

Nation Equity: Country-of-Origin Effects and Globalization

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### **Introduction**

Country-of-origin effects have a long and well-established history in the field of international business. In his book, *The Description of the World*, Marco Polo has written about silk from China and spices from India (Marco Polo 1298). In the academic domain, extensive research has documented that consumers evaluate the efficacy of a product based on its country of origin. Favorable country of origin perceptions are often reflected in correspondingly favorable product evaluations (Maheswaran 1994).

With the advent of globalization, the decrease of trade barriers, and the digitization of the world economy, consumers now have access to products from around the world. As consumers evaluate the assortment of products available to them, the country of origin of a product will have an increasingly important role in their decision making. For example, Champagne from France or Electronics from Japan have always enjoyed a premium image in the minds of consumers. Gruma, one of Mexico's leading flour producers, has successfully leveraged its positive country image as tortilla chips manufacturers and marketed its tortilla chips in the global market (Businessweek 2007).

In general, favorable or unfavorable country associations develop over time as a function of the superior or inferior performance history of the products that originate in that country. As the reputation of a country begins to evolve based on the quality of the existing products, these perceptions of superiority or inferiority are also transferred to new products that originate in that country. While most academic research in the domain

of country of origin has focused on the perceptions of a country based on the performance of its products, there is evidence to suggest that consumers' perceptions of the country may go beyond inferences based on product performance alone. For example, the historical animosity between some Eastern Asian countries and Japan may affect the purchase of Japanese products in these countries, despite a universally favorable belief towards the reliable performance of its products. In accord, recent studies have shown that a product's country of origin has implications for the product's evaluations that extend beyond product attributes. Specifically, consumers may form positive or negative feelings towards a country based on cultural, political, historical or economic factors. These feelings, though unrelated to the product performance, may influence consumers' evaluations and purchase intentions of the products originating from the target countries (Hong and Kang 2006; Klein, Ettenson and Morris 1998; Maheswaran and Chen 2006). Thus, current research findings suggest that country of origin is a multi-dimensional construct that incorporates perceptions based on both product performance-related and non-product related aspects. Hence, a framework that integrates the various facets of country perceptions is needed to systematically examine the effects of country of origin in the context of globalization.

In this chapter, we propose the concept of "Nation Equity" as the integrating framework to capture the traditional performance-based country of origin effect and the normative effect of product-unrelated country perceptions on consumer and business decision making. *Nation Equity* is defined as "equity or goodwill associated with a country". These associations often go beyond company or product performance-related perceptions, and may be positive or negative as a function of culture, politics, economic

development, religion and other macro factors. Unlike brand or corporate equity that is primarily based on the company activities, nation equity associations are induced by factors that are external to the company or the product, yet, they have impact on the company and its products. For example, when a Danish newspaper, Jyllands-Posten, published cartoons that offended the religious sentiments of Islamic countries, it led to a boycott of the products from Denmark's largest dairy producer, Arla, in the Middle East, costing the company about US\$ 50 million in 2006 (BBC News 2006). Thus, a company and its products may be vulnerable to emotions arising from events that are beyond the immediate purview of a company.

These incidental emotions, though not directly related to the actions of the company, may affect its business because of the negative associations to the country of origin. Similarly, political events such as the Iraq conflict may evoke several types of emotional responses to the United States and to the extent that these emotions influence the perceptions of the United States, they are likely to have a corresponding effect on perceptions and acceptance of products from American companies. Research has shown that emotional responses in general, could differ both in their valence (negative or positive) and in their focus on the decision criterion (e.g., country of origin or other product information) for evaluating the product (Lerner and Keltner 2000; Maheswaran and Chen 2006). Thus, the impact of incidental events such as military conflicts on the consumers will depend on the type of emotion (e.g., anger or sadness) invoked and whether the consumers focus on the country of origin in their decisions. For example, American Express, by virtue of its brand name association with the United States, may be unfavorably evaluated if the consumers in the Middle East have negative associations to

United States and if they use the “country of origin” as a decision criterion. Alternately, if the United States is seen as a champion of democracy, it may induce positive emotions and the enhanced perceptions of United States would favor American Express.

Thus, broadening the performance based view of country of origin effects and viewing countries as having equity associated with them, would enable companies to gain a better understanding of the impact of country of origin on their operations as well as facilitate a more comprehensive study of country of origin in the academic domain. In this chapter, we first review past research on country of origin effects that focus on product performance, examine the theoretical frameworks that form the basis of these effects, and discuss emerging issues in this domain. Subsequently, we elaborate the concept of nation equity, summarize recent research examining non-performance related or normative country of origin effects and highlight the importance and future research directions in the area of nation equity. To be consistent with previous research, the term of “country of origin effects” would be used in this review to refer to the traditional performance-based country of origin effects. Nation equity will refer to the generalized effects of country of origin that includes both performance and normative effects.

### **Traditional Country of Origin Effects: Quality/Performance-based**

Country of origin can influence consumers’ perceptions of a product’s quality, performance, design, aesthetics, prestige, price, as well as consumers’ product evaluations and purchase decisions. The effect of country of origin has been interpreted as a type of halo effect where consumers rely on their general impressions of a country to

form some beliefs about a product's attributes or performance. Early research on the country of origin effect focused on its role as an information cue (Bilkey and Nes 1982 for review). That is, consumers may form general impressions of countries or hold idiosyncratic beliefs about a country based on their direct or indirect product experiences. These impressions or beliefs about a country may, in turn, work as decision cues that provide consumer information to infer beliefs regarding attributes such as the quality of similar products originating from the target country (Steenkamp 1990). For example, consumers may believe that there is more trained and educated workforce as well as more stringent quality control system in countries that are economically more developed. Therefore, the products made in such countries tend to be perceived as having higher qualities and evaluated more favorably (Schooler 1971). Alternatively, consumers may have accumulated direct, positive experiences with cars or electronics made in Japan and gradually updated their impressions of Japan, which in turn, lead to more favorable evaluations for the products made in Japan relative to the counterparts made in other countries.

Roth and Romeo (1992) investigated the relationship between consumer preferences for a country's products and perceptions of a country's economy. They argue that the effect of country of origin on product evaluations is based on the fit between the country's image and the product characteristics. If there is a match between the perceived "strength" of a country and the skills that are needed to design and manufacture the product, the country of origin would have a positive effect on product evaluations. For example, consumers prefer cars that are made in Germany because of the general association of Germany with superior engineering and workmanship as well as being

technologically advanced. France is associated with a positive image for design and fashion, which are important features for handbags (apparel, shoes) but unimportant for beer. In this case, the country of origin information (i.e., Made in France) should positively influence consumers' willingness to purchase handbags but not beer. Likewise, consumers may have unfavorable country image towards a certain country (e.g., Hungary) in terms of innovativeness and workmanship, which are important features for automobiles but not for beer. In this case, the country of origin information should negatively influence consumers' willingness to purchase automobiles but not beer made in Hungary.

