

**MADE IN CHINA BUT SOLD AT FAO SCHWARZ:
COUNTRY OF ORIGIN EFFECT AND TRUSTING BELIEFS**

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Abstract

This paper investigates the factors that motivate consumers to buy products with a negative “made in” claim when sold at specific stores. The vast literature has documented that the country-of-origin (COO) of products affects consumers’ product evaluations and purchase intentions. This paper suggests that three trusting beliefs, i.e. ability, benevolence and integrity beliefs, about a store may affect the consumers’ evaluations of and purchase intention to buy products with a specific “made-in” label and thus weaken COO effects. The toy industry is chosen as the study context. The hypotheses are tested with survey data collected from 124 participants. The results show that while only benevolence and integrity beliefs about a store weaken the effect of COO on product evaluations, all three trusting beliefs lessen the impact of COO on consumers’ purchase intentions. The findings have implications for both manufacturers and retailers that want to counterbalance negative COO effects.

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INTRODUCTION

Recently, the three words “Made in China” have turned out to be a marketer’s nightmare. This setback to the “Made in China” brand has affected a wide variety of products distributed all over the world (Blecken 2007). After a year of massive toy recalls, tainted toothpaste scares and poisonous pet food incidents, consumers around the globe are now thinking twice before buying Chinese made goods (Roberts 2007).

Like their counterparts worldwide, US consumers are very skeptical about including Chinese products in their shopping carts (Blecken 2007). With China one of the largest sources of US imports, this skepticism has dramatically affected industry both at the manufacturing and retail levels. One of the hardest hit industries has been toys (Reuters, Feb 12, 2008), an industry in which over 80% of total US imports comes from China (Luk and Wong 2007). As the country of origin (COO) literature would predict, “Made in China” serves as an extrinsic cue that customers use in their product evaluations and purchase decisions (Peterson and Jolibert 1995).

Interestingly, while overall industry sales have declined since the toy recalls, some toy retailers were spared. Toys “R” Us announced that holiday same-store sales at its US toy stores grew by 3.1 percent, a performance that out-paced primary competitors WalMart and Target (Plaything, 1/20/2008). Moreover, 2007 sales boomed at upscale toy retailer FAO Schwarz, despite the fact that most of its toys are made in China (Smith 2007). In fact, this is not unique to the toy industry. From time to time, other industries

experience a similar trend where some stores increase their sales while the overall industry sales decline.

In this paper, we seek to understand those factors which motivate consumers to buy products with a negative “made in” claim when sold at specific stores. For this purpose, we will refer to the rich COO literature. COO effects have been of a particular interest to marketing researchers and practitioners over the last four decades because of their impact on individuals’ product evaluations and purchase intentions. Even though many earlier studies documented significant COO effects, more recent studies found the COO effect to be relatively weak or even insignificant when other extrinsic cues such as store image or brand name were available (Pharr 2005). In this paper, we introduce another extrinsic cue, individuals’ trusting beliefs, about a store as a possible moderator of COO’s effect on product evaluations and purchase intentions. Specifically, we suggest that three trusting beliefs, i.e. ability, benevolence and integrity beliefs, about a store may affect the individuals’ evaluation of and purchase intention regarding products with a specific “made-in” label.

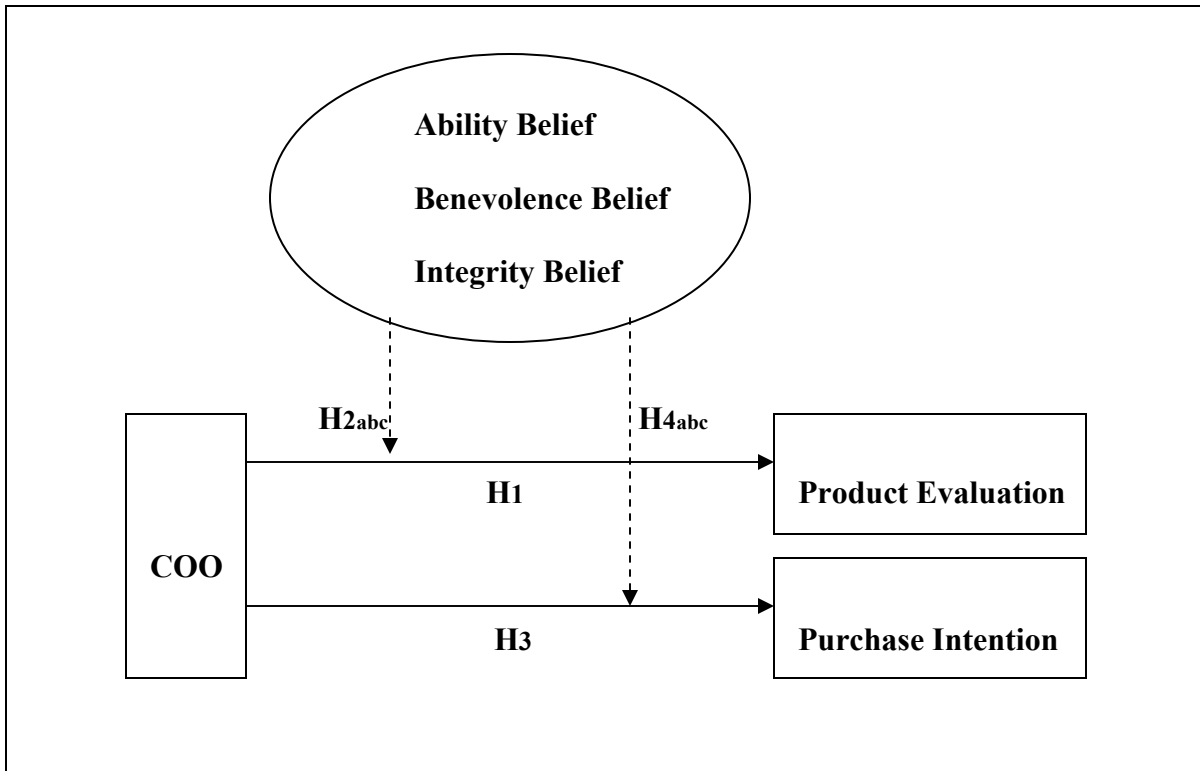
This research has implications for researchers and practitioners. First of all, to the best of our knowledge, this is the first study that investigates the impact of individuals’ trusting beliefs about a store on COO effects. We propose that similar to other moderating variables examined in previous studies, trusting beliefs about a store may weaken the impact of COO effects on individuals’ product evaluations and purchase intentions. The three trusting beliefs are related yet distinct and they collectively reflect trustworthiness of an object. Even though store image and reputation have been studied in some COO studies, trusting beliefs which are conceptually different from those two

