How Consumer's Perception of Country of Origin affects Brand Equity: A Case Study in Iran

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ABSTRACT

The main purpose of this study is to investigate the influence of country of origin on brand equity, based on Aaker’s well-known conceptual framework in the household audio visual appliances from the viewpoint of Masjedsoleyman city’s buyers, Khuzestan, Iran. For this purpose, a conceptual framework has been designed and relationships among its constructs (brand country of origin, brand equity dimensions) have been hypothesized. Data has been collected from a sample of 351 buyers and all hypotheses have been tested using structural equation modeling (SEM) and AMOS software. Results indicate that brand country of origin has a direct and significant effect on perceived quality, brand loyalty, brand association and brand awareness. It is suggested that marketers and producers should carefully consider the brand country of origin effects on brand equity dimensions when designing their branding strategies.

KEYWORDS: Brand equity, Country of origin, Perceived quality, Brand loyalty, Brand awareness, Brand association.

INTRODUCTION

Brand equity has been deemed as a primary capital for many industries. Brand equity refers to the incremental utility or value which brand adds to the product [12]. Many companies are setting the goal of attracting their consumers’ attention [27]. Branding is a powerful means of distinction [38] and attracting consumers. Brand as a Basic of today’s competitive game, must be carefully defined, created and managed because branding enables a producer to obtain the benefits of offering products with unique or superior quality and provides an opportunity to transfer this identifiable relationships to other products or services [34].

Building strong brands has become a marketing priority for many organizations today because it yields a number of advantages such as more loyalty, low risk of marketing activity and marketing crisis, flexible response to price fluctuations, more business support and cooperation, effectiveness of marketing communications, licensing opportunities, additional opportunities for brand extension, more attraction for investors, more supports from investors [3, 25, 47], greater profit margins [28], ability to attract good employees and protection of potential competitors entrance during outsourcing [32].

Building brand equity is considered an important part of brand building [38]. In the few last decades, brand equity concept has grown rapidly. One reason for its popularity is its strategic role and importance in obtaining competitive advantage in strategic management decisions. Brand equity is appropriate metric for evaluating the long-run impact of marketing decision [6]. Brand equity is an important intangible asset that can provide firms with a competitive advantage. To manage this asset, marketers must develop a thorough understanding of its formative factors [21], Brand equity depends on the knowledge of consumers regarding a brand [3, 25],

Besides the production of a special product by the company, the country or geographical location where that product is produced is also related to the brand that generates secondary association [7, 25]. COO image or country image [31] is an important external cue which is related to the products with brand name [7, 36]. Awareness and understanding of consumers’ perception and the way that they interact with COO image in target markets is also crucial. In an international environment, several studies show that COO influences the key dimensions of brand equity [7, 39, 40, and 48].

Globalization and increased international business activity have caused the emergence of global market, where brands from one country are available to consumers in other countries [18]. Many studies have marked the significance of COO effects on branding outcomes by stating that both brands and COO are important determinants of consumers’ perceptions of quality and favorability [13, 26, and 39]. For products of both strong brands and weak brands, COO is thought to play an equally essential role in influencing consumers’ product/brand evaluation [13]. Consumers hold images about a certain country which will influence their perception of brands from that country [9]. While firms are introducing brands to other countries, it is important for them to understand the relationships between consumers’ country images and consumer based brand equity [39]. In this research, we focused on Aaker's model of customer-based brand equity. This approach can divide
into consumer perception (brand awareness, brand associations, perceived quality) and consumer behavior (brand loyalty).

**LITERATURE REVIEW**

**Country of Origin**

The country of origin (COO) of a product is an important marketing element known to influence consumer perceptions as well as behavior. The country of origin of a product is an extrinsic cue which is similar to brand name. This cue is known to influence consumers’ perceptions and lead consumers to cognitive elaboration [39]. Country of origin is known to guide to associations in the minds of consumers [3, 23]. Country-of-origin is the country (often referred to as the home country) with which a manufacturer’s product or brand is associated [44]. COO image is the stereotypic perception that consumers hold toward the country’s representative products or brands [35, 43].

