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## INFLUENCE OF COUNTRY & BRAND IMAGE ON CONSUMER LOYALTY UNDER EXPLICIT BRAND ORIGIN & MANUFACTURE IDENTIFICATION

*This study provides the empirical assessment of the effects of perceived CI and BI on consumer brand attitude formation under explicit brand origin and manufacture origin identification. This study unveils independent influences of the perceived CI and BI on consumer brand relationship, eliminating the potential bias of misclassification or non-classification. The findings may provide appropriate guidelines for the development of country and brand communication strategies. Brand trust (BT) is found to have greater impact on building brand loyalty (BL) as compared to customer satisfaction (CS) for both product categories (i.e. food and drug), while CS affect BT. For food product, the perceived CI plays a meaningful role in forming BT, while the perceived BI had an insignificant role. For drug product, on the other hand, CI did not play an important role in forming BT.*

*Keywords:* country image; brand image; brand origin; manufacture origin; brand loyalty.

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## ВПЛИВ ІМІДЖУ КРАЇНИ ТА БРЕНДУ НА ЛОЯЛЬНІСТЬ СПОЖИВАЧІВ: ЗА УМОВИ ОЧЕВИДНОСТІ ПОХОДЖЕННЯ БРЕНДУ ТА ЛОКАЛІЗАЦІЇ ВИРОБНИЦТВА

*У статті проведено емпіричне оцінювання впливу іміджу країни-виробника та бренду на ставлення споживачів до бренду за умови, що походження бренду та країни локалізації виробництва досить очевидні. Продемонстровано, що імідж країни та імідж бренду впливають на сприйняття споживачів, незалежно один від одного. Результати та висновки дослідження можуть бути використані для розробки комунікаційних стратегій, як національних, так і для окремих брендів. Для обох досліджених категорій товарів (продукт харчування та медикамент) довіра до бренду впливає на лояльність більше, ніж задоволеність самим товаром. Для продуктів харчування імідж країни має набагато більший вплив, ніж імідж окремого бренду. Для медикаментів – навпаки, країна походження не має суттєвого впливу при формуванні споживчої довіри.*

*Ключові слова:* імідж країни; імідж бренду; країна походження бренду; країна виробника; лояльність до бренду.

*Рис. 2. Табл. 3. Літ. 13.*

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## ВЛИЯНИЕ ИМИДЖА СТРАНЫ И БРЕНДА НА ЛОЯЛЬНОСТЬ ПОТРЕБИТЕЛЕЙ: ПРИ УСЛОВИИ ОЧЕВИДНОСТИ ПРОИСХОЖДЕНИЯ БРЕНДА И ЛОКАЛИЗАЦИИ ПРОИЗВОДСТВА

*В статье проведена эмпирическая оценка влияния имиджа страны-производителя и бренда на отношение потребителей к бренду при условии, что происхождение бренда и страна локализации производства достаточно очевидны. Показано, что имидж страны и имидж бренда влияют на восприятие потребителей независимо друг от друга. Результаты и выводы исследования могут быть использованы для разработки коммуникационных стратегий, как национальных, так для отдельных брендов. Для обеих исследуемых категорий товаров (продукт питания и медикамент) доверие к бренду влияет на*

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*лояльність більше, чем удовлетворённость самим товаром. Для продуктов питания имидж страны имеет намного большее влияние, чем имидж отдельного бренда. Для медикаментов – наоборот, страна происхождения не имеет значительного влияния при формировании потребительского доверия.*

*Ключевые слова: имидж страны; имидж бренда; страна происхождения бренда; страна производителя; лояльность к бренду.*

**Introduction.** Consumers seek for external and internal cues in a product to make efficient choices while imperfect market information results in various search and opportunity costs for consumers. Country of origin (COO) has been an important external cue commonly used by consumers when they are faced with products from various countries. N. Papadopoulos (1992) states that the higher is the level of globalization, the greater is the significance of product country image. Consumers' perception of COO is reported to have considerable effect on consumers' evaluation of product performance. For the past decade, there have been numerous studies on COO phenomenon and firms relentlessly use COO information as a part of their marketing strategy and countries around the world increasingly attempt to manage their images (Anholt, 2010).