variables, have not been investigated in COO context. We also contribute to the existing COO literature by providing further support that the impact of COO effects weakens when used with other external cues. We suggest that while still important, COO effects for individuals' product evaluations and intentions weaken when individuals' trusting beliefs about a store increase.

It is a well known fact that companies must take necessary steps to counteract the negative attitudes and intentions caused by the COO of their products. The same rule can be applied to retailers who may need to find a way to manage the COO effects of the products they carry in their stores. Creating trusting beliefs through different signals in their stores (cf. Schlosser et al, 2005), retailers can balance negative COO effects. In other words, though store customers may have negative perceptions about some countries and their manufacturing capabilities within certain categories, their evaluations of products coming from those countries can be mitigated by their trusting beliefs in that store.

Below, we proceed with a literature review on COO effects and trusting beliefs. Next, we present our hypotheses, research method and empirical analyses. We then conclude with a discussion of the findings, their implications for managers and researchers and future directions for research.

Figure 1: Trusting Beliefs and COO Effects



COUNTRY OF ORIGIN EFFECT

Definition

For the past four decades, the effect of a product’s country of origin (COO) on buyer perception, evaluations and intentions has been one of the most widely studied phenomena in the international business, marketing and consumer behavior literatures. Earlier studies investigating the influence of country of origin confirmed its effect (Nagashima 1970; White 1979) and its importance in understanding consumer and industrial buying behavior (Haakanson and Wootz 1975; Cattin et al 1982). COO is defined as “the country in which the product is made” (Thakor and Katsanis 1997, p.79-

80)¹. While COO has shown robust effects on product evaluations, the definitions and conceptualizations of COO effects are diverse. Samiee (1994) regards the COO effect as any influence or bias that consumers may hold resulting from the country of origin of a product, while Nagashima (1970) defines a COO effect as the picture, the reputation and the stereotype that businessmen and consumers attach to products of a specific country. In this paper, we follow Gurhan-Canli and Maheswaran (2000) and define COO effects simply as the extent to which the place of manufacture influences product evaluations and related decisions.

Various reviews of the COO literature (e.g. Bilkey and Nes, 1982; Peterson and Jolibert, 1995; Usunier, 2006) highlight the overwhelming support found for COO's effects on consumer perceptions,, evaluations and purchase intentions. Statistically significant COO effects have been documented for products in general (e.g. Darling and Wood 1990, Lin and Sternquist 1994), specific product categories (e.g. Cordell 1992; Hong and Wyer 1989; Roth and Romeo 1992) and even for certain brands (e.g. Han and Terpstra 1988).

Although numerous dependent variables have been investigated in COO studies, two appear more popular: product quality evaluations and purchase intentions (Peterson and Jolibert 1995, Usunier 2006). These two variables capture the majority of dependent variables included in COO studies. Verleigh and Steenkamp (1999) distinguish between measures of perceived quality and purchase intentions and state that judgments regarding perceived product quality and purchase intentions can be formed independent of each

¹ The authors are aware that different terms have been used in the literature to refer to the country where a product is produced, such as country of production (e.g. Nebenzahl and Jaffe 1996) and country of manufacture (e.g. Samiee 1994).

other. Therefore, we investigate the impact of three trusting beliefs on the relationship between COO and product evaluation and purchase intention.

COO Information as a Cue

Consumers are thought to make inferences about the value of product information cues as a quality indicator and then combine judgments of all the cues available in order to obtain an overall product evaluation (Jacoby et al. 1971). According to this perspective, both intrinsic cues (i.e. design, shape) and extrinsic cues (i.e. price, brand name) are needed in order to evaluate a product (Jacoby et al. 1971). Since COO can be manipulated without changing the physical product- typically operationalized or communicated through the phrase “made in”- it constitutes an extrinsic cue (Thorelli et al. 1989). In other words, it acts as a surrogate for product characteristics that cannot be evaluated directly (Huber and McCann 1982; Han 1989), and can be used as a signal for overall product quality and quality attributes, such as reliability and durability (Li and Wyer 1994).