Consistent with the halo effect mechanism, previous research finds that country of origin influences consumers' beliefs of attributes and only has an indirect effect on product evaluations (Erickson, Johansson and Chao 1984). Based on the Fishbein and Ajzen (1975)'s multi-attribute model, Erickson and colleagues conducted simultaneous equation regressions to estimate a model that incorporated two-way influences between attitudes and beliefs, the impact of image variables (country of origin) on both beliefs and attitudes, as well as the impact of familiarity on attitudes. The data suggests that the image variable, country of origin, appears to have only direct effects on beliefs but not on attitudes.

Han (1989) extended the findings from Erickson, Johansson and Chao (1984) by identifying conditions under which the country of origin only influences beliefs (i.e., halo effect) or has a direct effect on product evaluations. Specifically, Han (1989) implicates consumer knowledge or familiarity with the product as moderators of the halo effect. Two processes are documented through which country of origin can influence product

evaluations: halo effect and summary construct. When consumers are not familiar with the product made in a certain country, they would infer the product attributes using the general perceptions of quality for product made in such country. For example, US consumers are relatively less familiar with Korean-made cars. When asked to evaluate, consumers may infer the technology or workmanship involved in the car based on a general image of Korean-made products and thus rate it more or less favorably. When consumers get more familiar with the product made in a certain country, however, the country of origin would work as a summary construct that directly affects the product evaluations. In other words, the country of origin perception that is summarized based on previous experience or specific knowledge directly influences product evaluations of new products.

As noted early, the halo effect focuses on the situations when the country of origin image is a perception based on previous experience or knowledge of products originating from such country. However, country images may have strong emotional and affective aspects that are formed in direct experiences during holidays or encounters with foreigners or in indirect experiences with countries and their citizens through art, education or mass media (Verlegh and Steenkamp 1999). As noted earlier, even though the emotional aspects of a country's image tend to be independent of the products, they may still influence the evaluations consumers have towards products originating from the country. For example, Schooler (1965) found that Guatemalan students gave lower evaluations to products from El Salvador and Costa Rica than to domestic and Mexican products because of a general negative attitude toward people from El Salvador and Guatemala. The general country of origin image may also influence consumers' inference



on other product attributes other than quality. For example, the image of France is related to hedonic characteristics that include aesthetic sensitivity, refined taste and sensory pleasure (Peabody 1985). As a result, French-sounding brand names make a product sound more “hedonic” (vs. utilitarian), and thus have a positive impact on the evaluations of “hedonic” products like perfumes and wines (Leclerc, Schmitt and Dubé 1994). These effects will be discussed further in the section of “Normative Country of Origin Effects”.

### Process

While a majority of past studies examines the effect of country of origin on consumer evaluations, there has been relatively little research on the process underlying the use of country of origin in consumer evaluations. Hong and Wyer (1989) propose four hypotheses concerning the cognitive processes underlying the effects of country-of-origin and specific attribute information on product evaluation: country of origin as another attribute, country of origin as a heuristic cue, country of origin as a factor that biases the information encoding, country of origin as a curiosity-eliciting factor that increases attribute elaboration. More recently, Maheswaran (1994) proposes a theoretical framework based on the Dual Process Models of Persuasion. This framework suggests that stereotypical beliefs of country of origin are used as heuristics in consumer decision making.

- *Dual Process Model*

The heuristic-systematic model (Chaiken 1980, 1987; Chaiken and Eagly 1983) and the elaboration likelihood model (Petty and Cacioppo 1981, 1986) distinguish between

two concurrent modes of information processing: systematic (or central) processing and heuristic (or peripheral) processing. Systematic processing is conceptualized as a comprehensive, analytic orientation to information processing in which perceivers access and scrutinize all informational input for its relevance to their judgment task. Heuristic processing is a more limited mode of information processing that is both less effortful and less capacity-demanding than systematic processing. It focuses on a subset of available information that enables them to use heuristics or simple decision rules to formulate their judgments quickly and efficiently. Applied to product evaluations, systematic processing implies that people form or update their attitudes by actively attending to a cognitively elaborating product attributes. In contrast, heuristic processing implies that people form or update their evaluations by invoking heuristics or stereotypes such as “Japanese cars are reliable”. The country-of-origin based stereotypes may often be biased and represent a less accurate knowledge structure that is based on limited observations or context-dependent situations. Yet, they can play a constructive role of providing simplicity and predictability in complex decision settings (Maheswaran 1994; Taylor 1981).

- *Country of Origin as a Stereotype*

The country of origin of a product represents a knowledge structure similar to the stereotype of a person, which link a stimulus or set of stimuli to highly probable features. The stereotype of a country may reflect “the overall perception consumers form of products from such a country, based on their prior perceptions of the country’s production and marketing strengths and weakness” (Roth and Romeo 1992). As noted earlier, stereotypical beliefs or images of the manufacturing nation are used as heuristics

and have a substantial impact on the quality judgments of its products (Han 1988; Hong and Wyer 1980; Maheswaran 1994).

Consumers may acquire such stereotype based on a few observations of the target products from a particular country. The observations may be context dependent and are likely to vary across situations. For example, consumers may form stereotypes like “French clothing is fashionable” based on a recent fashion show they watched on TV, or “Kraft food products are superior” because a comparison of Kraft to a local store brand. In some cases, the stereotype may even be based on inference rather than on any observation of the target product. For example, on the basis of stereotype for Japan- a nation that manufactures reliable electronic products, consumers may infer that electronic components made in Japan (e.g., alarm clock) are technologically more advanced and of high quality.

In this section, we outline various theoretical frameworks that address the mechanisms underlying nation equity effects. The Heuristic-Systematic Model seems to provide a more comprehensive conceptualization of how nation equity influences consumers’ evaluations. The research based on the Heuristic-Systematic Model has also identified both cognitive and affective factors that may moderate the use of nation equity in decision making.

### Factors Influencing the Country of Origin Effect

Based on the dual process models, recent research examines the effect of various factors such as, expertise, emotion, and culture on the use of country of origin in

evaluations.

- *Expertise*

Maheswaran (1994) differentiates experts and novices who use country of origin differently during attribute processing and product evaluations, and demonstrates that country of origin serves as a stereotype heuristic that may have direct as well as indirect effect on product evaluations; the effect is moderated by consumers' ability and argument ambiguity.

Novices are found to rely on country of origin as a useful heuristic, and use such information in their evaluations regardless of whether the attributes are ambiguous or unambiguous. When the attributes are unambiguous, country of origin directly influences the novices' product evaluations. When the attribute information is ambiguous, however, country of origin biases the interpretation of attributes and indirectly influences the evaluations. For example, strong and neutral attributes are rated more positively when the country of origin is favorable (vs. unfavorable). In contrast, although experts can use both country of origin information and attributes information in product evaluations, country of origin is found to have very little influence on the product evaluations when the attributes are unambiguous and diagnostic. When the attributes are ambiguous, even experts may be unable to resolve the ambiguity and they will be guided by the country of origin beliefs to engage in selective processing of attributes.

