

## Country-of-Origin Effects on Product Evaluation and Decision Process: An Integrative Framework

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### Introduction

In a global marketplace, when businesses are expanding into international operations, one of the important challenges they face is the acceptance of foreign products by consumers. In addition, as there exists an increasing global consumer awareness of products from different countries, the need to identify and understand the effects of country-of-origin on the consumer's product evaluation and decision process is indeed critical. Understanding how consumers in different countries perceive country-of-origin information is crucial not only to domestic firms that market foreign-made products but also to foreign firms that produce those products. Bamossy and Papadopoulos (1987) suggested the following as reasons why the study of country-of-origin is very critical:

1. Most of the research in this area has been criticized for its oversimplification of the subject matter (Bilkey & Nes, 1982).
2. The country-of-origin of a product serves as a surrogate for branding.
3. As multinational firms move production location to satisfy government requirements for market entry or to exploit some advantage (s) in factor (s) of production, the "new" country-of-origin becomes an issue for consideration in global marketing. In particular, if customers are indeed influenced by the country-of-origin phenomenon, then a firm's sourcing, manufacturing, and marketing plans and strategies may need to be

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reappraised. The globalization of markets has created complex and intertwined sourcing and marketing strategies. If any bias resulting from these strategies is present in the buying decision, then manufacturers, exporters, importers, distributors and other channel intermediaries must pay close attention to how this affects their businesses and use proper strategies to respond to this phenomenon.

4. Governments themselves are active promoters of the “made-in” concept as a method to stimulate export trade and investment.

Although country of origin effects have been investigated during the past twenty-five years, methodological and conceptual problems render the findings of this research of limited value to both academicians and practitioners, because of their atheoretical nature (Obermiller & Spangenberg, 1988). Up to the present there has generally been a lack of conceptual frameworks to guide research efforts to increase the understanding of the cognitive interrelationships involved in the process. The development of explanatory models of the country-of-origin effect is a major research agenda within which a key focus is overcoming the methodological limitations of the previous research (Bilkey & Nes, 1982). This is the critical impetus for this paper: to propose an integrative framework.

### **Purpose**

The purpose of this paper is twofold: (1) to explain the impact of country-of-origin on the consumer's product evaluation and decision-making process, by developing an integrative framework which draws upon the strengths associated with the various concepts/theories of the subject; and (2) to offer suggestions on critical managerial implications and directions for future research.

### **Theoretical Background**

The issue of country-of-origin effects upon product perception has been addressed from various perspectives during the past twenty-five years since the pioneer research by Schooler (1965). It has been generally agreed that country-of-origin affects consumers' product evaluation (see Bilkey & Nes, 1982 for a review). Although studies by Erickson, Johansson and Chao (1984) and Johansson, Douglas

and Nonaka (1985) reported that the country-of-origin affects consumers' ratings on only certain attributes of products, but not consumers' overall evaluations of the products, the majority of previous studies indicate the salience of country-of-origin in overall product evaluation.

**Country-of-origin (COO).** COO denotes the country with which a firm is associated. Typically, this is the home country for a company. COO is inherent in certain brands, IBM and Sony, for example, imply U.S. and Japanese origins, respectively. Country of origin is a multidimensional construct (Lillis & Narayana, 1974; Nagashima, 1970) that evokes a wide range of cognitive responses or various product trait-related responses. Consumer research has shown that consumers evaluate a product on the basis of information cues. Thus, information processing is central to all comprehensive consumer behavior models.

Information cues can be classified into two categories: intrinsic cues (cues associated with the physical characteristics of the product such as product design, etc.) and extrinsic cues (cues not directly associated with physical characteristics of the product such as brand name, price, etc.) (Olson & Jacoby, 1972). Although consumers use both intrinsic and extrinsic cues in evaluating products, the latter are likely to be used in the absence of intrinsic cues (Gerstner, 1985; Jacoby et al., 1971; Olson & Jacoby, 1972; Jacoby et al., 1977).

The importance of the COO effect in marketing stems from its potential use by consumers as an extrinsic cue in purchase decisions. It is evident from the literature that evaluations based on extrinsic cues are more common when intrinsic cues are not readily available (Huber & McCann, 1982; Johansson et al., 1985; Olson, 1977; Olson & Jacoby, 1972).

