1988). Thus we see that in the global world of today COO is not a single dimensional construct but it has to be decomposed into different dimensions and hence it has become more complex then before. As a result of multinational production, and multinational marketing it is increasingly common for a product to carry the brand name of a company headquartered in one country, but to be manufactured and/or assembled in a different country (Brodowsky, 1998). The function of brand management typically remains the responsibility of the head office.
and to talk of a single COO effect is then misleading. Instead, it is useful to think about various more specific aspects of COO, including country of brand, the country with which individual brand name most closely associates. For example, although Coca Cola has a global operation today, it is still seen as an American brand, by consumers all over the world. So if country of branding can be taken as a logical extension to country of origin then country of branding would produce the same associations as those produced by COO. Brands incite beliefs, evoke emotions and prompt behaviors. Brands have social and emotional value. They enhance the perceived utility and desirability of a product. Before going into the detail of the COO studies, we can chronologically see the variations in the definitions of COO and its effects.

1.2 Definitions of COO:

1. Nagashima, (1970): Picture, reputation or the stereotype that businessmen or consumers attach to products of a specific country.


3. J.K. Johansson and S. P. Douglass, (1985): country where the headquarters of the company marketing the product or the brand is located.


7. Nebenzahl, Lampest and Jaffe, (1997): Associated with a certain product or brand regardless of where the product is produced.

9. N. Papadouloulus and Louis A.H., (1993): Result of the perceived national identification or affiliation of a product by consumer regardless of any explicit or implicit and real or false claims inherent in the product or its associated promotion. The COO of a good or service is simply whatever a consumer perceives it to be.

10. Knight and Calantone, (2000): Factor that reflects a consumer’s general perception about the quality of products made in a particular country and the nature of people from that country.

11. Hubl and Elrod, (2000): Country of assembly of a product implying the products produced (assembled) either in their brands home country (uninational product), in countries other than the brand home country.

12. Lim and O’ Cars, (2001): country of design


1.3 Brief Literature review :

COO studies started as an experiment by Schooler, (1965) in Guatmela. Then from 1965 to 1982 COO studies were mostly using single cue of COO for different products in different countries. But later on from late 1980s onwards the studies have focused more on multiple cues. As the name suggests, single cue studies dealt with measuring the effect of COO on consumer choices. Schooler, (1965), Baumgarmu and Jolibert, (1978), Bilkey and Nes, (1982), Hampton, (1977), Lillis and Narayanan, (1974), Schooler and Wildt, (1968) and Tonberg, (1972) were
notable contributors during this period. Most of these studies revealed that the consumers chose products from developed countries in comparison to developing countries. But these results have been overstated as COO effect was studied in isolation. Nevertheless, since 1984, multiple cue studies started measuring the effect of COO. The studies under multiple cues included the intrinsic quality of the product such as quality, design, performance, etc. and also extrinsic cues such as brand name, COO, price, etc. Important contributions came from Ericksson et al, (1984), Johansson et al(1985), Ettenson et al(1988), Chao (1989), Thorelli et al(1989), Hong and Wyer, (1990), d’Astous and Ahmed, (1992) and Liefield, (1993). All these studies emphasized the importance of COO effect on consumer’s choice, even in the presence of other product cues.

Until this point of time, most of the studies had not decomposed the COO construct. But because of globalization, lot of companies located in developing countries started shifting their manufacturing bases to developing countries for cheaper manufacturing cost by using locally available raw material and labour. They also started sourcing most of their requirement including raw material from all over the world, manufacturing or assembling in cheaper countries to get products made at cheaper rate. (Hans and Trepstra, 1988). Thus companies were now using more than one country to manufacture their goods. This gave a twist to the study of COO effect and now this study composed of products known as hybrid products. Hence the original meaning of COO was changed to country of design, country of assembly, country of manufacturing and country of parts.