**Brand equity and its dimension**

The customer-based brand equity definitions approach the subject from the perspective of the consumer – whether it is an individual or an organization. They contend that for a brand to possess value it must be evaluated by consumers. [15]. Then, the power of a brand lies in what customers have learned, felt, seen, and heard about the brand as a result of their experiences over time [25]. Kotler [29] defined Brand equity as the customers’ subjective and intangible assessment of the brand, above and beyond its objectively perceived value. The sub drivers of brand equity are customer brand awareness, customer attitude toward brand, and customer perception of brand ethics”. Brand equity is the positive differential effect that knowing the brand name has on customer response to the product or service [30].

Successful brand building could strengthen a producer’s competitive position to withstand the increasing power of retailers [15]. Brand equity, is the added value that is created by name in a market through profit margin for a product [48]. Brand equity can help the customers to interpret, process, and store a good deal of information about a product and its brand. It could also affect's on confidence of the customers about the purchase of a product because of his previous experiences and familiarity with the brand and its properties [4]. Brands have higher brand equity to the extent that they have higher brand loyalty, name awareness, perceived quality, strong brand associations and other assets such as patents, trademarks and channel relationships [15].

**Brand Loyalty**

Brand loyalty is at the heart of brand equity. It is the major component [3]. The aim of branding is to facilitate the task of companies in attracting and keeping loyal customers [14]. Brand loyalty adds considerable value to a brand and/or its firm because it provides a set of habitual buyers for a long period of time [3]. Brand loyalty reflects the desirability of products functionalities and services [27]. Brand loyalty; indicate the intention to be loyal to a brand and it can be shown as consumers tend to buy the brand as their first choice [49]. Most of the time, brand loyalty is as a sample of brand equity, because consumers with strong brand equity are almost loyal to that brand [33].

**Perceived quality**

Perceived quality is the main dimension of consumer-based brand equity because it is related to brand choice and purchasing intention [2, 23]. Perceived quality is defined as “the customer’s perception of the overall quality or superiority of a product or service with respect to its intended purpose, relative to alternatives” [50]. Perceived quality can almost be defined as consumers’ judgment from the overall value according to the desired objectives of the products or services. It can be considered as the overall preference or superiority, quite the same as approach assessment [3, 37]. Perceived quality also create value for consumers and do it with provide a reason for purchase. It differentiates brand from competitive brands [3]. Perceived quality is one of the requirements of satisfaction, and is the main requirement of the perceived value [10].

**Brand awareness**

Brand awareness as “the ability of the potential buyer to recognize and recall that a brand is a member of a certain product category” [3]. Brand awareness is essential for existing brand equity in any product or service [3, 23]. Brand awareness is the first step in developing brand equity, because it can affect the depth and development of brand association [2, 23]. Brand awareness plays an important role in decision making due to many reasons. A brand without awareness is just like a spot on the product: without meaning and voice [22]. Customer-based brand equity occurs when the consumer has a high level of awareness and familiarity with the brand and holds some strong, favorable, and unique brand associations in memory.

**Brand association**

Brand association is "whatever that consumer relates to brand, it can include consumer image-making, profile of the product, consumer’s conditions, corporate awareness, brand characteristics, signs and symbols” [1]. Therefore we can say that a brand association is "anything linked in memory to a brand" [3]. Brand associations may be seen in all forms and reflect characteristics of the product or aspects independent of the product itself [11]. Product associations and organizational associations are taken as the two mostly referred categories [11]. High brand equity implies that consumers have strong positive associations with respect to the brand [6].
The Relationship between Brand Equity and COO

Brand equity is seen as a key indicator of consumers’ perceptions about a brand [25]. COO is considered as an important variable influencing consumer perception of brands [20]. COO could emerge as the second brand association that affects brand equity [3, 23]. While firms are introducing brands to other countries, it is important for them to understand the relationships between consumers’ country images and consumer based brand equity [39]. Because according to consumers’ perspective COO associations could influence dimensions of CBBE based upon a specific country level. For example, consumers may think of France and Spain differently in terms of the degrees of reliability and durability [39]. The COO effects are thought to be an extrinsic cue [46] that brings out associations, influencing consumers’ perceptions and leading consumers to cognitive elaboration [17]. Country with a positive country image would cause brand popularity, and consequently lead to consumer brand loyalty [26]. It was also suggested and is recently demonstrated [39, 42] that consumers could develop country loyalty based on the preferences and loyalty over brands originated from that country. Consumers may develop loyalty towards certain countries and lead to continuous purchase preferences from those countries [5].