Earlier studies investigated the COO effect as a single cue and found it to be a significant predictor of individuals’ product evaluation (Bilkey and Nes 1982). However, those single-cue studies have been criticized on both conceptual and methodological grounds. Thorelli et al. (1989) point out that consumers do not rely on a single cue but rather use a multiple-cue evaluation process in their decision making. Methodologically, single-cue COO studies have been criticized for producing larger COO effect sizes than do multiple-cue studies (Peterson and Jolibert 1995).

More recent studies show that the availability and consistency of other extrinsic cues and their interaction with the COO cue affect consumers' product evaluations and intentions. These other external cues include store image (e.g. Obermiller and Bitner 1984; Thorelli et al. 1989), store prestige and reputation (e.g. Lin and Sternquist, 1994), brand effects (Ahmed et al. 2002), and consumers' level of product expertise (e.g. Eroglu and Machleit 1989). Studies utilizing multiple cues have found the COO effect may be relatively weak or insignificant in explaining product evaluations when these other extrinsic cues are available (e.g. Ahmed et al. 2004; Hui and Zhou 2002).

TRUSTING BELIEFS

Trust can be defined as a willingness to rely on an exchange partner in whom one has confidence (Moorman, Zaltman, and Deshpande, 1992). Although some researchers have treated trust as a unitary concept (e.g. Rotter, 1971), most now agree that trust is a multidimensional construct with two inter-related components- trusting beliefs (perceptions of trustworthiness of the vendor), and trusting behavior- willingness to depend (i.e., a decision to make oneself vulnerable to the vendor) (Mayer et al., 1995; McKnight et al., 2002; Rousseau et al., 1998).

Trusting beliefs are the trustor's perception that the trustee possesses characteristics that would benefit the trustor (Mayer et al., 1995; McKnight and Chervany, 2001). They represent a "sentiment or expectation about an exchange partner's trustworthiness" (Moorman et al. 1993, p. 315). In other words, they collectively reflect the perceptions of the trustworthiness of the object of trust (Smith and Barclay, 1997). Although various trusting beliefs have been studied in the literature, the majority can be conceptually

clustered into three beliefs: ability, benevolence, and integrity (e.g. McKnight et al., 2002; Schlosser et al., 2006). Mayer et al. (1995, p.717) note that these factors are “not trust per se”, but they “help build the foundation for development of trust”.

Benevolence beliefs refer to the confidence that a store has a positive orientation toward its customers beyond an egocentric profit motive and will consider their well being rather than its own benefits and act in their interests (Mayer et al., 1995). They indicate the extent to which individuals believe that a store wants to do good things rather than just maximize profit. A benevolent store would not be perceived to act opportunistically by taking advantage of its customers (McKnight and Chervany 2001). In contrast to the other two beliefs, benevolence reflects a perception of the store’s willingness to engage in discretionary or philanthropic commitment to its customers (e.g. McKnight et al. 2002).

Integrity beliefs reflect the confidence that a store adheres to a set of moral principles or professional standards that guide its interactions with its customers (McKnight et al. 2002). They include the expectation that a store acts in accordance with socially accepted standards of honesty or a set of principles that the customers accept such as not telling a lie, keeping a promise or providing valid information (Mayer et al., 1995).

Ability beliefs reflect the consumers’ confidence that a firm or a store has the skills and competencies necessary to perform the job (Mayer et al., 1995). They denote beliefs about a store’s ability to perform its stated functions (Schlosser et al., 2006). Individuals have ability beliefs about a store if they believe that the store has a group of skills, competencies and characteristics that enable that store to have influence within some specific domain (Mayer et al, 1995). Therefore, the ability belief is domain-specific in

that a store may be perceived as highly competent in some area, affording that individuals trust that store on tasks related to that area.

These three trusting beliefs are related, yet distinct. Each belief captures some unique elements of trustworthiness. Therefore as a set, ability, benevolence, and integrity appear to explain a major portion of trustworthiness while maintaining parsimony (Mayer et al., 1995). For example, in a retail setting, a customer may believe that a store cares about its customers and intends to deliver a quality of service (i.e., the store is benevolent), but they may also believe that the store lacks the skills and ability to do so (Mayer et al., 1995, Schlosser et al., 2006). Similarly, despite individuals' beliefs that the store follows a professional code of conduct (i.e. it has integrity), they may still question the store's genuine concern for its customers (i.e. its benevolence). Therefore, it is possible for a store to be perceived high in some of those beliefs and poor in some others. As a result, trustworthiness should be thought of as a continuum, rather than the store being either trustworthy or not trustworthy (Schlosser et al. 2006). If a store is perceived as performing well on all three, it would be deemed quite trustworthy. Hence, it would be considered a very desirable exchange partner because it will behave ethically, kindly and skillfully (Mayer et al. 1995).

