

CHAPTER 2

LITERATURE REVIEW

This chapter will explain about the theoretical background of the research based on experts' opinion. Author will describe the definition of country-of-origin image, perceived quality, and purchase intention. The previous studies which has same research topics, hypothesis development, and research framework will also be written here.

2.1. Theoretical Background

2.1.1. Country-of-Origin Image

Research related to the country-of-origin image has grown rapidly over the years to become one of the most important fields in business theory and international marketing (Baker & Ballington, 2002). Country of Origin or commonly abbreviated as COO is the country where a product originated. Consumer evaluation of a product is often not only based on its intrinsic cues (for example quality and composition of the content) but also its extrinsic cues (for example COO, brand, and packaging). Among extrinsic cues the product, the perception of the country of origin of the product is often used consumer consideration in their purchasing decision (Agrawal & Kamakura, 1999). The country-of-origin image was defined by Roth and Romeo (1992) as the overall consumer perception formed of products from a certain country, based on their previous experience of its production, marketing, weaknesses and strengths. Moreover, Godey et al.

(2012) defined the country-of-origin image as the representation, reputation or stereotype of a specific country that consumers associate with its products.

According to Nagashima (1970), cited in Shirin & Kambiz (2011) country of origin image is a picture, reputation, stereotype which is linked by businessman and consumers in a particular country. The image of a brand's country of origin is formed by the variables such as product representation, country characteristics, background economics and politics, history and tradition. He also stated that there are some basic measurements of country-of origin-image, namely:

1. The level of economic development
2. The level of political and democratic progress
3. The degree of industrialization
4. Living standard
5. The level of technological development
6. Product quality
7. Level of confidence in product ownership
8. Product reliability

Hong and Wyer (1989), in Lakomy & Kreft (2015) stated that COO was primarily perceived as a one-dimensional category. However, after over twenty years of research, it started to be considered as a complex category (Dinnie, 2004). In the 1980s numerous concepts of various components of this phenomenon appeared (Johansson, Douglas and

Nonaka, 1985, in Lakomy & Kreft, 2015). Their importance and impact started to be analyzed in connection to the image perception of the country of product origin. The scientists were interested not only in the fact that the COO effect exists, but also in searching for answers to the question why the differences in evaluation and in preference of products from various countries appear. After the analysis of attributes used in other surveys of consumers' opinions on products in the context of the COO, Roth and Romeo (1992), in Mohamad, Ahmed, Tyebkhan, & Honeycutt (2000) presented a model composed of four dimensions:

1. Innovativeness – use of new technology and advanced engineering.
2. Design – appearance, style, colors, variety.
3. Prestige – exclusivity, status, brand name reputation.
4. Workmanship – reliability, durability, craftsmanship, manufacturing quality.

This study verifies the given model after its previous modification. The changes result from the efforts to adapt this model to the analysis of not only material goods, but also to the analysis of services. The modified model was previously used by Bose and Ponnampalasa (2011). They focused their research on the evaluation of entertainment services. Author stated that some criteria of the evaluation which were used in Roth and Romeo's model, and which pertain to material goods, were not adequate while discussing about the analyzed services. Therefore, they assumed the following dimensions: innovativeness, diversity, exclusivity, and quality.

Adjusting the above criteria to the requirements of the COO analysis concerning services in general, the presented study assumes the following dimensions of the country image:

1. Innovativeness – understood as the use of the latest knowledge and advanced technology
2. Diversity – namely: variety, wide range, and attractiveness of an offer,
3. Prestige – defined by exclusivity, status, brand name reputation,
4. Quality – seen as efficiency, durability, professionalism.

