

# Country Image and Brand Equity Effects of Chinese Firms and Their Products on Developed-Market Consumer Perceptions

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## Abstract

As China's rapid economic growth continues to be a significant dimension of the world economy and international business, more Chinese multinational firms have been emerging with increasing efforts towards internationalization. While manufacturing, labor efficiency and costs have been a source of their competitive advantage, one area of relative weakness has been their lack of corporate/product brand equity and recognition. Coupled with potential negative country image effects, this deficiency has hindered a more positive perception and acceptance of brands and products from China, particularly in the more developed markets, such as the United States (U.S.). This empirical study examines the nature of such a challenge faced by Chinese firms and their need to develop an effective branding strategy for success in the U.S. market.

**Keywords:** *Country image, COO, country of origin effects, customer perceptions, brand strategy, Chinese brands, emerging market brands, marketing to developed market customers*

## ***Introduction***

The Country-of-Origin or COO effect refers to “the picture, the reputation, the stereotype that business people and consumers attach to products and services associated with a specific country” (Lin and Kao, 2004; p.38). Such an image may emerge from representative products, national characteristics, economic and political background, history and traditions (Nagashima, 1970). This paper furthers the notion that the nationality associated with consumer products and services, or their COO, is continues to remain a significant factor in consumer perception and purchasing behavior (Peterson and Jolibert, 1995; Al-Sulaiti and Baker, 1998; Verlegh and Steenkamp, 1999; De Wet, Pothas and De Wet, 2001; Sharma 2010). COO studies have argued that consumers have diverse perceptions about products or services made in or associated with foreign countries, and that these perceptions affect their behavior based on stereotyped national images of the country of association. Extensive empirical research has been completed in this area throughout the past fifty years, concluding that COO effects do exist and they have considerable impact on product quality evaluations and purchase intentions (e.g., Bilkey and Nes, 1982; Cordell, 1992; Tse and Gorn, 1993; Papadopoulos and Heslop, 2002; Usunier and Cestre 2008). In fact, the COO effect on consumers is one extrinsic cue that has grown increasingly significant as the trend towards globalization of production and multinational enterprise (MNE) strategy has intensified, particularly for those from emerging markets such as Taiwan, China and India.

While studies have concluded that under specific conditions, consumers may exhibit a preference for domestically made alternatives, or “ethnocentrism” (Han, 1988; Hong and Wyer, 1989; Papadopoulos, Heslop and Beracs, 1990), or those from more developed countries (Shimp and Sharma, 1987; Han, 1988; Granzin and Olsen, 1998; Douglas and Nijssen, 2004; Josiassen and Harzing 2008). Other research has also revealed that the economic development of associated countries indeed plays a role, as products made in less-developed countries were not perceived as quality products (Reiersen, 1966; Schooler, 1971; Gaedeke, 1973; Pappu, Quester and Cooksey 2007).

It is based on this stream of research that we apply the concept of COO to the case of brands and products associated with a major developing and emerging market, China. While Chinese MNEs have traditionally focused on other emerging developing markets located in neighboring Asian countries to export to and invest in, and have more recently established a dominant product and investment presence in other emerging markets in Africa, the Middle East and Latin America (Gao, Woetzel and Wu, 2003; Wu, 2005), Chinese firms now compete in the developed markets of Europe and North America (Gumbel and Jakes, 2005). Chinese brands such as *Lenovo* (personal computers) and *Haier* (home appliances) have entered the U.S. market with others, such as *Geely* and *Chery* automobiles planning to follow suit. As Chinese firms expand into more developed economies, like the U.S., the literature has investigated the various challenges and issues that they face when competing in such markets. A major challenge for the internationalization of Chinese multinationals is the globalization of Chinese brands. While China has become a dominant manufacturer to the world, it has been noted that a single Chinese brand has yet to be significantly recognized globally (Fan, 2006). In addition, Chinese firms have had uncertain success with Chinese brands in more competitive, complex and sophisticated developed markets (Gao, Woetzel and Wu, 2003; Grosse, 2003).

Chinese branding difficulty has been attributed to various weaknesses, affecting Chinese brand

strategy success. For example, relative branding inexperience (Thomas Group, 2006), lack of distribution capabilities, advertising/promotion savvy (Gao, Woetzel and Wu 2003) and a negative COO effect (Brouthers, Story and Hadjimarcou 2005) have contributed to weak brand awareness and perceptions in developed markets. As a result, studies have indicated that less than positive general perceptions and attitudes exist towards products from China from among developed market consumers, such as the U.S. buyer. For instance, in a 2002 study, only 17 percent of U.S. residents surveyed expressed a high degree of interest in purchasing products imported from China (*The Futurist*, 2006). In the same survey, the major reason for the lack of interest is the inferior quality associated with Chinese brands. Meanwhile, another survey found that a “Made in China” label hurt Chinese brands (Interbrand, 2005).

While the increased globalization of firms from emerging markets have motivated recent studies to focus on COO effects involving emerging markets as both producing countries and consuming countries (Demirbag Sahadev and Mellahi, 2010; Sharma, 2010), few studies have started to examine the COO phenomenon specific to China. Brouthers, Story and Hadjimarcou (2008) used signaling theory in their study of low value products associated with China (wallet, wine glass, and umbrella). They suggest that multiple COO labeling and the use of secondary country associations, as well as the use of familiar brands, or a combination of both, as ways to overcome any negative COO effects. Fetscherin and Toncar (2009) focused the country of origin effects on the brand personality perception of US consumers by focusing on a comparison of American, Indian and Chinese automobiles. Their findings indicate that the country of manufacture has a significant impact on perceived brand personality.