Yasin et al. (2007) determined that relationship exists between country image and brand awareness and country image is found to have a significant effect on the brand awareness. Countries with good images are often familiar to the consumers and often perceived as producers of quality brands [48]. Therefore, under the effects of COO, a number of brands are able to differentiate itself from the others in the same category during consumers’ brand recall or brand recognition process [24]. Being seen as a secondary association of a brand [3, 23], COO is considered as one of the sources for generating brand image. While consumers’ COO associations emerge as secondary associations; they would affect brand image/associations and subsequently brand equity as consumers with knowledge of COO of the brand will possess positive/negative associations towards the image of that brand [39, 40]. As a key dimension of CBBE [3], perceived quality is believed to set apart a brand from the others by providing enhanced value. Some researchers view COO image as consumers’ general perceptions about the quality of products made in a particular country [16, 41]. The level of perceived quality varies according to the COO of the brand [39]. Yasin et al. (2007) supported this claim by indicating a positive relationship, which implies that consumers see countries with good image as technologically advanced countries and brands that originate from these countries are reliable and assure high quality [48]. In this study, COO, refers to the country where brand is perceived to be long and where the brands products are made by its target consumers. By examining the relationship between COO of a brand and its CBBE, market practitioners would be able to understand the way of protecting and enhancing the core essence of the brand [39] with a better comprehension on two important issues, which are “quantification of a brand equity” and “identification of elements that could change consumer’s behavior and cause changes in brand equity” [8].

METHODOLOGY

Based on the literature review, four hypotheses are examined; Figure 1 shows the conceptual model and proposed hypotheses:

- **H1.** COO has a significant effect on perceived quality.
- **H2.** COO has a significant effect on brand loyalty.
- **H3.** COO has a significant effect on brand awareness.
- **H4.** COO has a significant effect on brand association.

![Figure 1 - conceptual framework](image-url)

Based on Aaker’s well-known conceptual model, brand loyalty, perceived quality, brand association and brand awareness are the four dimensions of brand equity. The COO image scale measures the consumer’s perception of the image of the country where the brand originated or the products are manufactured. The data for this study was gathered through a questionnaire with 38 items, 13 items were included for COO adopted from Lascu and Babb (1995) and 25 for brand equity dimensions (8 for brand loyalty, 7 for perceived quality, 5 for brand associations and 5 for brand awareness). These items of brand equity were empirically tested and used
by several researchers [21, 33, 39, and 48]. We measured variables with Likert-type scale of 1 to 5, using the anchors "strongly disagree" (1) and "strongly agree" (5).

The study was conducted in household audio visual appliances product category such as LCD, LED, and DVD Players, unlike COO's previous researches that were concentrated on some limited products. To choose the sample for this study probability random sampling was employed. Unlike some of the previous studies in this area, the present research used a sample of actual (non-student) buyers in Masjedsoleyman city and the survey yielded a total of 351 complete usable questionnaires. The questions are based on a review of the literature and specific product contexts, and the questionnaire was pre-tested and revised.

The first part contains the demographic questions. The profile of respondents is depicted in Table I. The second part of the questionnaire measured COO, and the third part surveyed the brand equity dimensions.

<table>
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<tr>
<th>Table I. Description of respondents</th>
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<td><strong>Item</strong></td>
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<td>Marital status</td>
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**Data validity and reliability**

Before assessing the research model it was necessary to establish the validity and reliability of the modified items and the new items developed for this study. Cronbach’s alpha was used to verify the internal consistency reliability. Table II show Cronbach’s coefficients for brand awareness, brand associations, perceived quality, brand loyalty and COO. The reliabilities of the different measures in the model range from 0.819 to 0.922, which exceed the recommended threshold value of 0.70.