2.1.2. Perceived Quality

Perceived quality is not the actual quality of the product, but it is the customer's perception towards the overall quality or excellence of product or service (Zeithaml, 1988, in Tsiotsou, 2005). Aaker (1991), in Vantamay (2008) also states that perceived quality is the customer's perception of the overall quality or excellence of a product or service regarding the intended purpose. Thus, the impression of quality is the customer's judgment about the overall superiority of the product or service that is different from the actual quality. The quality of a product will raise customers' satisfaction, resulting in an increased profit for the company (Churchill & Surprenant, 1982, in Al-Refai & Mohd Noor, 2014). Perceived product quality can be ranged from “bad” to “good”, it is characterized by a high abstraction level and refers to a specific consumption setting (Tsiotsou, 2005).

Many researchers believed that the effect of country-of-origin on consumers' perception of product quality is closely associated with their knowledge of the particular country and, in certain cases, the level of the country's economic development (Romeo & Roth, 1992, in Kalicharan, 2014). Accordingly, Brouthers (2000) found that not all companies within the same industry from the same country-of-origin are perceived equally by consumers as producing quality products. Companies still have to aggressively compete to earn consumers' trust and confidence.

Consumers often judge the quality of a product or service based on a variety of informational cues that they associate with the product. Some of these cues are intrinsic to the products, whereas others are extrinsic (Yee & San, 2011). Perceived quality has direct impact on customer purchase decision and brand loyalty, especially when customers have limited or no information of the products that they are going to purchase (Aaker, 1991; Yee & San, 2011). So, positive perceived quality plays an important role to gain customers' loyalty. Because perceived quality is a consumer perception, it can be concluded that if the perceived quality of the customers is negative, the product will not be preferred and will not last long in the market. Conversely, if the perceived quality of the customers is positive, the product will be preferred.

Kotler (1969), in Mulder (2012) uses five product levels in which a product is located or seen from the perception of the consumer. These five product levels indicate the value that consumers attach to a product.

The customer will only be satisfied when the specified value is identical or higher than the expected value. Those five product levels are as follows:

1. Core Product

This is the basic product and the focus is on the purpose for which the product is intended. The more important benefits the product provides, the more that customers need the product. A key element is the uniqueness of the core product. This will benefit the product positioning within a market and effect the possible competition because it has more competitive advantage.

2. Generic Product

This represents all the qualities of the product. For example, the material, strength, flexibility, and so on.

3. Expected Product

This is about all aspects the consumer expects to get when they purchase a product.

4. Augmented Product

The Augmented Product refers to all additional factors which sets the product apart from that of the competition. And this particularly involves brand identity and image. Factors like service, warranty and good value for money also play a major role here. The goal is to

deliver something that is beyond an expected product. It is the translation of the desire that is converted into reality.

5. Potential Product

This is about augmentations and transformations that the product may undergo in the future.



Source: toolshero.com (accessed on October 7th, 2019)

Figure 2.1 Five product levels by Kotler

Product quality is the value of a product for customers. There are seven common types of product quality (Spacey, 2017). The seven types are as follows:

1. Conformance

Manufacturers view product quality in term of conformance to specifications. This is achieved by quality control process and quality assurances. If those process can be done correctly, the results in products will be extremely consistent.

2. Fit for Purpose

Customers view a product quality primarily in terms of how a product fulfill their needs.

3. Communication and Information

Customers' expectations influence the quality perceptions. Inaccuracy like missing features can cause poor product ratings. Packaging, instructional content, and marketing communication play a role in quality by managing expectations.

4. Reliability

The durability of product in the real world. If a product breaks earlier than expected, it can attract bad reviews toward the product.

5. Safety and Security

Safety and security incidents can give serious affects to product's reputation. For example, an operating system that is vulnerable to information security attacks may be viewed as low quality.

6. Efficiency

Efficiency is a primarily quality consideration for products that are resource intensives. The battery life of smartphone products can be one of the examples.

7. Experience

Intangible elements of a product such as how much fun is it to be used.

