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Article

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IMPACT OF COUNTRY OF ORIGIN EFFECT (COE) ON CONSUMER PURCHASE INTENTIONS

DHARMADASA PRADEEP, WJIEWARDENA CHANKA

Abstract:

With the increasing trend of globalization, there is an influx of foreign goods and services into a country and therefore the country of origin effect (COE) is significantly becoming a more important driver in consumer purchase intentions. Highlighting two dimensions of COE, namely, performance equity and emotional equity, this study examines the impact of COE on consumer purchase intentions in favour of Indian made products of Sri Lankan consumers. Further, the study investigates whether purchase intentions in favour of Indian made products differ based on the ethnicity of the consumer. Data collected from 321 students selected from a cohort of postgraduates in business management from the University of Colombo, Sri Lanka, were analyzed using hierarchical regression and ANOVA with Tukey's HSD test. Moreover, factor analysis with Varimax Kaiser Normalization was employed to generate the factors. Results indicate that both emotional and performance dimensions significantly influence consumer purchase intentions in favour of Indian made products. With regard to ethnicity, the results show that there exists a difference between Sinhalese and Tamils in their preference for Indian made products.

Keywords:

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1. Introduction

The country-of-origin effect (COE) and its impact on consumer purchase intentions and product evaluation have attracted the increased attention of scholars in many academic disciplines over the years owing to its ability to influence consumer purchase behaviour (Zhang, 1997). Simply, COE means to what extent consumers consider or care for the 'made - in' tag of the product, when making purchase decisions (Maheswaran & Chen, 2009).Since 1965 when Schooler first coined this concept, there has been voluminous research pertaining to COE, particularly in the realm of international business and marketing using various methodologies and also different contexts. Such studies predominantly recognize two dimensions of COE: performance equity (PE) and emotional equity (EE), underlining that a person's perception of a country can be created by either of these two dimensions and then which dimension will ultimately impact on purchase intentions. These single-dimension studies have inclined to diminish the practical use of the findings, leaving gaps to be addressed in the literature as it hardly provides suggestions for an organization to work with, i.e., whether the consumer purchase intention is based on performance equity or the emotional dimension. However, contemporary literature pinpoints COE as a multi-dimensional construct and claims that future studies on COE should ideally look at investigating these multiple dimensions and their impact on consumer purchase intention (Maheswaran & Chen, 2009; Maheswaran, Chen, & He, 2013) in order to gain a comprehensive understanding of the concept and its consequences for the discipline of international marketing. With this in mind, this paper aims to investigate the impact of COE on consumer purchase intentions, bundling both performance equity (PE) and emotional equity (EE) using Sri Lankan consumer perceptions of products made in India.

The subject of this study was investigated by selecting Sri Lankan consumers and their purchase intentions towards products with an Indian origin for three reasons. First, the majority of the studies related to COE were conducted in the developed markets and only a few studies in developing and emerging markets (Albaum & Peterson, 1984; Lee & Green, 1991) like Sri Lanka where heterogeneous market characteristics exist. Second, Sri Lanka imports 20% of its total imports from India, which is the highest percentage of imports to Sri Lanka from a single country (CBSL, 2016). Third, there are close cultural attachments between Sri Lanka and India dating back several millennia and which provide a fertile ground for studying COE.

The remainder of this paper is organized as follows. Section two briefly reviews the literature pertaining to COE, consumer purchase intention and then develops the research hypotheses. In section three, the research method is outlined. Section four presents the empirical results and discusses the findings. The last section concludes the paper with a presentation of the research limitations and directions for future research.

2. Literature Review

Conventionally, COE refers to the country in which the product was manufactured or produced (Maheswaran & Chen, 2009). However, with recent developments in supply chain management (SCM) and operations management (OM) and also the tendency towards outsourcing and off-shoring, production mostly occurs in a serial fashion across multiple countries. Moreover, cost escalation has also forced manufacturers to be involved with multiple country manufacturing so that they can leverage the low cost

destination advantage (Han & Terpstra, 1988). These multiple countries of origin have confused consumers in identifying the actual origin of the product. In this backdrop, the latest studies hold the view that the perceived origin of the product where consumer's perception of the origin is a powerful source shapes consumer purchase decisions (Magnusson, Westjohn, & Zdravkovic, 2011).

