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# Country-of-origin effects in the entrepreneurial context

An empirical evaluation of consumers' perceptions of product quality and purchase intentions with regard to new ventures' liabilities of newness.

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## **Abstract**

The purpose of this study is to explore whether communicating the liabilities of newness can justify young ventures' offshoring decisions to such an extent that it moderates country-of-origin (COO) effects. We adjust the established concept of COO effects to the entrepreneurial context and therefore include the country of ownership (CO) instead of the country of design (CD) next to the commonly used variables country of parts (CP) and country of assembly (CA). 396 respondents were randomly assigned to one of eight survey groups, while only some respondents were exposed to product advertisements for bicycles and solar panels that contained a communication-manipulation. The effects of country of ownership, country of parts and country of assembly on perception of product quality and purchase intention show to be significant based on the performed regression analysis. Independent-samples T tests show that the hypothesized moderating effects of both product familiarity and the communication of liabilities of newness on the strength of the COO effects are not significant. This suggests that communicating the liabilities of newness is no adequate measure to mitigate COO effects.

### *Keywords:*

Country of origin; Country of ownership; Country of parts; Country of assembly; Quality perception; Purchase Intention; Liabilities of Newness; Entrepreneurship; Experiment

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## List of Abbreviations

b	Coefficient
CA	Country of Assembly
CD	Country of Design
CO	Country of Ownership
COO effects	Country-of-Origin effects
CP	Country of Parts
e.g.	For example
Et al.	Et alia (and others)
FLE	Front Line Employee
MPP	Management, Policies and Practices
SE	Sweden
S.e.	Standard Error
SVK	Slovakia
VC	Venture Capital

# 1. Introduction

## 1.1 Background

New ventures from Sweden often have to compete with internationally established companies. In order to learn about the challenges they face as a young venture and their subsequent need to offshore to countries with comparably low-cost structures, a set of interviews has been conducted:

Company A offers its customers a variety of meat jerky and puts the meat product under a Scandinavian image to the market. Due to their smallness, it was however not feasible to set up their own production facility in Sweden. Main reasons are not only costly certifications needed but also the difficulty to find a manufacturer within Sweden who would produce the small volumes a new venture typically starts with. The company emphasized that they would not have survived up to this point if they had not decided to outsource the “product assembly” to Estonia. So far, they have not communicated the Estonian origin of the product to their customers out of fear that this could undermine both the perceived product quality and the company’s authenticity.

Company B offers a high-quality sunscreen fitting surfers’ special lifestyle. The assembly of the products is done in Lithuania and Bulgaria; however, the company only mentions that it is “Made in EU”. Nonetheless, they do emphasize that the product development was conducted in Sweden and that the design originates from Sweden as well. The founders’ main reason to offshore production was the national cost framework. As a consequence of keeping the production in Sweden, the company would not have been able to have competitive prices on the global market. This is especially the case due to their smallness. Our interview partner however does not rule out to reshore production back to Sweden at a later stage, especially because the brand aims at promoting environmental friendliness, which is inconsistent with the current manufacturing processes.

Company C developed a consumer electronic product which is directed towards smart home enthusiasts. While the new venture is based in Sweden, the entire electronic parts manufacturing process had to be offshored. The offshoring decision was purely taken due to the high Swedish cost level of manufacturing electronics. However, the final assembly steps, including casing and packaging, take mainly for control purposes place in Sweden. The company mentions in addition that they want to stand out to be as Swedish as possible in order to convey a quality

feeling to their customers. Similar to Company B, it is the long-range objective to reshore the parts manufacturing and to have all assembly steps take place Sweden.<sup>1</sup>

It is generally comprehensible that the creation of physical products is rather resource-intensive. Thus, all three young ventures were driven to offshore certain value creation steps due to economic externalities and the desire to remain competitive by offering products at an appropriate price level. The decision to offshore refers to an increasing trend reinforced by the progress of technology and an ongoing globalization (Kosala et al., 2016). Over the course of decades, the intensifying globalization and an increased appeal for many other companies to internationalize their supply chain's core activities, took place. A phenomenon that appeared through new operations beyond own borders is described through country-of-origin (COO) effects. As a consequence, a myriad of studies dealt with COO effects in order to examine the true magnitude of its nature (Chao, 1998; Insch & McBride, 2004; Hamzaoui & Merunka, 2006). They have shown that marketers recognize those COO effects to entail a major significance within the framework of consumer purchase intention (Lin & Chen, 2006), as consumers most commonly consider where the origin of a product lies and where it is manufactured (Parkvithee & Miranda, 2012).

While Costa et al. (2016) discuss that the degree of COO effects differs depending on the industry and product class, COO is also closely associated with entailing a crucial cue of product quality to the outside (Rezvani, 2012). A product's quality however exhibits to have a significant interdependence with consumer purchase intention, which made the virtue of COO effects a central aspect to be observed in relevant literature on purchase behavior and international business (Ghazali et al., 2008). Intertwined with theory, global brands have created perceptions among consumers that have led to a creation of COO images and are increasingly attached to their home countries. Hence, Sweden may be associated with effectiveness and cleanliness, Germany stands for dependability and quality and Japan for instance suggests a perception of high and future functionality (Anholt, 2000).

Deriving from that, the process of globalization has unlocked opportunities and lowered thresholds that in turn provide a variety of opportunities for new ventures with regard to their products and corresponding supply chains. While there is the upside of operational freedom, young ventures do also compete with established and mature ones on a global scale. This means that consumers need

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<sup>1</sup> Questionnaire for interviews is to be found in Appendix 1.

to be approached, who have developed habits and routines, i.e. they are aware of order channels and product qualities of already established companies.

Stinchcombe & March (1965) introduce the concept of *liabilities of newness* and *liabilities of smallness* which are commonly observed phenomena among new ventures. These liabilities include not only internal challenges due to non-proven organizational structures, but also external challenges such as a non-existent base of recurring customers and missing brand benefit effects. As a consequence, young ventures are subject to rely on the fact that consumers build up trust and thus they have to deliver their promises at a satisfying level in order to retain them (Stinchcombe, A.L. & March, J.G., 1965).