In the context of consumers' satisfaction, Chaudhuri (2002), in Ariffin et al. (2016) considered perceived quality to be an influential

factor, in that the higher perceived quality consumers had, the higher their purchase intention was. Perceived quality itself is affected by some factors according to Garvin (1984), cited in Durianto (2001). Those are:

1. Performance

Involves various main operational characteristics, for example the operational characteristics of a car are speed, acceleration, steering system, and comfort. Because customers' interest factors are different from each others, customers often have different personalities in assessing these performance attributes. Speed will be rated high by some customers but considered irrelevant or underrated by some other customers who are more concerned with the attributes of comfort.

2. Service

Reflects the ability to provide services to the products. For example, certain brand cars provide damage services or car service 24 hours worldwide.

3. Endurance

Reflects the economic life of the production. For example, certain brand cars that position themselves as durable cars even though they are 12 years old, but still can be well-functioned.

4. Reliability

Consistency of the performance resulted by a product from one purchase until the next purchase.

5. Product Characteristics

Additional parts of the product (features), such as the remote controller of a video, tape deck, WAP system for mobile phones. This enhancer is usually used as an important differentiator when the two brands look almost identical. These additional sections emphasize that the company understands dynamic customer needs as they develop.

6. Compliance with Specifications

It is a view of the quality of the manufacturing process (no product defects) in accordance with predetermined and tested specifications. For example, a car in a certain class with predetermined specifications such as the type and power of the engine, doors, materials for car doors, tires, ignition systems and others.

7. Result

Lead to perceived quality that involves the previous six dimensions. If the company cannot produce a good “final product” then it is likely that the product will not have another important quality attribute.

2.1.3. Purchase Intention

Purchase intention is a kind of decision-making that studies about the reason of customers to buy a certain brand (Shah, et al., 2012). Purchase Intention is also a repurchase interest that shows the customer's

desire to make a repeated purchase (Assael, 1998, in Oksadela, Banani, & Rahab, 2019). Before purchasing, consumers begin by gathering product information based on personal experience and external environment. When the amount of information reaches a certain level, consumer starts the assessment and evaluation process, and makes a purchasing decision after the comparison and assessment. Therefore, purchase intention is often used to analyze consumer behavior in related studies (Lin & Lin, 2007).

Researchers have proposed six stages before deciding to buy the product, which are: awareness, knowledge, interest, preference, persuasion and purchase (Kotler & Armstrong, 2010, cited in Kawa et al., 2013). Customers always think that purchase with a low cost, simple packaging and little-known product is a high risk since they think that the quality of these products is not trustable (Gogoi, 2013). Purchase intention is easily affected by many external factors during their decision processes. For instance, in the processes of information search, they are easily affected by word-of-mouth and word-of-mouse communication. During the purchase process, their purchase intention would be affected by the product attributes, price, and endorser performance which perceived by consumers (Sheu, 2010).

The process of purchase intention is part of the decision-making process, therefore, understanding the process of buying intention needs to be observed first before knowing how the decision-making process takes

place. Purchase intention is one phase in the decision-making process for consumers that is arising after a need is felt by an individual. Individual needs can be stimulated from inside or outside. Stimulation from inside is one of human needs such as feeling of hungry and thirsty, while stimuli from outside are such as advertisements, admire a product and interested feeling towards a product (Kotler, 2008).

After consumers started to feel that there is a need that should be fulfilled, then consumers will put an effort to gain more information. After the information be collected, individuals will face a variety of alternative choices and individuals must identify and evaluate them. Those evaluation cannot be separated, influenced by sources possessed (time, space and information) as well as the risk of being mistaken in purchasing. After that, the purchase intention appears and it can lead to a buying decision. But before it comes purchasing decision, there are two other factors which interfere purchase intention with purchase decision, those are:

1. Other people's attitudes

To what extent other people's attitudes reduce alternatives that are liked someone will depend on two things:

- a. The intensity of people's negative attitudes towards the alternatives that are preferred by consumers.

- b. Consumer motivation to have other people's desires. The bigger people's negative attitudes and the closer that person to the consumer, the more it will change the purchase intention.
2. The second factor is the unanticipated situation factor that can arise and change purchase intentions. Consumers formed buying intentions based on some factors such as estimated income, expected prices, and expected product benefits. But the incident that was not anticipated before might change the purchase intention (Kotler & Keller, 2009). So the process of purchase intention arises after the assessment process of alternatives and before the occurrence of buying behavior.