As previously mentioned, one of the most recognized dimensions of COE, performance equity (PE), which is also known as product performance-related associations can be viewed as the traditional COE that is built on the consumer's knowledge and the experience of the performance of the products originating in a particular country (Maheswaran et al., 2013, p.173). However, this can also be extended to consumers' perception of the level of economic development of the nation and the comprehensiveness of its physical, legal, and financial infrastructure. This experience and knowledge subsequently generate a halo effect, which the consumer will eventually use as a cue in making purchase decisions (Bilkey & Nes, 1982; Verlegh & Steenkamp, 1999). The second most recognized dimension, emotional equity (EE), which is also known as product-unrelated emotional associations can be seen as the positive or negative, specific or general affect that consumers experience toward a country based on their exposure to information that is unrelated to the product and may have roots in macro factors such as culture, labour practices, politics, economics, etc. (Maheswaran et al., 2013, p.173). For instance, as asserted by Klein, Ettenson, and Morris (1998), Chinese consumers may be reluctant to purchase Japanese products even though they endorse the quality of Japanese products over local Chinese products because of the historic, economic, political and military issues between the two countries. Therefore, it is suggested that, even though these feelings or emotions do not directly relate to the performance of the product, they might influence the consumer purchase intention due to emotional attachment to the COE of the product.

Hypothesis Development

A consumer's perception towards a country can be formed by the performance of the products or services originating in the particular country (Maheswaran & Chen, 2009). Based on the consumer's experience with a particular product or service, he/she may form a positive or negative image about a country, which, in turn, influences one's intention to purchase products from the particular country. For instance, it is a widely accepted fact that some countries have developed strong equity in different product categories, such as Switzerland for wrist watches, Japan for automobiles and Italy for fashion. On these grounds, in this study, we surmised that:

H_1- *There exists a positive effect between product performance and consumer intention to purchase.*

It is not only product performance associations that contribute to COE, but also there is product-unrelated emotional dimensions as well (Allred, Chakraborty, & Miller., 1999) and consumers may have developed different emotional attachments towards countries during their direct or indirect encounters with a particular country, which, in turn, will influence consumer intention to purchase (Verlegh & Steenkamp, 1999). Klein et al. (1998) have observed the Chinese consumer intention to purchase Japanese made products in the city of Nanjing because the Nanjing city was under the Japanese military during the World War II and the city had experienced a terrible set-back at the hands of the Japanese, both economically and socially. The Chinese people still feel

animosity towards Japan and therefore the intention to purchase products made in Japan is also low.

Further, by analyzing the multiple dimensions of country image, Allred et al. (1999) revealed that country image comprises various dimensions other than performance of the particular product, namely, the perception towards people and culture, concern for environment protection, labour practices and work culture of the country. This conclusion shed light on the significant bearing of emotional dimensions on consumer perception about country image thus inducing the intention to purchase products from those countries. Thus the positive image created through a favorable perception towards a country will result in increased intention to purchase products from that particular country and vice versa.

Moreover, Parameswaran and Pisharodi (1994) have identified cultural similarities, the friendliness and likeability of people will create a positive country image which would positively influence the purchase intentions of the consumers in evaluating products from overseas. By investigating consumer perception towards USA through product-unrelated emotional attachments, Lee and Ganesh (1999) also concluded that perceptions about people and work culture stimulate the intention to purchase products from the particular country. In the same vein, Bei and Simpson (1995) found that a positive relationship that exists between consumer intention to purchase and the concern for environment protection, suggesting that the consumers increasingly sought recycled products as they contribute to sustainable development. Based on the above discussion, for this study, we surmised that:

H_2 - *There exists a negative effect between economic animosity and consumer purchase intentions.*

H_3 - *There exists a positive effect between perception towards people and culture and consumer purchase intentions.*

H_4 - *There exists a positive effect between labour practices and consumer purchase intentions.*