**Country Image.** Consumer research has shown that all products originating in foreign countries are subject to country-of-origin effects. Past studies also indicate that there is a tendency for consumers to evaluate their own country's products more favorably than do foreigners (Nagashima, 1970; Bannister & Saunders, 1978; Kaynak & Cavusgil, 1983). Research has often contrasted consumer reactions to products originating from countries differing in overall quality. The concept of country quality is really what makes the country-of-origin effect occur.

Country image refers to the picture, the reputation and the stereotype that businessmen and consumers attach to products of a specific country. This image is created by such variables as representative products, national characteristics, economic and political background, history, and traditions (Nagashima, 1970). Roth and Romeo (1992) identified four dimensions of country image: innovativeness, design, prestige, and workmanship. Thus, country image is a multidimensional construct (Cattin et al., 1982; Jaffe & Nebenzahl, 1984; Han & Terpstra 1988; Johansson & Nebenzahl 1987; Nagashima 1970, 1977; Narayana, 1981; Roth & Romeo, 1992; White, 1979). As a result, it is invalid to deem a single measure of overall quality as equivalent to country image.

**Country of Design (COD).** COD refers to the country in which the corporate headquarters are based, product design usually takes place, some manufacture of one or several key components may occur, marketing efforts are initiated, and hence brand name associations are highest (Sauer et al., 1991).

**Country of Assembly (COA).** COA refers to the country where some or all component manufacture and all final assembly occurs (Sauer et al., 1991).

**Hybrid Products.** Hybrid products or bi-national products involve two countries-of-origin; e.g., products which may be foreign-made but carry a U.S. brand name (e.g. General Electric TV sets made in Taiwan) or U.S.-made products which carry a foreign brand name (e.g. a Honda Civic made in the U.S.).

## AN INTEGRATIVE FRAMEWORK

The integrative framework proposed here is an integration, extension, and adaptation of three important interrelated cognitive studies which form the core process of the framework: first, Hong and Wyer's (1989) study which focuses on the investigation of the cognitive mechanisms/processes that mediate country-of-origin effects on product evaluation – the information processing perspective; second, the cognitive mediation process as suggested by Sauer, Young and Unnava (1991); and third, Johansson's (1988) model of cue utilization and determinants of the country-of-origin (the predictive and confidence value of the cue). Other variables influencing decision process and the degree of active reasoning, as suggested by Engel, Blackwell, and Miniard's (1986) model, are included.

## Constructs

The integrative framework of the country-of-origin effect incorporates six interrelated constructs: (1) the product's COO and other related product attributes; the core process includes: (2) the information processing perspective (cognitive elaboration), (3) the product evaluation process (cue utilization), and (4) the decision process (cognitive mediation); (5) variables influencing product evaluation and decision process; and (6) factors influencing the degree of active reasoning. The underlying interrelationships of the constructs of the framework are illustrated in Figure 1.