Although ability, benevolence and integrity beliefs are acknowledged as conceptually distinct (e.g. Schlosser et al. 2006), in some studies they are combined into a global measure of trusting belief (e.g. Doney and Cannon 1997). Combining these beliefs into a single variable is a parsimonious approach to studying trust and trustworthiness. However, since a global measure likely obscures the reason why certain beliefs are more effective than others, it can make it difficult to identify what action should be taken to build trust

(Smith and Barclay, 1997). Furthermore, some previous studies (e.g. McKnight et al. 2002; Schlosser et al., 2006) have reported differences in terms of the effect of individual trusting beliefs on different behaviors. For these reasons, we examine the individual effects of ability, benevolence and integrity beliefs on country-of-origin effects separately.

HYPOTHESES

COO Effect, Product Evaluation and Trusting Beliefs

Both single-cue and multiple-cues studies demonstrate that COO effects influence individuals' product evaluations (see reviews of Bilkey and Nes 1982; Peterson and Jolibert 1995). However, there are differing views as to *how* COO influences product evaluations (Johansson 1989). One view is that COO is a cue that consumers use to make inferences about products and product attributes that, in turn, affects the overall product evaluation (Brunning 1997). COO perceptions activate concepts about the country and the general quality of products manufactured there, and these concepts may have a general positive or negative effect on the interpretation of other available product attribute information (Hong and Wyer 1989). Therefore, COO influences overall product evaluations indirectly. Another view argues that COO may act as a salient attribute that evokes affect or stereotypes associated with the manufacturer country, directly influencing product evaluations (Nagashima 1970). COO thus triggers a global evaluation of quality, performance and specific attributes.

Even though the majority of COO studies have documented a direct relationship of COO on product evaluations, for the purpose of completeness we hypothesize a positive relationship between COO and product evaluation. Thus, our first hypothesis is:

Hypothesis 1: COO is positively related to consumers' product evaluations.

Earlier studies that only investigated COO found it to be highly significant in shaping consumers' product evaluations and intentions (Peterson and Jolibert 1995). However, more recent studies utilizing multiple cues have found the COO effect may not be as important when other extrinsic cues such as brand name or store image are available (e.g. Thorelli et al 1989). We argue that if consumers form beliefs about a store's trustworthiness, those trusting beliefs may weaken the effects of COO on their product evaluations.

If consumers believe that a store follows socially accepted principles like not telling a lie or deceiving its customers, this integrity belief ensures them that the store would provide correct information about the origin of its products. Similarly they believe that the store would not hide the truth or lie about the quality of the products even though those products come from a country under scrutiny for bad quality production. Using this integrity belief they conclude that the store does the right thing by carrying good quality products no matter where they come from. They believe that if there were anything wrong with a product coming from a country with a bad reputation, the store would share information with them and would not deceive them. When they make their judgments about quality of a product, they do not only use that product's COO but also utilize their integrity beliefs about the store in their evaluations. Therefore, our hypothesis is:

H2a: The impact of COO on consumers' product evaluations weakens as the consumers' integrity beliefs about a store increases.

Benevolent beliefs about a store ensure consumers that a store would not do anything to harm them. The store does not only pursue its own profit but also considers the well being of its customers. This belief translates itself into the perception that the store cares about its customers and thus intends to deliver good quality products. Thus, this benevolent belief ensures consumers that regardless of where they come from, the products in that store will not be low quality, risky, or harmful. They trust that the store will not carry bad quality products just to maximize its own profits. They also believe that in case of a problem, the store will go out of its way to help its customers and act in their best interests. Therefore, this benevolent belief about a store overshadows the COO of the product in consumers' evaluations. They believe that if a product is in that store, its quality must be at least acceptable, if not very good regardless of where it is made. Our hypothesis is as follows:

H2b: The impact of COO on consumers' product evaluations weakens as the consumers' benevolence beliefs about a store increases.

Consumers develop ability beliefs about a store's performance in its business. They believe that the store has the skills and competence to perform its job-related functions. However, this ability belief does not say much about the quality of products that a store carries. A competent store will presumably do a good job filling customer needs but it does not guarantee that it will do so by carrying only good quality products. A store can still perform its functions and make more profit by selling products made in countries known for bad quality. Therefore, consumers' ability beliefs about a store do not interfere with their quality evaluations of the products sold at that store. Our next hypothesis is:

H2c: The impact of COO on consumers' product evaluations does not change as the consumers' ability beliefs about a store increases.

COO Effect, Purchase Intention and Trusting Beliefs

While the relationship between COO effects and product evaluations have been documented in the literature, that between COO and purchase intentions has been more problematic. Some studies have found no direct effect of COO on purchase intentions (e.g. Pecotich and Rosenthal 2001). Instead researchers argue that COO's impact is directed through product evaluations which in turn significantly affects purchase intentions (e.g. Manrai and Manrai 1993; Parameswaran and Pisharodi 2002). In fact, these studies confirm Peterson and Jolibert's (1995) suspicion that COO evaluations have little or no direct influence on purchase intentions. However, some other studies suggest that COO influences individuals' purchase decisions (e.g. Samiee 1994). Consumers may perceive more risk in purchasing products from countries with a poor manufacturing image, or they may seek to enhance their status by purchasing products from countries with a positive image (Cordell 1993). Regardless of the reasons, many studies offer empirical support that the COO of a product does affect purchase intentions (e.g. Lee 1999; Tseng 2001).

Recent anecdotal evidence suggests that many consumers do indeed prefer to buy products made in certain countries over products made in other countries and they give the COO as the main reason for their refusal to purchase those products (e.g. Smith 2007). Although the mechanism underlying this effect is beyond the scope of this paper, based

on the previous studies, we hypothesize that the COO of a product does affect consumers' purchase intentions.