- *Emotion*

Maheswaran and Chen (2006) show that incidental emotions that consumers experience before their product evaluations influence the use of country of origin information in the information processing. Previous research has demonstrated that

specific emotions with the same valence may have different effects on subsequent judgments. For example, anger is more likely to lead to heuristic processing whereas sadness is more likely to lead to systematic processing in a subsequent decision (Bodenhausen et al 1994). Consistently, Maheswaran and Chen (2006) find that angry consumers are more likely to use country of origin information in product evaluations than sad consumers. In addition, they identify agency control associated with the emotion as the underlying dimension that determines whether and how the country of origin is used in product evaluations.

Emotions vary on the dimension of agency control, namely human-control or situation-control (Smith and Ellsworth 1985; Tiedens and Linton 2001). For example, anger is strongly associated with human control. Thus, people who are angry tend to believe that other people can influence or should be responsible for the situation. In contrast, sadness is strongly associated with situation control. Therefore, sad people tend to believe that the event is beyond human control and are more prone to attribute the negative consequences to the situational characteristics. The agency attribution related to an incidental emotion influences the weight given to the country of origin information in a subsequent product evaluation task. Specifically, country of origin has a strong effect on product evaluations only when the incidental emotions are associated with strong human control.

- *Culture*

Gürhan-Canli and Maheswaran (2000a) find that the country of origin effect differs across countries. In Japan, the country of origin influences consumers' product evaluation such that the product originating in the home country (versus foreign country) is always

evaluated more favorably, regardless of whether the product attributes are superior or inferior to competition. In the United States, however, the product originating in the home country is evaluated more favorably only when the product is superior to competition. The vertical dimension of individualism and collectivism is found to explain the difference between the two countries. Specifically, if the home product is superior to competition, consumers are likely to evaluate it favorably because it enhances people's competitive goals of possessing a superior product and the group membership is beneficial to individuals. However, if a foreign product has superior attributes, group membership and country of origin do not benefit individuals and their importance in evaluations are likely to be minimized. The preference for a superior product, regardless of its origin, is consistent with the characteristics of vertical individualism, in which people are competitive and attempt to achieve individual goals at the expense of group goals. In contrast, consumer's preference for the home product regardless of its superiority is mediated by people's willingness to sacrifice for the collective goals. This is consistent with the characteristics of the vertical collectivism, which people are anticipated to sacrifice their personal preferences and make evaluations to enhance the group interest.

Similarly, Swaminathan, Page and Gürhan-Canli (2007) also find that the country of origin information has a larger impact on product evaluations when consumers are primed with an interdependent self construal. Self construal reflects the extent to which individuals view themselves either as an individuated entity or in relation to others. People with independent self-construal consider themselves as unique and value characteristics that distinguish them from other members of the group. People with

interdependent self-construal see themselves as part of a group and define themselves with respect to other group members. Individualistic cultures tend to reward independence and frequently activate the independent self, making it chronically accessible. In contrast, collectivistic cultures frequently promote the interdependent self, making it chronically accessible. Thus, the interdependent (vs. independent) self construal captures the extent to which consumers have a collectivistic (vs. individualistic) cultural orientation.

Specifically, Swaminathan, Page and Gürhan-Canli (2007) examine the impact of negative information in the context of a failed line extension in both electronics and sports shoes using real brand names. When consumers are primed with an interdependent self construal, negative information about the product extension lead to lower evaluations only for the brand of foreign origin but not for the brand of local origin. Consumers with a salient interdependent self construal tend to generate more counterarguments that are based on the brand's country of origin. For example, they may argue that that Dell is a reliable American brand and thus the ratings, showing the new line of Dell TV is not doing as well as competition, are not trustworthy. When consumers are primed with an independent self construal, however, the country of origin of the brand (foreign or local) does not seem to moderate the effect of negative information on evaluations. Instead, consumers have lower evaluations when they are presented with low ratings of the line extension if they don't feel a strong connection to the brand. When consumers believe the brand is important in expressing their self-identities, they are more buffered against negative information by generating more self-concept related counter arguments.

## Emerging Trends in Globalization

The globalization of world economies and the resulting changes in manufacturing and marketing practices have both promoted and reduced the use of country of origin information in consumer decision making. Consumers now have access to products and brands from many different countries. Given that products from different countries do vary in terms of quality and other aspects, country of origin information may become more relevant in consumer decision making. However, the definition of country of origin may be undergoing a transformation. Many companies have established production units in countries and areas with low cost and labor. It is common to observe products with multiple countries involved in the design and product process, or brands that are commonly associated with one country but now are manufactured in many different countries. For example, the Japanese auto makers now have plants in the United States that produce automobiles carrying Japanese brand names. Given the trend in multiple country associations to brands, the use of country of origin may involve some interesting complications. We discuss three important issues below. First, do consumers use the combination of the countries in evaluating the product? Second, how do consumers weigh the country of origin information relative to other extrinsic cues? Third, would the complexity of country associations make consumers less confident about the exact country of origin of a particular product and thus, less concerned about this information? How these questions influence the magnitude of country of origin in the current world is worth further investigation.



- *Multiple Countries of Origin*

While the traditional country-of origin research paradigm has assumed that a product can be specifically tied to a country in which it is made, an emerging trend is a proliferation of “hybrid products” that are associated with multiple countries (Chao 1993; Han and Terpstra 1988; Johansson and Nebenzahl 1986). It is a common practice that different specialized tasks in the production process, such as production of parts, product design and final assembly, are assigned to different countries. “Country of origin” should no longer be treated as synonymous with the “Made in...” or “Assembled in ....” concept but should be extended to incorporate the concepts like “Designed in ...”, “Engineered in ...” or even “Parts Supplied By...” To examine the country of origin effect in a bi-national or multi-national context has become increasingly important since 1) the manufacturing has been largely moved to developing countries because of low cost of labor and raw materials, 2) strategic alliance as a form of inter-firm collaboration has become a dominant business form, 3) consumers nowadays are more likely to encounter products with multiple country associations.

Han and Terpstra (1988) differentiate the country of manufacturing/assembly and the country of the brand. They classify the products into four categories: foreign-branded /foreign-made (e.g., Korean TV made in Korea), foreign-branded/domestic-made (e.g., Honda Civic made in the US), domestic-branded/foreign-made (e.g., GE TV made in Korea), and domestic-branded/domestic-made (e.g., Ford Escort made in the US). Pair-wise comparisons of the perceived quality of a product are made between any two of the four categories. For example, the differences between foreign-branded/foreign-made and domestic-branded/foreign-made show the effect of foreign brand names (e.g., whether a

Korean TV manufacturer should consider selling through a US seller and replacing with a US brand name such as G.E.). The differences between foreign-branded/foreign-made and Foreign-branded/domestic-made will show the effect of foreign production (e.g., whether the Korean TV manufacturer should manufacture locally). Han and Terpstra conducted interviews that cover two categories (automobiles and television) associated with four countries (US, Japan, Germany and Korea). The data reveal that both the country of manufacturing (i.e., traditional country of origin) and the country of the brand affect consumer perceptions of product quality. Notably, however, the country of manufacturing has more powerful effects on consumer evaluations of product quality than the country of the brand, given the levels of stimuli.