The formation process of purchase intention has several stages so that consumers ultimately determine the attitude of a product. AIDA models describe how the purchase intention is formed (Sari, Fermansyah , & Primiana, 2014). AIDA model was first introduced by Elias St. Elmo Lewis in 1989. AIDA is a simple abbreviation that has been made a long time ago as a reminder of the four stages of the marketing process. AIDA stands for Attention, Interest, Desire, Action. This is a simple model and can be used as a guide. In marketing communication, objectives that want to be achieved needs to be formulated so it can be carried out in the marketing communication process. AIDA is a concept in which marketing plays an important role (Rofiq, Arifin, & Wilopo, 2012). The explanation as follows:

1. Attention

Here, companies can pay attention to consumers by taking approaches so that consumers are aware of the existence of their products and its quality.

2. Interest

Consumer sensitivity towards the product, at this stage consumers are grown and created a sense of interest in the product. The company tries to make its products appeal in consumers, so consumers have a curiosity that can cause interest in a product.

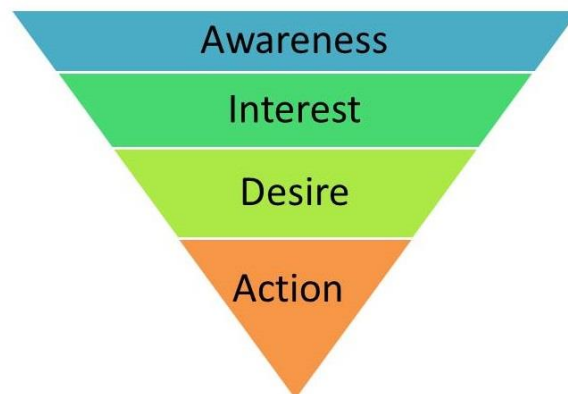
3. Desire

The consumers' desire to try and own the product. Consumers' curiosity about the products directed to their desire to buy.

4. Action

Consumers' action to make a purchase decision.

The AIDA Buyer's Journey



Source: stratoserve.com (accessed on September 23rd, 2019)

Figure 2.2 AIDA Model

2.2. Previous Study

There are several journals from previous researchers that are used by author to support this study. Here are the lists of the journals:

Table 2.1
Previous Study

No	Title	Variables	Method	Findings
1	<i>The effect of Country-of-Origin Image on Purchase Intention: A Case Study on Bahir Dar University Instructors</i> Degoma and Shetemam (2014)	<ul style="list-style-type: none">• Country-of-origin image• Purchase intention• Perceived quality	<ul style="list-style-type: none">• There are 200 Questionnaires that were distributed• The results were analyzed using Structural Equation Modeling (SEM) with Amos software version 18	The result shows that country-of-origin plays a significant role in predicting customers' purchase intentions towards domestic products and products from European country through perceived quality as mediating

				variable
2	<p><i>The Effect of the Country of Origin Image, Product Knowledge and Product Involvement, and Consumer Purchase Intention Decisions</i></p> <p>Shirin and Kambiz (2011)</p>	<ul style="list-style-type: none"> • Country-of-origin image • Product knowledge • Product involvement • Purchase decisions 	<ul style="list-style-type: none"> • There are 400 questionnaires that were distributed, 385 were efficient. However, only 379 questionnaires were used based on least size of sample • Multiple regression analysis was done using SPSS and LISREL software 	<p>The result shows that country-of-origin image, product knowledge, and product involvement have a significant effect on consumer purchase intentions or decisions.</p>
3	<p><i>Examining the role of advertising and sales promotions in brand equity creation</i></p> <p>Buil, Chernatony, & Martínez (2013)</p>	<ul style="list-style-type: none"> • Advertising spends • Attitudes toward advertisements • Monetary promotions • Non-monetary promotions • Perceived quality • Brand awareness • Brand associations • Brand loyalty 	<ul style="list-style-type: none"> • There are 307 questionnaires received, age range of the respondents are from 15 – 69 years old • This study uses two-step approach for structural equation modeling. The analysis uses the robust maximum-likelihood estimation method 	<p>The result shows that individuals' attitudes toward the advertisements are important when building brand equity. Findings show that by using an original, creative and different advertising strategies, companies can develop higher brand awareness and positive perceptions of their brands. Also, perceived advertising spend has a</p>