Hypothesis 3: COO is positively related to consumers' purchase intentions.

Trusting beliefs are very important because they directly affect trusting intentions like purchase intention or purchase decision (e.g. Mayer et al 1995; McKnight et al 2002). Consumers with high trusting beliefs perceive a store to have attributes that enable the consumers to trust that store and thus hold a secure willingness to depend on that store (McKnight et al 1998).

Consumers believe that a store that is honest with its customers will fulfill its agreements and promises with its customers. If a store promises good quality and safe products, consumers' perceptions of the store's integrity assures them that it will keep that promise and conduct its business in a professional and morally acceptable way. Consumers believe that the store will not let them buy unsafe or defective products no matter where those products are made. As a result, the COO of products becomes less important in their purchase decision. Our hypothesis is:

H3a: The impact of COO on consumers' purchase intentions weakens as the consumers' integrity beliefs about a store increases.

Similarly, the benevolent belief ensures consumers that a benevolent store would not intentionally do anything that may harm its customers. These consumers believe that if a problem were to arise, the store would do any and everything it could to help solve that problem. For example, in case of a product recall, consumers know that they can depend on the store to protect their interests. Therefore, knowing that the store will take

care of the problem, consumers will be less concerned about the COO of the products that they may consider purchasing. Thus, we hypothesize that:

H3b: The impact of COO on consumers' purchase intentions weakens as the consumers' benevolence beliefs about a store increases.

Compared to benevolent and integrity beliefs which concern store credibility, ability beliefs are more performance-related.. Specifically, ability beliefs refer to consumers' belief that a store does or does not have the necessary skills and resources to fulfill its obligations to its customers. Since in their purchase decision consumers consider if a store can successfully complete its transactions, ability beliefs become important in determining in their purchase intentions. Thus, our next hypothesis is:

H3c: The impact of COO on consumers' purchase intentions weakens as the consumers' ability beliefs about a store increases.

METHODOLOGY

Participants

One hundred and twenty four graduate business students at a northeastern university participated in the study in exchange for course credit. The sample was 48% female. The average age of the participants was 34. In terms of their employment, 73% of the participants had full time job, 24% had part time job and 3% was unemployed. Since prior COO studies suggest that country of birth may impact evaluations, we asked the participants if they were born in the US or in a foreign country. 63% of the participants were born in the US. Those participants born outside of the US (37%) have been living in the US for 9 years on average. T-test results showed no statistically

significant differences between the responses of U.S. born and foreign country born respondents.

Stimuli

Given our initial interest and research domain, we chose toys as the product category in our study and selected a teddy bear as the stimulus. We decided to use two toy stores and two countries of origin in order to ensure sufficient variance in the data. We conducted two pretests in order to choose the stores and countries used in our study. In the first pretest, we asked 32 participants to list the names of two toy stores that they consider highly prestigious and trustworthy and two toy stores that they consider less prestigious and trustworthy. In the second pretest, we gave 48 different participants the list of four toy store names, the two that appeared most frequently on the highly prestigious/ trustworthy list and the two that appeared most frequently on less prestigious/ trustworthy list. We then asked the participants to evaluate the four stores using two five-point semantic differential scales (very/not very prestigious, very/not very trustworthy). Based on the results, we chose FAO Schwarz (mean= 4.02) and KB Toys (mean= 2.61) to use in our study.

Country-of-origin in this study was operationalized as “Made in “ (Bilkey and Nes 1982; Peterson and Jolibert 1995). We first obtained the list of countries that manufacture toys sold in the US market. Then, in the first of the pretests described above, the participants were given a list of eleven toy manufacturing countries and asked to choose three countries they believed to have good quality toys and three countries that manufacture bad quality toys. This procedure generated six country names, Taiwan, India, China, Germany, Britain and Denmark. In the second pretest, 48 participants were asked

to evaluate the products manufactured in those countries using three 5-point semantic differential scales (good/bad quality, dependable/not dependable, safe/unsafe). Based on the results, we chose China (mean= 2.76) and Germany (mean= 4.45) as countries with low and high COO images respectively. In the main study, the COO information was provided on the cover page of the questionnaire. Participants learned that the toy was manufactured either in China or in Germany.

Bilkey and Nes (1982) listed two major methodological limitations in COO studies that might confound the results of a study. First, they cautioned against using a single “made in” label as the only product information, as that might lead to inflate the effect size of COO. Second, simply using an intangible verbal description of products might result in a varying frame of reference for the subjects and thus result in increased effect size. Therefore, in this study, we provided participants with information that included not only the “made in” cue but also dimensions of the product along with its price.

Lee et al. (2005) suggest that COO information should not only be included in the stimulus context but also be accessed and noticed by all subjects. Treating the COO cue just like any other product attributes may not be sufficient given the possibility of it not being noticed by all the subjects. Therefore, we made the COO cue in the cover slightly more prominent than other product information to help ensure that all subjects noticed and processed it.

Measures

Existing scales were adopted to measure the three trusting beliefs and purchase intentions. All of the variables were measured with five-point Likert-type scales anchored by “strongly disagree” and “strongly agree”. The specific scale items for the variables are listed in Table 1 along with their sources, reliabilities, and item loadings.