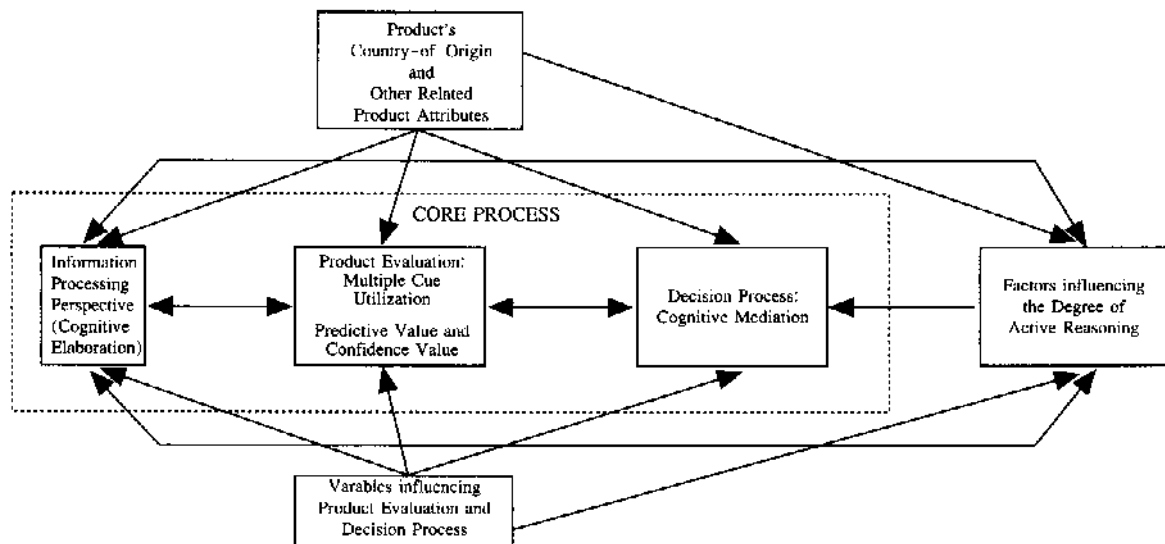


Figure 1 : Conceptual Framework of the Country-of-origin Effect on Product Evaluation and Decision Process

## **Product's COO and Other Related Product Attributes**

The product's COO and other related product attributes include: country image, COD and COA, hybrid product status, country-specific price-quality relationship, brand, perceived performance risk (financial and performance risk), product serviceability, product category and technical complexity. Therefore, one can visualize multiple effects from the country-of-origin construct. As depicted in Figure 1, the product's country-of-origin construct affects the consumer's core process of product evaluation and decision making.

### **Information Processing Perspective**

#### **Cognitive Elaboration**

Cognitive elaboration maintains that the COO may influence the attention that is paid to other attribute information, thus affecting the impact of the latter information (Hong & Wyer, 1989). Specifically, a product's COO excites people's general curiosity about the quality of the product. Consequently, they may think more extensively about the product's specific attributes and assess the desirability of these attributes. As a result, prior awareness of a product's COO may increase the impact of the attribute information on later evaluations. That is, a product's COO stimulates consumers' interest in the product and consequently leads them to think more extensively about product information and its evaluative implications. This effect, which occurs spontaneously, should be most evident when consumers do not have an **a priori** reason to evaluate the product. When consumers are extrinsically motivated to form an impression of a product, they may assess the implications of information about the product regardless of whether the COO information is known (Hong & Wyer, 1989). The product's COO information affects the consumer's information processing (cognitive elaboration) as illustrated in Figure 2.