For the purpose of understanding the COO effects in the context of the aforementioned liabilities of newness and smallness, but also to prepare for our research, we conducted the three introductory interviews (Company A, B and C). All of them have experienced liabilities of newness and smallness and therefore had to take offshoring decisions. These semi-structured interviews inform not only our understanding of young ventures' diversity of challenges, but also support the relevance of our research. All three companies are based in Sweden and intend to highlight their Scandinavian origin in their communication with customers. Still, they do not communicate that the majority of the parts/ingredients are from foreign countries and that most of the product assembly is executed in Eastern-European low-cost countries.

In order to avoid misconceptions with regard to the usage of terminology throughout this paper, Table 10 provides definitions of relevant key concepts of this study in alphabetical order.

## **1.2 Research Question**

The findings from the aforementioned company interviews and insights into key concepts (Table 10, appendix), inform us about the central aspect of our study. Hence, we aim at finding an answer to the following research question:

*To what degree can a new venture mitigate country-of-origin effects by openly communicating its liabilities of newness to prospective customers?*



### **1.3 Research Purpose**

Our research contributes to the ongoing debate by linking country-of-origin effects and the theoretical framework of new ventures' liabilities of newness in the marketplace. Based on eight different sub-surveys (with and without communication manipulation) and the correspondingly collected empirical data, we strive to examine the effects of the communication of new venture's offshoring decisions toward (prospective) customers. As this has not been done before, we expect to provide both relevant and insightful contributions to a substantial gap in this field of study. Due to the high operating cost structure in Sweden, overall Scandinavia and also in large parts of Western Europe, these contributions may prospectively function as a signpost for new ventures facing a similar situation like Company A, B and C. Those ventures that could benefit the most of such finding on the significance of communication are those not having received external funding and are thus forced to offshore some of their value creation steps. However, there may be a perceived risk as sub-element of determined overall value with regard to customers' product quality assessment. Hence communication may lower the inhibition threshold of purchasing such hybrid product (Snoj et al., 2004).

### **1.4 Outline**

Following the introduction and research question, the theoretical framework and foundation for the paper will be presented. This includes the cornerstones of relevant literature, such as COO effects, communication within the context of COO effects, liabilities of newness and country images. Eventually we are going to derive our hypotheses from the previously discussed theory. The methodology section will outline the research design and give insights into the survey that 396 respondents completed. For the purpose of the analysis, the survey results will be used to test the different hypotheses, whereby a range of different statistical methods is applied. Thereafter, we will discuss the findings from the previous section and draw final conclusions. Eventually this paper presents practical implications, as well as potential lines for future research.

## **2 Theoretical Framework**

### **2.1 Country-of-origin effects**

Various studies on COO effects have been conducted over the recent decades. At the same time, an increase of the ongoing phenomenon of globalization and the higher financial and organizational appeal for companies to internationalize their supply chain's core activities took place. These studies were either of single-cue (one independent variable) or multiple-cue (various independent variables) nature (Chao, 1998; Inch & McBride, 2004; Hamzaoui and Merunka, 2006). The complexity of COO effects becomes clearer when analyzing the status quo of companies' multinational set-up, which causes rivalry abroad (Ettenson, 1993; Samiee, 1994). As a result of this, there has been a movement in research to find out more on manufactured "bi-national" goods. At the same time, there is a tendency that an increasing number of products is subject to work impact from various countries, whereas those may exhibit different levels of economic maturity (Chao, 1998). Elliott and Cameron (1994) found in their study that there is a substantial quality difference if the only distinction among them refers to listed country-of-origin properties.

Due to the fact that the compelling nature of worldwide procurement entails a versatile 'personality' (Samiee, 1994), it is of importance to take a closer look at these individual components. It is also crucial to keep in mind that quality assessments themselves vary among regions and countries (Abraham & Patro, 2014). Previous studies recognize the construct of country-of-origin as a composition consisting of the country of design, country of parts and country of assembly. Inch and McBride (2004) define the country of design as the country where the product was conceived and engineered. The country of assembly is the country where the majority of the product's final assembly took place, while the country of parts is the country where the majority of the materials used in the product came from (Inch & McBride, 2004). Closely connected to the aforementioned three aspects is the eventual product perception by the customer. In the context of previous studies distortions in consumers' product assessments were determined, which however were caused by provided COO information in a single-cue framework (Chao, 1998). When focussing on a multi-cue framework, then COO effects showed a stronger impact than for instance the added brand effects (Nes & Bilkey, 1993; Tse & Gorn, 1993). During these studies, parameters as for example brand, price or the retailer's reputation were considered. Other

than that, various multiple-cue models with embedded intrinsic and extrinsic cues have demonstrated the virtue of informational cues beyond the COO cue to temper corresponding COO effects (Chao, 1998).

Perceived product quality has been defined by Parasuraman et al. (1998) as the consumer's judgement about a product's overall excellence or superiority. According to Insch and McBride (2004), it is then distinguished between design quality and product quality. In this thesis, we will focus on the product quality. Previous literature has shown inconsistent results for the COO effects on design quality (Chao, 1998). In Chao's experiment, the respondents were exposed to a printed advertisement of a product. The country of design, country of parts and the country of assembly were indicated to the respondent, yet no definition was provided. Considering that the underlying definition of design refers to the product's concept development and subsequent engineering (Insch & McBride, 2004), we believe that an indication of the country of design might be misleading in the sense that the respondent thinks of it as the country where the visual appearance of the product was worked out. This would however not be consistent with the definition. We therefore replace the term country of design by country of ownership (CO). The country of ownership is the country in which the venture is situated and where it operates from (Thakor & Lavack, 2003). We assume that this coincides with the country where both the original concept and the subsequent engineering are generally happening. This is not the case for all new ventures, but neither it is for all mature companies. That fact does represent a limitation to our research design, yet we argue that it is more appropriate than using the country of design, especially in the context of entrepreneurship.