Similarly, Chao (1993) also made a distinction between hybrid and non-hybrid products, but specifically compared the effect of the country of design (COD) and the country of assembly (COA). For example, Honda Civic is designed in Japan but can be manufactured in the US. Chao (1993) examined a television set that was assembled in Taiwan, Thailand or Mexico and designed in U.S., Japan or Taiwan. It is found that consumers infer higher quality only for TV set designed in Japan. For TV sets designed in Taiwan or US, however, the inferred quality is influenced by the price. Interestingly, Chao (1993) does not find an interaction between the country of design and the country of assembly. This may suggest that a poorly perceived product quality associated with a particular country of assembly could not be compensated for by having the product designed in a country with a positive design stereotype. However, such an implication needs to be dealt with caution and it is necessary to conduct further research to compare the countries of assembly with positive or negative stereotypes.

Since it has become more difficult for consumers to identify the target country with which a product can be associated, the ambiguity in the perceptions of a specific country of origin may possess a challenge for the consumers. Interestingly, the use of multiple country of origin information has not been found to dampen the impact of country of origin. For example, Verlegh and Steenkamp (1999)'s meta-analysis report that there are no significant differences between the effect sizes for hybrid and non-hybrid products.

- *Country of Origin and Other Cues*

In real life situations, the country of origin is often one of the several decision cues available to the consumers. In early studies on the country of origin effect, only a single cue (i.e., the country of origin) is involved. That is, the country of origin is the only information supplied to respondents on which to base their evaluations. While these single cue studies provide some insights on consumer behavior when country of origin is salient, it is also important to examine the effect of country of origin when other intrinsic (quality, design etc) and extrinsic cues (brand name etc.) are available (Bilkey and Nes 1982; Johansson, Douglas and Nonaka 1985).

Johansson et al (1985) suggest that the impact of country of origin may be considerably more complex than is typically assumed in the presence of other cues. Johansson and colleagues adopt a multi-cue approach to investigate the impact of country of origin on product evaluations (Erickson, Johansson and Chao 1984; Johansson, Douglas and Nonaka 1985). Using a multi-attribute attitudinal model, they examine the effect of product attributes as well as country of origin on overall evaluations and the reciprocal effect of overall evaluations on consumer beliefs of specific attributes. US and Japan subjects evaluated several models of cars made from U.S., Japan and Germany in

terms of overall evaluations, familiarities, attributes and importance of each attribute. Their findings revealed a persistent halo effect and suggest that the country of origin effect may occur predominantly in relation to evaluations of specific attributes rather than overall evaluations.

Similarly, Chao (1993, 1995) reports the interaction of country of origin cues with price information and their subsequent effects on product quality perceptions. The findings show that when consumers have confidence in the high quality of a country of origin (e.g., Japan), the price-quality heuristic is less likely to be used to infer product quality. However, when consumers' confidence in a country of origin is low (e.g., Taiwan), higher price tends to be used to suggest higher quality.

As the distinctiveness of the country of origin information becomes diminished because of multiple country associations or as manufacturing tends to relocate to various countries, it is likely that brand names may become a marketing focus and thus have a stronger impact on evaluations than the country of origin. For example, Nike products are being manufactured in many developing countries like Indonesia and yet, the brand continues to enjoy a dominant position in the market. This observation suggests that consumers may focus on the brand name and discount the country of origin. Alternately, if Brut Champaign were to be brewed from the vineyards outside of France, consumers may not necessarily focus on the brand name and discount the country information. An interaction between brand names and country of origin effect has been documented in previous literature (Cordell 1992). The country of origin effect is stronger for an unfamiliar brand than for a familiar brand. In addition, for products with high performance risk, the country of origin effect is stronger and consumers tend to derogate

the products manufactured in less developed countries.

Leclerc et al (1994) also examine the interaction of the country of origin and brand name on product evaluations. Specifically, they compare the effect of the two cues on consumer perceptions and product evaluations when they are congruent or incongruent to each other. For example, French-sounding brand names and “Made in France” labels are congruently associated with hedonic perceptions and should influence the product evaluations favorably. However, French-sounding brand names and “Made in US” label would be incongruent and should lead to less cohesive brand image and influence the product evaluations negatively.

Interestingly, Leclerc et al (1994) find that although either French-sounding brand name or “made in France” label alone can increase the hedonic perception, incongruent brand names and country of origin do not significantly decrease the perceived perception relative to the situation when the two cues are both available and congruent. It is argued that congruent extrinsic cues like French-sounding brand name and “made in France” may be considered redundant and do not enhance product perceptions.

In addition, Leclerc et al (1994) find that country of origin has less effect on product evaluations than brand names, which contrasts Han and Terpstra (1988)’s finding that the country of manufacturing has more powerful effects than the brand name on consumer evaluations of bi-national products. There may be several reasons for such difference. First, since the survey data is collected using a within-subject design in Han and Terpstra (1988), respondents may be more sensitive to the comparison of country of manufacturing than the country of brand, since the former is more related to the domestic employment and economy whereas the latter is related to corporate strategy. Second, it is

becoming increasingly common that the country of manufacturing is different from the country of brand. As consumers become more brand-conscious and the product quality difference among various manufacturing countries has greatly diminished, the effect of brand name may have increased relative to the effect of country of origin. The inconsistencies emphasize the need to understand what is driving the weights assigned to one cue versus another on product perceptions. The relative influence of country of origin versus brand name may be moderated by several factors that are both internal and external to the product and identifying these factors would be of interest.

- *Country of Origin Effects: To be or Not to be?*

To investigate the generalizability of the country of origin effect, several meta-analyses have been conducted. For example, Peterson and Jolibert (1995) have examined fifty-two articles and computed an omega-squared to assess the effect sizes of the country of origin in these studies. They find that the effect size of country of origin is a function of whether the dependent variable is a quality/reliability perception or a purchase intention. The average effect size for quality/reliability perception is .30, whereas the average effect size for purchase intention is .19. Relative to the quality/reliability perceptions, the country of origin effect sizes involving purchase intentions are also more sensitive to the influence of the study characteristics. In addition, they find that on average, large samples produce greater effect sizes than small samples, single-cue studies produces larger effect sizes than multiple-cue studies, and the effect size may be inflated by utilizing verbal product descriptions than actually presenting the physical product. In contrary to the original belief, however, only marginally different effect sizes are found between within-subjects designs and between-subjects designs.