H_5 - *There exists a positive effect between perception towards environment protection and consumer purchase intentions.*

Previous research has underlined that the ethnicity of the consumer influences the intention to purchase foreign products. Relating to this, Velioglu, Karsu, and Umut (2011) investigated the buying behaviour of 11 ethnic groups in Turkey and asserted that the buying behaviour of these groups varied significantly in purchasing food and beverages. Similarly, Kim and Kang (2001) found that the buying behaviour of the three ethnic groups living in USA indicated that the buying behaviours of the ethnic groups varied significantly in purchasing social clothes and small electronics. Moreover, Sekhons (2007) study on the buying behaviour of Indians in the UK report a significant difference in purchase decisions between different ethnic groups in buying sarees and sarongs. In an investigation on the impact of ethnicity on apparel purchase behaviour in India, Kumar, Nath and Ravichandran (2013) found a significant difference between North Indians and South Indians in apparel purchases. Considering, the multi-ethnicity of the heterogeneous population of Sri Lanka, the current study would be interested in

looking at whether there is a difference in consumer intention to purchase products with an Indian origin based on the ethnicity of the consumer. Accordingly, we surmised that:

H7 – *There is a difference in consumer perception of performance equity and emotional equity dimensions based on the ethnicity of the consumer*

The framework of the current study is shown in Figure 1.

***Figure 1* Conceptual Framework**
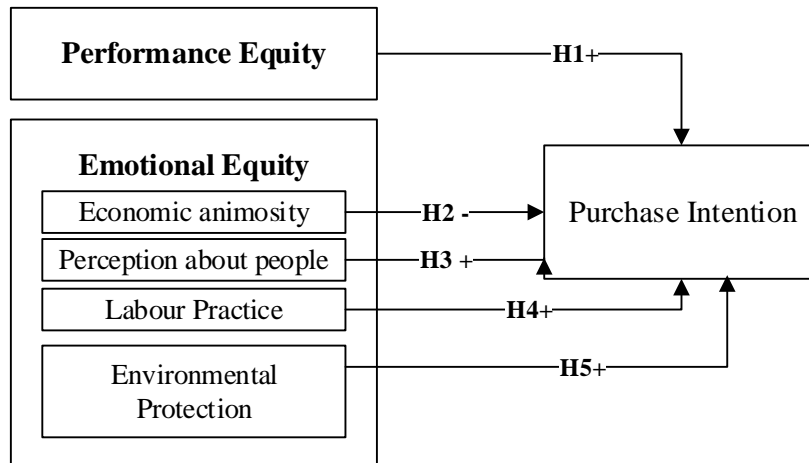
3. Research Method

This is an exploratory research, investigating Sri Lankan consumers' purchase intentions in favour of Indian products. The data for the study was collected from 321 students selected from a cohort of business management postgraduates from the University of Colombo, Sri Lanka, by administering a questionnaire. Most of the previous studies on COE have also employed student populations (Lindquist, Vida, Plank & Fairhurst., 2001; Suh & Kwon, 2002; Kumara & Canhua, 2010) of an average sample size of 226 (Khare, 2006). Questions relating to the variables in this study were adapted from the instruments developed and validated by Darling and Arnold (1988); Darling and Wood (1990); Allred et al. (1999) and Klein et al. (1998).All questions were on a five point Likert scale anchoring "strongly disagree" (1) to "strongly agree" (5). Respondents were asked to circle the response which best described their level of agreement with the statements. The hypothesized relationships between COE and purchase intention were tested with multiple regression, ANOVA with Tukey's HSD test (Post-hoc comparisons) using SPSS 23. Further, factor analysis with Varimax Kaiser Normalization was employed to generate the factors.

4. Results and Findings

Data was collected from 321 respondents within the age group of 26 - 30 years with 59.5% of males and 40.5% of females. In the sample, 80% of the respondents were Sinhalese, 12% were Tamil, and 7% were Muslims.

