

# The Effect of Product-Specific Country-of-Origin: The Evidence from Emerging Market

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## ABSTRACT

This study aimed at evaluating Product-Specific Industry image from Country of Brand (COB) and Country of Manufacturing (COM) Origin on consumer perceived quality of a bi-national product. This research uses a cross-sectional survey to determine the COM effect towards consumers' perceived quality on South Korean Sport Utility Vehicle Brand manufactured in Indonesia by involving 273 samples, which are then processed using the Structural Equation Modelling. The results indicate that the Car Industry Image from COM and Car Product Image from COB significantly influence consumers' perceived quality. This research will give managerial implications to international automobile marketers to consider the car-specific country image when deciding the manufacturing location or involve the COM in the marketing communication process to domestic consumers.

**Keywords:** Country of Origin, International Marketing, Ethnocentrism, Emerging market.

## 1. INTRODUCTION

Globalization has created a new space for competition between products and cultures from various parts of the world. This new space then leads to differences in consumer buying behavior in one place compared to other places [1]. Consumer perceptions towards a product can be varied from consumer perceptions in other places or where the product (or brand) originates. This variation is then referred to as the Country of Origin Effect (CO).

In an international marketing context, CO becomes a significant factor, given the number of affiliated countries to form strategic alliances and produce products that involve the countries' image [2]. CO is known to cause interconnections (positive or negative) to consumers' thoughts on a product. [1], [3]. Furthermore, CO then affects the tendency of consumers to buy (or not to buy) products originating from specific countries [4].

The increasing dependence of consumers on global sources and the increasing number of products of the same brand but produced in different countries make CO an increasingly complex theory [5]. This complexity then results in the division of CO into various dimensions, including the country of brand origin, the origin of the design, the origin of production, the origin of assembly,

the origin of the service, as well as the country of origin of birth and education related to service providers [6].

By understanding the impact of Country of Brand Origin (COB) and Country of Manufacturing Origin (COM) on brand perception, marketing managers can improve marketing effectiveness and brand management through appropriate production and marketing strategies, which will ultimately lead to consumer perceptions and intention to buy [5].

In correlation to the definition initiated by [7], in this study, Country of Brand Origin (COB) was defined as the country of brand originated from, and the company's main office operates, while Country of Manufacturing Origin (COM) was the country where the finished product is produced or assembled.

This research focused on the effect of the country of brand origin and the country of manufacturing origin, which will then be referred to as COB (Country of Brand Origin) and COM (Country of Manufacturing Origin) correspondingly, on the perceived quality of passenger cars in Indonesia.

COM and COB factors can be considered for companies from developed and developing countries to decide where production should be carried out. The company has a profit consideration by producing the

finished product and its components in a different country from the brand's origin. [8] argue that companies that manufacture their product outside the country of brand origin benefit from the legal, production, tax, and wage differences in other countries. This difference is where CO becomes an important consideration for managers in making decisions on production locations for their products.

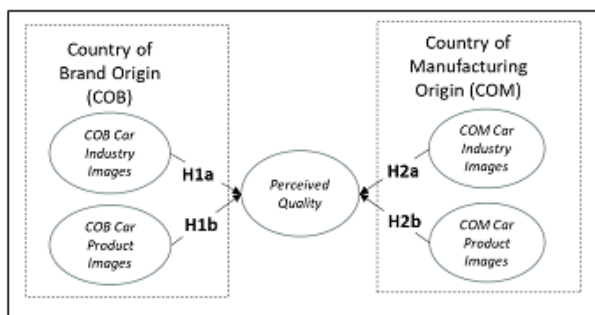
The consumption of motorized vehicles in Indonesia attracts special attention from car companies worldwide. The growth rate of motor vehicle consumption in Indonesia increased by 7.8% in 2018-2019. This value is much higher than global consumption growth, which only scored 4.4% [9]. Another indication that shows the high attractiveness of the automotive market in Indonesia is passenger car ownership which has only reached 13.7% of Indonesian households. This figure is still far behind the percentage of Global (38.2%) or Emerging Countries (25.9%) and ASEAN (20.2%) [4]. In other words, there are still many households in Indonesia that do not have a passenger car. Given this reality, coupled with Indonesia's gross domestic product (GDP) growth rate continued to be positive from 1999 to 2019 (World Bank, 1999-2019), Indonesia still has high appeals for world car manufacturers.

Thus, this research intended to present to the international automobile Industry how domestic production strategy can benefit the company, industry, and most importantly, local society in the long run, since it will decrease their marginal cost and gain more market share.

## 2. METHODS

This study used a Cross-Sectional Survey design. Researchers use scales from relevant previous studies to measure the variables used in this study, which are then measured using a 7-point Likert scale.

Car Industry Image and Car Product Images from COB and COM were measured using questionnaire items adapted from [10]–[12]. Perceived quality, adopted from [13] and modified by [6].



**Figure 1.** Research Model

Based on the research model in Figure 1, the study has ten hypotheses tested, namely:

H1. General Product Images (Car Industry Images (1a), and Car Product Images (1b)) from Country of Brand Origin have a positive effect on the Perceived Quality of SUV car brands.

H2. Car Industry Images (2a) and Car Product Images (2b) from the Country of Manufacturing Origin positively affect the Perceived Quality of the SUV car brand.

South Korea was chosen as COB because it is one of the countries with an advanced automotive industry but has difficulties competing in the passenger car market in Indonesia as an emerging market.