Chao and other papers distinguish between *design quality* and *product quality*. This distinction becomes obsolete when replacing the country of design by country of ownership, due to the previously mentioned high chance of misinterpreting of the term design. We thus argue that country of ownership is one element of perceived product quality just like the country of parts and the country of assembly. Thakor and Lavack (2003) included the country of corporate ownership in their experiment and found that the country of manufacture has no significant effect on the perceived product quality evaluations when the country of ownership was present. They argue that the country of ownership influences the brand image to such an extent that the perceived brand quality is based on the country image.

## 2.2 Liabilities of newness

Due to the width of findings it is crucial to take a multi-cue look on COO effects, as the omnipresent significance and temptation to offshore is high for new ventures in countries with high-cost structures. This move of gaining a prospective competitive edge may decide on survival or the requirement of dropping out of the market in today's complex corporate atmosphere of multinational operations. Reasons making this step necessary can be found in the lack of a new venture's track record or as that the founders could not yet manage to build up the company brand. This in turn would make it difficult to achieve a rather high turnover in sales at similar price levels to competitors' products. The line of argumentation is based on the concept of *liabilities of newness*, which was first introduced by Stinchcombe and March (1965). The authors explore the relation of society outside of organizations to the internal life of organizations. According to Stinchcombe and March, liabilities of newness are the main reason for a high early death rate among new organizations. One major problem for these organizations is the lack of established structures including experience of relevant tasks within the company. When starting a new organization, new roles are created and have to be learned by the person in charge. This person has no predecessors they could learn the relevant skills from. This fact results in costs of inefficiencies that persist up to the moment when the person fully develops the needed skills. The lack of standard routines strengthens these inefficiencies (Stinchcombe & March, 1965). Another major issue for new organizations is that they usually miss major relations to other organizations. Established companies have stable ties with relevant stakeholders. New organizations first have to build these ties and will especially in the beginning have to rely on trust towards strangers. In terms of customer relationships, new ventures face a huge disadvantage compared to established organizations. These have recurring customers who have the necessary knowledge about all services and products of the organizations and know how to use their channels of ordering. Furthermore, they know about the product's quality, they can appropriately assess prices and know whom to talk to within the organization (Stinchcombe & March, 1965).

In line with Stinchcombe and March, Aldrich and Auster (1986) deal with strengths and weaknesses of old and new organizations. The liability of age represents the situation of established organizations already being well known and having a large market share. New organizations therefore have to find their niche within the industry in order to set themselves apart from the established organizations. This contributes to the phenomenon that on the populational

level of new ventures dissolution rates in early stages are very high; yet so is the rate of new ventures entering the market (Aldrich & Auster, 1986). The authors distinguish between internal and external liabilities of newness. While the internal liabilities mainly consist of the clarification of new roles, the acquisition of qualified employees and the struggle to figure out the most cost-effective operational processes, external liabilities are less influenceable for new organizations. Brand recognition of established companies represents one of these factors. New organizations therefore rely much more on positive differentiators than big companies do. The authors also state that new ventures have to spend a lot more money on advertisements, while established companies could mainly focus on the maintenance of existing customer relationships. Together with the help of new technologies, new ventures are also able to engage creatively with particular marketing measures and might therefore be able to keep costs for advertisements at a reasonable level (Schindehutte et al., 2009).

Especially in stable industries, old organizations will benefit from their experience, i.e. learnings that result from mistakes they made in the past. This experience is an asset which is hard to cope with for new organizations (Aldrich & Auster, 1986). A further disadvantage compared to established organizations - and this is in particular of interest in the context of the necessity to offshore production for new ventures - is that established companies often have already overcome technological production barriers. They can produce a product cheaper using a technology with more significant returns to scale (Aldrich & Auster, 1986). These organizations often have their own production facilities with the necessary machinery in place.

Aldrich and Auster (1986) further discuss liabilities of smallness, which mainly refer to financial issues small organizations face. They often have to pay higher interest rates for capital than large organizations and encounter problems when raising capital. While most organizations are self-financed in the beginning, seed capital is needed in most cases for expansion or in order to solve cash-flow problems.

A discussion on the liabilities of newness would be incomplete if neglecting counter-arguments that have been presented by scholars. Oviatt and McDougall (2005) acknowledge the existence of liabilities of newness, but they also highlight the potential benefits of newness. According to their study, new ventures learn quicker and are better able to adapt to new situations, which is especially helpful in an internationalized context. The lack of established processes leaves them free in their choices when internationalizing (Oviatt & McDougall, 2005). One way to overcome the liabilities

of newness could therefore be an early internationalization of production processes. This holds especially true with regards to adaptive capacities and a global establishment of new relationships.

### **2.3 Product involvement**

Leading on from that, end users commonly only engage with a product and its quality properties if there is any kind of personal interest entailed (Ekström, 2010). This means that the appeal among various alternatives on hand is assessed. Thereby, it is distinguished between *high involvement products* and *low involvement products*. In case one, customers are willing to engage in a rather lengthy product assessment process to find relevant information about a product. However, low involvement products are purchased by the type of customer who is not overly interested in a particular product and less willing to sacrifice time and money in order to acquire relevant information for the product assessment process. It should be noted that expensive and complex products generally go hand in hand with a high product involvement. In this case, the nature of the interest lies in the financial implications.

From this theory, it can be concluded that the targeted customer may pay less attention to product details like the country of origin when product involvement is low (Nugroho et al., 2014).

### **2.4 Signaling theory and the role of communication in the context of COO effects**

Connecting to the aforementioned, there is a need to compensate for the asymmetric product information and insights between the seller/new venture and the prospective customer. A reasonable approach to close this gap is signaling as element of direct communication between these two parties. No matter whether new venture or established company, one is in the need to persuade prospective customers of the product quality which it affirms to the outside (Bulbulia & Sosis, 2011). However, the drawback for new ventures is the lack of an established brand, which is usually associated with a certain reputation of quality. It comes naturally to have hesitations about a product's features if these are not immediately recognizable for the customer. When a company undertakes effort to convey their truthfulness with regard to a product's properties, then this is called signaling (Helm & Mark, 2007). This may be a chance but also a necessary step for new ventures in order to overcome the liabilities of newness on hand.