Therefore, given the paucity of extant studies on the topic, the purpose of this paper is to further examine the nature of negative COO effects in developed markets for products associated with China as an emerging market, and the significance of other extrinsic cues as moderating factors. Specifically, the paper seeks to: 1) further confirm that although U.S. consumers are exposed to numerous products manufactured in China, they maintain a low awareness and understanding of Chinese brands in general, and that brands and products, an association with China exerts a negative influence on the perceptions and attitudes of the U.S. consumer; 2) to broaden the work of Brouthers, Story and Hadjimarcou (2008) by investigating more high-value products (white goods, laptops and autos) and related brands given the actual U.S. market experience of Chinese brands *Haier* and *Lenovo*, and the potential experience of *Geely*; 3) to consider the option of developed-country manufacturing as an alternative to multiple COO labeling (Brouthers, Story and Hadjimarcou 2008); 4) to explore the option of developing Chinese brands as an alternative to utilizing established developed country brands ; 5) to explore the moderating effects of other extrinsic cues such as country-of-brand, country-of-manufacture, product category, and brand familiarity considerations, and their impact on overall COO on product quality perceptions and willingness to buy.

In pursuit of this direction, the paper continues with a conceptual development and framework based on existing research. From this section and additional studies, hypotheses are next derived. Through a survey approach, these hypotheses are then tested and the results discussed. Overall findings indicate that while the moderating variables vary in their impact, brand strength and the country of brand dominate other considerations, contrary to findings of previous research. In the remaining sections, managerial implications are offered while limitations and future research opportunities are identified.

## **Conceptual Development and Framework**

### **Components of the Country-of-Origin Effect**

In the early stages of COO as a research field, country of origin effects were considered a single cue “made-in” concept in which products were typically headquartered, branded and manufactured in the same country (Dichter, 1962). However, this approach eventually became a cited limitation as the need to further decompose COO was realized (Johansson, Douglas and Nonaka, 1985; Ozsomer and Cavusgil, 1991; Ettenson, 1993). With the growth of international value chains and multi-country production locations, the notion of COO has evolved into a more complex multi-component construct. Given the increased occurrence of “bi-national” products carrying a brand associated with one country, but manufactured in another country, the overall COO effect has been more commonly characterized as consisting of two sub-types of country association: Country-of-Brand (COB), the country that the brand is originally from and usually where the headquarters is located, and Country-of-Manufacture (COM), the country where the product is primarily produced and assembled (Ulgado and Lee, 1993; Lim and O’Cass, 2001; Fetscherin and Toncar 2010). Moreover, the COM effect has been further dissected into Country-of-Parts (COP), Country-of-Design (COD), and Country-of-Assembly (COA) (Chao, 1993; Insch and McBride, 1998). This prevalence of bi-national and multi-national products may result in potential dissonance for consumers as they try to reconcile conflicting perceptions about the country association of different components of the product (Phau and Prendergast, 2000).

Research has shown that manufacturing location and the perceived country of manufacture can affect consumer perceptions of product quality (Lee and Schaniger 1996). When an MNE elects to change the manufacturing location of a particular product from a country with a favorable consumer association to one with less favorable perceptions, the overall COO effect could be affected despite maintaining a positive COB influence. Han and Terpstra (1988) for example found that Japanese autos experienced brand deterioration when production was located in developing countries. In other instances, the impact of the COB affected consumer product quality perceptions greater than the COM effect. Ulgado and Lee (1993) discovered that a strong well-developed brand can overcome any negative COM influence, as consumers are convinced that the same level of quality is maintained in all its manufacturing operations. The decomposition of the overall COO effect into its COB and COM components can be potentially significant to international operations and marketing managers and their international brand and manufacturing location strategies.

### **Cognitive and Affective COO Effects**

Prior research on COO effects has essentially used either a cognitive or affective theoretical perspective. Under the cognitive approach, consumer information processing research argues that in addition to a product’s intrinsic physical attributes (such as performance, design, taste), consumers also rely on extrinsic product-related features (such as brand, price, COO) in their product evaluation (Schellinck, 1983; Peter and Olson, 1987). Research in marketing has provided evidence that consumers often use extrinsic cues as the basis for their evaluation of product quality (Rao and Monroe, 1989; Dodds Monroe and Grewal, 1991 for price and brand effects). Specifically, a substantial amount of research has supported the significance of COO as an extrinsic cue affecting consumer product evaluations (see Bilkey and Ness, 1982; Johansson, Douglas, and Nonaka 1985; and Ozsomer and Cavusgil, 1991 for a more detailed review).

In this regard, studies have suggested that consumers prefer products from some countries over others (Tongberg 1972; Yaprak, 1978). Such preference bias for products generally exists across levels of economic development of countries, indicating their hierarchical nature (Schooler, 1971; Wang and Lamb, 1983). In particular, research has indicated that country identification generally has a positive effect on product evaluations for some, relatively more developed countries (Han and Terpstra, 1988; Papadopoulos, Heslop and Beracs, 1990), while it has a negative impact for other, less developed countries (Krishnakumar, 1974; Khanna, 1986). As a result, COO effects can act as a cognitive cue from which consumers can infer beliefs about a specific product based on their perceptions about the country from which the product originates (Verlegh and Steenkamp, 1999), indicating that consumers' product perceptions can be derived from stereotypical beliefs about the originating country (Erickson *et al.*, 1984). Overall product evaluation is influenced by country stereotyping impacting consumer evaluation of products from that country (Bilkey and Nes, 1982; Maheswaran, 1994). For example, certain countries are regarded as offering superior performance for certain categories of goods - French wines, German engineering, Swiss watches. Conversely, negative associations may exist for some countries, e.g. high technology products like cars produced in less developed countries such as China or India.