As this study adapts previously used questionnaires, exploratory factor analysis was conducted to verify that the number of variables and scale items in the questionnaires are similar to those of the underlying dimensions of the present study. Accordingly,

factor analysis was conducted using principal component analysis method of extraction with Varimax rotation. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was 0.878 falling into the range of being 'great' (Kaiser, 1974) and Bartlett's test of sphericity ($\chi^2(231)$ = 2499.42. $p < .05$) was significant confirming the appropriateness of data for factor analysis. The factor loadings of less than 0.40 were suppressed based on the sample size. The factor analysis generated five factors (with eigen values greater than or equal to 1); they cumulatively explain 58.23% of the variance in responses conforming to the factors in the initial model, and therefore it can be concluded that the model used in this study is also applicable to the Sri Lankan context. The results of the factor analysis are presented in Table 1.

Table 1- Principal component analysis of COO, rotated component matrix

	Component factor loadings				
	PE	PTPC	LWC	ENV	EANI
Product Reliability	0.742				
Fine Workmanship	0.705				
Value for Money	0.659				
Colour and design	0.652				
Technological advancement	0.604				
Product Quality	0.535				
Indians are very friendly		0.794			
I like Indian people		0.752			
India's government is cooperative		0.678			
India is a dependable ally		0.549			
Indian workers are hardworking		0.454			
Indian workers are well trained			0.805		
Indian workers are well educated			0.766		
Indian workers' pay attention to detail			0.692		
Indian workers are very reliable			0.593		
India protects the environment				0.816	

India does not exploit the environment	0.789
India has high pollution control standards	0.683
India is concerned about the environment	0.613
India economically influences Sri Lanka	0.809
India takes advantage of Sri Lanka	0.791
India is not a reliable trading partner	0.686

Eigen values	6.628	1.900	1.534	1.446	1.304
AVE	30.12	8.63	6.97	6.57	5.92
Accumulated AVE	30.12	38.75	45.72	52.29	58.21

Note. Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization

PE = Performance Equity, PTPC =Perception about people and culture, LWC =Labor Practices, ENV = Environment Protection and EANI = Economic Animosity

Descriptive statistics of the study's key variables, along with Cronbach's alphas, are presented in Table 2.

Table 2 - *Means, standard deviations, Cronbach's alphas (α) and Pearson correlation coefficients*

	Variables	Mean	SD	α	1	2	3	4	5
1	Performance Equity	2.66	0.67	0.78					
2	Perception about people and culture	2.61	0.76	0.76	0.48**				
3	Labor practices	2.41	0.78	0.80	0.42**	0.47**			
4	Environmental protection	2.07	0.73	0.77	0.30**	0.43**	0.39**		
5	Economic animosity	3.68	0.86	0.74	-0.41**	-0.37**	-0.36**	-0.27**	
6	Purchase intention	3.05	0.64	0.76	0.46**	0.33**	0.23**	0.15**	-0.46**

*Note: N = 321, ** p ≤ 0.01(two-tailed;* p ≤ 0.05(two-tailed)*

Table 2 shows that Cronbach's alphas (α) range between 0.74 and 0.79, exceeding the recommended cutoff point of 0.70 (Hair, Black, Babin, & Anderson, 2010) and confirming internal reliability of the variables. Table 2 also presents the correlations between variables, which were in the predicted directions and consistent with theoretical expectations, suggesting their appropriateness for further analysis.

The results of the regression analysis performed to test the hypotheses are shown in Table 3.

Table 3 - Results of Regression Analysis

Variables	Purchase Intention
Performance Equity	0.457***
	(10.760)
Perception towards people and culture	0.239***
	(5.624)
Labor practices	0.102**
	(2.400)
Environmental protection	0.075
	(1.772)
Economic animosity	-0.389***
	(-9.173)
Constant	-6.285***
R^2	0.433
Adj. R^2	0.424
F stat	48.087***

N=321, *(t values are in parentheses*)