Global market development has led to the establishment of global brands by multinational enterprises. These firms transfer their manufacturing and assembly processes to developing countries to manage costs, thus rapid globalization of sourcing and production led to blurred definition of COO. In other words, a global brand is no longer related to its country of origin. J.-C. Usunier (2006) acknowledges that consumers "live in a cluttered environment, with overabundant information which far exceeds their information processing capacity." Recent studies report that consumers often do not know the true origin of many brands and that they frequently categorize a brand to a wrong COO (Balabanis and Diamantopoulos, 2011). Average correct identification rate is of only 49% for 40 domestic brands and 22% for 44 brands from 7 other countries in the US (Samiee et al., 2005); and correct brand origin identification rates between 17% and 54% in Australia (Hennebichler, 2007). Thus, consumers' inability to correctly classify brand origin may result in a bias of brand evaluation and the following buying decision.

Researchers have attempted to separate COO and brand origin, and findings show mixed results. Some studies show that country of assembly, parts and design each significantly affect consumer perceptions of product quality (Eroglu and Mahleit, 1989; Insch and McBride, 2004; Chao, 2001), while other found that product's country of manufacture and country of components had no significant bearing on quality evaluations when the country of brand's origin included in evaluation (Thakor and Lavack, 2003). Others show that country of brand has become more significant for consumers than manufacturing country (Leclerc et al., 1994; Samiee et al., 2005).

Findings suggest that consumers may show different behavior when origin of brand and origin of manufacture do not coincide. G. Balabanis and A. Diamatopoulos (2011) showed that brands that are incorrectly misclassified being from an unfavorable country suffer, and consumers' misclassification of brand origin has significant effect on brand image evaluation and buying intention. This implies that consumers may have certain perception of a country which affect the develop-

ment of their brand attitude. P. Magnusson et al. (2011) also argue that consumers learn a brand's true origin leads to a shift in brand attitude, and consumer perception of origin country is likely to influence this transition. When consumers misclassify brand origin to different COOs, they are likely to associate different CI which may bias their brand evaluation and brand attitude.

How the COO are conceptualized and operated in the minds of consumers may have considerable impact on their attitude and purchase intention of a brand product. In order to elicit a clear effect of country image (CI) and brand image (BI), it is necessary for consumers to have correct information on brand origin and manufacture origin. Thus, it is important to understand how perceived CI and BI influence consumers' decision-making when they are faced with explicitly identified variation of origin cues such as the country of manufacture, the country of brand (i.e. consumers are able to classify correct brand origin and manufacture origin). Understanding consumers' perception of CI and BI without potential bias or misclassification of brand origin may provide appropriate guideline for the development of country and brand communication strategies.

CI and BI both have an interdependent and largely similar effect on product beliefs and attitude (Hui and Zhou, 2003), thus the combined and separate effects of CI and BI need to be evaluated concurrently. As M. Fishbein and I. Ajzen (1975) stated consumer behavior is influenced by their attitude, and brand attitude and purchase intention are two major dependent variables that can represent consumer behavior in brand choices (Balabanis and Diamantopoulos, 2011; Magnusson et al., 2011). The purpose of this study is to examine the combined and separate effects of perceived CI and BI on consumers' brand trust (BT), customer satisfaction (CS) and brand loyalty (BL) when consumers have correct classification of brand origin and manufacture origin.

Recent scares about health risks of food (Stern and Springen, 2007), and personal care products (Alexander, 2007) manufactured in China have brought the "made in" debate to the forefront of attention in China. In this study, milk and antidiarrheal drug are selected as two product categories as associated with personal health and food safety. In order to assess how consumers develop their attitude to a particular brand in regard to brand image and COO image particularly for sensitive products such as food and drug, these two categories are considered to be appropriate.