In addition to the cognitive aspects of COO, other studies have focused on the affective effects of COO on consumer perception, examining its emotional or symbolic impact on product evaluation (Hong and Wyer, 1989, 1990). For example, COO may associate a product with patriotism, national identity, pride, status, authenticity, exoticness, or other attributes of self-expression or image (Botschen and Hemettsberger, 1998; Verlegh and Steenkamp, 1999). Consumer perceptions of a brand from a particular country can create intangible assets or liabilities in the minds of the consumers that do not necessarily have a direct link to product performance (Kim and Chung 1997). Other affective associations can also be related to consumer attitudes towards the policies, practices or actions of a particular country (Leonidou, Paliawadana and Talias, 2007). As a result consumers penalize some countries by boycotting their products, and support others by buying their products (Smith, 1993). Other types of non-cognitive biases based on subjective judgments or normative criteria have additionally been identified as COO-related factors, such as consumer racism (Ouellet, 2007) and home-country bias stemming from consumer nationalism or ethnocentrism (Shimp and Sharma, 1987; Klein, Ettenson and Krishnan, 2006; Verlegh, 2007).

### **Moderating Factors Affecting COO**

Since other cues, in addition to country information, are available to consumers in reality, the research paradigm should be extended to investigate potential interactions between the country label and these cues, as a number of studies have indeed found variables that moderate the COO effect. Therefore it is important to specify conditions under which consumers show different COO effects rather than documenting the general effect.

Such variables can be macro or micro-related factors, external to the consumer. For example, studies have found the COO effect to be consuming country-specific (Nagashima, 1970; Cattin, Jolibert and Lohnes, 1982; Wong, Polonsky and Garma, 2008; Sharma, 2010), product/product-category specific (Bannister and Saunders 1978; Lumpkin, Crawford and Kim, 1985; Roth and Romeo, 1992; Hamin, 2006). Pappu *et al* (2007) further showed that consumers hold different sets of beliefs across product categories and that their perceptions of products



from a specific country vary by product category. While a number of studies have involved the automobile product-category, most of them have looked at the comparison across product categories. Comparisons have been between autos, appliances, clothing, perfume, and toiletries (Darling and Kraft, 1977); cameras and calculators (Yaprak, 1978); pharmaceutical products (Mffenegger *et al.* 1980), fresh fruit and vegetables (Hooley *et al.* 1988); beer, shoes, crystal, bicycles, and watches (Roth and Romeo, 1992), and athletic shoes and television sets (Ulgado and Lee, 1993). Moreover, these effects are generally less significant for low-value products with simple manufacturing processes (such as shoes, clothing) than for high-value products with complex manufacturing (such as computers, automobiles) (Ahmed *et al.*, 2002).

Other moderating variables are more internal to the consumer and deal with demographic and psychographic consumer-specific variables (Anderson and Cunningham, 1972; Eroglu and Machleit 1988; Wall, Heslop and Hofstra 1988). More recent studies have investigated the moderating effects of consumer materialism (Demirbag, Sahadev and Mellahi, 2010; Sharma 2010) and value consciousness (Kinra, 2006; Sharma, 2010). For example, Demirbag, Sahadev and Mellahi (2010) found that the moderating role of materialism depends on the type of product. Namely, materialism is a significant negative moderator for high value products from emerging countries, and is less significant for low value products from emerging markets. Meanwhile, Sharma (2010) showed significant differences in the moderating influences of consumer ethnocentrism, materialism and value consciousness on COO effects across four different developed and emerging markets.

## **HYPOTHESES**

We start with the findings of earlier studies which have shown that while more developed countries generally exhibit a positive COO effect on product evaluations and consumer perceptions of product quality (e.g. Gaedeke, 1973; Wall and Heslop, 1986; Papadopoulos, Heslop and Beracs, 1990), it has a negative impact for less developed countries (Krishnakumar, 1974; Khanna, 1986; Pappu, Quester and Cooksey 2007). More recent research has found this to be true in the case of U.S. consumers and their attitudes towards Chinese products and brands in general (*The Futurist*, 2006; Interbrand, 2005):

H1a: U.S. consumers have a generally low quality perception of Chinese products.

H1b: U.S. consumers have a generally unfavorable perception of Chinese brands.

Specific to brand, we also propose that Chinese brands have very weak brand equity in the U.S. market, indicated by low recognition and awareness of brands from China (Fan, 2006; Gao, Woetzel and Yu, 2003). Therefore:

H2: U.S. consumers have a generally low level of awareness of Chinese brands.

If hypotheses 1 and 2 hold, then previous cited findings can be confirmed and it can be established that, in general, a negative COO effect influences the perception of U.S. consumers when it comes to products and brands associated with China. The level of a country's economic development can be seen as representative of a country's overall ability to manufacture

products that require a particular level of skill and technology (Verlegh and Steenkamp, 1999). Therefore, a country's ability to produce globally competitive products or services, embodied in its economic capacity, is an information cue that influences customers' perceptions and images of COO (Lin and Sternquist, 1994). Similarly, Wall, Leifeld and Heslop (1991) found that unknown brands are only favored when they are made in more developed, high reputation countries. In the case of Chinese brands, we introduce the notion that consumer perception and evaluation of a product with a brand associated with China can be significantly affected by the level of economic development of the country-of-manufacture (COM), other than China. Specifically, the overall Chinese COO effect can be moderated by a developed country COM. Therefore, we propose:

H3: For Chinese brands, the overall COO effect on the perception of U.S. consumers is significantly positively influenced by the COM (country-of-manufacture) associated with a favorable image.