***p ≤ 0.01 (two tailed); **p ≤ 0.05 (two tailed)

As stated previously, Hypothesis1 (H1) was designed to test the relationship between performance equity and consumer purchase intention. Regression results show that performance equity was significantly and positively associated with consumer purchase intention (β = 0.457; p <0.01), as suggested. This finding is consistent with the findings

of Roth and Romeo (1992), Schooler (1971) and Kumara and Canhua (2010). This would suggest that even though contemporary researchers argue about the power of product-unrelated emotional associations over product performance associations in influencing consumer purchase intentions, in the Sri Lankan context, still the consumers look for the performance of the product over their emotional associations towards the COO. In other words, the main concern for the Sri Lankan consumer is reliability, colour and design, value for money, workmanship and technological advancement of the country in which the product was manufactured

Hypothesis 2 (H2) which was related to economic animosity and purchase intention was also supported ((β = -0.389, p <0.01), as predicted, suggesting that higher animosity leads to lower intention to purchase and this finding is consistent with the finding of Klein et al. (1998). Regression results relating to perception towards people and culture and consumer purchase intentions is β = 0.239, P < 0.01, which supports the positive relationship posited in Hypothesis 3. Similarly, labour practices and consumer purchase intentions (H4) reported a positively significant relationship (β = 0.102, P < 0.05), as predicted. However, the results rejected Hypothesis 5, negating the relationship predicted between perception towards environmental protection and consumer purchase intentions. This finding is contradicted by the findings of Bei and Simpson (1995), which revealed that the consumers consider the environmental impact of organizations in making their purchasing decisions.

Table 4 – Tukey HSD Post Hoc

Variable	(Ethnicity	Ethnicity	Mean Difference	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
Performance Equity	Sinhalese	Tamil	-0.71465[*]	0.14254	0.000	-1.0828	-0.3465
		Muslim	0.06349	0.24651	0.994	-0.5732	0.7002
		Others	-0.34722	0.32444	0.708	-1.1852	0.4907
	Tamil	Sinhalese	0.71465[*]	0.14254	0.000	0.3465	1.0828
		Muslim	0.77814[*]	0.27965	0.029	0.0559	1.5004
		Others	0.36742	0.35028	0.721	-0.5372	1.2721
	Muslim	Sinhalese	-0.06349	0.24651	0.994	-0.7002	0.5732
		Tamil	-0.77814[*]	0.27965	0.029	-1.5004	-0.0559
		Others	-0.41071	0.40391	0.740	-1.4539	0.6325

	Others	Sinhalese	0.34722	0.32444	0.708	-0.4907	1.1852
		Tamil	-0.36742	0.35028	0.721	-1.2721	0.5372
		Muslim	0.41071	0.40391	0.740	-0.6325	1.4539
Emotional Equity	Sinhalese	Tamil	0.99811*	0.18081	0.000	0.5311	1.4651
		Muslim	0.58036	0.31269	0.249	-0.2272	1.3880
		Others	0.77083	0.41154	0.242	-0.2921	1.8337
	Tamil	Sinhalese	-0.99811*	0.18081	0.000	-1.4651	-0.5311
		Muslim	-0.41775	0.35472	0.641	-1.3339	0.4984
		Others	-0.22727	0.44432	0.956	-1.3748	0.9203
	Muslim	Sinhalese	-0.58036	0.31269	0.249	-1.3880	0.2272
		Tamil	0.41775	0.35472	0.641	-0.4984	1.3339
		Others	0.19048	0.51235	0.982	-1.1328	1.5137
	Others	Sinhalese	-0.77083	0.41154	0.242	-1.8337	0.2921
		Tamil	0.22727	0.44432	0.956	-0.9203	1.3748
		Muslim	-0.19048	0.51235	0.982	-1.5137	1.1328

Hypothesis 7 which was formulated to test whether there was a difference in consumer perception of performance equity and emotional equity dimensions based on the ethnicity of the consumer was tested using Post Hoc analysis. The results suggest that perception differs between different ethnic groups in the country. For instance, there is a statistically significant difference between the perceptions of Tamils and Sinhalese (P= 0.000), in their perception towards the performance of the products made in India. Similarly, there is a significant difference between Muslims and Tamils regarding the performance of the products made in India (P= 0.029). In other words, the Sinhalese and the Muslims are under the impression that the products made in India are of poor performance whereas the Tamils are satisfied with them. As for the results obtained in the Post Hoc test, there is a statistically significant difference between Sinhalese and Tamils (P= 0.000) regarding the emotional equity of products with an Indian origin. This would mean that Sinhalese emotional equity is unfavorable towards products with an Indian origin whereas the Tamil community in Sri Lanka feels the opposite.