TABLE 1: Scale Items, Sources, Reliabilities and Item Loadings

Scales	Factor Loadings
Trusting Beliefs	
(Source: Mayer and Davis, 1999)	
Integrity ($\alpha = .88$)	
1. This store seems to have a strong sense of justice.	.89
2. This store appears to be fair in dealing with its customers.	.85
3. Sound principles seem to guide this store’s behavior.	.82
4. I would characterize this store as honest.	.91
5. This store seems to keep its commitments.	.87
Ability ($\alpha = .92$)	
1. This store seems very capable of serving its customers.	.93
2. This store seems to have necessary knowledge and resources to fulfill its customers’ needs.	.92
3. I feel very confident about this store’s skills to serve its customers.	.90
4. This store seems to be competent and effective in selling toys.	.86
5. This store performs its role of selling toys very well	.88
Benevolence ($\alpha = .90$)	
1. This store seems concerned about its customers’ welfare.	.94
2. It doesn’t seem that this store would knowingly do anything to hurt its customers.	.85
3. This store appears to go out of its way to help its customers.	.88
4. I believe that this store would act in its customers’ interests.	.89
5. This store is interested in its customers’ well-being, not just its own.	.90

Product Evaluation (Gurhan-Canli and Maheswaran, 2000) ($\alpha = .90$)

Toys made in (China/ Germany) are:

Low quality	1	2	3	4	5	High quality	.92
Unsafe	1	2	3	4	5	Safe	.89
Unreliable	1	2	3	4	5	Reliable	.88

Purchase Intention ($\alpha = .95$)

1. I would purchase toys made in (China/Germany) at this store. .94
2. I would not mind buying toys made in (China/Germany) at this store. .95
3. The likelihood that I would consider buying toys made in (China/ Germany) at this store. (very unlikely/very likely) .90

Ethnocentrism (Source: Shimp and Sharma, 1987) ($\alpha = .79$)

1. It is not right to purchase foreign made products. .82
2. American people should always buy American made products instead of imports. .74
3. Foreign made product should be taxed heavily to reduce their entry to US. .81
4. It is always best to purchase products made in US. .76

Control Variables

Usunier (2006) criticizes that too often questionnaires are administered without checking respondent familiarity with the products and countries mentioned in the research instrument. Therefore, we measured the participants' familiarity with toys, the two countries of interest and the two stores as control variables. We measured the participants' familiarity with toys made in China or Germany by using a two-item 5-point Likert scale (I am familiar with toys made in China/Germany; In the past I have owned toys made in China/ Germany). We measured the participants' overall familiarity with the products made in those countries by using a three-item scale (I am knowledgeable about products made in China/Germany; I am familiar with products made in China/Germany; In the past I have owned or used products made in China/Germany). We also measured participants' familiarity with the stores used in the study by using two items (I am familiar with this store; I have been to this store at least once).

One of the most researched variables moderating the COO effect is a consumer's level of ethnocentrism (Shimp and Sharma 1987). Orth and Firbasova (2003) and Balabanis and Diamantopoulos (2004) found consumer ethnocentrism – the belief that one's own culture is superior to other cultures- to be a strong and significant predictor of COO evaluations. Hence, we also included ethnocentrism as a control variable in our study. We measured level of participants' ethnocentrism by using a four-item scale (Please see Table 1 for items).

Finally, we included participants' perception of the product's price as a control variable. We provided price information (\$19.99, average price for similar teddy bears across various stores) on the cover of the questionnaire. We measured price perception by using a two item scale (I believe \$19.99 is a fair price for this toy; I don't think \$19.99 is too expensive for this toy).

Measure Validation

We assessed the measurement properties of the constructs in a confirmatory factor analyses using LISREL 8.71. The model fit was evaluated by using a series of indices suggested by Gerbing and Anderson (1992) and Hu and Bentler (1999), including a goodness of fit index (GFI), a comparative fit index (CFI), and the root mean square error of approximation (RMSEA). The model fitted the data satisfactorily (Model: $\chi^2(96) = 168.35, p = .00$; GFI = .92; CFI = .95; RMSEA = .06). All the factor loadings were highly significant ($p < .001$), showing unidimensionality of the measures (Gerbing and Anderson, 1988). We assessed the convergent validity of the measures by examining the path coefficients (loadings) for each latent factor to their manifest indicators. The

analysis indicated that all items loaded significantly on their corresponding latent factors (see Table 1). We assessed discriminant validity by examining the shared variance between all possible pairs of constructs in relation to the average variance extracted for each individual construct (Anderson and Gerbing 1982; Bagozzi and Yi 1988). As expected, the former was much lower than the latter (see Table 2). A reliability test was performed for each construct to see if all the measures demonstrated satisfactory coefficient reliability. All Cronbach alphas of the constructs were above .70. Thus, the measures demonstrated adequate convergent validity and reliability.