In addition to COO, research has considered other extrinsic cues in a multi-cue approach to determining their effects on consumer perception (e.g., Srinivasan, Jain and Sikand, 2003; Miyazaki, Grewal and Goodstein, 2005). Studies have found that when additional cues are present, the relative importance of COO on product evaluation decreases (Johansson, Douglas and Nonaka, 1985; Johansson and Nebenzhal, 1986; Hastak and Hong, 1991). One extrinsic cue that has received attention is brand and related COB effects. The rationale is that customers who lack information about the product may rely on the brand name to infer its quality (Sybillo and Jacoby, 1974). In today's global environment, it is common to find products manufactured in one country and branded in another. Studies have shown that a strong brand and/or COB effect can outweigh negative COM effects (Cordell, 1993; Tse and Gorn, 1993; Ulgado and Lee, 1993; Jo, Nakamoto and Nelson, 2003; Ahmed *et al.*, 2004; Chao, Wuhler and Werani, 2005). In the case of Chinese products, the strength of a non-Chinese brand (NCB) may have a moderating influence on possible negative COM effects associated with products made in China. Hence, we propose:

H4a: For products manufactured in China, the overall COO effect on the perception of U.S. consumers is significantly positively influenced by the association with a non-Chinese brand with strong brand equity.

H4b: For products associated with China, the COB (country-of-brand) effects are stronger than COM (country-of-manufacture) effects on the perception of U.S. consumers.

While it has been proposed that Chinese brands have a low level of awareness and recognition and, therefore, brand strength in the U.S. market, it is argued that some Chinese brands are more developed than others. Brands like *Lenovo* and *Haier* have already been introduced to the U.S. market, while others such as *Geely* and *Chery* have not. Therefore, it is proposed that the U.S. consumer is more familiar with the introduced brands and their products. In this regard, Schaefer (1997) concluded that brand familiarity and objective product knowledge has a significant impact on COO effects in product evaluations. Lee and Ganesh (1999) found that with product and brand familiarity, moderate familiarity consumers are less influenced by COO than low or high familiarity consumers. Therefore:

H5: The more developed (in terms of consumer familiarity) the Chinese brand in the U.S.

market, the more positive the COO effect on the perception of U.S. consumers.

There are indications that COO effects vary across product or service categories (Kaynak and Cavusgil, 1983; Ulgado and Lee, 1993; Jaffe and Nebenzhal, 2001; Javalgi, Cutler and Winans, 2001). Most studies of COO effects have focused on high-value products, such as automobiles and electronics (e.g., Han and Terpstra, 1988; Chao, 1989, 1993; Han, 1988; Tse and Lee, 1993; Maheswaran, 1994). Others have looked at the impact of customers' COO perceptions on low-value products such as clothing or coffee (Wall, Leifeld and Heslop, 1991; Ulgado and Lee, 1993; Ahmed *et al.*, 2004). Li and Wyer (1994) concluded that COO effects on product evaluation are more significant in the purchase for high value products, such as automobiles, electronics and white goods. Conversely, for low-value basic products such as food and apparel, the purchase decision is less significant. Thus, the influence of COO in product evaluation is expected to be weak, partly due to the product's lower monetary risk (Ahmed *et al.*, 2004). Similarly, for low-value products where the value for money matters more than image and quality, price can be seen as more influential than COO effects in customers' purchase decisions (Wall, Leifeld and Heslop, 1991). Hence:

H6a: For products associated with China, the overall COO effect on the perception of U.S. consumers is significantly higher for high value products.

H6b: For products associated with China, the overall COO effect on the perception of U.S. consumers is significantly lower for low value products.

## METHODOLOGY

### Pilot Study

A paper and pencil pilot study was conducted with eighty-six adult respondents in a major metropolitan area in southeastern United States to determine their perceptions of different product categories and their value levels, related varying conditions regarding corresponding brands associated with developed countries such as the U.S. and Japan, and a less-developed country such as China. The respondents were also asked about their familiarity with specific Chinese brands in selected product categories. The study results indicated that product categories such as apparel (clothing and shoes), toys, kitchenware and cosmetics are considered low-value, while electronic products such as kitchen small appliances (toaster ovens and compact refrigerators), stereo equipment, television sets and laptop computers, as well as other 'powered' equipment (automobiles, powerboats, and motorcycles) are considered high-value. Among the high-value products, their respective values compact refrigerators (low), laptop computers (middle), and autos (high) were further identified accordingly.

With regard to specific brands in each product category, the respondents considered *Ford Focus*, *Toyota Corolla*, *Honda Civic* *Ford Fiesta*, and *Honda Accord* as the top five compact car brands (*Dell*, *Toshiba*, *HP*, *Apple* and *Sony* for laptops; *GE*, *Sanyo*, *Kenmore*, *Frigidaire* and *Hitachi* for compact refrigerators) associated with the U.S. and Japan, in terms of overall quality and willingness to purchase. When asked about specific Chinese auto brands, the two respondents that were able to respond correctly, mentioned *Geely* with no respondent able to



identify a specific model (*Lenovo* and *Haier* were the only Chinese brands mentioned for laptop computers and compact refrigerators respectively), which they rated lower than the American and Japanese counterparts. When asked about specific Chinese brands, the respondents were most familiar with *Lenovo*, followed by *Haier*, and least familiar with *Geely*.