<table>
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<th>Table II. Cronbach’s alpha coefficients</th>
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<td><strong>Constructs</strong></td>
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<td>COO</td>
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<td>Perceived quality</td>
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<td>Brand loyalty</td>
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<td>Brand awareness</td>
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<td>Brand Association</td>
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In this study we evaluate criterion validity, content validity and construct validity. Criterion and content validity are evaluated by a questionnaire that was distributed between a number of experts and results demonstrate the measurement support criterion and content validity. Confirmatory factor analysis was conducted on brand equity dimensions, COO construct and all items significantly and positively loaded on their corresponding construct. Therefore the measurement supports construct validity.

**RESEARCH FINDINGS**

For hypotheses testing, we used structural equation modeling (SEM) and AMOS software. The structural equation model (or multivariable analysis, by using latent variable) is a comprehensive statistical approach which is used to test hypotheses concerning the relations between observed and latent variables. The results of the AMOS estimation of the structural model are summarized and reported in Table (III).

Two partial indexes of critical amount and P amount are used to test hypotheses' significance after studying and confirming the model. Critical amount is obtained through dividing "the estimated regression weight" by "the standard error" which must be more than 1.96 based on significance level 0.05 and if it is less than this amount, the related parameter is not important in the model. Also amounts less than 0.05 for P show significant difference of the calculated amount for regression weights equal to zero at confidence level 95%. Hypotheses, regression coefficients and amounts of partial indexes related to each hypothesis are represented in table III.

<table>
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<th>Table III. Constructs hypotheses, standardized coefficient, t-value and findings</th>
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<td><strong>Constructs/paths</strong></td>
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<td>COO → Perceived quality</td>
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<td>COO → Brand loyalty</td>
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<td>COO → Brand awareness</td>
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<td>COO → Brand association</td>
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Notes: $X^2=705.148; DF=661; CMIN/DF=1.067; RMSEA=0.014; TLI=0.956; CFI=0.959; PCFI=0.902; PNFI=0.568.$
Structural equation model of the conceptual model along with regression coefficients are represented in figure 2:

![Figure 2- structural equations model of the primary conceptual model](image)

As it is depicted in Table III, COO has direct and positive influence on perceived quality, brand loyalty, brand awareness and brand association. These results supported H1, H2, H3 and H4. According to results, brand’s country of origin has a significant positive effect (H1: path coefficient=0.55 and P-value = 0.003) on perceived quality, and therefore H1 is confirmed. The path coefficients depicted in table (III) shows brand's country of origin has a significant positive effect on brand loyalty (H2: path coefficient=0.71 and P-value = 0.000) and therefore H2 is confirmed. Results also indicated brand's country of origin has a significant and positive effect on brand awareness (H3: path coefficient=0.54 and P-value = 0.002) thus H3 is confirmed. Finally results showed brand's country of origin has a significant positive effect on brand association (H4: path coefficient=0.34 and P-value = 0.002) and results confirmed H4. These results showed the greatest effect of brand's country of origin on brand loyalty and the least effects on brand association. To assess the model’s goodness of fit several goodness of fit indices were used. As shown in Table (III), all individual measurement model indices exceed their respective common acceptance levels recommended by previous researchers, thus demonstrating that the measurement model posited relatively a good fit with the data collected. Values>0.9 for CFI, TLI indices and values>0.6 for PCFI and PNFI indices and value<0.05 for RMSEA and value<3 CMIN/DF indicate a good fit to the data.

Therefore as seen in Table III, for household audio visual appliances COO is effective on brand equity dimensions; in other words, COO Significantly affected brand loyalty, perceived quality, brand awareness and brand association. These results were statistically significant and supported H1, H2, H3 and H4. Moreover the signs of coefficients were in line with the hypothesized direction.

**DISCUSSION AND CONCLUSIONS**

This study was conducted to explore the consumer perceptions towards brands country of origin in order to assess the effects of brands’ COO on customer based brand equity dimensions. Results of this study indicated that COO did have significant effects on customer based brand equity dimensions. Among four dimensions of brand equity (perceived quality, brand loyalty, brand awareness and brand associations) consumer perceptions concerning the brand country of origin has had the greatest impact on brand loyalty and perceived quality.