TABLE 2: Correlations and Descriptive Statistics

	1	2	3	4	5
1. Ability Beliefs	1.00				
2. Benevolence Beliefs	0.27*	1.00			
3. Integrity Beliefs	0.23*	0.54*	1.00		
4. Product Evaluation	0.11	-0.02	-0.16*	1.00	
5. Purchase Intention	0.27*	0.24*	0.29*	0.43*	1.00
Mean	3.58	3.25	3.26	3.09	3.55
Standard deviation	0.91	0.81	0.72	1.19	1.08
Average variance extracted	0.62	0.58	0.55	0.51	0.53
Highest shared variance	0.12	0.09	0.08	0.17	0.07

* p<.001

Analysis and Results

We conducted two separate hierarchical moderated regression analyses for our two dependent variables to test our hypotheses. Following the advice of Aiken and West (1991) we mean centered all the variables to minimize the threat of multicollinearity between the interaction terms and their components in equations where we included the interaction terms. We tested for multicollinearity among the variables by calculating the variance inflation factor (VIF) for each of the regression coefficients. The VIF values (lowest= 1.48; highest= 3.60) were well below the cut-off of 10.

Table 3 shows the findings of the hierarchical moderated regression analysis with product evaluation as the dependent variable. In Step 1, only five control variables were entered. In Step 2, the main effects of COO, ability, benevolence and integrity beliefs were entered along with the control variables. And finally, in Step 3, the two-way interaction effects between three trusting beliefs and COO were entered along with the control variables and the main effects of COO, ability, benevolence and integrity beliefs. Evidence of the two-way interactions, Hypotheses 2a, 2b, and 2c, would be supported if the interaction terms accounted for a significant incremental variance in explaining product evaluation, either individually, manifested by negative beta values, or collectively, revealed by the values of the incremental F-statistic.

Table 3: Hierarchical Moderated Regression Analysis Results (Dependent Variable: Product Evaluation)

Variables	Step 1		Step 2		Step 3	
	β^a	t-value	β^a	t-value	β^a	t-value
Controls						
Familiarity with toys	.14	1.55	.15	1.53	.04	.65
Familiarity with country's products	.14	1.64	.09	1.08	.06	.97
Familiarity with store	.11	1.32	.12	1.42	.11	1.29
Ethnocentrism	-.03	-.39	.02	.24	-.05	-.68
Price perception	-.12	-1.26	-.09	-1.02	-.04	-.63
Main effects						
Integrity (1)			-.18	-2.79*	-.19	-1.84*
Benevolence (2)			.07	.56	.14	1.32
Ability (3)			.06	.60	.09	.78
COO (4)			.19	2.10*	.21	1.23
Interaction Effects						
1 x 4					-.34	-3.66*
2 x 4					-.39	-4.26*
3 x 4					-.13	-1.08
R ²	.09		.19		.54	
F	3.32**		4.10*		13.14*	
ΔR^2			.10		.35	

N= 124

^a Standardized coefficients

* p < .001

** p < .05

As shown in Step 1 (Table 3), none of the control variables were significantly related to product evaluation. Next, Step 2 provided a significant increase in variance

explained over Step 1 ($\Delta R^2 = .10, p < .001$). First of all, the results showed that COO had a significantly positive relationship with product evaluation ($\beta = .19, t = 2.10, p < .001$). This supports our first hypothesis. When we look at the main effects of three trusting beliefs on product evaluation, the findings indicate that while integrity beliefs had a significant and negative relationship ($\beta = -.18, t = -2.79, p < .001$), benevolence beliefs ($\beta = .07, t = .56$) and ability beliefs ($\beta = .06, t = .60$) had no such significant relationship.

The two-way interaction hypotheses (Hypotheses 2a, 2b and 2c) were tested by observing the incremental variance explained by Step 3 over Step 2. As shown in Table 3, the addition of the two-way interactions between ability, integrity, benevolence beliefs and COO increased R^2 by 35% in Step 3 over Step 2 ($p < .001$). More specifically, the interaction between integrity belief and COO ($\beta = -.34, t = -3.66, p < .001$) and the interaction between benevolence belief and COO ($\beta = -.39, t = -4.26, p < .001$) were both negatively and significantly related to product evaluation. However, the interaction between ability belief and COO turned to be negatively but insignificantly related to product evaluation ($\beta = -.13, t = -1.08$).

To better interpret the findings on interaction effects and gain further support for the direction of the hypothesized interaction relationships, we conducted a simple slope analysis as suggested by Aiken and West (1991). Low levels of trusting beliefs were calculated by subtracting one standard deviation from the mean; high levels of trusting beliefs were found by adding one standard deviation to the mean value. Table 4 indicates that the slopes of COO- Product evaluation relationships remained positive at different levels of ability, benevolence and integrity beliefs. The slopes were significantly more positive at low levels of benevolence and integrity beliefs (.32 for benevolence and .28

for integrity) than at high levels (.14 for benevolence and .13 for integrity). However, the slopes for high (.35) and low levels (.33) of ability beliefs were not significantly different. These results suggest that increases in benevolence and integrity beliefs weaken the positive effects of COO on product evaluation while an increase in ability beliefs has no such effect. Thus, the results of the slope analysis combined with hierarchical moderated regression analysis results provide support for hypotheses 2a,2b, and 2c.