## **Main Study**

To empirically test the hypotheses, a paper and pencil survey approach was used. We incorporated exploratory questions in the first two part of the questionnaire. In this section the respondents were asked about their awareness of Chinese brands by “listing as many Chinese brands they are aware of” (unaided recall), their reasons behind their willingness-to-purchase (or not to buy) a product “Made in China” (open-ended; list top three reasons), and their general feelings about Chinese products and brands by rating (7-point Likert scale) their overall level of quality and level of favorability. The second section of the survey asked respondents to rate both their quality perceptions and their willingness-to-purchase products “Made in China” for seven product categories ranging in product value.

In the following main section, respondents were asked to provide ratings on a 7-point scale for five quality measures (design/style, reliability, durability, service support, and performance satisfaction) that made up the overall “Quality” dependent variable. Reliability of the five dimensions was deemed acceptable with a Cronbach’s Alpha of 0.91 bivariate correlations across the five measures ranged from 0.72 to 0.87. A single factor was derived, accounting for 76 percent of the variance. As a result, the five dimensions were averaged and regarded as a single main dependent variable. To further support respondent quality perceptions, respondents were asked to rate a second variable ‘Willingness to buy’. Consequently, respondents evaluated 12 specific product scenarios for both quality and willingness-to-purchase. The information for each product option included the brand and product category, an intrinsic product attribute, the country-of-manufacture/assembly, retailer where available, and the price. Products were selected from previously identified product categories (automobile, laptop computer, and compact refrigerator), and brands were selected for each category (*Toyota Corolla*, *Geely Haoqing*, *Dell*, *Lenovo*, *G.E.*, and *Haier*) with different associations of county-of-manufacture/assembly (U.S., Canada, and China).

The final section of the survey included questions asking the respondents to identify Chinese brands from a list of 16 brand names (aided recall). The rest of this section asked for classification information about the respondent. Responses from a convenience sample of 247 adult consumers in a Southeastern U.S. metropolitan area were used for this study.

## **RESULTS**

### **Sample Characteristics**

The survey responses of 247 adults were used for the study, of whom, 50.4 percent were female while 49.6 percent were male. The age range varied from 18-24 year-olds (22.7 percent), 25-29 (15.3 percent), 30-39 (16.5 percent), 40-49 (21.9 percent), 50-59 (17.8 percent) 60-69 (4.1 percent) and 70+ (1.7 percent). The significant majority of respondents were well-educated (78.2 percent), having attended a 4-year college (55.1 percent) or graduate school (23.1 percent). The number of individuals (adults and children) living in the respondent’s

household ranged as follows: 1-2 (41.9 percent), 3-4 (47.3 percent), and 5 or more (11 percent). Household income was somewhat skewed towards the upper income levels (11.7 percent in the below \$40K bracket, 29.6 percent in the \$40-79K range, 16.4 percent in the \$80-99K level, and 42.6 percent in the \$100K+ segment).

### Test of Hypotheses

Hypothesis 1a posits that U.S. consumers generally have a low quality perception of Chinese products, while Hypothesis 1b argued that U.S. consumers generally had an unfavorable perception when it comes to Chinese brands. Respondents were asked how they felt about Chinese products in general. They were also asked how they felt about Chinese brands. Table I exhibits the means and standard deviations of the ratings.

**Table I: Hypothesis 1a AND 1b- Perceptions of Chinese Products and Brands**

	<b>Mean</b>	<b>Std. Deviation</b>
Chinese Products*	3.7796	1.21145
Chinese Brands**	3.8481	1.05069

\*1=Low Quality, 7=High Quality

\*\*1=Very Unfavorable, 7=Very Favorable

As shown in the table, the respondents considered Chinese products as low in quality (M=3.78) and have an unfavorable attitude towards Chinese brands (M=3.85). Thus, Hypotheses 1a and 1b are supported and the previous surveys are validated. In general, it is further confirmed that U.S. consumers surveyed do not have a positive view of Chinese products and brands.

Hypothesis 2 stated that U.S. consumers generally had low brand awareness for Chinese brands. Respondents were asked to list as many Chinese brands as they were aware of (unaided recall). The results revealed that 84.2 percent of the respondents could not think of any, while only 11.3 percent could correctly recall only one Chinese brand. Only 4.4 percent could correctly recall 2 or more Chinese brands. Therefore Hypothesis 1 and the findings of previous research are supported in the notion that U.S. consumers have a very low, if not non-existent, awareness of Chinese brands.

Hypothesis 3 claims that the overall COO effect on the perception of U.S. consumers was significantly positively influenced by the COM associated with a favorable image. In particular, for the same brands, the more positive the COM effect, the more positive the overall COO. The respondents were asked to rate (in terms of quality and willingness-to-purchase) three products (automobiles, computers, and refrigerators) with Chinese brands, namely, *Geely Haoqing*, *Lenovo* and *Haier*, all made in China. They were also asked to rate three other products (automobiles, computers, and refrigerators) with the same three Chinese brands, only

this time made in the U.S. or Canada. One-way MANOVA and GLM multivariate analysis was used, producing an overall significant result ( $p < .05$ ) with the contrast result significant between “Made in China” and “Made in U.S. or Canada”. This is shown in Table II.