So far, there are no studies on the mitigating effect of a new venture's open communication of liabilities of newness on COO effects. However, we can construct a theoretical framework that would suggest such an effect.

Entrepreneurial marketing literature (Schindehutte et al., 2009) introduces the concept of the four Cs, which are replacing the four Ps from traditional marketing literature. The four Cs stand for co-creation, communication with communities, customized value and convenience.

Especially the communication aspect is of interest for the study at hand. Entrepreneurial marketing literature emphasizes the importance of building a community that interacts with the brand, instead of solely promoting the product and forcing it onto the customer. This is in line with the idea that the customer is a co-creator of the product and thus is involved in its further development. The authors state the following: "Relationships are typically built around a mutual exchange of information to increase customer satisfaction, trust, respect, loyalty and customer lifetime value" (Schindehutte, et al., 2009, p.174). By exchanging information, a brand can therefore gain a customer's trust. This theoretical suggestion is in line with Kang and Hustvedt (2014), who studied the role of consumers' perceptions of transparency and social responsibility on the extent that customers trust a brand. They found that transparency about the production processes and conditions has a positive and significant effect on trust as well as on the general attitude towards the brand. Reynolds and Yuthas (2008) previously found the same effect.

Taking these findings as a basis, we can complete the theoretical framework by considering research on the effect of trust on purchase intention. Chaudhuri and Holbrook (2001) studied the effect of brand loyalty on brand performance taking into account effects from brand trust and brand affect. The researchers conducted a field survey with 4,380 respondents, whereby 30 respondents for each of the 146 products represented 107 brands. Their results show that brand trust has a significantly positive effect on the purchase loyalty. Gefen et al. (2003) studied the effect of trust in an e-vendor on the customer's online purchase intention. Their questionnaire resulted in 213 responses which showed a positive effect of trust on the intention to purchase items from the e-vendor the respondent last visited again. Even though these results mainly give an insight in online behaviour and in effects of trust in the online environment, it shows that trust does play an important role for purchase intentions.

Sirdeshmukh et al. (2002) analyzed the behavior of service providers that build trust and the mechanisms that convert the consumer trust into loyalty. The relationships were tested in the

contexts of retail clothing and airline travel. When it comes to trust, the authors distinguish in their study between trust in frontline employees (FLE) and trust in management policies and practices (MPP). Amongst other effects, they hypothesized a positive effect between trust in FLE and MPP on the consumer's loyalty to the company. The results show a small effect of trust in FLE, but a great effect of trust in MPP on loyalty. Especially in the context of offshoring decisions, trust in the management practices and policies is crucial. Moving on, both trust and the perception of quality influence the final purchase decision. Hence, it may be assumed that trust building with prospective customers may enhance to raise a customer's perception of quality. Such perception may only be temporary; however, its nature may be shaped through venture-customer communication (Elliott & Cameron, 1994).

## **2.5 Hypotheses**

Nagashima (1970) was the first to deal in depth with country images and defined it as "particular picture, reputation, and stereotype towards products of a specific country" (Lin & Chen, 2006, p. 249). In contrast, country image may refer to an emotional framework, in which associated thoughts with a country's people play an important role (Maher & Carter, 2011).

It is a common habit, caused by information perceived in the course of a lifetime that a certain level of expectation is assigned to every country. Thus, variables like stereotypes, ethnocentrism, the interdependence of a country's image and other product features, as well as demographic, social and economic parameters may play into the country perception (Vrontis, 2006). That in turn means that the eventual product quality assessment refers back to several different factors that a country from within the context is associated with. In other words, the country image is a key determinant and a positive country image, as a result of an evaluation process of the aforementioned parameters, may lead to a higher quality perception, and vice versa. In real life, this may entail severe consequences for new ventures and their sales, depending on where their locations of ownership, part production and assembly take place. A major reason for this phenomenon is the fact that generally new ventures' product quality is derived from the country's image as they could not yet build a familiar brand. This finding shows to what extent a country's image can act as a mighty marketing instrument in a competitive business landscape (Bannister & Saunders, 1978). Extending on that, goods from economically less developed countries might become subject to an unfavorable negative country image. Goods from rather developed countries



are expected to be associated with a favorable positive quality image (Bannister & Saunders, 1978; Cordell, 1991). That means for marketing associates to beware of the power of the country image as potentially stimulating tool and of how to approach the end user (Rezvani et al., 2012).

Adding to the quality perception framework, scholars have shown that there is an effect of a country image on the eventual purchase intention (Chen et al., 2011). Among those important factors, country characteristics and product customer information influence the purchase intention (Laroche, et al., 2005). Studies have found that goods from industrialized countries are preferred to goods from less developed countries (Cordell, 1993). Rezvani et al. (2012) discuss that the country image-quality perception relationship together with the perceived level of workmanship also impact the purchase intention of a customer. Laroche et al. (2005) add to that by describing country image connotations as a general control mechanism for the final buying intention.

On the basis of the theoretical considerations above, the following hypotheses can be formulated:

H1a:

A product will be perceived by the consumer as a higher quality product if the new venture, its manufactured parts and the assembly are from a country with a positive image.

H1b:

A product is more likely to be purchased by consumers if the new venture, its manufactured parts and the assembly are from a country with a positive image.

Closely related to the theories on country-of-origin effects is the degree of a customer's product familiarity. Generally speaking, product familiarity refers to the degree of acquaintance that a consumer possesses concerning a certain product type, e.g. bicycle or solar panel (Rezvani et al., 2012). Thereby familiarity is explained by objective and subjective product knowledge. The first relates to a customer's specific feature knowledge and the latter explains how much a customer assumes to know regarding a product (Park et al., 1994).

Raju et al. (1994) define subjective knowledge, objective knowledge and experience based knowledge as the three different sub-categories for product familiarity. Other scholars however distinguish only between the variable of expertise and absolute familiarity with the respective product (Rezvani et al., 2012). A number of studies in the past ascertained that there is an effect of product familiarity on a product's quality perception. (Hong & Toner, 1989; Johansson, 1989;

Li et al., 2000; Insch & McBride, 2004; Phau & Suntornnond, 2006; Josiassen & Whitwell, 2008). However, there are two lines of reasoning: one suggesting a positive and one suggesting a negative relationship.