				<p>positive effect on brand awareness. However, advertising investments do not necessarily enhance perceived quality and brand associations. Finally, findings indicate that brand awareness has a positive influence on perceived quality and brand associations, which in turn influence brand loyalty. Contrary to predictions, perceived quality has a small but negative influence on brand loyalty.</p>
4	<p><i>The Impact on Branded Product on Consumer Purchase Intentions</i></p> <p>Rizwan, Qayyum , Qadeer, & Javed (2014)</p>	<ul style="list-style-type: none"> • Brand trust • Brand satisfaction • Brand attachment • Low price • Purchase intention 	<ul style="list-style-type: none"> • The questionnaire s distributed to Levi's jeans users in Pakistan, from 160 questionnaire s distributed, 158 questionnaire s were returned. • These 	<p>Customers in Pakistan explain soaring purchase intention to branded product, Levi's jeans. Brand trust and brand attachment have a positive effective on their purchase intention.</p>

			questionnaires were implicit and processed through SPSS software for further analysis	
5	<p><i>A Conceptual Study on the Country of Origin Effect on Consumer Purchase Intention</i></p> <p>Rezvani, et al. (2012)</p>	<ul style="list-style-type: none"> • Country of origin • Purchase intention • Country image • Product knowledge • Patriotism 	<ul style="list-style-type: none"> • The method of this research is reviewing the different literatures 	The result shows that country of origin is one of the extrinsic cues; in addition, there is no doubt that country of origin has considerable influence on the purchase intention process.
6	<p><i>Which Evaluation Criterion is Affected By Country Of Origins Forms Purchase Intention The Most: An Empirical Study</i></p> <p>Izmir (2016)</p>	<ul style="list-style-type: none"> • Country of origin image • Quality • Value • Utility • Purchase Intention 	<ul style="list-style-type: none"> • Questionnaire has been conducted separately for both Peugeot 308 and Renault Megane. Then, the average of the variables derived from both the results of Peugeot 308 and Renault Megane were used in the structured regression model • Data is 	Three evaluation criteria are affected by country of origin image among which the quality perception is relatively affected the most by this construct

			improved through SPSS (Statistical Package for Social Science) 21.0; confirmatory factor analyses (CFA) of latent variables and structured equation modeling (SEM) of the proposed model are conducted through AMOS (Analysis of Moment Structures) 20.0	
7	<p><i>The Influence of Country-of-origin on Consumer Purchase Intention: The Mobile Phones Brand from China</i></p> <p>Yunus and Rashid (2016)</p>	<ul style="list-style-type: none"> • Country image • Perceived Quality • Brand Familiarity • Purchase Intention 	<ul style="list-style-type: none"> • The questionnaire survey was distributed to 200 respondents in Klang Valley Area • The reliability of the variables used in this study was tested 	The result shows that all three independent variables of the country-of-origin do influence consumer purchase intention towards mobile phones brand from China.
8	<p><i>Effects of Country of Origin and Product Features on Customer Purchase Intention: A</i></p>	<ul style="list-style-type: none"> • Purchase Intention • Country of Origin (COO) • Brand Attitude • Ethnocentrism 	<ul style="list-style-type: none"> • The questionnaire survey was distributed to 400 correspondents, but only 	The result shows that country of origin does not have direct impact to customers'