**Table II: Hypothesis 3- Country-Of-Manufacture (COM) Effects**

**Multivariate Tests**

Effect	F	Hypothesis df	Error df	Sig.
Intercept	3887.823	2.000	1357.000	.000
COM	3.173	2.000	1357.000	.042

**Pairwise Comparisons**

Dependent Variable	(I) COM	(J) COM	(I) Mean	(J) Mean	Mean Difference (I-J)	Std. Error	Sig.
Quality	China Made	Non-China Made	3.682	3.880	-.198(*)	.086	.022
Willingness to buy	China Made	Non-China Made	3.147	3.380	-.233(*)	.096	.016

Based on estimated marginal means

\* The mean difference is significant at the .05 level.

Therefore, these results support Hypothesis 3. U.S. customers have a more positive quality perception and greater willingness-to-purchase Chinese brands if they are made in a more developed and more reputable country, such as the U.S. or Canada, than if they were made in China.

While the preceding hypothesis involves the COM effect, Hypotheses 4a and 4b considers the COB effect. While the results have shown that a “Made in China” COM does adversely affect consumer perception and willingness-to-purchase, Hypothesis 4a posits that this negative effect can be influenced by a positive COB effect, resulting in a more positive overall COO effect and consumer reaction. The respondents were asked to rate (along quality and willingness-to-purchase) three products made in China with Chinese brands (*Geely Haoqing*, *Lenovo* and *Haier*). They were then asked to rate three more products; *Toyota Corolla*, *Dell* and *G.E.*, made in China, with non-Chinese brands with relatively greater brand strength and recognition. A one-way MANOVA and GLM multivariate analysis was used, producing an overall significant result ( $p < .05$ ) with the contrast result significant between the weaker Chinese brands and the stronger non-Chinese brands. This is indicated in Table III.

**Table III: Hypothesis 4a- Country-of-Brand (COB) Effects**

Effect	F	Hypothesis df	Error df	Sig.
Intercept	5764.796	2.000	1393.000	.000
COB	149.327	2.000	1393.000	.000

**Pairwise Comparisons**

Dependent Variable	(I) COB	(J) COB	(I) Mean	(J) Mean	Mean Difference (I-J)	Std. Error	Sig.
Quality	Weak Brand	Strong Brand	3.730	5.121	-1.391(*)	.082	.000
Willingness to buy	Weak Brand	Strong Brand	3.170	4.517	-1.347(*)	.095	.000

Based on estimated marginal means

\* The mean difference is significant at the .05 level.

Therefore, the results support Hypothesis 4a. U.S. customers have a more positive quality perception and greater willingness-to-purchase Chinese-made products if they are branded with stronger, more recognizable brands with superior brand equity. Since the results show support for both Hypothesis 3 (COM effects) and Hypothesis 4a (COB effects), the question as to which effect was stronger emerges. Hypothesis 4b seeks to provide the answer. To this effect, the respondents were asked to rate three products made in China, but with non-Chinese brand names (*Toyota Corolla*, *Dell* and *G.E.*), respectively. In addition, they were asked to rate three products that were made in the U.S. or Canada, however, with Chinese brand names (*Geely Haoqing*, *Lenovo* and *Haier*). One-way MANOVA and GLM multivariate analysis was used, producing an overall significant result ( $p < .05$ ) with the contrast result significant between Chinese brands made outside of China, and non-Chinese brands made in China. See Table IV below.

**Table IV: Hypothesis 4b- COB Versus COM Effects****Multivariate Tests**

Effect	F	Hypothesis df	Error df	Sig.
Intercept	6358.730(a)	2.000	1395.000	.000
COB vs. COM	112.871(a)	2.000	1395.000	.000

### Pairwise Comparisons

Dependent Variable	(I) COB vs. COM	(J) COB vs. COM	(I) Mean	(J) Mean	Mean Difference (I-J)	Std. Error	Sig.(a)
Quality	Chinese brand made in outside of China	Non-China-brand made in China	3.891	5.085	-1.194(*)	.080	.000
Willingness to buy	Chinese brand made in outside of China	Non-China-brand made in China	3.389	4.503	-1.114(*)	.096	.000

Based on estimated marginal means

\* The mean difference is significant at the .05 level.

Support for Hypothesis 4b was also given by the results. For the U.S. consumers surveyed, the COB effect was stronger than the COM effect on their quality perception and willingness-to-purchase. While COB seems to be the more dominant component of the overall COO effect on the U.S. consumer, and a stronger COB effect implies a more positive consumer response, a more detailed examination of the characteristics of Chinese brands with regard to their COB influence on the respondents is required. Hypothesis 5 suggests that while Chinese brands are relatively weak in general, some Chinese brands are comparatively stronger and more developed than others from the perspective of the U.S. market.

Since *Geely Haoqing* has not yet been introduced in the U.S., it is expected to be the least developed and the weakest brand. Meanwhile, *Lenovo* would be the most developed with the strongest equity (e.g. the widely publicized connection with *IBM*), while *Haier* would be somewhere in the middle. The quality and willingness-to-purchase ratings given in the survey, specific to the three Chinese brands (*Geely Haoqing*, *Lenovo* and *Haier*), were analyzed using one-way MANOVA and GLM multivariate analysis. The overall result was significant ( $p < 0.5$ ). However, while the contrast result was significant between the least developed brand and the middle and high counterparts, the result was insignificant between the middle and highly developed brands (Table V).