Different authors have formed different dimensions for their studies related to COO. Insch and McBride, (1998) have decomposed the COO construct into Country of design, country of parts and country of assembly. Phau and Prendergast,
(2000) have decomposed it into country of manufacturing and country of branding. The definition of COO by Johansson et al, (1985) also stresses the point of identification of the brand or product with COO. Phau and Prendergast, (2000) states that “the construct of country of branding may serve as a database of information that disseminates various positive attributes about the brand that consumers have developed over a period of time. This information can be stored in the consumer’s memory and retrieved readily during their evaluations of the brand and to be used as a comparison benchmark for competing brands.” They have also said that the COO construct can be viewed as multi dimensional construct involving a hybrid of factors that makes the distinction between the country of manufacturing and the country of branding. These distinctions in the context of consumer decision making on goods produced in developed countries and goods produced in developing country will become the basis for the study.


1.4 Background and justification for the study:

The need for study originates from identifying why the study is needed in our country, selection of the product categories and selection of the theme of the study.
1.4.1 Need of study in India:

Most of the country of origin (COO) studies are done in the developed countries such as the US, the UK, Japan, Germany and France (Jean Claude Usunier, 2006). However more than 80% of the world's consumers live in emerging consumer markets and transitional economies (Steenkamp and Burges, 2002) while developed nations represent a shrinking portion of world's economy (Wilson and Purushotaman, 2003). Emerging economies like Brazil, Russia, India, China, etc. are experiencing rapid rates of economic changes (Batra, 1997) and so they are the right candidates for global growth (Klein, Ettension and Morris, 2006). There are major differences in between the economical, cultural and political factors prevalent in developed and developing countries. So the process by which consumers use COO information in developing countries may differ (Agbonifoh and Elimimian, 1999). Hence investing the COO effects in these economies will provide important insights that will help the foreign companies, manufacturers and policy makers of these emerging economies. Very few studies have been done in a developing country like India. Probably, the published research related to this type of study involving Indian consumers, as per Jean Claude Usunier, (2006), would not be more than 15.

India has always had a very hierarchy and status conscious society (Kakar, 1981, p.124), which began with the caste system and has now evolved into more of a class based system (Venkatesh and Swamy, 1994, p.54). Thus there has always been a search for signs and markers of status and class and successful Indians frequently like to display their affluence through ostentatious display of the goods they own (Singh, 1982, p.27). Opening of its markets and the changes in women's roles, India is now undergoing very significant changes, including rising incomes and changing expectations and tastes (Venkatesh and Swamy, 1994, p.207). Today Indian
consumers yearn to be equal participants in the global consumer economy, with the power to acquire brands from all over the world (Batra R., et al, 2000). India is also showing signs of higher growth than most of the developed economies as per C.I.A. report. India has become a new emerging economy the world is witnessing. Lot of consumer durable brands from different parts of the world is proliferating in Indian market. Hence India seems to be a perfect destination to study the effects of COO.

1.4.2 Selection of the product categories:

Product category country associations refer to consumers' ability to evoke a country when the product category is mentioned (Trepstra and Sarathy, 2000) for example Swiss watches, Japanese consumer electronics, German engineering, Russian Vodka, etc. These associations are bi directional and hence consumers are known to associate countries also with certain product categories. These product category country associations are believed to moderate the effect of COO on product quality (Ravi Pappu, et al, 2006). Also, the product categories are chosen in such a way that they are expected to be associated with one or more country and not all countries used in the study (Roth and Romeo, 1992). Hence we use two different product categories with different levels of characteristics. The characteristics are financial risk in purchase, personal involvement, technological complexity and status consumption. One product category has higher level of all these characteristics then the other product category. At the same time, both of these product categories should have strong market penetrations and high levels of familiarity among the respondents. (Hamzaoui L. and D. Merunka, 2006).