	<p><i>Study of Imported Powder Milk</i></p> <p>Le, Nguyen, Dinh, & Dang (2017)</p>	<ul style="list-style-type: none"> • Foreign Product Knowledge • Face Saving • Group Conformity • Product Attitude • Perceived Product Quality 	<p>369 are valid in the end. Most respondents are in the age range of 23 – 35 years old</p> <ul style="list-style-type: none"> • Partial least squares SEM (PLS-SEM), SPSS and SmartPLS softwares are used to analyze the data 	<p>purchase intention, but it does affect product attitude which is a good predictor for purchase intention. It is also known that foreign product knowledge is an important factor that is affecting COO. Other findings are customers are highly ethnocentric, product attitude has strongest positive impact on purchase intention, and the last one is group conformity and face saving have significant relationship with purchase intention.</p>
9	<p><i>Influences of Country-Of Origin on Perceived Quality & Value According to Saudi Consumers of Vehicles</i></p> <p>Abdelkader (2015)</p>	<ul style="list-style-type: none"> • Country-Of Origin • Perceived value • Perceived quality 	<ul style="list-style-type: none"> • This research uses two methods, first distributed the questionnaire and second uses the semi-structured interviews, that the research 	<p>There are significant evidences of the influence of the specific image of COO on vehicles' PQ & PV. This specific image includes the perceptions about particular-country production in general.</p>

			<p>conducted 34 in depth interviews with some vehicle sellers and consumers from Saudi market</p> <ul style="list-style-type: none"> • ANOVA analysis was used to explore the differences among the sample participates according to demographic variables 	
10	<p><i>Perception of Turkish Consumers About Country of Origins Effect in German and Chinese Products</i></p> <p>Develi (2010)</p>	<ul style="list-style-type: none"> • Country of Origin • Product and • Country Image • Perception • Quality 	<ul style="list-style-type: none"> • By distributing questionnaires, the independent samples t-test is executed to 689 students in Istanbul Kültür University Vocational School of Business Administration and Technical Science. 	<p>This study has showed that the perception of Chinese product has begun to change in a positive way. China produces products in various quality. If a consumer wants low price and low quality, they can find in variety of quality. The German perception stays constant as before.</p>

2.3. Hypothesis Development

2.3.1. The Influence of Country-of-Origin Image towards Perceived Quality

Hong and Wyer (1989), cited in Shirin & Kambiz (2011) discovered that when a consumer evaluates a foreign country product, he/she will mostly likely adopt a country-of-origin image as the easiest way to obtain information. People care about which country products come from and where they are made and consider these factors when evaluating the quality of products (Parkvithee & Miranda, 2012, cited in Rezvani et al., 2012). Previous study written by Izmir (2016) found that country of origin image is affecting the quality perception. He also said that the possible explanation for the reason that country of origin image affects the quality perception the most can be made by the fact that automobiles are classified as a high involvement product. When a country carries a positive image to consumers, then consumers will have a higher perception of quality and overall evaluation for products manufactured in that country and also, they will also have increased purchase intentions on the next purchase (Manrai & Manrai, 1993, cited in Shirin & Kambiz, 2011). Based on the theory above, the hypothesis are as follows:

H1a & b: Country-of-origin image influences Indonesian customers in perceiving the quality of the product

2.3.2. The Influence of Perceived Quality towards Purchase Intention

The international marketing literature demonstrates that consumers concern with where products are made to expect the quality (Parkvithee

& Miranda, 2012, in Le, et al., 2017). Perceived quality is an overall or superiority of the product and brand with respect to its intended purpose such as buying purpose (Aaker, 1991, cited in Yunus & Rashid, 2016). Purchase intention, as a consumer attitude towards a product, is affected by subjective evaluations of consumers (Han, 1990 and Ahmed et. al., 2004, cited in Izmir, 2016). Cognitive approach shapes consumers' quality perception, for relying on the information like technical advancement, education level and economic situation of a country, consumers draw conclusions regarding the quality of a product from a certain country (Nagashima, 1977; Han, 1989 and Bloemer, Brijs & Kasper 2009, cited in Izmir, 2016). Based on the theory above, the hypothesis are as follows:

H2a & b: Perceived Quality influences Indonesian customers' purchase intention towards product

2.3.3. The Influence of Country of Origin Image towards Purchase Intention

A lot of researchers have attempted to find effects of COI on product evaluations, attitudes toward the product, purchase intention and purchase choice (Degoma & Shetemam, 2014). Hsieh (2004), in Yunus and Rashid (2015) believed that the customer attitude to the product's origin of has a relationship to purchase intention. Manrai and Manrai (1993), cited in Shirin and Kambiz (2011) found that when a country brings a rather positive country image to the consumer, then he/she would have a rather high-quality perception and overall evaluation to a

product manufactured in that country and furthermore would increase his/her purchase intention.

The size of an observed COO effect was a function of whether the dependent variable was a quality or reliability perception or a purchase intention (Petter and Jolibert, 1995, in Le, et al., 2017). In addition, the research which is done by Rezvani (2012) resulted that there is no doubt that country of origin has considerable influence on the purchase intention process.

H3a & b: Country-of-Origin image influences Indonesian customers' purchase intention towards product

2.3.4. The Influence of Country-of-Origin Image towards Purchase Intention with Perceived Quality as Mediating Variable

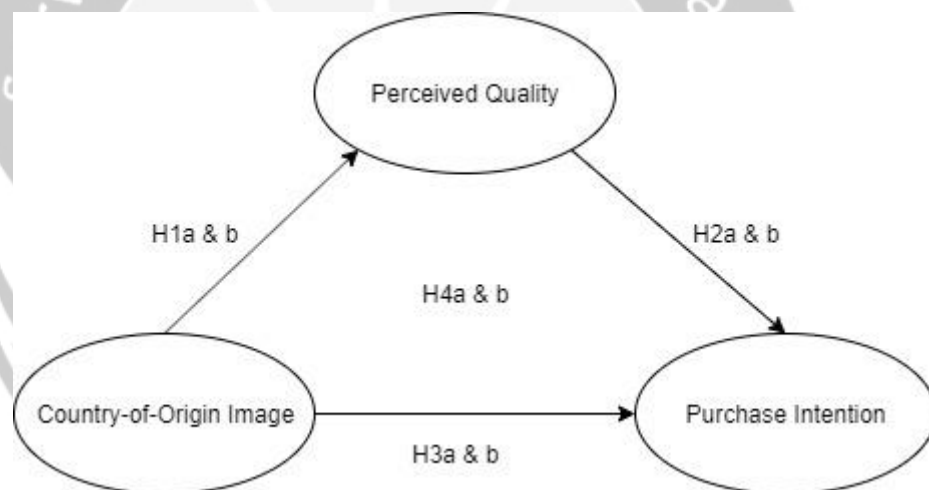
Degoma & Sheteman (2014) found that country of origin's image affects consumers' intention of buying through perceived quality variable. Chao (1993), in Le et al. (2017) discovers that consumer's evaluations of product qualities are determined by country of design and country of assembly; in other words, the more sensitive about COO information customers are, the more positive image they perceive about quality of the product. In the previous research, Develi (2010) stated that people who receive product information for the purpose of making a purchase decision are likely to interpret the attribute information in terms of preexisting concepts that have positive or negative implications for the product's quality. Country image becomes a surrogate for quality when product information is lacking, and when there is a lack of familiarity

with the product (Monroe, 1973, cited in Develi, 2010). Based on the theory above, the hypothesis are as follows:

H4a & b: Country-of-Origin image influences Indonesian customers' purchase intention through perceived quality as mediating variable

2.4. Research Framework

The research framework below consists of three variables, which are country-of-origin image as the independent variable, perceived quality as the mediating variable, and purchase intention as the dependent variable.



Source: Degoma, A. and Sheteman, E. (2014)

Figure 2. 2 Conceptual Framework