Verlegh and Steenkamp (1999)'s meta-analysis finds that the country-of-origin effect is larger when subjects are asked to compare products from more developed countries (MDCs) with products from less developed countries (LDCs), instead of products from only MDCs or only LDCs. Consistent with Peterson and Jolibert (1995), the effect sizes for multi-cue country of origin studies are smaller than those for single-cue studies. However, they find that between-subjects designs yield smaller effect sizes than within-subjects designs. Using student samples or representative consumer samples do not seem to influence the magnitude of the country of origin effect. Thus, extant research establishes that country of origin effect is robust and their magnitude is moderated by the presence of other extrinsic cues or economic factors. These studies and the meta analyses reinforce the need to examine country of origin effects along with other product related information.

However, some recent research findings suggest the possibility that the country of origin of a product is less of a concern for most consumers. Samiee, Shimp and Sharma (2005), demonstrate that there is a lack of knowledge about the origin of a brand among American consumers. They conducted a national survey to measure the Brand Origin Recognition Accuracy (BORA) of 84 brands (40 from the US and 44 from foreign countries) representing different product categories. Brand origin is defined as the country a brand is associated with or the headquarters of where the brand's owner is perceived to be located, regardless of where it is manufactured. The survey shows that the average BORA score for all 84 brands is 35%, whereas the correct recognition for US brands is significantly higher (49%) than the recognition for foreign brands (22.3%). Samiee et al (2005) argue that if the origin of a brand plays a salient role in consumers'

everyday judgments and decision-making processes, it would be expected that consumers would possess reasonably accurate abilities to recognize a brand's country of origin. Since the national survey suggests that consumers' brand origin recognition is modest at best, the role of country of origin in brand choice would also be nominal under natural conditions. These findings appear to point out the diminishing importance of country of origin information in consumer decision making. A similar proposition is also advanced in another recent survey examining the recognition and recall of country of origin information among young consumers. This study from Anderson Analytics (2007) finds that most college students aren't sure where their favorite products come from -- and may not even care. The diminishing attention to country of origin among the Internet-oriented youth may be related to the way their world has been defined. "Being online transcends geography. ... Point of origin is becoming less relevant." said Ted Morris, senior VP-global alliances at BrandIntel (Bulik 2007).

While these studies raise the possibility that country of origin is not spontaneously used by consumers in evaluating products, they also suggest that when country of origin is salient, they may influence evaluations. For example, according to the study from Anderson Analytics (2007), although young consumers do not care about where their cell phones are made, the origins of luxury goods definitely influence the consumer perceptions and the expected price. In this study, when consumers are aware of the country of origin of a brand, their brand evaluations are higher when its origin country has a favorable image in that product category. For example, Hermès scored 23% higher with college students who correctly identified it as a French brand rather than as a U.K. brand. Similarly, Lexus got 13% higher ratings from students who knew it was a



Japanese brand than it did from those who thought it was a U.S. brand. Similarly, Samiee et al (2005) findings suggest that consumers are heterogeneous in terms of how much they care about the country of origin. Their study documents that the brand-origin recognition accuracy is moderated by consumers' product familiarity, socioeconomic class, international travel experience, gender and consumer ethnocentrism. For example, higher social economic class increases the recognition accuracy for both domestic and foreign brands. More interesting, in the Anderson Analytics study (2007), even though the young consumers may not have perfect knowledge as to the origin of some products, they have very clear ideas about which countries produce the highest-quality goods overall: Japan was first at 81.8%, followed by the U.S. at 78.5%, Germany at 77.1%. Samiee et al (2005) also demonstrate that consumers have very high brand origin recognition accuracy for products made in Japan. Thus, the emerging findings suggest that given the complexity of the global environment, country of origin may be becoming less salient during the decision making process. However, when the country associations are made salient during the purchase process by increased marketing efforts such as advertising and other priming mechanisms, they are actively used in decision making.

The country of origin of a brand can become temporarily salient for various reasons. For example, there were a few product recalls and consumer complaints about products "Made in China" in 2007. This involved the toy giant Mattel withdrawal of "made in China" toys from the global market three times within a month because of these toys containing "impermissible levels of lead" in their paint and potentially-lethal loose magnets. There were also investigations involving pet food imported from China on reports of a chemical additive in the pet food that may have caused the death of some pets.

Toxic ingredients were also found in Chinese fish and toothpaste exports, while the deaths of patients in Panama were blamed on improperly labeled Chinese chemicals mixed into cough syrup. The series of incidents have generated global concern about the safety of the Chinese products and may have temporarily increased consumer sensitivity to the origin of some inexpensive consumer packaged goods that are commonly made in China. The country of origin of a brand can also be made salient because of non-product related factors. As reviewed earlier, consumers in the Middle East become averse to products from Denmark after a Danish newspaper published cartoons that offended the religious sentiments of Islamic countries. Chinese and Korean consumers tend to boycott products from Japan after their Prime Minister visit the Yasukuni Shrine.

In sum, the globalization of world economies and the increase of world trade has set three major trends in motion. These emerging trends are 1) the traditional definition of country of origin is changing and now the final product is a combination of several countries 2) brand names are used as proxies for country of origin and 3) the spontaneous association of the country of origin may be diluted due to the digitalizing of the economies. While these trends have raised concerns about the importance of studying the country of origin effects, given consumers' limited knowledge of it, there have been unequivocal evidence showing the intertwining effect of country of origin with other extrinsic cues, especially the effect of non-product based country image on consumers' willingness to purchase products from such country. As one top executive at a Japanese automaker sensibly worried, "if the bad feelings between the two countries linger, that could shape consumer decision later, particularly for young people" (Beech 2005). These observations strongly endorse the importance of nation equity that goes beyond simple

product based associations and highlight the significance of building nation equity. It is obvious from the vast literature on country of origin effects that when country image is evoked either because of product or no-product related events and becomes salient, it is clearly diagnostic and influences subsequent product evaluations.

### **Normative Country of Origin Effects**

Relative to the extensive literature on country of origin effects that are based on product performance, the normative effect of country of origin based on non-product or non performance related perceptions are not well understood. In the next section, we will review three normative effects of the country of origin that are independent of product performance and characterize the multi-dimensional nature of “*Nation Equity*”. Specifically, we identify and explore three major effects: foreignness effect, ethnocentrism effect and animosity effect.

#### Foreignness Effect

A preference for foreign-made (or non-local) products has been documented in past research on country of origin. Specifically, a positive relationship between product evaluations and the degree of economic development is reported (Schooler 1971), especially in many developing countries, such as the People’s Republic of China (Sklair 1994), Vietnam (Schultz, Pecotich and Le 1994), Nigeria (Arnould 1989), the Democratic Republic of Congo (Friedman 1990), Zimbabwe (Burke 1996), Romania and

Turkey (Bar-Haim 1987; Ger, Belk and Lascu 1993) and Ethiopia and Peru (Belk 1988).

The foreignness effect is distinct from a specific product performance-based favorable evaluation as a function of congruence with a favorable country image. It refers to a general preference for foreign products regardless of product category or performance.