Also, most of the studies have used till date consumer durables like car, TV, stereo, refrigerators. (Jean Claude Usunier, 2006). The studies pertaining to mobile hand
set and laptop in the country of origin (COO) studies are very few. Mobiles and laptops are the two product categories in the consumer durable section showing high rates of consumption in our country recently. Also these two product categories have lot of variety with price ranging in the laptop market right from Rs. 15,000 to Rs. 2,00,000 per piece and the same ranging in mobile phones from Rs. 1500 to Rs. 50000 per piece in the mobile market. Hence typical consumers like students and working executives keep on changing to the upgraded versions and so there is always a scope for replacement demand. Also, because of a steady decrease in the prices of these products, there is always an addition of a new segment which is price sensitive who can be called as first time buyers. Hence these two product categories can become good independent variable for this research. The usage of the two different product categories namely laptops and mobile phones, will also help us to see if there is any variation in the perceptions of quality of these categories in the minds of consumers.

1.4.3 Selection of theme of study:

COO of a product category is an extrinsic cue (Thoreli, et al, 1989), which is known to influence consumer's perceptions and to lead consumer to cognitive elaboration (Hong and Wyer, 1989) and associations in the mind of consumer (Keller, 1993). Consumers are known to associate a brand with its home country even when the COO information is not made available to them (Ravi Pappu, et al, 2006). COO images occur at two levels, that is at a macro level where mention of particular country may convey a general image while at a micro level or product class level a more specific image will be created (Hooley, et al, 1988). Hence at a macro level country image gets extended to national and cultural symbols, economic
and political situations, degrees of industrialization, values and products associated with that country (Leila and Merunka, 2007). Hence COO serves as surrogate to inform the customer about product quality (Reardon, et al, 2005). But because of globalization and manufacturing cost minimization processes, companies are relocating their production facilities to more and more developing countries. This decomposes the COO construct into country of designing and country of manufacturing (Chao, 1998). This decomposition makes the consumer's perception process for COO more complex. Hence researchers studying COO should distinguish between the country where product is designed (COD) and the country where it is manufactured (COM). This decomposition of COO into COD and COM construct is an important contribution to the study of its effect on consumer's product quality assessment (Insch and McBride, 2004).

Most of the marketers in the laptop and mobile phone product categories are dealing in branded goods only. Also, the world over, we find few prominent brands in the laptop and mobile market. There are multinational corporations such as HP, Compaq, IBM, SONY, Toshiba, Acer, Asus, e-Sys, Dell, Lenovo which are marketing the laptops and multi nationals like Nokia, SONY Ericsson, Motorola, Samsung, LG in the mobile handset business. These multi nationals originate from one specific country but have their manufacturing or assembling plants other countries. At the same time, they also out source a part of their manufacturing in other countries to cut down the costs. They also get parts of the product manufactured in different countries either by their subsidiaries or else by their suppliers. These facts are known not only to the distribution channel members but also to the end user of the products. For the simplicity sake, as mentioned earlier, COO gets decomposed into country of design (COD) and country of manufacturing
So, the final product made is known as hybrid product or bi-national product. There are few countries which have the expertise to design and manufacture these products. The customers utilize both of these variables as they have different images for different countries. Hence they perceive the quality of the final product based on these dimensions. Hence the effect of COD and COM on the perception of the quality of the hybrid product (laptop and mobile) in a developing country like India becomes the basis of study.

As mentioned earlier, consumers are knowledgeable about product category country associations. This means that the logical connection between product category and country (perceived fit) will influence the consumer's perception of product quality. This is same as a new brand extension that benefits from the already existing, brand equity of the parent brand (Aaker and Keller, 1990). But as we have decomposed the COO construct into COD and COM, we need to find out the fit between the product category with COD as well as COM. This means that different countries will possess varying levels of the capacity to design and manufacture a specific product category. That is some countries will possess strong capacities to design a specific product category and similarly other countries will possess weak capacities to design the same product categories. Same will also be true for manufacturing capacities for a specific category. This is because the dimensions perceived to be important for designing a product category will be different from those for manufacturing the same product category. Few countries will have expertise to design and also to manufacture a specific product category. But because of the diffusion and standardisation of production technologies more countries will be perceived to be possessing manufacturing capacities for diverse product categories then for designing the different product categories. Roth and Romeo
(1992) has also argued that COM effects may be stronger for products with high to intermediate levels of technical sophistication.