The purposive sampling technique was used to select samples in the study, with criteria of sufficient age, living in Indonesia, and having knowledge of the research object (SUV cars). The minimum number of samples that can be used in the Structural Equation Modeling (SEM) analysis method can be obtained through a program (software) that can analyze the statistical power of a specific model [14]. The calculation results obtained from [15] show that number of the respondent from this study (273) has passed the minimum sample requirement (195) to detect a medium effect size (0.3) with a desired statistical power level of 0.8, and a probability level of 0.05. The questionnaires were first tested on 30 samples to determine the validity and reliability of the questionnaires used. Hypothesis testing in this study will then be tested using the structural equation model (SEM) method. The researcher then used the LISREL 8.80 software as the program used to carry out the structural tests and measurements needed.

## 3. RESULTS AND DISCUSSION

The model tested in this study shows a good fit with the RMSEA value = 0.065 and p-values = 0.00 in the measurement model and shows the RMSEA value = 0.064 and p-values = 0.00 in the structural model, as seen in Table I.

The test results in H1a show a t-value of -0.28, which indicates that there is no significant influence from the image of the car industry in the country of brand origin on the perceived quality of consumers in South Korean car products produced in Indonesia. Meanwhile, path H1b shows a t-value of 3.96, which indicates a significant influence given by the image of car products from the country of brand origin on the quality of South Korean car products produced in Indonesia. These results then confirm the research of [16], which says that consumers still see a product as a product from the country of brand origin, even though they know that the product they buy is not made in the origin country.

The test on H2a shows the t-value of 2.95, while the t-value on H2b shows the number 0.16. This finding shows a significant influence of the image of the car

industry in the country of manufacturing origin on the quality perceived by consumers, but not with the image of car products from that country (see table 1).

**Table 1.** Hypothesis Testing Results

| Hypothesis | Results  |           |                |                    |
|------------|--|-----------|----------------|--------------------|
|            | Path   | Estimates | Std. Solutions | t-value            |
| H1a        | COB Car Industry Image → Perceived Quality         | -0,05     | -0,03          | -0,28 <sup>a</sup> |
| H1b        | COB Car Product Image → Perceived Quality          | 0,71      | 0,51           | 3,96               |
| H2a        | COM General Car Industry Image → Perceived Quality | 0,47      | 0,34           | 2,15               |
| H2b        | COM General Car Product Image → Perceived Quality  | 0,04      | 0,03           | 0,16 <sup>a</sup>  |

The descriptive analysis of South Korea's car industry image and car product image received high positive evaluations from respondents. Meanwhile, the car industry image and car product image show a moderate evaluation. In evaluating the brand itself, respondents positively evaluated the dimensions of perceived quality and value of the South Korean car (Hyundai Santa Fe) produced in Indonesia.

As seen in table I, Descriptive analysis of car industry image (mean=5.85) and car product image (mean=5.29) from South Korea received high positive evaluations from respondents. Meanwhile, Indonesia's car industry image (4.49) and car product image (4.19) showed a moderate evaluation. In evaluating the brand itself, respondents positively evaluated the perceived quality dimension (mean=5.25) of the Hyundai Santa Fe car produced in Indonesia.

The results of significant hypothesis testing in H1b and H2a then show that the image of the car product produced by the country of brand origin, together with the image of the car industry in the country of manufacturing origin, will affect the consumer's view towards the quality of a passenger car. A car with high quality will not be separated from consumer perceptions of the image attributes of the product or car brand that are identical to the country and the capabilities of the country where the car is produced.

This finding aligns with [6] research, which confirmed that micro country images, namely images of particular products from a country, affect the perceived quality dimension in the brand evaluation framework. [17] also found that micro country image significantly influences consumer perceived quality in developing countries.

To complete the image of car products from the country of origin of a good brand, a positive image which

the company must then consider in choosing a country where the production is carried out must at least have sophisticated technology, good quality control, trained workforce as well as excellent motivation at work.

The insignificant results in H1a become relevant because "manufactured in Indonesia" is assigned to the research object as a highlighted attribute. So the involvement of the industrial context from the country of brand origin will be minimal. Meanwhile, the rejection of H2b may occur because the car product that is the object of the research is a South Korean car brand, so the "product" component itself is more closely related to the attributes of the brand's country of origin.

In other words, respondents relate more to the quality aspect of a car based on the image of the car industry in the country of manufacturing origin compared to the country of brand origin. This argument is in line with the findings of [4] that the stimulus provided by the country of manufacturing origin has a more substantial effect than the brand name on consumer evaluations for bi-national products. However, in the study conducted in the United States, perceptions of product quality are equally influenced by cues from the country of brand origin and the country in which the product is manufactured.

This finding implies the need for marketers to pay attention to the image of car products in general from the country of brand origin before deciding to compete in the international market. They also need to consider the capabilities and image of the industry in the country of manufacturing origin before deciding to highlight these aspects in their marketing efforts.

## 4. CONCLUSIONS

This study presents empirical evidence of the concept of Country of Origin at the micro-image level of a country and its impact on evaluating passenger car brands for consumers in Indonesia as a developing country. For marketers, especially in the automotive industry, the elements of the Country of brand origin and the Country of manufacturing origin can be relevant cues to highlight in their product marketing efforts in developing countries, provided that the country of brand origin is known to have superior car products, and the country of manufacturing origin has a positive image of the car industry in the eyes of consumers. Within the context of Indonesia, marketers who decide to carry out the production process domestically will benefit from the increased brand evaluation as the industry has a good image in the eyes of domestic consumers. This conclusion can be considered a highly-potential strategic marketing option since the domestic production strategy can benefit the company, industry, and local society in the long run. Even though it will need high capital investment at first, this strategy can be beneficial. It will help to cut unnecessary import tax and, most importantly,

gain more significant market share on the vast & growing domestic customer.

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