The *halo assumption* (Josiassen & Whitwell, 2008) argues that country-of-origin effects are strong when product familiarity is low because respondents have to rely more on the country images as a basis for their judgement. Several studies support this approach (Hong & Toner, 1989; Li et al., 2000; Insch & McBride, 2004; Josiassen & Whitwell, 2008). The opposite line of reasoning argues that COO effects can only be significant and influence product quality evaluation when product familiarity is high, i.e. a consumer might expect a high-quality product if its country of origin equals an economically high performing country. Familiarity is the necessary basis for the ability to judge whether a country is able to deliver a high-quality product (Johansson, 1989; Phau & Suntornnond, 2006; Chen et al., 2011).

As own research demonstrates, many different variables can have an impact on the COO concept at the same time. One of these cues is the respective product knowledge (Chiou, 2003). Leading from here, prior memories and the degree of product knowledge affect how long relevant product information is searched for, but also how long it takes until a final buying decision is taken (Rezvani et al., 2012). Based on previous research, Lee and Lee (2009) state that customers with increased product knowledge are concerned by COO effects at a lower degree. In contrast, those with a rather low level of product knowledge would become subject to COO effects.

At the bottom line, the halo assumption has found major empirical support in the past. Inferring from that, we derive the hypothesis *H2a* from the literature. Following this, we formulate *H2b*, as this echoes what previous studies found with regard to the moderating effect of product familiarity on the strength of COO effects.

H2a:

The strength of country-of-origin effects on the product quality perception is inversely related to product familiarity.

H2b:

The strength of country-of-origin effects on the purchase decision is inversely related to product familiarity.

Prior to this section (see Chapter 2.2), this study's research on the liabilities of newness was presented. These liabilities were confirmed throughout the interviews that we conducted with the aforementioned three young ventures. So far, all three young companies avoid the communication of the COO for any of their processing steps, as they believe that offshoring stages of the processes could undermine their high-quality image to the outside. According to our interview partners, the product quality perception is expected to be rated lower if customers had full transparency about the country of origin. The aim of this study is to find out whether this effect can be moderated by communicating the liabilities of newness and thereby justifying offshoring decisions. Previous literature indicates that transparency leads to trust, and that trust in turn leads to purchase intentions and brand loyalty (Kang & Hustvedt, 2014).

While studies have focused on the relationship of COO effects with both quality perception and purchase intention, no studies have been conducted concerning COO effects and how new ventures could possibly mitigate them through communicating their liabilities. Since communication is contributing to the creation of transparency, a new venture's burden of liabilities of newness shall be examined within the framework of communication. The potential result could be a strengthened level of trust or in contrast it could result in a consumer's indetermination.

Subsequently, we will explore these relationships by testing the following hypotheses:

H3a:

The strength of country of origin effects on the product quality perception is decreased by communicating new ventures' liabilities of newness and thereby justifying their offshoring decisions.

H3b:

The strength of country of origin effects on the purchase decision is decreased by communicating new ventures' liabilities of newness and thereby justifying their offshoring decisions.

### **3. Methodology**

#### **3.1. Research Design: Quantitative vs. Qualitative data**

First, the decision needs to be taken whether to choose a quantitative or a qualitative approach to answer the study's research question. Both methods have their advantages.

Quantitative data would enable us to apply statistical methods based on the data and thus to test the previously stated hypotheses in a way that would allow for statistically significant results. This could be realized with the help of a survey set. A qualitative method in the form of interviews would on the other hand enable us to ask follow-up questions and explore individual opinions deeper, which might create another added value for this study.

In the end, for the sake of integrity we decided to use a mixed method. We used semi-structured interviews with three young ventures from the Skåne area in Sweden in order to learn about their reasons to offshore certain processes (parts manufacturing and product assembly). In addition to online research, this is a crucial step in order to better understand the complex challenges startups can face and gives us real examples of young companies coping with the liabilities of newness.

#### **3.2 The survey: An experimental design**

We decided to use an experimental research design due to the fact that an experiment is best suited for our purpose as it enables us to retrieve unbiased results from the sample. The experiment is inspired by previous studies. Chao (1998), Inch and McBride (2004) and Lee and Lee (2009) used an experimental design. The respondents in the first two studies were shown a printed advertisement of products, which included an indication on the country of design, country of parts and country of assembly. Decomposing the COO construct into the different aspects will bring more sophisticated results than a general "Made in" indication (Inch & McBride, 2004). In our case, this advertisement will be mainly distributed digitally. As argued in the theoretical framework, country of design is replaced by country of ownership, as this is the more accurate term within the context of new ventures. In order to study all possible combinations, our sample will be divided into eight different groups who all receive different sets of information. Having three COO-related independent variables (CO, CP, CA) based on two different countries (Slovakia, Sweden) leads us to eight different COO-combinations. To five groups of on average

46 respondents, one of the five possible survey combinations (see Table 1, survey 1-5) without “communication manipulation” are presented. <sup>2</sup>

Table 1: Overview of country-combinations per survey

	Survey 1	Survey 2	Survey 3	Survey 4	Survey 5	Survey 6*	Survey 7*	Survey 8*
<b>Bike</b>								
CO	SE	SE	SE	SVK	SE	SE	SE	SE
CP	SE	SE	SVK	SVK	SVK	SVK	SE	SVK
CA	SE	SVK	SVK	SVK	SE	SE	SVK	SVK
<b>Solar Panel</b>								
CO	SE	SVK	SE	SE	SE	SE	SE	SE
CP	SVK	SVK	SE	SVK	SE	SE	SVK	SVK
CA	SVK	SVK	SVK	SE	SE	SVK	SVK	SE

\*including communication of liabilities of newness

SVK = Slovakia

SE = Sweden

In order to test for the effect of the fourth independent variable, the “communication” of startups’ liabilities of newness, the three remaining sets of combinations (survey 6-8) will be presented to additional groups of roughly 46 respondents each. Each of these three include the communication manipulation in form of an embedded presentation of the ventures’ liabilities of newness. It is required to randomly separate groups in order to prevent the respondents from figuring out the purpose of the study and thus from receiving biased results (Chao, 1998). All respondents will be shown the advertisements for both products (case 1: bicycle, case 2: solar panel) consecutively. In our case, it is mainly important not to expose a respondent to sets with and without the communication manipulation. Exposing the respondent to two sets either with or without the communication manipulation shall however prevent biased results.