As per Leila Hamzaoui and Dwight Merunka (2006), the fit between the image of the COD and the product category refers to the perceived capacity of the country to design a product within a specified product category. This fit is determined by the adequacy between the perceived competence of COD (associated with global country image) and important product characteristics. A high COD/product fit occurs when the consumer perceives the country as having the abilities and competence required to conceive the product category. Inversely, a weak fit occurs when strong associations of COD do not correspond with the important product characteristics or the important product characteristics correspond to negative COD. The COD image/product fit concept implies that the logical connection perceived by a consumer between a country and product category will influence perceived product quality.

Similarly the COM image/product fit refer to the perceived capacity of the country to manufacture a product in a specific product category. This fit occurs when the consumer expects the product to be manufactured in that country and is determined by the adequacy between the perceived competence of the COM to manufacture and the important product characteristics. A high COM/product fit occur when the consumer perceives the country as having the abilities and competence required to manufacture the product category. Inversely, a weak fit occurs when strong associations of COM do not correspond with the important product characteristics or the important product characteristics correspond to negative COM. The COM image/product fit concept implies that the logical
connection perceived by a consumer between a country and product category will influence perceived product quality.

As per Verlegh and Steenkamp, (1999), COO should affect quality perceptions more than the product evaluations because ‘the attitude concept is broader than the quality construct, encompassing more and different factors’. Further they say that, ‘it is to be expected that the effect of COO on product evaluation is higher than the effect of COO on ‘purchase intentions’ as the latter do not only represent a tradeoff between consumer needs and product features, but also incorporate several external influences, of which “budget constraints” are the most important.’ Hence consumer may perceive a product to be of high quality and like it very much but may not buy as they cannot afford it. So in this situation, it is better to measure the product’s perceived quality effect on perceived evaluations rather than purchase intentions. Perceived value in turn directly influences willingness to buy (Szybillo and Jacoby, 1974). Perceived product quality will have a positive effect on perceived value.

The above discussion summarizes the following important considerations.

1. Lot of earlier studies have assessed the effect of COO on a single attribute namely, product quality. But as country image is a multiattribute construct we need to assess its effect on perceived value as it is an indicator of the customer's purchase. Hence we need to identify the COO effect on perceived quality and then perceived quality on perceived value.

2. COO is not a uni-dimensional construct. Many products are designed in one country and manufactured in other country. These distinctions may not be inferred from the brand name of the products. Hence it is important to distinguish between two dimensions of COO as country of designing and
country of manufacturing (COM) and use them for our study instead of COO.

3. Past studies have also shown that COO effects vary across product categories (Kayank and Cavusgil, 1993). COO seems to depend on such product characteristics such as technological complexity, involvement (Eroglu and Machleit, 1989), financial risk, and status consumption. COO effects must be studied across product possessing different levels of these characteristics to minimize the effects of these characteristics on the study.

Hence a study is required to assess the effect of COD and COM dimensions of COO on the perceived quality of hybrid products in our country.

1.5 Scope of the study:

The study is done by identifying certain boundaries related to the selection of the countries, theme of the research product description and usage of the product. These boundaries help to form the scope of the study as per the details given below:

1. Consumer’s purchase decisions comprise of product choice, brand choice, retailer choice, purchase timing and purchase amount as per Kotler (1990). Out of all these, brand choice has been taken as the only dimension of purchase decisions, in this study. As per Howard Sheth model of Consumer buying behavior (Schiffman and Kanuk, 1994), purchase is an output which happens only after attention, development of brand comprehension, attitude formation and intention takes place in a sequence. Brand comprehension is the understanding of the information related to brand which helps the consumer for final brand choice. Now as per the marketing partitioning theory (Rubinson, et al, 1980)
consumers use nation dominant hierarchy or brand dominant hierarchy as a sequence, for choosing a product. Growing number of buyers are now using nation dominant hierarchy as they associate products from different countries with different quality levels. That is, countries have different levels of capabilities to design and/or manufacture specific categories of products. In today’s world, where there is information explosion through various media, getting knowledge of a product or brand’s COD or COM is very easy. So, buyers may use this information of COD and/or COM to make decisions related to brand choice.