To examine the underlying mechanism that guides the preferences for foreign products, Batra et al (2000) collected data in two large cities in India (Bombay and Delhi) and find that consumers have more favorable attitudes towards brands perceived as having a non-local country of origin than brands seen as local. Furthermore, such attitudinal enhancement is stronger for consumers who are highly susceptible to normative influences and for product categories that are high in social signaling value, suggesting reasons beyond the brand quality assessment. Additional mediating analyses reveal that the effect of country of origin on brand attitudes is mediated by consumer's admiration of the lifestyles of economically developed countries. That is, in addition to suggesting overall quality, a non-local country of origin can also increase a brand's desirability for symbolic, status-enhancing reasons (Batra et al 2000). Interestingly, consumer ethnocentrism is not found to moderate the foreignness effect. It is possible that a brand seen as generally non-local, instead of coming from one specific country, may simply not evoke as much hostility from ethnocentric consumers.

While economic factor may explain the foreignness effect in developing countries, foreignness effect is also observed in some economically developed countries like Japan or Singapore. In Japan, some product categories are dominated by local products whereas others are dominated by foreign products. For example, in the cosmetics market, the skin care segment has mainly leading local brands. In contrast, the foreign brands are the

market leaders in the beauty care segment. It would be useful to understand the differentiating factors that lead to either ethnocentrism or foreignness effect in countries where both phenomena are observed.

In addition to economic factors, there might be other psychological reasons that may lead to the foreignness effect. One such factor would be self-esteem. Consumers may achieve self-enhancement by using products from foreign countries, or signal their belonging to a certain elite group that is associated with desirable foreign products and thus acquire a collective reflected glory (Chen, Brockner and Katz 1998).

#### Ethnocentrism Effect

Contrary to foreignness effect, previous research has also documented an aversion to foreign products because of protective instincts towards local brands. While country of origin has often been examined in the context of evaluating products from a foreign country, consumers can also use country of origin information in their evaluations of home country products. Several corporations around the world advertise their home country affiliations to gain a competitive advantage in their respective domestic markets. For example, consumer products from Kao Corporation in Japan and Singha Beer from Thailand often use ethnocentric appeals to promote their products in their local markets. In the latest of its four advertising themes in the last five years, Saturn is also taking the ethnocentric route and uses an advertising slogan that focuses on the fact that it is “American Made”. The Saturn brand is marketed by General Motors Corp. and is targeted at consumers in the United States who are potential buyers of imported brands.

The brand campaign launched in 2007 on Television, print, online and out of home, asks the consumers to “Rethink American” and attempts to direct the consumers’ attention to its “Made in USA” claim (Halliday 2007).

Consumers may have different feelings towards products manufactured in their home country versus foreign countries. Also, consumers feeling towards products from their home countries are driven by considerations that may be unrelated to the product efficacy or performance or its competitive position. Consumers’ preferences for products made in their home countries have been found to be correlated with personality variables like level of dogmatism and conservatism (Bilkey and Nes 1982). Gürhan-Canli and Maheswaran (2000) examined consumers’ attitudes towards home country products in two countries, United States and Japan. Their findings show that Japanese consumers buy home country products regardless of whether they are superior or inferior to competition. In contrast, American consumers are not persuaded by home country label alone, but require that the product be superior to competition before evaluating them favorably. These findings seem to suggest differences in ethnocentrism effects across countries. Ethnocentrism towards home country products is more likely to occur in collectivist countries like Japan,. In individualistic countries like the United States, however, ethnocentrism may only be selectively used in product evaluations.

While the preference for the home country products is one of the aspects, ethnocentrism has also been conceptualized to specifically describe consumers’ attitude towards foreign products and their beliefs about the appropriateness or even the morality of buying foreign-made products (Shimp and Sharma 1987). From the perspective of ethnocentric consumers, purchasing imported products is wrong because it hurts the

domestic economy, causes loss of jobs and is unpatriotic. To non-ethnocentric consumers, however, foreign products should be evaluated on their own merits without the consideration for where they are made. To measure consumers' ethnocentric tendencies, Shimp and Shuarma (1987) developed a 17-item CETSCALE and tested its reliability and validity of the scale in four cities across the United States. With the increasing globalization of business, foreign brands are available in more parts of the world and the competition between domestic and multinational firms is increasing in virtually all countries. In light of this situation, consumer ethnocentrism was further examined at a cross-national level and the CETSCALE has been validated across four different countries (the U.S., France, Japan and West Germany) (Netemeyer, Durvasula and Lichtenstein 1991).

Consumer ethnocentrism may often be confused with patriotism, nationalism or internationalism since they are all centered on one's general attitudes towards his/her country and those towards other countries. However, patriotism is a commitment and describes a readiness to sacrifice for the nation, while nationalism is commitment plus exclusion of others and describes a readiness to sacrifice bolstered by hostility towards others. Internationalism, on the other hand, reflects positive feelings for other nations and their people (Druckman 1994). Balabanis et al (2001) examine the relationship between consumer ethnocentrism and patriotism, nationalism and internationalism in Turkey and Czech Republic. Although the data of both countries confirms that the three concepts do collectively have an impact on consumer ethnocentrism, the specific antecedent of consumer ethnocentrism in each country is not necessarily consistent. In some countries (e.g., Turkey), consumers are ethnocentric from pure love and attachment to their country

(i.e., patriotism is the major antecedent), while in other countries (e.g., Czech Republic), they are out of feelings of economic superiority and national dominance (i.e., nationalism is the major antecedent).

Thus, extant research on ethnocentrism indicates that preference for home country products may manifest itself in many different ways. One possibility is to have a preference for home country products regardless of quality; the other conceptualization is to reject foreign products based on their potential to harm domestic products or industry. In addition, several other related concepts like patriotism, internationalism, and nationalism may also stem from the consideration of domestic country origin of the product.

### Animosity Effect

Consumer ethnocentrism has been referred to as the normative aspects of country of origin effect, in the sense that consumers judge whether it is moral to purchase products from certain countries (Verlegh and Steenkamp 1999). In addition to the moral aspect of buying home country products or rejecting foreign products, there may also be other emotional reasons associated with boycotting the products from a target country. As noted earlier, the boycott of Arla foods in the Middle East is one example of animosity effect. Similarly, the renaming of French Fries as Freedom Fries in the United States to express the displeasure with the French in the beginning of the Iraq Conflict is yet another variation of animosity effects.

Animosity is defined as the remnants of antipathy related to previous or ongoing



military, political or economic events (Klein, Ettenson and Morris 1998). It is different from consumer ethnocentrism in mainly two aspects. First, consumer ethnocentrism measures beliefs about the appropriateness and morality of purchasing foreign products in general, whereas animosity is a country-specific construct. Consumer ethnocentrism predicts consumers' purchase behavior when the choice is between a domestic brand and a foreign brand, whereas animosity is more predictive when the choice is between two foreign brands, provided that consumers hold hostility towards one of the countries (Klein 2002). Thus, a consumer's score on CETSCALE may be misleading when animosity is involved and should be considered with caution, since those who find it perfectly acceptable to buy foreign products in general may refuse to buy any product from a specific country if they have negative attitudes towards the target country.