**Table V: Hypothesis 5- Brand Development**

#### Multivariate Tests

Effect	F	Hypothesis df	Error df	Sig.
Intercept	3981.110(a)	2.000	1356.000	.000
Brand Development	26.572	4.000	2714.000	.000



### Pairwise Comparisons

Dependent Variable	(I) Brand Development	(J) Brand Development	(K) Brand Development	(I) Mean	(J) Mean	(K) Mean	Mean Difference (I-J); (I-K); (J-K)	Std. Error	Sig.
Quality	Low Developed	Middle Developed	High Developed	3.420	3.864	4.048	-.444(*)	.104	.000
							-.628(*)	.104	.000
							-.184	.104	.077
Willingness to buy	Low Developed	Middle Developed	High Developed	2.589	3.502	3.670	-.913(*)	.114	.000
							-1.081(*)	.115	.000
							-.168	.114	.139

Based on estimated marginal means

\* The mean difference is significant at the .05 level

In general, the results support Hypothesis 5, specifically between the brand not yet available in the U.S. market and its already introduced counterparts. In this sense, *Lenovo* and *Haier* are stronger, more developed brands in the U.S. than *Geely Haoqing*. And therefore, have a relatively more positive COO effect.

Lastly, Hypotheses 6a and 6b proposed that for high value products, the COO effects are greater than for products with lower value. Specifically, the COO effects are more significant when it comes to automobiles, than when a laptop computer is involved, and even lower for a compact refrigerator. In the study, the respondents were asked to rate three product types (automobiles, computers, and refrigerators) made in China (with the Chinese brands: *Geely Haoqing*, *Lenovo* and *Haier*), in terms of product quality and willingness-to-purchase. The data was analyzed (one-way MANOVA and GLM multivariate analysis) and the overall result was significant ( $p < 0.5$ ). The contrast result was also significant between the high value product (automobile) and its low and medium value counterparts. However, the comparison between the low value (compact refrigerator) and medium value (laptop computer) products was ( $p = .098$ ). This was evident in the following Table VI.

**Table VI: Hypothesis 6a and 6b: Product Value**

#### Multivariate Tests

Effect	F	Hypothesis df	Error df	Sig.
Intercept	6936.674(a)	2.000	2073.000	.000
Value	32.702	4.000	4148.000	.000

### Pairwise Comparisons

Dependent Variable	(I) Value	(J) Value	(K) Brand Development	(I) Mean	(J) Mean	(K) Mean	Mean Difference (I-J); (I-K); (J-K)	Sig.
Quality	Low Value	Middle Value	High Value	4.301	4.480	3.932	-.179	.098
							.369(*)	.000
							.548(*)	.000
Willingness to buy	Low Value	Middle Value	High Value	3.962	4.063	3.080	-.101	.212
							.882(*)	.000
							.983(*)	.000

Based on estimated marginal means

\* The mean difference is significant at the .05 level.

The results partially support Hypotheses 6a and 6b in the sense that the high value product exhibited the relatively greatest COO effect for Chinese products. When it comes to *Geely Haoqing* automobiles, a more negative COO effect resulted in a lower quality perception and willingness-to-purchase for U.S. consumers relative to the other products with lower value. In contrast, the lower value *Haier* compact refrigerator was regarded more positively. What was interesting and unexpected was that the product with a level of value in-between (*Lenovo* laptop computers) the other two received the most positive customer reception. It was possible that the relatively stronger brand equity outweighed the product value effect on COO.

### MANAGERIAL IMPLICATIONS AND CONCLUSIONS

The results of the study do confirm that for brands and products associated with China, COO effects do adversely influence the U.S. consumer and their quality perceptions and willingness-to-purchase. Our findings support the notion that in a more developed environment, such as the U.S., the market generally tends to have a low quality perception of brands and products from a less developed source such as China. Moreover, there is significantly little to no brand awareness for Chinese brands among U.S. consumers. Therefore, as Chinese firms globalize and expand into more developed markets, dealing with the COO effect and building brand strength are critical to their strategic success.

The negative COM effect that a “made in China” association has on developed-market consumers needs to be ideally reversed into a positive effect, or in the least, neutralized. Under similar situations, such has been achieved through substantial communication with country-image marketing through advertising and promotion. Taiwan, for example, has invested in a “very well made in Taiwan” marketing campaign and even developed the “innovalue” tag line to capture the innovation and value that Taiwan-made products can offer. In another example, Colombian coffee growers de-commoditized the status of their coffee and created a positive COO effect in a specific product category. In addition, they built a personality around the product personified in the brand character, “Juan Valdez”. Other developing countries, such

as South Korea, Indonesia, and Chile have utilized marketing and advertising to developed markets like the U.S. to deal with COO issues and create brand/product awareness and a positive COM effect. Another option would be to change the COM by establishing operations in more developed and reputable environments, such as the developed market itself. This can be done through either greenfield or merger/acquisition activity. In fact, we have seen a number of firms from less developed countries initiating overseas manufacturing in this manner.

These implications support the classic precept that international marketing managers, armed with market knowledge should first develop a quality product with effective and strong attributes to successfully meet customer needs. The next task would be to then build, establish and maintain strong brand equity to complement the product. The competitive edge derived from product characteristics and brand should be introduced and reinforced through sufficient and appropriate marketing communication. This marketing emphasis on brand and product attributes can effectively outweigh any negative COM effects. Previous studies (Chao, 1989; Tse and Gorn, 1993) have suggested ways that firms with traditionally unfavorable COO effects (e.g. those from less developed or emerging markets) can become more competitive. They could shift from exporting domestically manufactured products to foreign manufacturing in a favorable country image location such as a more developed economy like the United States. The underlying assumption is that foreign direct investment (FDI) in manufacturing would realize a positive effect of COM. For example, by assembling its autos in the U.S., *Geely* could overcome any negative association with a “made-in-China” label. This follows the FDI strategy of Korean auto manufacturers *Kia* and *Hyundai* who have indeed located assembly plants in the southeastern United States.