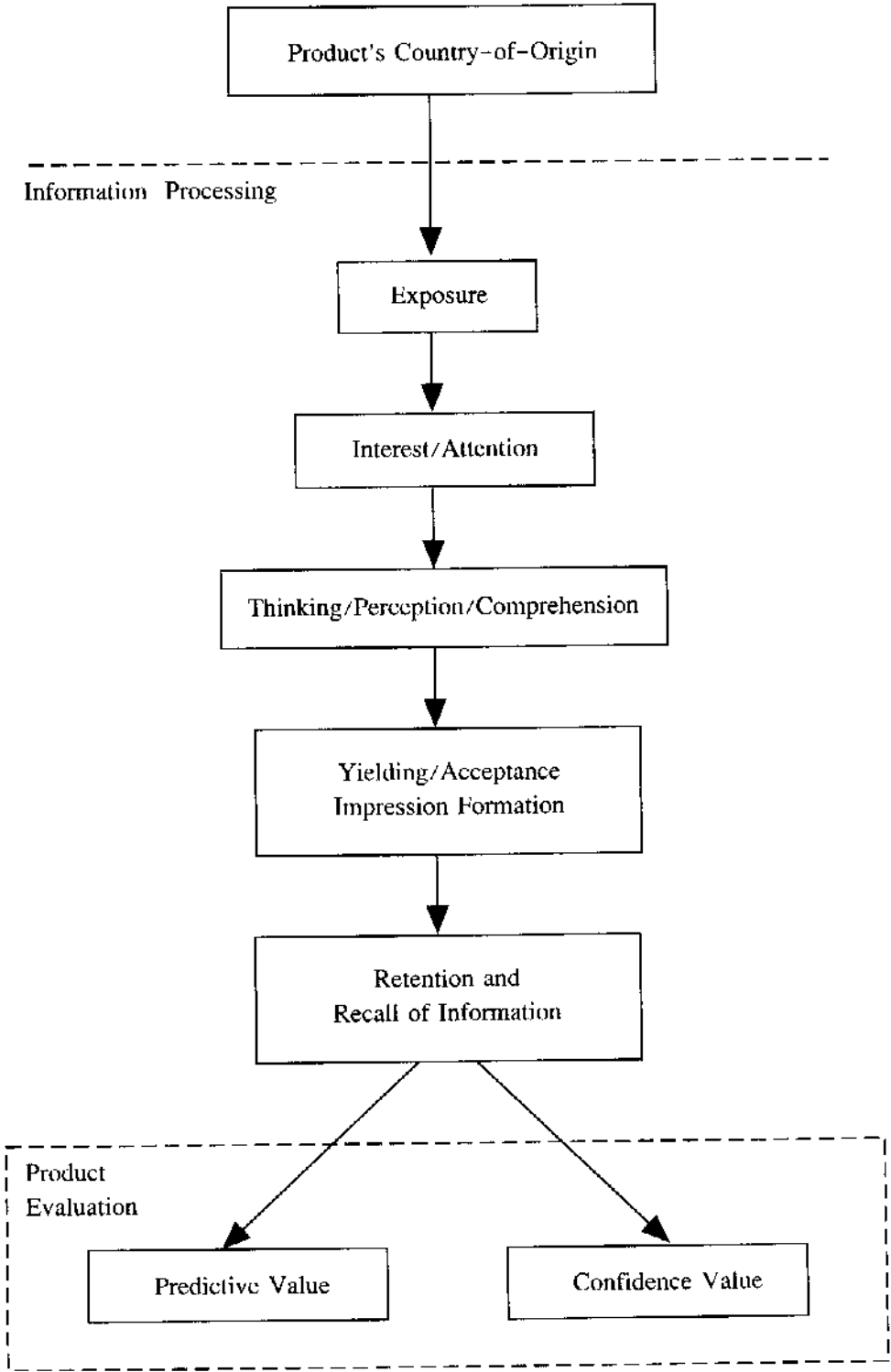


Figure 2 : Country-of-Origin Effect on Information Processing (Cognitive Elaboration)

## Product Evaluation: Cue Utilization Process

### Cue Utilization

Two cognitive dimensions/determinants of cue utilization in consumer behavior include the predictive and the confidence values of the cue (Cox, 1962).

**Cue Predictive Value (PV).** PV is the degree to which a consumer believes that the cue is indicative of a particular product characteristic of interest (e.g. product quality, worth, longevity). For example, a person may assign a high PV for the country-of-origin cue as an indicator of product quality for certain product categories (see Olson & Jacoby, 1972 for the details of cue predictive value).

**Cue Confidence Value (CV).** CV refers to the extent to which a consumer is confident in his/her ability to perceive the cue; or, the propensity to use the country-of-origin cue will also be influenced by the degree to which the individual has confidence in the labeling in question (Cox, 1962; Olson & Jacoby, 1972) (see Johansson, 1988 for details.)

The determinants of country-of-origin cue utilization and the predictive and confidence value of the cue depend on four variables as illustrated in Figure 3. "Variability between Countries " refers to the perceived difference between products from different countries in line with the economics of the search behavior argument. The higher this variability, the more information is contained in the "made-in" label. "Variability within Country" refers to the perceived difference between products from a given country. As this variability increases, the cue's predictive value decreases.

The consumer's propensity to use a product's "made-in" label is the focal concept of the process. When the propensity is high, the consumer is expected to use the "made-in" label as an instrumental cue in one of four possible ways. As summary cue, the cue might be used by the consumer: (1) to guess the attributes of a product (a cognitive "inference"); or (2) to simplify information processing (a cognitive "proxy" effect). As salient attribute, the cue might be used by the consumer: (1) to decide whether to like it or not (a matter of the affect towards the country, itself a function of the possibly unfair country stereotype), or to help determine its social acceptability (a behavioral norm effect). Figure 3 depicts the multiple cue utilization process; that is, the determinants of



cue utilization (PV and CV), propensity to use the “made-in” label as well as interrelationships with information processing (recall of information), and cognitive mediation.