Second, consumer ethnocentrism is correlated with quality judgment in the sense that those who score high in CETSCALE also believe that the products made in their own country have better quality. Animosity, however, may be independent from quality judgment and is only predictive of behavior. A consumer with animosity towards a certain country may refuse to buy the product originating from the target country without derogating the quality of the products. Such behavior can be found throughout the world. For example, Jewish consumers boycott German products because of the holocaust during WWII and Australian consumers refuse to purchase French products because of French nuclear tests in the Pacific. Similarly, during the WWII, the atrocities committed by the Japanese army against the civilians in Nanjing during the occupation, known as the "Nanjing Massacre", also has implications for the purchase of Japanese products. Klein et al (1998)'s survey in Nanjing demonstrates that, similar to other parts of the

world, Japanese products are viewed quite positively by Chinese consumers in terms of quality judgment. However, those consumers with high animosity are more reluctant to purchase Japanese products. The pattern of the findings is invariant even when consumer ethnocentrism is held constant.

While some animosity effects such as the Arla Foods and Freedom Fries have short term implications for the purchase of products, yet others seem to have a continued impact on the conduct of business. The animosity between China and Japan provide an interesting case in point with an ongoing series of incidents that seem to go beyond the response warranted by the conflict situation. For example, in April 2005, Japan's Education Ministry approved textbooks that minimized the extreme nature of the country's wartime involvement in China. This resulted in a strong reaction from the Chinese consumers that evolved from peaceful demonstrations at the beginning to the destructive vandalizing of Japanese restaurants and a series of boycotts of Japanese cars and electronics in major cities, resulting in major financial set back for Japanese companies. These incidents suggest that the possibility that the enduring and transient nature of animosity may be moderated by several factors and the extremity of the emotional response may also vary as a function of either historic or economic factors.

Different from the traditional country of origin research that focuses on its role as an information cue that affects judgments of product quality, the animosity model suggests a very different process. As an emotion that is unrelated or incidental to the product evaluations, consumer animosity does not influence product attribute judgments or quality perceptions, but has a direct negative effect on consumers' purchase behavior. Consistently, Maheswaran and Chen (2006) examine how negative incidental emotions

influence the country of origin effect in the subsequent product evaluations. Their findings suggest that animosity towards a country based on historical, military or economic reasons may influence consumers' reactions towards products from the target countries if the event that generates the animosity is attributed to the country instead of to chances or uncontrollable factors.

Hong and Kang (2006) examine a situation when consumers may have, in general, positive country of origin stereotypes based on functional aspects but negative emotions (e.g., animosity) towards the country as a result of its political or social policies. For example, consumers may have positive impression of German-made products in general but have negative emotions towards Germany because of the nature of their military actions during WWII. They find that opposing effects may occur depending on what subset of country-of-origin related knowledge is activated and accessible during evaluations. The country of origin has a positive effect on product evaluations when a favorable subset of the stereotype is activated, but negative effect when an unfavorable subset is activated. However, such effect would occur only when the product is atypical and not strongly associated with the functional aspects of the country of origin stereotypes (e.g., dress shoes made in Japan)

Thus, the above findings examining animosity effects suggest that animosity is a distinct construct from ethnocentrism and evokes asymmetric patterns of response from consumers. The antecedents of animosity are also quite different from ethnocentrism. In addition, animosity effects seem to have both transient and enduring effects on consumer response to conflict situations. The emotional nature of the animosity response to conflict animosity appears to vary in degree across situations. These findings and the lack of

specific insights that would explain the variations in animosity effects across various situations suggest that several issues related to the animosity effects need further examination.

The above review clearly identifies distinct effects that are associated with the use of country of origin information in product evaluations: halo effect, foreignness effect, ethnocentrism effect and animosity effect. These effects stem from both product performances related and unrelated factors. It is interesting to note that consumers have different sets of responses to foreign brands and local brands and these responses are both favorable and unfavorable. In addition to performance based evaluations, consumer also exhibit emotional responses that vary both in intensity and the content across situations. More important, while extant research answers some questions, it also identifies several areas that need further investigation. The diversity of effects strongly underscores the need for an integrated framework to examine the multi-dimensional nation equity in multiple domains.

### **Building Nation Equity: Importance and Implications**

Extant research has mostly examined how nation equity influences the evaluation of brands originating from the target country. It is clear that favorable nation equity is beneficial to the companies and countries. Yet, very little is being done by either the companies or the countries to build positive perceptions and diminish negative associations. The implications of enhancing nation equity are strategic and can transcend the product domain.

Nation equity can play a key role in promoting international trade, tourism and economic development. An interesting example of the importance of nation equity in international trade domain is the recently concluded Free Trade Agreement (2007) between the United States and Korea that provides an opportunity to increase bilateral trade. While the expectation at the negotiation level is that both countries will equally benefit by this agreement, it is likely that the relative favorableness of the nation equity between American and Korean consumers may benefit one country over the other. In general, American products enjoy a favorable image in Korea; however, it is not clear that many Korean products are similarly viewed in America, with the exception of specific industries like Consumer Electronics and Automobiles. For example, LG, Samsung and Hyundai are well known and accepted among American consumers. Nonetheless, the success of these individual firms has not translated in to enhancing the nation equity of Korea as a country. For example, Hyundai has achieved a leadership position in the US mid size sedan market, yet, its success has been confined only to this segment. Its continued efforts at launching a new brand in the luxury sedan market have not been successful. In order for Korea to benefit from the FTA, they need to improve the overall image of Korean-made products and perhaps, leverage the success of brands like Samsung and Hyundai by possibly highlighting the collective origin of the successful Korean brands and strengthening the positive stereotypical beliefs of Korean-made automobiles and electronic products. In addition to strengthening their key industries, the positive image in the few industries should be leveraged to benefit related industries like Steel, where companies like Posco has excellent performance record, but limited equity.

Nation Equity plays a major role in the political domain, an area that has received

very little attention in terms of academic research. There have been many instances that suggest that negative equity associated with a country based on political perceptions has influenced business judgment and decisions. For example, when China National Offshore Oil Corporation (CNOOC) made the offer to acquire the American oil producer Unocal, the US government was not supportive of the merger. The American government was not very enthusiastic about Chinese corporations controlling the strategic natural resources. Despite the offer being competitive from a business perspective, Chevron Corporation, an American company, was chosen to be the merger partner. The differences in the political philosophy between the United States and China have created a negative equity for China and have led to negative perceptions of Chinese corporations. Yet another example of the impact of nation equity in the political domain is the case of Dubai Ports. When Dubai Ports was a leading contender for the acquisition of the operations of some key ports in the United States, there was considerable government opposition to the control of entry point to the country by corporations based in an Islamic country. As in the case of CNOOC, the offer made business sense, yet, it was not encouraged because of the negative equity associated with Islamic countries in the United States. These examples, endorse the view that countries need to be concerned about their equities and make efforts to build and maintain positive equity and actively combat negative equity.