The findings of the study further suggest that a weak brand, or negative COB effect, also needs to be addressed. In fact, the results indicate that it may even be more important to focus on COB, rather than COM. As past research has shown, a strong brand can dominate over negative COM effects (Ulgado & Lee, 1993). The findings are encouraging for international firms from less developed or emerging economies which seek to enter more developed markets as part of their globalization strategy. The results imply that the marketing emphasis of these companies should be first on creating a known and favorable brand image, which is expected to reduce a negative COM effect. For instance, Korean firms *Daewoo* (“Daewoo, That’s Who” campaign) and *LG*, as well as Taiwanese companies *Acer* and *HTC* have placed their advertising emphasis on company brand awareness and image building. Nevertheless, it should be maintained that a brand name will never be established without actual and significant intrinsic product attribute strength, and a marketing focus on them. Korean automaker *Hyundai* appears to put this idea into practice as its advertising emphasizes product features, price and performance.

Rather than FDI alternatives, *Geely* and other similar unknown or weaker Chinese brands could be better off by first developing a recognized brand image and building strong brand equity. Instead of overseas transplant manufacturing to achieve positive COM effects, maintained domestic manufacturing with exporting, licensing, and private labeling through established retail distributors (such as *Samsung* did when it first entered the U.S.), could provide more profitable advantages in the long run. Another alternative would be the acquisition of a company with established brands, or a merger, joint venture, or strategic alliance with such a firm. This would not offer not only known-brand advantages but marketing, distribution and servicing experience and resources. Once product performance and other intrinsic attribute reputation

is established, along with a build-up of brand recognition, any negative COM effect would diminish as the brand name effect would dominate. The now-prestigious Japanese brands such as *Nikon*, *Sony*, and *Honda* (which once had a negative COM effect), and the more recent Korean brands like *Hyundai*, *LG* and *Samsung* have relied on exporting and building brand equity through intrinsic product attribute quality and other positive extrinsic features such as warranties, servicing, retailer reputation and price.

The findings of the current study also imply that for strong and favorable brands, country sourcing considerations become less significant as global brand strength and reputation overshadow COM effects. In the long run, a more global environment, with increased multi-country sourcing and/or assembly, and the proliferation of quality global brands, would eventually diminish the significance of COM relative to brand name and intrinsic product attributes. While the “made-in” concept and COM could eventually mean several different countries, the brand and the country associated with it, COB, would remain consistent. Therefore, the implications suggest that COM considerations should not dominate manufacturing and sourcing strategies. Adequate research should be performed to confirm the existence and significance of any beneficial COM effects on consumer perception. The potential benefits from expected positive COM influence to be gained by FDI should be carefully weighed against the resulting costs. Other alternatives to achieving these benefits should be evaluated. Moreover, the advantages of product attribute and brand equity development alternatives and their effect over any negative COM effects should be considered. Other factors such as trade barriers, labor, transportation or distribution costs, and technology transfer may prove to be more viable reasons behind manufacturing and sourcing location.

Chinese companies can create higher brand awareness and build brand strength either through marketing and advertising of an existing Chinese brand, such as the case of *Haier*, or through acquisition and/or association with an already existing strong brand, such as the case of *Lenovo* and *IBM*. With *Haier*, the critical marketing component for its growing brand recognition is its accessibility to the U.S. consumer through distribution and product availability. For *Lenovo*, the focus has been more on acquisition, advertising and publicity. In both these cases, the other critical factor to its continued brand building is a good, quality product. These are some of the lessons that Chinese automobile manufacturers, can derive from those already in the developed markets. Most recently, *Geely* has in fact resorted to the strategy of acquisition of a strong brand through its purchase of *Volvo*. This approach has also been popular with India-based *Tata Motors* and its acquisition of established luxury auto brands *Jaguar* and *Land Rover*. In addition, *Geely* has also decided to dissolve the “Geely” brand by 2012 (Glucker, 2010) and build its other sub-brands (such as *Gleagle*, *Emgrand*, *Englon* and now *Volvo*). As *Geely* or *Chery* gear up towards a U.S. market entry, they first need to realize their brand weakness and focus on efforts to deal with the disadvantage. At the same time, they also need to ensure that their product quality is built and maintained. The study also suggests that dealing with negative COO effects, including both COM and COB, is even more critical given the high-value product category that these Chinese automakers are in.

While this paper provides further insight into the COO effects, with respect to China, from the perspective of the U.S. consumer, additional research is needed. The study was limited in terms of geography and respondent characteristics. A broader, nationwide or multi-country study with a more extensive sample would include additional COO effects related to other

developed and less-developed markets besides China and the U.S. This would improve the generalizability of the results and could clarify the COO effects (e.g. ‘foreign’ vs. ‘Chinese’). The product categories were also limited to three moderate to high-priced, high-value items. Comparisons with other types of products and product categories need to be considered. Auxiliary investigation into the moderating effects of familiarity and other variables can also supplement our understanding of COO. Nevertheless, the study offers additional evidence of what Chinese firms are faced with, and what they can do in response as they venture farther in their globalization efforts.

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