**Research methodology.** The survey questionnaire was developed, including 18 questions per each product category. The Likert 5-scale spectrum was employed to design this questionnaire. The questionnaire validity was checked with expert's recommendation from the industry. Two product categories were selected to examine, including packaged milk and antidiarrheal (medicine). For each category 4 country origins were selected: China, USA, Europe and S. Korea, and 3 brand names from China, S. Korea and Europe were selected.

Possible scenarios of brand origin (BO) and manufacture origin (MO) are illustrated in Table 1. In total, 12 product scenarios are designed based on country and brand selection. In order to evaluate the distinct effect of CI and BI, BO and MO were separately specified in purchasing scenarios within the respondents' survey. For example, the respondents were asked to identify their preference on a milk product

which has a) European brand, made in China; b) Chinese brand, made in China; c) S. Korean brand, made in S. Korea etc.

*Table 1. Product & brand item descriptions and sampling design, authors'*

Product category	Brand name	Manufacture origin (MO)	Brand origin (BO)	Sample size
Milk	Mung Woo	China	China	141
	Mung Woo	USA	China	141
	Anchor	China	Europe	141
	Anchor	Europe	Europe	141
	BingGuRae	China	S. Korea	141
	BingGuRae	S. Korea	S. Korea	141
Antidiarrheal	TenSLee	China	USA	137
	TenSLee	USA	USA	137
	IpSen	China	Europe	137
	IpSen	Europe	Europe	137
	DaeWoong	China	S. Korea	137
	DaeWoong	S. Korea	S. Korea	137

The data was collected from the Internet survey conducted during October–November 2014. In total, 277 usable data were collected and demographic characteristics of the sample are reported in Table 1. At large, the sample population reflects Y generation in China who have high aptitude for Internet surveys and the sample consists of 60% women and 40% men in the age group of 20–30 years who had secondary education (beyond college). Most are employed, earn less than 5000 yuan. Assessment of this sample group reflect Chinese Y generation's perception, attitude toward brand image and manufacture image and the effects of these antecedents on the development of brand loyalty.

An exploratory factor analysis, using the maximum likelihood extraction method was used to determine the validity of the proposed model and the factor loadings particularly for CI construct and BI construct were greater than 0.8, clearly indicating the distinct characteristics of each construct. The Cronbach's alpha was used to measure the reliability of the selected research variables, and the alpha value greater than 0.7 would mean that the variables are reliable. Table 2 shows that the alpha values of the variables were found to be greater than 0.9, suggesting that the measurement model possesses rather high reliability.

*Table 2. Measure of reliability, authors'*

Classification		Cronbach's $\alpha$	
External latent variables	Country image (CI)	0.992	0.987
	Brand image (BI)	0.995	
Internal latent variables	Customer satisfaction (CS)	0.957	
	Brand trust (BT)	0.961	
	Brand loyalty (BL)	0.965	

Structural equation modelling (SEM) with AMOS 18 was applied to analyze the proposed model describing the effects of CI and BI on consumer brand loyalty. Goodness of fit statistics for the estimated model (Table 3) shows that the structural model had a reasonable fit as to the proposed hypotheses. For example, GFI, NFI,

CFI values of the structural model for milk category were greater than 0.9, while RMSEA value was less than 0.05, showing relatively high goodness of fit between the model and the hypotheses. On the other hand, RMSEA value of antidiarrheal category was found to be 0.067 (higher than 0.05), although GFI, NFI CFI values were greater than 0.9. Modification indices were used to improve the structural model and the final revised model shows RMSEA of less than 0.05.

Table 3. Overall model fit of measurement Model I & II, authors'

Results and discussion. Figures 1 and 2 show the influence of path coefficients in

Category	Model	Chi-Square (df=126)	P	GFI	AGFI	NFI	CFI	RMSEA
Milk	Original	447.565 (df=126)	.000	.944	.924	.969	.978	.055
Drug	Original	585.402 (df=126)	.000	.927	.901	.965	.973	.067
	Revised	385.491 (df=121)	.000	.950	.929	.977	.984	.052

the proposed Model I of milk product category, and the proposed Model II of drug category. SEM analysis results indicate the impacts of two major antecedents – perceived country image (CI) and perceived brand image (BI), two mediating constructs – brand trust (BT) and customer satisfaction (CS), and the effect of their interaction on the dependent variable – brand loyalty (BL). Two separate models were estimated for milk and drug product categories to assess the potential effects of product category.