In a related domain where the concept of nation equity has enormous implications is the geo-political context. When governments implement decisions that have global implications such as economic sanctions or military actions, they will induce responses that may have implications that may resonate in the business domain. For example, the involvement of the United States in the Iraq conflict has generated a lot of debate about

its potential impact on the operations of American business in the Middle East as well as globally. The question “Is Iraq Conflict bad for American business?” has been foremost in the minds of both business and political leaders. While a lot of anecdotal evidence supporting both the “yes” and “no” outcomes have been discussed, this issue has neither been examined nor understood. Based on the nation equity framework we would advance the premise that government actions (e.g., Iraq conflict), may evoke powerful emotions among consumers; these emotions may influence consumers’ perceptions of the country, and to the extent that the perceptions become negative, they will subsequently impact consumer willingness to buy products from corporations that originate from the United States. Despite this possibility, neither government nor corporations have proactively addressed the potential outcomes. While it may be argued that some of the implications may be transient, the loss of revenues is real and could be minimized by specific intervention strategies.

In addition to political and historical perceptions leading to the formation of negative equity, social and cultural images that are broad, consensually shared beliefs and judgments related to a country, its citizens, and their culture may also lead to a negative equity (Leclerc et al 1994). For example, the negative perceptions of Thailand based on news items such as child exploitation and prostitution have influenced business decisions such as having regional operations in Thailand and business travelers from having a vacation with their families in Thailand. Despite the abundant natural resources, friendly people, and low cost of living, the negative equity associated with social and cultural issues in Thailand is reducing its ability to compete effectively in the lucrative business and corporate travel market.

While negative images can be detrimental to business operations, countries with no prior well-defined perceptions may also be at disadvantage. For example, Norway is the world leader in the ship-building industry and has a major oil industry. Yet most people know Norway only for its natural scenery and salmon. A recent study shows that because many consumers may not have a very clear image associated with Norway, the “Made in Norway” information may lead to more unfavorable evaluations than the cases when no country of origin information is released. In other words, a lack of equity may hurt rather than be neutral when competing in the global market (Chen and Maheswaran 2007).

While distinct positive and negative equity associations may have obvious impact, the impact of nation equity for countries with both favorable and unfavorable associations is less understood. For example, Japan enjoys positive images because of its superior product performance. However, in some countries like China and Korea, Japan also has a negative image due to the invasion during WWII. As Hong and Kong (2006) demonstrate, when nation equity contains both favorable and unfavorable information, the country of origin may have either a positive effect or a negative effect on product evaluations and decisions depending on what subset of the perceptions is activated. However, yet another possibility is when the valence of nation equity is ambiguous, the business and products originating from that country become vulnerable to government policies or political disputes. For example, in recent years, almost every visit of Japan’s Prime Minister to the Yasukuni Shrine, where the Japanese war heroes are honored, is followed by a wave of boycotts of Japanese merchandise in China and Korea. Although Chinese consumers still associate Japanese products with quality, they also tend to have negative perceptions based on historical animosity. Because of the negative equity, Chinese consumers are



also less tolerable to the failures of Japanese products. For example, on September 14 2006, the General Administration of Quality Supervision, Inspection and Quarantine (GAQSIQ) announced that nine products released by SK-II, a Japanese cosmetics company, contained the banned heavy metals chromium and neodymium. During the crisis, SK-II admitted that the products they sell in China have some ‘delicate differences’ to those sold in Japan. Although these ‘delicate differences’ are not well defined, the Chinese consumers felt discriminated against and reacted drastically. In the end, the nation-wide request for return of SK-II products led to the temporary withdrawal of SK-II from the Chinese market. It is likely that the extreme reaction of Chinese consumers is a reflection of the sensitive Sino-Japanese relations and the long-existing animosity Chinese consumers have for Japan. Thus, lack of clear positive equity appears to make a country and its products vulnerable to unfavorable and incidental outcomes.

### **Summary and Conclusions**

In this chapter, we reviewed past research that demonstrate the traditional product performance-based country of origin effect, and recent research that examine the effect of non product-based factors such as politics, history, economics and culture on consumers’ perceptions of countries and their subsequent willingness to purchase products originating from that target country. We propose the concept of “*Nation Equity*” to incorporate the complex, multidimensional country of origin effect in the era of globalization. We also reviewed some theoretical models (e.g., Dual Process Model, Stereotyping Model), that have examined country of origin effects. These models not

only help us understand the mechanism through which the nation equity influences product evaluations, but also provide a framework to manage nation equity. Future research should examine the potential strategies based on these models to build, maintain and modify nation equity.

We identified a strong emotional content to the perceptions of countries and their subsequent implications for product decisions. Future research should also examine the different types of emotions and their implications as well as develop a typology of positive (e.g, happiness) and negative (e.g. anger, sadness, etc,) emotions that will lead to a focus on country of origin. Previous research has mainly focused on the negative emotions and its effect on product evaluations. The conditions under which positive incidental emotions (e.g., positive feelings generated from travel experiences or from cultural products such as movies and books) influence consumers' acceptance of products from the related country should also be examined. For example, the developmental aid provided by the U.S. may have induced favorable emotions in the Southeast Asian countries. It is important to understand whether this positive emotions and associations would generate any impact on consumers' evaluation and purchase of products from the U.S.

In terms of the interface between government and business, additional investigation should outline intervention strategies that government agencies (e.g. State and Commerce departments) and corporations could use to effectively manage any potential negative impact of geo-political conflicts on business operations. These strategies should involve the efforts of all parties to inhibit negative emotions, combat any negative impact and minimize the focus on the country in decision making. Government agencies and

corporations could implement intervention strategies (e.g., advertising) that are targeted at generating positive emotions and associations to the country as well as promoting decision contexts where country of origin is critical. These important issues await further investigation.

Another important domain that could benefit from more inquiry is the role of nation equity in generating profits and revenue for the economy as a whole. Research should explore and understand how varying dimensions of nation equity influence a country's tourism revenue, the potential to expand export, and the ability to attract foreign investment and businesses. In general, expanding the purview of country of origin effects to include the impact of micro and macro perceptions of countries under the nation equity framework would provide considerable synergies in understanding this powerful concept. Thus, the nation equity research has broader implications.

Several contributions are envisaged for consumer behavior, government agencies and multinational corporations. First, nation equity research will provide a structured framework based on which government and corporations could design and evaluate strategies to minimize the negative emotional impact of extraneous geo-political events on business operations. Second, it will provide a better understanding of the defining role of country perceptions and emotion based decision making from a consumer perspective and in the context of a globalization. Third, for multinational corporations, it would provide insights on how country image interacts with marketing activities such as advertising to affect the market share of their products. It will also reinforce the need to extend their advertising beyond their immediate corporate objectives and to examine more macro level strategies like nation advertising. Finally, In general, it would create

greater awareness of the impact of macro factors in the global context that may appear unrelated to the business domain, but may still have significant business and consumer related implications, and thus lead to better consumer, corporate and government interface in the global context.

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