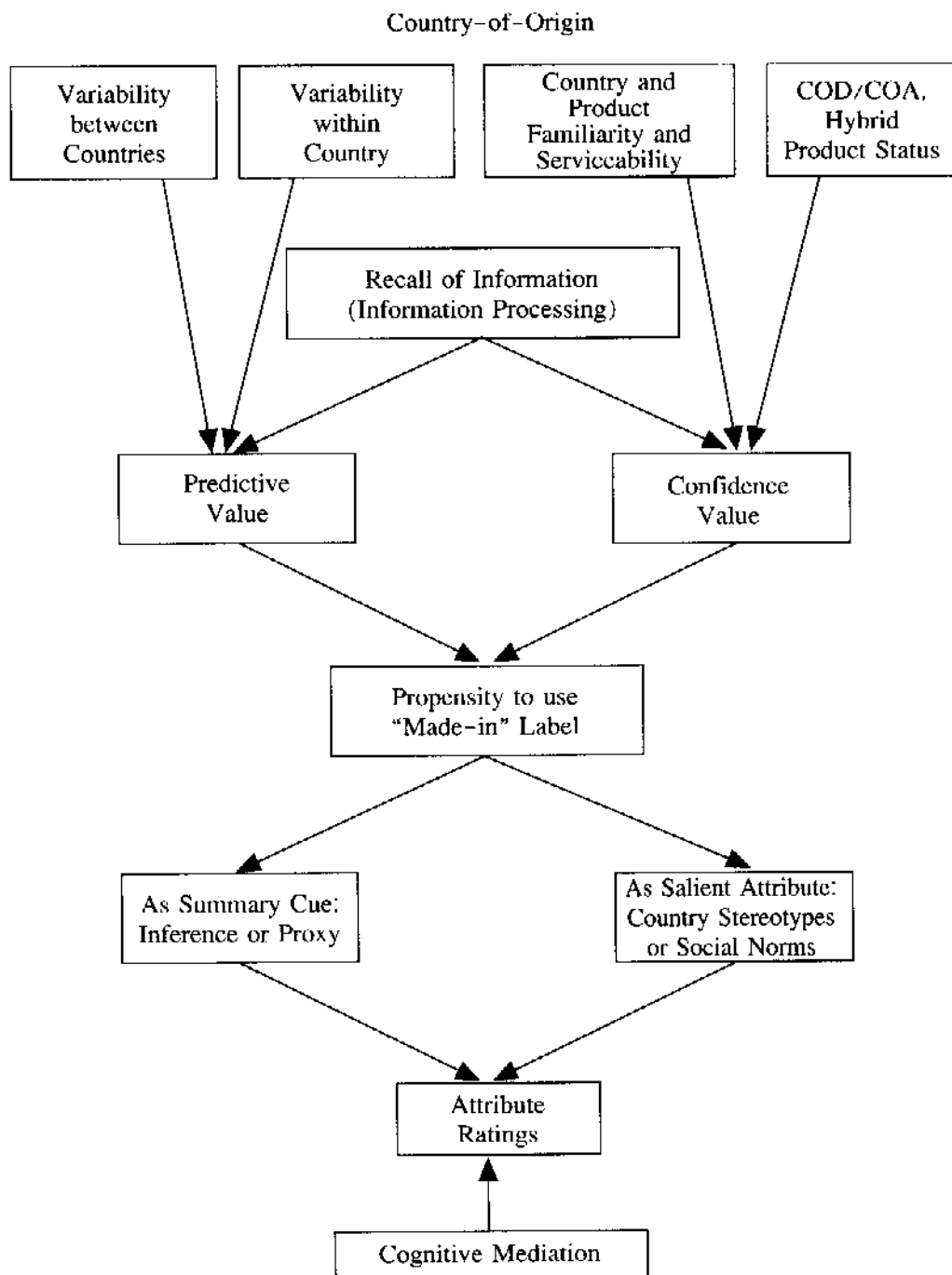


Figure 3 : Product Evaluation (Cue Utilization Process: Predictive and Confidence Values)

### Decision Process: Cognitive Mediation

Researchers have suggested that the effect of country-of-origin information on attitudes is cognitively mediated (Erickson et al., 1984; Johansson et al., 1985; Han, 1989; Obermiller & Spangenberg, 1988). According to the cognitive mediation process, beliefs about a product's attributes are directly affected by the product's COO information. These affected beliefs mediate changes in attitude toward the product. Changes in product attribute beliefs occur when consumers encode information about a product in response to advertisement content concerning the product. In addition, consumers exposed to information on a product's COO will modify their beliefs about the product based on its COO (Sauer et al., 1991) The modification of beliefs may be the result of the thoughts that consumers generate when they are exposed to this information. Figure 4 depicts the cognitive mediation process and the relationships with product evaluation process and information processing.

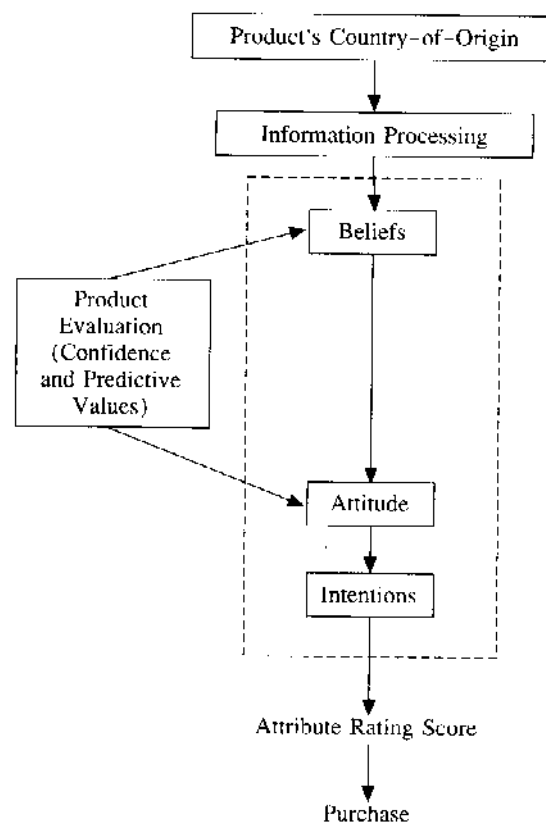


Figure 4 : Cognitive Mediation Process and Relationships with Information Processing and Product Evaluation

## **Factors Influencing the Degree of Active Reasoning**

Zajonc and Markus (1982) noted that decisions require at least some degree of active reasoning. The extent and intensity of active reasoning will vary from one decision to another. In other words, some types of decisions will require fully active reasoning (extended problem solving), whereas the individual can be more passive in others (limited and routine problem solving) (Bettman, 1982; Engel et al., 1986). According to Engel et al. (1986), three significant factors which influence the degree of active reasoning that will be undertaken by the consumer include: (1) involvement, (2) alternative differentiation, and (3) time pressures.

## **Variables Influencing the Decision Making Process**

Key variables influencing the decision making process include: consumer experience or product familiarity, risk-taking attitude, consumer's perceived ability to detect interbrand quality differences, and demographic factors.

The framework presented hypothesizes variations in the country-of-origin effect on the consumer's product evaluation and decision making process as a function of other product-related attributes, information processing (cognitive elaboration), cue utilization, cognitive mediation, as well as variables influencing the decision process and active reasoning. The research proposition is, therefore, presented as follows:

P1: The consumer tends to use cognitive elaboration, multiple cue utilization, and cognitive mediation processes to value a durable product's country-of-origin when he/she experiences high involvement and is not familiar with the product.

Based on the linkages posited in Figure 1, other specific hypotheses can be generated. Therefore, the list of specific hypotheses is by no means exhaustive. Since all the variables included in the integrative framework can be operationalized, and many of them have been used in previous research, it is possible to empirically test the specific hypotheses. The significance of the various sets of variables as they affect the consumer's product evaluation /decision process can thus be determined. Based on such research findings, prescriptions can be offered as to how the COO influences

the consumer's product evaluation and decision process under different variables influencing the decision process (e.g., consumer experience, risk-taking attitude, demographic factors) and active reasoning (e.g., high involvement or low involvement, consideration set present or absent); information processing (regular or short cut); product's COO (COD, COA or hybrid product status), country (industrialized, newly industrialized, or less developed country); and other related product attributes/variables (e.g. brand, product category, technical complexity). Thus, hypotheses analyzing the relationships between the various sets of variables/constructs can thus be generated as a whole or in part as suggested in the framework and also can be used for domestic, comparative, and even cross-national studies. Therefore, these enhance understanding of the complexity and various perspectives of the country-of-origin effect on the consumer's product evaluation and decision process.

### **MANAGERIAL IMPLICATIONS**

1. A careful choice of design and assembly locations is warranted if management wishes to ensure more positive consumer product evaluation. Different strategic combinations involving several countries with different stereotypes appear to exhibit different impacts of COD, COA and price on consumer product design and product quality perception. In particular, while a good design country location cannot be used to compensate for a poorly perceived country assembly location in terms of product quality, it certainly can be used to boost design quality perception. It can also be used to circumvent the traditional price-quality relationship in the sense that a lower price does not necessarily connote a lower perceived quality if a good design country location is carefully selected.

2. For multinational firms, a critical implication is the influence of COO/COM upon their ability to standardize their marketing programs. Increasing consolidation of global manufacturing and standardization of marketing activities result in products being sourced from fewer (but presumably larger) manufacturing facilities located in fewer countries, thus exposing the firm to a greater risk of facing country stereotyping effects. Therefore, successful standardization of marketing activities is dependent on a high level of rationalization, coordination and control of various sourcing, manufacturing and

marketing activities. Well-managed global firms source from fewer manufacturing facilities than multidomestic firms, which rely on more regional or localized manufacturing and can therefore Modify or even customize to local market preferences.

3. Managers considering production in countries perceived as risky for their product category may want to assure that their offerings are at least as high and possibly higher in quality than current domestic offerings, since consumers may evaluate trial experience in greater depth, apply more stringent favorableness criteria and/or allow a risky country-of-origin attribute to bias their trial evaluation. In addition, marketing managers should consider ways of developing innovative promotional strategies that compensate for possible biasing effects of a high risk COO.

In the case of products from favorable countries, emphasizing the COO is important in both developed and developing countries. However, when products from unfavorable countries are marketed, deemphasizing the COO can be more advantageous in developing countries than in developed countries. Alternatively, marketers from unfavorable countries can proactively employ very aggressive promotional strategies to improve negative country images; such efforts will be much more important when they enter developing countries than when they enter developed countries.

4. Regarding the country as to financial risk interaction effects, the managerial implications are that the marketer must consider the relative cost savings associated with NIC/LDC production as an offset to the value derogation. An alternate strategy may be to take advantage of low production costs, but to reduce perceived consumer risk by offering warranties or money-back guarantees.

## **DIRECTIONS FOR FUTURE RESEARCH**

Future research is needed to investigate the following variables/issues:

1. The product complexity with respect to multiple-country affiliations with which many products are associated as well as the relative importance of the match to other product attributes with respect to overall brand evaluation. Other specific product categories, countries, consumers' differing social class and income, and specific situations.

2. The role of time in belief/attitude formation and modification, the possible changes in the original belief/attitude to one specific product from two or more countries because of its transplant of design, production, or assembly (hybrid product), and more longitudinal empirical studies.

3. Market segmentation by consumers in accordance with their country of origin views, both from the ethnocentric perspective of identifying those segments which eschew foreign products altogether, and also from the evaluative perspective of identifying those segments which perceive quality or value differences among products from foreign countries.

4. Variables such as education, extent of foreign travel experience, abundant supply of multiple brands in every product category, labeling laws, general predisposition of the consumers towards foreign manufactured goods. Other key variables include: consumer characteristics such as motives, values, life-style and personality of the consumer; social influences which encompass culture, reference group and family; and situational influences and marketing efforts (not only advertising and retailing, but other promotional as well as channel distribution strategies such as direct- and tele-marketing and networking (both vertical marketing systems)).

5. Actual versus perceived quality differences of products from various countries. Are consumers' evaluations driven more by national loyalty, by differences which relate more to style than substance, or are consumers identifying real differences in quality of products made from country to country?

Perceived differences of evaluation among Southeast Asian consumers between imports of U.S. and Japanese products as well as which communication media and messages would be most effective in influencing country-of-origin image in the Southeast Asian market.

6. Buyer behavior and managerial decision making regarding the location of the manufacture or sourcing of products. The impact of manufacturing key components such as TV picture tubes or automobile engines in countries other than that of design or assembly. Other extrinsic product cues which reduce the consequences of failure, such as warranties and money-back guarantees.

## CONCLUSIONS

The integrative framework presented in this paper incorporates the various approaches to the study of COO, thus allowing for a more comprehensive investigation of the complex phenomenon of country-of-origin effect. The results of research findings utilizing the framework can facilitate a better understanding of the complex relationships that exist among the various sets of variables and how the country-of-origin information influences the consumer's product evaluation and decision making process.

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