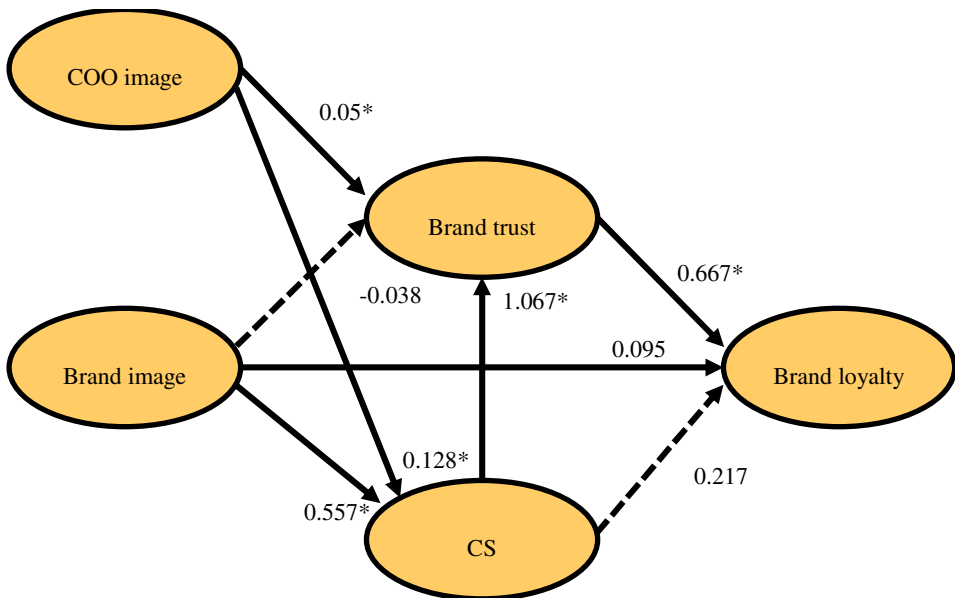


Figure 1. Structural Model I (standardized path coefficient: milk category), authors'

For milk category (Model I), perceived CI had statistically significant positive effects both on CS and BT, while perceived BI had statistically significant positive effect on CS. This supports the previous study findings that COO is used in consumer

minds as a proxy for other brand attributes such as customer satisfaction (CS) or as a stereotype measure. From the perceived CI, consumers appear to infer CS that are used to form further brand attitude (i.e. brand loyalty – BL). Between the perceived CI and BI, the BI construct had greater impact on CS, while CI had greater impact on brand trust (BT) in Model I. Overall, consumers appear to develop their brand loyalty for milk products based on brand trust (BT) which is significantly affected by the perceived CI.