The standardized regression coefficient for the first hypothesis 0.55 that with P values less than 0.05 associated to the regression coefficient, can conclude that this hypothesis with 0.95 confidences will be accepted and can be phrased that with confidence of 0.95, brand's country of origin has an effect on the perceived quality. Therefore brand's country of origin was found to have a significant effect on perceived quality, which indicates consumers make their decision to purchase an item such as household audio visual products based on COO. COO Image is one of the most important and effective factors and is also considered as a sign of quality. The results indicate significant and positive impact of the brand owner’s country on perceived quality. They show that consumers think that the products that were produced in countries with technological development, good history and lots of experiences have higher quality in comparison to others.

The regression coefficient corresponds to the second hypothesis is 0.71 which confirmed this hypothesis and P values smaller than 0.05 corresponding this hypothesis is another proof of this hypothesis is confirmed. So with 0.95 confidences can be said that the brand's country of origin has an effect on the perceived quality. Also the test of relationship between country of origin and brand loyalty indicates that the country of origin has the greatest effect on brand loyalty. This implies that perception of buyers toward brand’s country of origin leads to a high degree of customer loyalty. A plausible explanation for this expected relationship is that brands which originated from countries with good images are more popular than other brands which originated from other countries with bad or less good images.

The regression coefficients for the third hypothesis have the value of 0.54. The P value for this hypothesis is 0.002. So with 0.95 confidences, this hypothesis can be confirmed and stated that the brand's country of origin
has an effect on brand awareness. Therefore brand's country of origin was found to have a significant effect on brand awareness. Many countries have successfully managed to create expertise in certain product categories that consumers are aware of and can choose those brands whose COO possesses expertise within particular product category. Countries with good image are often familiar to the consumers and perceived as producers of quality brands. Therefore, under the effects of COO, a number of brands are able to differentiate themselves from the others in the same category during consumers' brand recall or brand recognition process.

Finally the standardized regression coefficient for the fourth hypothesis is 0.34 And 0.002 value for P, indicating the confirmation of this hypothesis. So with 0.95 confidence can be said that brand's country of origin has an effect on brand association. Therefore brand country of origin was found to influence brand association positively and significantly. Consumers have country-specific brand associations, being seen as a secondary association of a brand, COO is considered as one source to generate brand image. When consumers’ COO associations emerge as secondary associations, they would affect brand associations as consumers with knowledge of COO of the brand will possess positive/negative associations towards the image of that brand.

Marketing managers and producers of household audio visual appliances should concentrate their efforts to enhance and promote the image of their brand’s original country because consumer perceptions about the country almost transfer to the originality of a brand apart from location of production countries which produce or assemble brand products and if increased, it will contribute positively to their firm’s brand equity dimensions. Consumers keep favorable feelings towards brands which belong to countries with good images and these brands are preferred. Therefore we can say brand COO affect brand preferences and from the perspective of consumer perceptions, these brands are more reliable and have superior quality. Brands that originated from countries with good images are familiar to the consumers and products of these brands are usually perceived as high quality products. Consumers also keep good and favorable associations from these brands. Finally good perceptions about the quality, familiarity for consumers and good associations of these brands could lead to consumers' loyalty to brands that originated from countries with good image. Research results confirm the previous researches and their results such as Sanyal and Datta (2011), Pappu et al. (2007), Yasin et al. (2007) and Huang and Danny (2004).

Limitations and future research

Limitations of this study which can direct future research should be noted. We did not include product involvement as a control or mediated variable, which has been identified as a potential factor that influences the effect of brand COO on brand equity dimensions. Moreover price and word-of-mouth are very important aspects when consumers engage in purchasing household audio visual appliances. Therefore, price and word-of-mouth effects can be examined in future research. This study is merely on the basis of opinions provided by Masjedsoleyman buyers and the results were derived from these consumers; therefore we should consider this point for extending the results to other consumers. Future researchers could employ a large sample population to obtain numerous responses that would make the studies more reliable and valid. Similar research in other product categories and their comparison against the findings of this study are other opportunities for future study. Moreover, as this study deals with a specific aspect of consumer behavior, future researchers may also incorporate cultural and personal cues and examine their effects as mediating variables on impacts brand COO on brand equity dimensions.

Acknowledgment

The authors would like to thank the reviewers for the constructive comments and illustrative suggestions.

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