Chao (1998) debated about the necessity to use a multiple-cue experiment instead of a single-cue experiment. In a single-cue experiment, the only cue about the product that is presented to the respondent is the country-of-origin. Multi-cue experiments can for instance include other aspects such as features, company properties, price and brand. In this respect, Chao states that “multiple-cue models incorporating various intrinsic and extrinsic cues have shown the efficacy of

<sup>2</sup> See Appendix 2 and 3 for the surveys 1 and 6

informational cues other than the COO cue in moderating the COO effects” (Chao, 1991, p.1). This suggests that a multi-cue model leads to more sophisticated results when it comes to COO effects. As a consequence, we decided in favor of the latter.

### **3.3 Sampling**

In preparation for the survey, interview partners in form of new ventures were selected. Since liabilities vary among industries, ventures with physical goods were the only ones taken into consideration.

Following on time and resources limitations, this study uses a non-probability (convenience) sampling approach with regard to the survey completion. The set of respondents mainly lives in Sweden and Germany and are approached through personal networks, social media and university (in person) The total number of people to complete the eight sub-surveys is fixed at a minimum of 360 respondents. For sampling purposes, the minimum age for respondents is defined to be 18 and they must either have a European nationality (except Eastern European) or have their country of residence in Europe. This aspect refers to the need of having a somewhat understanding of the country image of Sweden and Slovakia.

As explained in Chapter 3.5, having respondents from Sweden and Germany is method-wise consistent with the choice of Sweden and Slovakia as the countries to use for the experiment. We have a total number of eight different treatment cells, which we exposed to eight different groups of respondents. While the response rate for contacts from within the personal networks was about 80%, the completion rate of the survey exposure on social media survey groups is estimated to be at about 3%. The last step aimed at approximately balancing the gender and collecting additional Swedish respondents. This shall allow for significant findings in respect of the sampling of Swedes. Furthermore, the conclusion drawn from Swedish respondents might be of interest for new ventures based in Sweden and the Nordics, respectively.

In the end, 396 responses were collected, from which 364 are of use for the final analysis. The difference of 32 results from respondents had to be excluded from the analysis, since they were neither European nor living in Europe. Additionally, people from Eastern Europe were removed due to their potential heightened bias towards Slovakia. This provides this study with an average of about 46 respondents for each of the eight surveys. However, survey 2 and 4 are overrepresented in the overall allocation of respondents due to need of having a representative sampling size for

the triple Slovakia combination. This is a necessary step in order to be able to properly test for the respective CO effect.

### **3.4 Methodological limitations**

In the framework of conducting an experiment, there are certain downsides to be found. Generally speaking, natural field experiments are not yet a widespread approach in entrepreneurship research (Kraus et al., 2016). Hence, even the one or other significant finding might be hard to fit into an overall context and to be interpreted correctly.

With 364 respondents being part of the final analysis, only a rather small sample size is taken into consideration due to external limitations of this study. This poses a limitation to the validity of the final findings (Hsu et al., 2017). Comparing the settings for the survey completion, there were different conditions the respondents were exposed to. While some potentially had the extra minute to digest all provided information before filling in a question, about one eighth of the participants were approached in person. Some of those were potentially rather in a hurry and thus only provided a rather superficial answer, as they did not take the time to digest all information provided in each case.

If a new venture successfully raises external capital at an early stage, liabilities of newness can be compensated. In particular venture capital funding (VC) will help new organizations with an initial stock of goodwill and thus make them less likely to fail at the incipient stage. In contrast to Stinchcombe and March (1965), Levinthal and Fichman (1988) call this phenomenon the liability of adolescence. As VC-funded ventures do not suffer the same liabilities of newness as non-funded ventures, they do not face the direct need to offshore processes due to financial constraints. This is however a central argument in this study. We aim at justifying a new venture's offshoring decision with the encountered liabilities of newness including a lack of financial resources. This is why our findings are limited to ventures that are not VC-funded.

Carryover effects are the basis for another limitation. This phenomenon deals with the case that participants were exposed to two venture scenarios. The result of the first case decision may have affected the subsequent second case decision. Since the settings for both cases are similar, the respondent may have taken certain elements from case 1 for granted in case 2, even though it is potentially not true. Hence, the respondent may not apply the same cognitively complex pattern like in case 1 (Forlani & Mullins, 2000).

Another limitation refers to the potential of receiving biased responses due to an assumption of knowing the purpose of the survey, which in turn may deter responses to a certain degree. The chance is given that respondents assumed that this study looks for a confirmation of COO effects. This is however not the case, neither could any of the respondents assume that there were an overall set of eight different surveys and that some of them contain a communication manipulation. Having said that, the rating may have been adjusted concerning the product quality perception and purchase intention rating (up or down is possible).

A non-probability sampling method has been applied due to the framework conditions of this study. As consequence of doing so, the generalization of the findings is limited as there is a limitation of respondents that could potentially be selected for the completion of the survey. Besides that, due to a rather homogeneous sampling, no significant effects of age, occupation and education could be detected. The fact that the general product familiarity of bikes was very high amongst the respondents limits the possibility to test for effects of product familiarity to the category of complex products, which is represented by the solar panel.

As will be explained under 3.8 (analytical strategy), the methods used to test hypotheses 2 and 3 bare limitations in the sense that they do not allow for testing the impact of confounding variables, potentially leading to findings that neglect interaction effects of different variables.