5. Conclusion

This study was conducted with the objective of examining the impact of COE on consumer purchase intentions. Through an extensive review of the literature, multiple

factors that influence the consumer's purchase intentions were identified. In that, performance equity and emotional equity were the two main dimensions identified for the contemporary studies conducted by scholars in the field of COE. The study found that both performance equity and emotional equity impact on consumer purchase intentions in favour of products made in India from Sri Lankan consumers' perspective. Moreover, the results suggest that such impact will differ across the ethnicity of the consumer.

This study makes several academic contributions. First, it includes a comprehensive examination of the multiple dimensions of COE, which is an under-researched area. This joint analysis of the multiple dimensions of COE would provide clear guidelines regarding the construct of performance and emotional dimensions of COE, specifically in the context of an emerging, heterogeneous Asian country. Second, the study has explored a different aspect of consumer ethnocentrism by considering the way in which perceptions differ based on the ethnicity of the consumer. Previous studies on COE have studied how ethnicity of the consumer influences purchase intentions, under the umbrella term 'Consumer Ethnocentrism'. However, in those studies the samples taken were homogenous and therefore the comparisons were based on how consumer purchase intentions differ between 'Made in a Foreign Country' vs. 'Made in the Home Country.' Since, in the current study the sample consists of consumers belonging to different ethnic groups even though all respondents were Sri Lankan, this has made it possible to examine how the perceptions towards a foreign made product would differ based on the ethnicity of the consumer. This would also be important information for Indian companies because as Sri Lanka is a multi-ethnic country, it gives them prior knowledge as to how they will be judged by different ethnic groups in Sri Lanka. This is one useful piece of information to have when doing business overseas. Third, the results of the study indicate the importance of both performance equity and emotional equity in making purchase decisions. This would mean that consumers are concerned with both the performance of the product, i.e., quality, durability, value for money and product-unrelated emotional attachments such as the perception about the people in the host country, their concern towards environmental protection or their work culture and labour practices. This would be another useful information for any of the Indian companies entering into the Sri Lankan market whereby they get some guidelines as to how to position their product in the Sri Lankan market. Finally, the study has presented a comprehensive analysis of the Sri Lankan consumer perceptions towards the products made in India. Moreover, the results indicated different perceptions about products made in India between the two major ethic groups in Sri Lanka. Therefore, this would be important information for the authorities in making policy decisions such as entering into bilateral trade agreements with the Indian government.

This research has few limitations, notwithstanding which the study and its findings have value as discussed in the preceding section. First, the study has considered the perception of Sri Lankan consumers towards India. However, in most other studies conducted in the area of COE, multiple countries were considered and the consumer perceptions towards the products originating from multiple countries were compared. However, in the present study, since the main focus is on evaluating the multiple dimensions of COE, only one country was considered. This would mean that in future studies consideration should be given to analyzing the impact of multiple dimensions of COE on products originating from multiple destinations, which would increase the ability to compare consumer perceptions towards multiple countries along multiple dimensions of the COO effect. Second, the current study evaluated the Sri Lankan consumer

perception towards products made in India in general. However, in the history of COE research, the studies were done focusing on specific product categories. Therefore it should be noted that the results obtained in the current study can vary, if considered with a specific product category. Therefore, it is suggested that in future studies, the multiple dimensions of COE should be studied with reference to specific product categories as well as services. Finally, since the sample obtained for the current study consisted of students doing postgraduate studies in the University of Colombo, it reflects a relatively youthful, affluent, educated, and English-speaking sample which doubtlessly inflated the results of the study. Therefore, there is an issue about generalizing the findings to broader demographic segments. This would suggest that future studies should look into evaluating the multiple dimensions of COE with relatively older and less educated consumers.

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