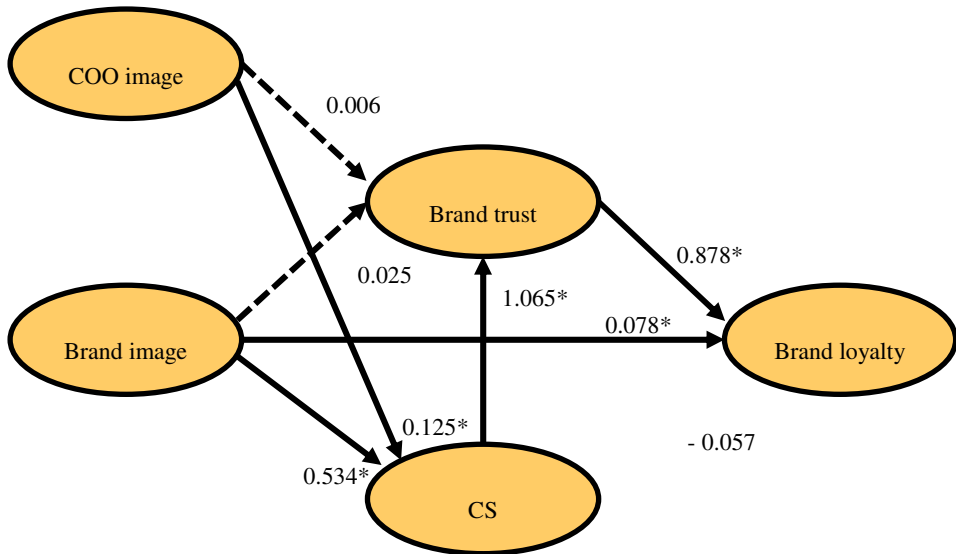


Figure 2. **Structural Model II (standardized path coefficient: drug category), authors'**

In drug category (Model II), the perceived CI and BI constructs both had statistically significant effects on CS, while none had significant impact on BT. CS did not appear to have direct impact on BL for both product categories, while having considerable indirect effects on BT which has statistically significant positive effects on BL. In short, CI was found to affect CS, leading to greater BT and BL. On the other hand, BI itself had much less impact on BL for both models.

Between CI and BI constructs, CI was found to be more important antecedent than BI, affecting CS of consumers, although it did not have meaningful effects on BT.

Both milk and drug are product categories closely related to consumer health and safety, thus CI may have considerable impact on consumer perception of the product safety through the image of the country from which a particular brand product is manufactured and branded. However, BI did not necessarily translate into BT, instead CS had direct impact on BT. It implies that Chinese consumers develop trust towards a particular brand through personal experience of the product which result in CS, and subsequently reflected in BT.

In terms of Chinese consumers' BL, the results show that CS does not impact directly on BL, but through BT. In other words, Chinese consumers' CS of product experience has to be acknowledged into BT, which may result in repeated purchase.

**Summary and implications.** This study provides the empirical assessment of the effects of perceived CI and BI on consumers' brand attitude formation, with explicit brand origin and manufacture origin identification. The perceived CI and BI are proposed as two major antecedent for brand trust and customer satisfaction, affecting brand loyalty in the proposed model. Our study revealed independent influences of the perceived CI and BI on consumer brand relationship, eliminating potential bias of COO misclassification and non-classification. Previous research have reported on product categories such as consumer electronics, automobile and luxury brand products for assessing the impact of CI on brand analysis, and our study provide a different perspective on the relationship between CI and BL by applying everyday consumer products which has safety aspects. Imported food and drug products are particularly important in China as frequent incidents associated with health-related products have led to high level of distrust and uncertainty in public attitude towards these product categories. When consumers perceive uncertainty, they tend to get more involved in their information search and pay attention to available extrinsic and intrinsic cues. Thus, the origin cue becomes consequently more important in China, and consumers consider manufacture origin and brand origin as part of their strategies to reduce uncertainty and potential risks associated.

From the theoretical perspective, our study argues that perceived CI and BI do influence consumer brand loyalty when the origin cues are explicitly identified. By eliminating the possible bias triggered by COO misclassification or non-classification, the unambiguous effects of the perceived country image (CI) and brand image (BI) are evaluated. From the managerial perspective, brand trust is found to have greater impact on building brand loyalty as compared to customer satisfaction for both product categories, while CS affect BT. Our findings verify that international marketers need to be keenly aware of country associations consumers draw with their brand, and to assure that brand-country association translate into proper brand equity (Magnusson et al., 2011).

For food product, the perceived CI plays a meaningful role in forming BT, while the perceived BI had insignificant role. For drug product, on the other hand, CI did not play an important role in forming BT. Given high publicity of food scares in China in the recent years, Chinese consumers are likely to use brand origin as a proxy in determining their trust to a particular brand. Multination firms with global food brands may need to make more efforts to educate or/and promote brand origin, if the brand is from a favorable country. For the pharmaceutical firms positioning themselves in China, it may be necessary to focus more on building CS by developing favorable BI with effective promotional, communication strategies since BI is the major factor shaping brand loyalty. CI was found to have insignificant effect on BT for drug products.

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