### **3.5 Country selection**

For the country selection, we selected the most recent “made-in-country-index” from 2017 by Statista as foundation (Statista, 2017). It is a global survey carried out in cooperation with Dalia Research and had 43,034 participants from 50 countries across the world. The survey results indicate the current country images across the globe and give a transparent evaluation of the value of labels.

Based on the index, we decided to use Sweden and Slovakia as the countries for our experiment. Sweden represents the country of high quality with an index rating of 90/100, which ranks it fourth place out of 50. Sweden was ranked first among Swedish respondents and third among German respondents. This is relevant, because most of the respondents to our survey are *residents of Sweden or Germany*. According to the index, Sweden’s strengths are high quality, advanced technology and sustainability.



Slovakia has generally been ranked less often as a high-quality country. In the index, it is ranked 33<sup>rd</sup> out of 50 with a score of 40/100. Considering all countries, Swedish respondents however ranked Slovakia the least often as a high-quality country, suggesting that the country image of Slovakia is not positive compared to other countries.

There are countries that ranked lower than Slovakia among Swedish respondents (e.g. Iran with a score of 27/100). All countries ranked lower than Slovakia however lie outside of the European Union. From the interviews with the three start-ups and from literature on the crucial factors in the decision-making process, especially when it comes to offshoring production, it became clear that offshoring within the European Union is the most common and appropriate option for most young ventures (Roza et al., 2011). Main reason for the three Sweden-based new ventures is that there are almost no legal boundaries or customs constraints. Geographical proximity within the EU is a further factor that makes offshoring within Europe more attractive than offshoring to Asia for instance. As we want to study an offshoring constellation that is as realistic as possible, we decided to choose Slovakia as the supposedly low-quality country, as it ranks lowest among Swedish respondents of all member states of the European Union.

### **3.6 Product selection**

For this study, we decided within the theoretical framework of familiarity, to use one product that people are expected to be more familiar with and one more product that people are prospectively less familiar with. Thereby, more familiar products tend to be simpler products and more complex products might refer to a product that people are in average less familiar with (Conover, 1982). While product complexity can be reflected in the price when purchasing a higher-priced product, one generally gives the decision more thought and might spend more time comparing alternatives (Chang & Wildt, 1994). As we solely ask the respondent about the perceived product quality and the corresponding purchase intention, it does not matter whether the respondent belongs to the target group of the actual product. In the subsequent question whether the respondent would purchase such product, it is outlined that focus is on a hypothetical purchase intention, i.e. if the provided information would convince them to complete the purchase if there was a true buying intention on hand. A person who would not be able to afford to buy a solar panel can still express how he/she perceives the product quality when seeing a respective advertisement. The same holds true for a mind game with regard to a hypothetical purchase intention.

This study's product selection is strongly linked to the country selection. As explained in the previous section, Sweden and Slovakia were selected for this purpose. Additionally, the products that are chosen should somewhat fit the country image. This study takes into account that some products are strongly linked to certain countries e.g. fashion items to Italy (Chao, 1998), which would make fashion items a bad choice in this case.

Eventually, a city bike was selected as the rather familiar and simple product (mechanic), because its focus is on functionality rather than on the design and because it is a product many people can relate to. Realistically, it could be a product of Swedish or Slovakian origin. As for the in average less familiar and more complex product (heavily based on technology and electronics), a solar panel was selected. Neither Sweden nor Slovakia are known for being expert countries when it comes to the production of solar panels. However, as mentioned before, Sweden stands for high quality, advanced technology and sustainability, which are attributes that fit well with solar panels (Statista, 2017).

### **3.7 Variables**

#### **3.7.1 Independent variables**

The most crucial independent variables are the country-of-origin variables.

The country of ownership (CO), the country of parts (CP) and the country of assembly (CA) were indicated to be either Sweden or Slovakia. The variables were coded as dummy variables in SPSS, where Slovakia was assigned the value of '0' and Sweden the value of '1'. This enabled us to test for the effects of the individual variables. Combining the country-of-origin variables in different ways led to different country-of-origin constitutions.

Other independent variables include the country images of Slovakia and Sweden, which are operationalized on a 1-10 rating scale, on which 1 equals a very low general perception of product quality from the respective country, and 10 equals a very high general perception of product quality from the respective country.

Moderating variables are product familiarity and the communication of liabilities of newness. Product familiarity is measured on a 1-10 rating scale, on which 1 equals very low product familiarity and 10 equals very high product familiarity. It was measured in order to test for its effect on the strength of the individual country-of-origin effects.

The communication of liabilities of newness is a dummy variable, indicating whether the respondent is exposed to a survey that includes a communication manipulation. Only three out of the eight surveys include this communication manipulation.

Additionally, we test for the effects of nationality, country of residence, sex, age, occupation and education.

For the analysis, nationality and country of residence are recoded into dummy variables (0 = other, 1 = Sweden). Sex (0 = male, 1 = female) has been recoded into a dummy variable as well. Age is measured as an ordinal variable and grouped into different age groups from low to high (18-25; 26-35; 36-45; 46-55; 56-65; 66+). While education is also measured as an ordinal variable from low to high (High School Diploma; Bachelor's degree; Master's degree; Doctorate degree), occupation is recoded into a dummy variable (0 = other; 1 = students). The latter decision is based on the fact that 250 out of the 364 respondents are students, 94 are employed, which leaves only 18 more respondents representing the self-employed (13) and unemployed (5).

### **3.7.2 Dependent variables**

The first dependent variable in our research is the “perception of product quality”. This variable is measured on a 1-10 rating scale by the respondents, on which 1 equals a very low-quality rating and 10 the highest quality rating.

The second dependent variable is the “purchase intention”, which is also measured on a 1-10 rating scale, on which 1 equals very low purchase intention and 10 very high purchase intention. The respondents were asked to state their purchase intention under the premise that they are currently looking to buy a solar panel and that the bike / solar panel at hand was equal to the competitions' products when it comes to price and warranty terms. This way it was made sure that purchase intention was solely based on the information provided in the survey and not on the individual situation of the respondent.