Looking at purchase decision from different perspective, buyers perceive a product to be of superior quality, and have a liking for the product yet do not buy it as they cannot afford it. (Verlegh and Steenkamp, 1999). So it is not logical to identify whether the buyer will purchase the product under the influence of COD or COM. Instead, it would be better to measure product’s perceived value as it is a prerequisite to willingness to buy. (Szybillo and Jacoby, 1974). As product’s perceived value is influenced by product’s perceived quality (Monroe, 1975), in order to identify the purchase under the influence of COD and/or COM, it is better to identify the effects of COD and or COM on product’s perceived quality. So in this study the scope to measure impact of COO on consumers’ purchase decisions gets transformed into the effect of COD and or COM on product’s perceived quality.

2. The Country of origin (COO) construct has been decomposed into only, Country of design (COD) and Country of manufacturing (COM) as per Leilla Hamzaoui and Dwight Merunka (2006). COO could also be
decomposed into COD and country of assembly (COA) as per Ahmed S.A. and D’ Astou A.(1999) or Country of product design, Country of parts manufacture and Country of Product Assembly as per Insch G.S. and McBride B.(1998). But both of these later decompositions have been ignored. And hence the study is restricted to COO’s decomposition into COD and COM only.

3. The study is restricted to laptops and mobiles whose CODs are in developed country and one COM is in developed country and the other COM is in a developing country. Whether the country is a developing country or developed country is identified with the usage of GDP values for that country in the year 2006-07, as per real growth rate cited in the Central Investigation Agency of the USA report. No other measures of economic development for the country chosen have been considered for the study. Based on this parameter only the countries were selected.

4. The description of the product categories have been kept general in the study and hence no specific product description (model or attributes or feature) have been given to the respondents as this additional information would have directed the study towards study of familiar models and lose its implications for a general conclusion valid across different models designed or manufactured in a specific country, as per William Dodds, Kent Monroe and Dhruv Grewal (1991)

5. The respondents are all experienced users of the two product categories. Experienced users have been defined as all those consumers who have at least got the experience of using the product categories at least for two years.
Based on the above summarized considerations, scope of study and the underlined sentences in the section on selection of the theme of study, the various objectives of the study are identified below.

1.6 Objectives of the study:

1. To study the impact of country of design and country of manufacture on consumer’s perception of bi national product's quality.

2. To measure the impact of country of design/product fit and country of manufacture/product fit on consumer’s perception of bi national product’s perceived quality.

3. To measure the impact of bi national product’s perceived quality on product’s perceived value.

1.7 Brief outline of Research Methodology:

1.7.1 Data collection:

The study was conducted in the following four phases of data collection.

Phase 1: Data collection through focus groups and in depth interview.

Phase 2: Data collection for identification of product categories and their countries of design and countries of manufacturing.

Phase 3: Data Collection and purification of scale and checking its reliability and validity.

Phase 4: Data collection for the eight versions of questionnaires.

1.7.2 Sampling plan:

- Type of sampling: Non probabilistic
Sampling unit: Consumer who has used laptop and/or mobile phone for at least two years.

Sample size: 400 respondents from different age groups, family income, education levels and profession.

1.7.3 Data collection procedure:

- Personal contact

1.7.4 Instrument design:

- 5 point differential semantic scale of 6 items each to measure global COD and COM images.
- 5 point differential semantic scale of 3 items each to measure COD image/product fit and COM image/product fit.
- 5 point Likert scale of 5 items to measure perceived product quality.
- 5 point Likert scale of 5 items to measure perceived product value.

1.7.5 Statistical Techniques used:

Mean, standard deviation, multiple regression and ANOVA were used to test the hypothesis.

1.7.6 Limitations:

- As the research has used the convenience non probabilistic sampling method the results of the study cannot be generalized.
- The respondents’ biasness towards a specific country image may have crept in the responses to the various questions. Hence the results obtained may be biased towards a specific country.
References:


