A CONFIRMATION BIAS APPROACH TO COUNTRY OF OWNERSHIP CUES

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ABSTRACT

This paper examines the effect of country of ownership cues, economic nationalistic and consumer ethnocentric tendencies with regards to product judgments and purchase intentions of Australian wines with multi country affiliations. Structural equation modeling supports the model and shows that economic nationalistic bias against foreign affiliations resulted in the Australian consumer's unwillingness to buy bi-national products.

INTRODUCTION

The present globalized economy has dictate unprecedented levels of marketplace competition and has imposed pressure on numerous businesses and marketers to put together a strategy that will possibly create competitive advantages in order to advance and remain at the forefront (Chu et al., 2010; Heslop, Lu & Cray, 2008). To lower operating costs, many businesses partitioned their productions to have their products manufactured, assembled, branded or designed in different parts of the world (Chao, 1998). This global outsourcing is part of business evolution that has blurred products' identities as to their place origin, thus making it hard to define or to make a clear distinction between domestic and foreign products as well as the multiplicity of country information embedded in the product (Ettenson & Gaeth, 1991).

The challenge for many, in these cases, is how to determine their "correct" country of origin (COO). This is a particularly important implication as consumers can no longer infer product quality solely on COO based on a product's manufacture (Phau & Prendergast, 2000); conclusively suggesting that specific and foremost COO information

is becoming less dominant and or relevant. Despite this, other avenues of COO are emerging, specifically the perceived origin of the brand and ownership cues are more suggestive as a demographic variable (Mort & Duncan, 2003; Phau & Prendergast 2000; Thakor & Lavak, 2003).

This paper explores Australian consumer's reaction in relation to the purchase and evaluation of foreign owned products and brands. In doing so, this paper proposes a research framework to study the various COO cues, namely 'made in' and 'owned by'. In addition to this, social and psychological elements such as economic nationalism and consumer ethnocentrism will be investigated as distinct constructs and their relationship toward product judgment of Australian brands and the willingness to buy Australian brands will be examined. Consumer knowledge is suggested to moderate the relationship between these COO cues and constructs. The theoretical underpinnings together with relevant literature will be reviewed and gaps identified. Justifications will be provided to support these constructs. Findings suggest practitioners formulate more effective 'counter-measure' strategies to alleviate the negative COO problem in hostile markets.

RELEVANT LITERATURE, THEORY AND HYPOTHESES

According to Shimp and Sharma (1987, p. 280), the concept of consumer ethnocentrism to described normative-based reaction to foreign products. In other words, consumer ethnocentrism is perceived as a moral judgment about the legitimacy, morality and acceptability of buying foreign goods because of the impact on domestic industries. For instance, supporting domestic products for the good of the domestic economy may therefore be regarded as a form of ethnocentric behavior.

The social identity theory holds that people feel a desire and propensity to build positive identity for themselves which may be manifested by their identification with various groups (Tajfel, 1981; Turner, 1982), groups which may include family, friends, the community, race, religion or nation. The relevance of social identity theory to consumer ethnocentrism lies in the definition of ethnocentrism as involving ingroup/outgroup orientation where the ingroup is preferred and is seen in opposition to others (Lantz & Loeb, 1996).

Economic nationalism is a concept found to be distinct from consumer ethnocentrism and its measures (CETScale), separated from the 'manufacture in' country cues (Mort & Duncan, 2003, p. 64). Instead, the construct "should reflect issues that link ownership of firms and economic strength, the need to retain ownership of firms in local hands and to support these firms by buying their products" (Mort & Duncan, 2003, p. 58). In this context, economic nationalistic individuals will tend to exhibit a more positive or favorable predisposition toward products that are owned by the home country and to reject foreign- owned products.

The conceptualization of country ownership can be distinguished from country of origin in that country of ownership is a more inclusive concept, with "owned by …" label/cues referring to signifiers of origin beyond those that merely indicate a country; for example, non-manufacturing based nationality of the product (business affiliations, joint ventures/partnerships, global/strategic alliances etc) in the minds of consumers may be more suggestive as a demographic variable toward buying behavior.

Past research have noted that the traditional COO cues assume a direct relationship between a consumer's product judgment and their purchase behavior (Klein et al., 1998). However, consumer attributes of nationalism, animosity and patriotism have suggested that such tendencies together with COO cues are able to affect buying behavior not just directly but also independently of product judgment (Klein et al., 1998). Based on these discussions, the following hypotheses are developed:

H_1-Economic nationalism and consumer ethnocentrism are distinct but positively correlated constructs.

H_{2a}-There is a positive relationship between economic nationalism and the product judgment of Australian brands.

H_{2b}-There is a positive relationship between product judgment of Australian brands and the willingness to buy Australian brands.

H_{2c}-There is a positive relationship between economic nationalism and the willingness to buy Australian brands.

H_{3a}-There is a positive relationship between consumer ethnocentrism and the product judgment of Australian brands.

H_{3b}-There is a negative relationship between product judgment of Australian brands and the willingness to buy bi-national brands.

H_{3c}-There is a negative relationship between consumer ethnocentrism and the willingness to buy bi-national brands.

H_4-IF product judgment and consumer ethnocentrism are held constant, Economic nationalism will have a direct and negative impact on willingness to buy bi-national brands.

H_5-IF product judgment and economic nationalism are held constant, Consumer ethnocentrism will have a direct and positive impact on willingness to buy Australian brands.

Consumer Knowledge: Theory of Confirmation Bias

On a theoretical note, Evans (1989, p. 41) observes that the theory of confirmation bias is "widely accepted as a notion of inferential error derived of the literature on human reasoning". This is supported by further insights to suggest that method in which confirmation bias works is for individuals to search for or interpret information in a way, manner or approach that confirms one's preconceptions (i.e. bias judgments and disregard 'true' information). For instance, it can be viewed as a "defensive mechanism/bias" (Griggs & Cox, 1982), in that it "shields people from the conclusion that their beliefs are or were misguided" (Velicer & Jackson, 1990, p.21).

This can be substantiated through the Australian consumer's cognitive beliefs in support for the domestic economy that ultimately enhances their reliance toward the underlying economic nationalistic tendencies whilst evaluating products with minimal or without any prior knowledge (as a means to resolve any dissonance). Therefore, the level of consumer knowledge largely moderates the current relationship between the constructs and was theoretically underpinned by the theory of confirmation bias in rationalizing the concept of "selective thinking" and "human reasoning" (Evans, 1989; Nickerson, 1998).

H_6-Consumer knowledge moderates the ethnocentric effect on product judgment of Australian brands, such that the effect is great (weaker) following high (low) knowledge levels.

H_7-Consumer knowledge moderates the economic nationalistic effect on product judgment of Australian brands, such that the effect is great (weaker) following high (low) knowledge levels.

- Figure 1 about here -

RESEARCH DESIGN

An experimental fixed-factor 2 x 2 between subjects factorial research design was developed. The two research components were COO cues (country of manufacture versus country of ownership), a uni-national Australian wine brand (indicated by the *Penfolds* label, locally owned- locally manufactured) and a bi-national wine brand (indicated by the *Houghton* label, foreign owned-locally manufactured). The main research is divided into two 'studies'. The first study investigates respondent's buying behaviour using a 'disguise' approach to conceal COO cues within the advert stimuli, while the second study uses an 'overt' approach to reveal COO cues. This partition was necessary in order to determine whether or not country of origin cues as country stereotypes stimulate or dampen the different economic nationalistic or consumer ethnocentric effects compared to one another.

A cross-sectional strategy for data collection was used. Data was collected via a mall intercept at a major wine trade exhibition in the city of Perth, Western Australia. In addition, the customer databases from several WA retail liquor stores were utilized as part of online data collection. The survey instrument was developed using established

scales. A total of 402 usable surveys from 1577 responses were obtained. 51.5% of the respondents were male and 48.5% of the respondents were female.

RESULTS

Measurement Model Evaluation

Construct reliability measures were calculated for all the constructs by means of a CFA. Composite reliabilities ranged from 0.87 to 0.95 (see Hair et al. 1998 of .70 as the minimum level), while Cronbach alphas ranged from 0.87 to 0.97.All the items were proposed and tested as reflective of the constructs. Items that did not fit a proposed construct were re-examined as indicators for alternate constructs if the interpretation of the item is similar to some aspect of the alternate constructs. Item removal was also considered however, practical considerations had to be given to ensure that the deletion of item(s) would not change the meaning of the construct, or not capture the full domain of the construct, as conceived in the literature (MacCallum, Roznowski, & Necowitz, 1992).

Under the conditions of the two studies, the CFA results show the final measurement model fits relatively well (χ^2 (122) = 226.571; RMSEA = 0.066; SRMR = .086; CFI = 0.920; GFI = 0.894). Similar CFA results were also obtained for the second study (χ^2 (124) = 199.209; RMSEA = 0.046; SRMR = .052; CFI = 0.959; GFI = 0.914). All model fit indices are within the range of recommended values (see Byrne, 1998; Browne & Cudeck, 1993; Hair et al., 1998; Vandenberg & Lance, 2000, p. 44) across all constructs. In addition, all of the factor loadings for each item per constructs (for both studies) showed adequate to high factor loadings (see Hair et al., 1998; Thompson, 2004 for factor loadings of .30 as the minimum level) that compromise for the variance in the construct. This

justified that all items were significantly related (p < .001) with acceptable standardized factor coefficients and reliability measures ($\alpha = 0.7 \sim 0.9$), and in some cases "eigenvalues" also validated the construct to be a one-factor congeneric model.

Evaluation of The Hypothesized Structural Model (Study One)

The structural model depicted in Figure 2 presented an adequate level of fit, (χ^2 (125) = 270.405, p = .000, RMSEA = .076, SRMR =.093, GFI = .872, AGFI = .826, TLI = .864 and CFI = .889). From the results gathered, the hypothesized effects are all statically significant except for the pathways leading from economic nationalism to product judgment (b=-0.14; p= >0.05), from product judgment to willingness to buy Australian brands (b=-0.18; p= >0.05), and from economic nationalism to willingness to buy Australian brands (b=0.63; p= >0.05), (H_{2a}- H_{2b}- H_{2c}). Similarly, the pathways (examining the direct effects) from economic nationalism to willingness to buy bi-national brands (b=-0.48; p= >0.05) (H_4) and from consumer ethnocentrism to willingness to buy Australian brands (b=-0.61; p= >0.05) (H_5) were also found to be negative and insignificant. All the statistically significant relationships are in the hypothesized direction; again, this is support for the nomological validity of the constructs. Further to this, the model does not suffer from interpretational confounding, as the estimated factors loadings have not changed substantially from the loadings in the preliminary CFA model; this is further support for the validity of the measurement model.

- Figure 2 about here -

Acceptance of H_1 mirrors previous studies such as Baughn and Yaprak (1996) and Mort and Duncan (2003), asserting the notion that economic nationalism and consumer

ethnocentrism are in fact distinctly different from an economic nationalistic one, yet correlated on some level. Acceptance of H_{3a} and H_{3b} also echoes that of Acharya and Elliot (2003). This means that ethnocentric consumers expressed more positive product judgments for uni-national local products (locally owned and manufactured) rather than bi-national products. However, H_{3c} is rejected, as the structural pathway between consumer ethnocentrism and willingness to buy bi-national brands have deviated from the hypothesized relationships to reveal a direct "positive" instead of a "negative" relationship. This suggests that low ethnocentricity amongst Australian consumers when revealing their willingness to buy bi-national brands, implying that consumer ethnocentrism leads to consumers preferring domestic products but not necessarily rejecting foreign ones (Kinra, 2006).

H_2 is rejected, implying that economic nationalistic influence will not have a significant effect on consumer's product judgment and willingness to buy Australian brands. This deviates from studies such as Akhter, Kim and Hosseini (2003) and Baughn and Yaprak, (1996). The deviation may be due to a number of conceptual and experimental reasons. For instance, due to the 'disguise' research design it is plausible to assume that the lack of appropriate country cues may have caused the dilution (or inactivation) of the present economic nationalistic tendencies held by consumers. H_4 and H_5 are rejected, deviating from the "halo" effect (Han, 1989; Heslop and Papadopoulos 1993) in terms of economic nationalism and consumer ethnocentrism influence towards willingness to buy bi-national and Australian brands. The confirmation of these structural pathway results mirrors that of Nijssen and Douglas, (2004) and Saffu and Walker, (2005). It is expected that ethnocentric and economic nationalistic beliefs and attitudes toward a product or brand will be a

determining factor in their willingness to buy, especially when no available country of origin cues are presented.

In order to test H_6 and H_7, hierarchical moderated regression analysis was undertaken to study the effects of the moderation (consumer knowledge) on both the independent, consumer ethnocentrism and economic nationalism and dependent, product judgment variables. Results indicated that the standardized regression parameters for consumer ethnocentric effects are statistically significant, thereby supporting hypothesis six. However, the results found an insignificant interaction variable involving economic nationalistic effects, rejecting hypothesis seven.

Evaluation of The Hypothesized Structural Model (Study Two)

The structural model depicted in Figure 3 presented an adequate level of fit, (χ^2 (126) = 178.684, p = .000, RMSEA = .046, SRMR =.053, GFI = .914, AGFI = .883, TLI = .951 and CFI = .960.From the results gathered, the hypothesized effects are all statically significant except for the pathways leading from economic nationalism to product judgment (b=0.09; p= >0.05) and from product judgment to willingness to buy Australian brands (b=0.07; p= >0.05). In addition, the pathways from consumer ethnocentrism (CET) to willingness to buy bi-national brands (b=-0.48; p= >0.05) and from consumer ethnocentrism (CET) to willingness to buy Australian brands (b=0.21; p= >0.05) were also found to be insignificant. The remaining statistically significant relationships are in the hypothesized direction; again, this is support for the nomological validity of the constructs.

- Figure 3 about here -

Acceptance of H_1 mirrors results in the first study as well as previous work in literature. Acceptance of H_{2c} mirrors results from Balabanis et al., (2001) and Mort and Duncan, (2003) implies that respondents with high economic nationalistic reactions have positively affected and enforced their buying behavior directly and independently of their product judgments. Acceptance of H_{3a} and H_{3b} demonstrates the use of COO cues (as part of experimental design) as indicators in order to unmask the ethnocentric tendencies held by consumers in terms of their product judgments and willingness to buy. H_{3c} and H_5 are rejected, underpinning a "halo" effect that consumer ethnocentrism as a construct that summarizes beliefs about product brand quality judgments, and only then influences attitudes or intentions to purchase. Acceptance of H_4 mirrors findings from Caruana and Magri (1996) and Wong, Polonsky and Garma, (2008), where consumers separate their high hostility towards a country from their assessment of that country's products or brands, that is, hostile consumers "do not distort or denigrate images of a target country's products or brands, they simply refuse to buy them" (Jackson, 1993). This can also suggest that research model diverges from most behavioral frameworks in marketing studies; that people with high economic nationalistic tendencies toward a foreign country are likely to denigrate their products and brands and refuse to purchase them despite not previously judging or evaluating product brand quality.

The results gathered from hierarchical moderated regression analysis mirrors the first study. Results indicated that the standardized regression parameters for consumer ethnocentric effects are statistically significant, thereby supporting hypothesis six. However, the results found an insignificant interaction variable involving economic nationalistic effects, rejecting hypothesis seven.

RESEARCH AND MANAGERIAL IMPLICATIONS

There are several key managerial contributions. Country of ownership is an important cue for consumers in their purchase decisions is a crucial one and has many "educating" implications for managers and researchers alike. For instance, one of the important challenges faced by international marketing managers is the understanding of why and how they should use the various countries of origin information or cues ("owned by..." and "made in...") in their respective capacity. This is not to assume that every country of origin cue will carry a similar effect or cause a similar reaction or response. In this case, it would be unwise to assume that the standardisation of these country cues is plausible, as it is likely that consumers in different countries will respond differently.

The present study is unique in several ways in contributing to understanding country image and country equity through a number of managerial implications:

- Product/brand image will need to be separated from the COO and strategically determined whether to actively communicate or to disguise the COO sub-components pending sentiment/hostility levels in the local marketplace (Heslop, Lu & Cray, 2008).

- Entry into a foreign market: a company that plans to export products from a country with a positive COO image to a transition economy should actively communicate its COO. Collaborative forms of market entry (e.g. joint ventures) are often used, especially in transition economies (Wong, Polonsky & Garma, 2008).

- Strategically explore, select and communicate product attributes derive in terms of perceived competence (i.e. competitive pricing opportunities, long product warranties, or co-branding strategies), instead of simple country of origin distinctions (i.e.

domestic or foreign). Educational promotions will need to be in place as an ongoing counter measure to sustain this strategy in the long-term.

- Cheap labor economies will bring a manufacturing opportunity to produce cheaper product alternatives (i.e. me-too/mimic product), offsetting high production costs and allow for new market expansion; while still maintaining its original production profile (Wong, Polonsky & Garma, 2008).

- Local business can form networks with other domestic companies that exclude foreign involvement and confine activities to those within the network. Labelling and merger and foreign investment review laws will need to be revised to secure local strategic industries and keep controlling interest.

LIMITATIONS AND FUTURE RESEARCH

There are a number of limitations worthy of improvement and future research. The study was conducted using a mall intercept method, which may limit the populations that could be reached. As the study is a snapshot of the Australian consumers, possible extensions to populations of other areas in Australia of different socioeconomic groups or to other countries, or cross culturally may produce different results. The addition of different COO constructs and other product categories can be further investigated to test for their influences on Australian consumers. Another question worthy of future research would be the examination of whether "authentic produce" in the form of raw materials and ingredients will impact country and brand image, especially in the area of popular country product stereotypes.

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FIGURES

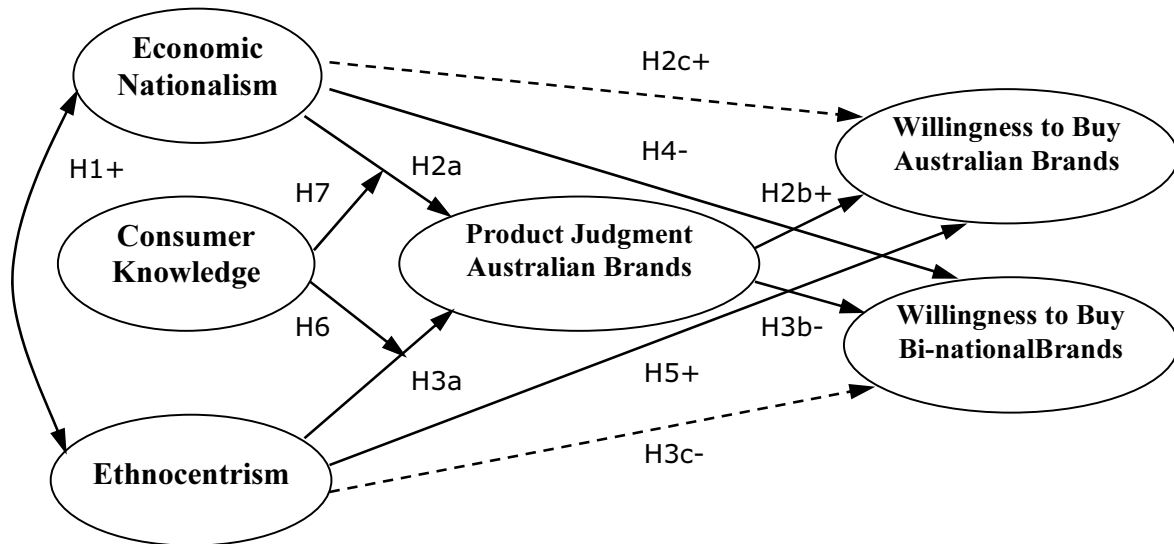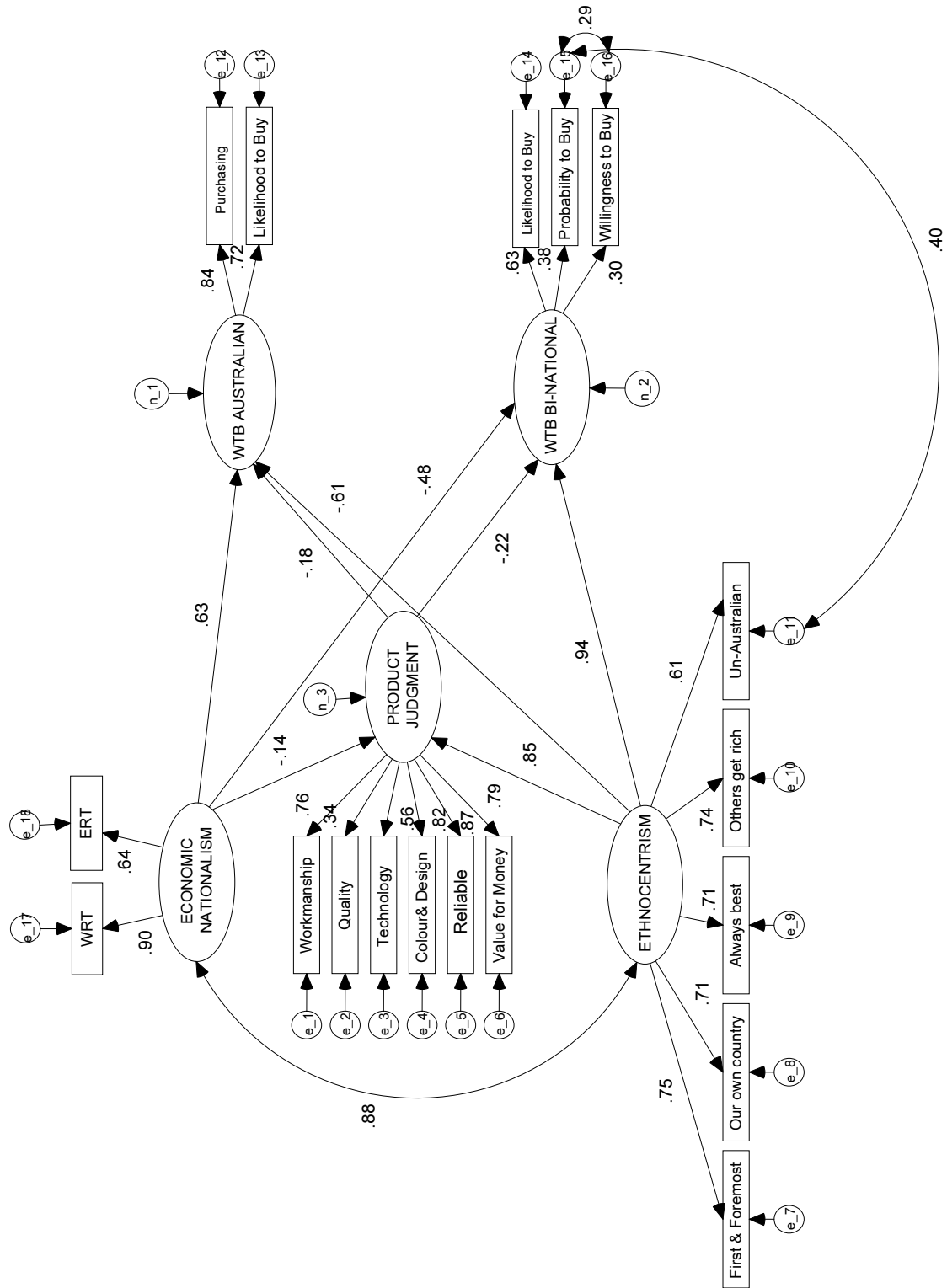## Fig. 1. Conceptual model of study

Fig. 2. Full structural model (study one)

Fig. 3. Full structural model (study two)