Table 4: Slope Analysis for Various Levels of the Trusting Beliefs for COO- Product Evaluation Relationship

Slope for various levels of	COO Effect → Product Evaluation	
	Low (M-SD)	High (M+SD)
Ability Beliefs	0.35	0.33
Benevolence beliefs	0.32	0.14
Integrity beliefs	0.28	0.13

We repeated the same two analyses described above in which the dependent variable was purchase intention. The results (Table 5) show that none of the control variables were significant in Step 1. The addition of the three trusting beliefs and COO in step 2 significantly increased the variance explained ($\Delta R^2 = .19, p < .001$). The findings indicated that COO was significantly related to purchase intention ($\beta = .25, t = 3.25, p < .001$). This provides support to our third hypothesis. While integrity beliefs had a significant positive relationship with purchase intention ($\beta = .21, t = 2.76, p < .001$), the other two trusting beliefs lacked such significant relationships.

Table 5: Hierarchical Moderated Regression Analysis Results (Dependent Variable: Purchase Intention)

Variables	Step 1		Step 2		Step 3	
	β^a	t-value	β^a	t-value	β^a	t-value
Controls						
Familiarity with toys	.11	1.29	.04	.53	.01	.14
Familiarity with country's products	.10	1.08	.11	1.10	.09	1.12
Familiarity with store	.07	.76	.09	1.06	.07	.79
Ethnocentrism	.11	1.33	.12	1.38	.08	1.14
Price perception	.10	1.09	.06	.73	.03	.46
Main effects						
Integrity (1)			.21	2.76*	.22	2.94*
Benevolence (2)			.13	1.19	.10	1.12
Ability (3)			.12	1.48	.09	1.02
COO (4)			.25	3.25*	.23	3.18*
Interaction Effects						
1 x 4					-0.23	-2.24*
2 x 4					-0.27	-2.75*
3 x 4					-0.21	-2.08*
R ²	.14		.33		.59	
F	4.94*		7.68*		15.66*	
ΔR^2			.19		.26	

N= 124

^a Standardized coefficients, * p < .001

As shown in Table 5, in step 3, the addition of the two-way interactions increased R² by 26% (p<.001). All three interactions were negatively and significantly related to purchase intention. These results combined with the results of the slope analysis conducted for the COO- purchase intention relationship (Table 6) support hypotheses 3a, 3b, and 3c.

Table 6: Slope Analysis for Various Levels of the Trusting Beliefs for COO-Purchase Intention Relationship

	COO Effect → Purchase Intention	
Slope for various levels of	Low (M-SD)	High (M+SD)
Ability Beliefs	0.29	0.15
Benevolence beliefs	0.33	0.17
Integrity beliefs	0.36	0.16

DISCUSSION and IMPLICATIONS

The major thrust of this research lies in understanding the factors which motivate consumers to buy products with a negative “made in” claim when sold at specific stores. We suggest that consumers’ trusting beliefs, i.e. benevolence, integrity and ability beliefs, about a store can moderate the relationships between COO effects and product evaluations and purchase intentions. In other words, we hypothesize that the significance of COO effects on consumers’ product evaluations and purchase intentions weakens when consumers have high levels of trusting beliefs about a store. Our findings indicate that those three beliefs affect the consumers’ evaluations of and purchase intention to buy products with a specific “made-in” label. More specifically, the results indicate that when consumers’ benevolence and integrity, but not ability, beliefs about a store increase, COO becomes less important in forming their product evaluations. The results further show that increases in all three beliefs lessen the effect of COO on consumers’ purchase

intentions. In other words, when consumers believe that a store is benevolent, honest and competent, COO bears less weight in their product evaluations and purchase intentions.

This study has theoretical implications. Recently, researchers have been questioning the relevance of COO effects. While COO may have lost some of its importance in a truly global business world where it is difficult to trace back the true origins of products for some product categories, our findings show that COO is still an important cue in consumer decision making. Specifically, consumers use COO to make judgments about product quality or purchase decision.

Our findings also contribute to the existing COO literature by providing further support to research suggesting that COO effects weaken when used in combination with other external cues. Previous studies document that consumers use multiple cues rather than a single cue in their evaluations and decisions, listing such factors as store image or brand name as the external cues typically used. In this study, we suggest that three trusting beliefs about a store can also be included to the list of potential external cues.

Managerially, our findings offer some interesting implications for both manufacturers and retailers. Given the massive product recalls and safety concerns in recent years, many manufacturers have suffered in terms of their sales and profits. Consumers have become increasingly skeptical about purchasing products coming from certain countries. Our findings show that manufacturers can reverse this cycle, or at least minimize their losses, if they choose as their channel members those retailers that consumers trusting. Similarly, if they can signal that they are benevolent and honest stores, retailers can balance their customers' negative evaluations of products made in certain countries with negative image. Furthermore, by reinforcing customers' trusting

beliefs, retailers can increase the likelihood that those customers will purchase products coming from countries like China.

Despite its managerial and theoretical contributions, this study has some limitations which can and should be explored as new avenues for research. One such limitation is the generalizability of the findings. We examined the toy industry in our study. Given the recent product recalls and concerns, the toy industry presents an ideal case to study the effect of trusting beliefs on COO effects. Future studies may test the same relationships using different product categories. Also, in this study, we investigate the individual effects of three trusting beliefs. It would be interesting to examine the interactions among those three beliefs and their impact on COO effects. In this study, we do not investigate how consumers develop those trusting beliefs about a store. Future studies may want to look at the mechanisms and signals that consumers use to develop their trusting beliefs about a store. Finally, it would be highly interesting to understand whether consumers' trusting beliefs in a retail store weaken the negative impact of product evaluations on their purchase intentions.

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