### **3.8 Analytical strategy**

In order to test the first hypothesis, we perform a multiple linear regression. This method enables us to analyze how the value of the dependent variables change when any of the independent variables is varied. We can therefore test the individual effects of country of ownership, country of parts and country of assembly on both the perception of product quality and on the purchase

intention. Similarly, we can test for the effects of other independent variables, such as country image, sex, age, occupation, education, nationality and country of residence.

Hypotheses 2 and 3 test the moderating effect of product familiarity and the moderating effect of communicating the liabilities of newness on the strength of the country-of-origin effects. The most common method to test for such moderating effects is to test for interaction effects in an ANOVA (Analysis of Variance). This method would however require that data on all possible combination of CO, CP and CA are present. A Slovakia-based (Slovakian ownership) new venture that offshores production to Sweden due to liabilities of newness does not reflect a realistic situation. In such a case, it would not be possible to argue with liabilities of newness as the reason for the offshoring decision, which would take away the ground for comparison.

Instead of an ANOVA, independent-sample t-tests are performed with SPSS. These tests compare the means of two groups from within the same sample. Respondents were grouped in order to distinguish between those with a low product familiarity and those with a high product familiarity. Similarly, we distinguish between respondents who received the communication-manipulation and those who did not. Comparing these groups' mean perceptions of quality and purchase intentions enables us to draw conclusions about the moderating effects of product familiarity and of the communication manipulation on the country-of-origin effects' strengths.

It has to be noted that this method does not allow testing for the impact of confounding variables. However, it still gives valuable insights and is an appropriate method to test the hypotheses.

### **3.9 Advertisement**

The respondents are asked to rate the quality of a product (bicycle and solar panel) based on an advertisement they see. The advertisements are kept as simple as possible in order to place the focus on the presented product. This allows respondents to exclusively focus on the personal quality perception, solely based on the picture and descriptive text. The designed multiple-cue method exposes respondents to various parameters, while however price and brand do not find consideration in the advertisement. The relevant cues are the country of origin, being divided into country of ownership, country of parts and country of assembly, product name, company and founder properties, and in the case of manipulated surveys, the communication/justification section depicts an additional cue (see Chapter 3.6).

Respondents for three out of eight surveys receive a communication-manipulation, which is presented to them in form of a descriptive text, explaining new ventures' liabilities of newness. For this purpose, this content is incorporated into the standard product advertisement without the manipulation. Only country combinations for which it can be argued with the liabilities of newness as the reason to offshore parts of the processes are considered for the communication manipulation. This is why the surveys in which the country-of-origin variables are all 'Sweden' or all 'Slovakia' are only used without a communication manipulation. In line with this, also scenarios in which a Slovakian-based venture would offshore to Sweden are not considered at all.

### **3.10 Communication manipulation**

*Table 1* shows an overview of all country-combinations in the eight surveys that were sent out. While the advertisement for the bike in survey 1 indicates that all steps including country of ownership, country of parts and country of assembly take place in Sweden, the advertisement for the Solar Panel indicates that only the country of ownership is Sweden, and that both the parts manufacturing and the eventual product assembly take place in Slovakia. Surveys 1-5 do not include any manipulation in terms of communicating the liabilities of newness in order to justify offshoring decisions. However, in contrast to survey 6-8, they do include advertisements in which the "combinations" indicate to be either completely from Sweden or completely from Slovakia. This was done in order to have points of reference in the end. Surveys 6-8 include the above-mentioned manipulation. For these surveys, the country of ownership is exclusively Sweden and at least one other aspect is from Slovakia, so that the advertisements appropriately reflect the phenomenon of Swedish ventures offshoring parts of their processes.

It is important for the products to have relevant positive differentiators from the competitors, because otherwise there will be no reason to consider buying a company's product when the company has no track record and also produces in a supposedly low-quality country. Another important reason refers to the intention of minimizing the bias on the respondent, as a pity feeling for the new ventures might influence the outcome.

The following texts depict an example without manipulation and one with manipulation for each of the two selected products.

### 3.10.1 Bicycle

#### a) Advertisement text without manipulation

Example SE-SE-SE (Survey 1)

“Hello cycling enthusiasts, we are Amanda and Per, and we recently set up our new company in Sweden and just launched the single-gear city bike "Pave champ 2018". It is not only lighter and more robust than existing city bikes, but also runs extremely smoothly. All our parts are sourced from within Sweden, which is also where we assemble our bikes.”

#### b) Advertisement text with manipulation

Example: SE-SE-SVK (Survey 6)

“Hi, we are Amanda and Per, and we recently set up our new company in Sweden and just launched the single-gear city bike "Pave champ 2018". It is not only lighter and more robust than existing city bikes, but also runs extremely smoothly. As a new company, we do not yet have our own established production facilities and due to a currently small customer-base, we have to start with relatively low production quantities. For these reasons, it would be impossible for us to keep all processes within Sweden while still offering our bikes at a fair price. Eventually, we decided to use individual parts coming from Slovakia, however the final assembly of the products takes place in Sweden.”

### 3.10.2 Solar Panel

#### a) Advertisement text without manipulation

Example SE-SE-SE (Survey 1)

“Hej solar community, we are Matilda and Oskar, and we recently established our new solar company in Sweden. We launched a solar panel module with an energy conversion rate and efficiency rating ranking as the number one product being commercially available on the European market in 2018. Our solar cells are built from thin films of organic semiconductors and exhibit above-average endurance. All product parts incl. solar cells are manufactured in Slovakia, which is also the location where we get our modules assembled.”

## **b) Advertisement texts with manipulation**

Example: SE-SE-SVK (Survey 6)

“Hej solar community, we are Matilda and Oskar, and we recently started our solar company in Sweden. We launched the solar panel module "Sun Absorb P3" with an efficiency rating and energy conversion rate ranking as the number one product being commercially available on the European market. Our solar cells are built from thin films of organic semiconductors and exhibit above-average endurance. Just like our fellow entrepreneurs Amanda and Per, we do not yet have our own production facilities and due to our currently small customer base, we have to start with low production quantities. Since we still want to offer our solar panels at a fair price, we decided to get our modules assembled in Slovakia. However, the individual panel parts come from Sweden.”

## **4. Findings and Analysis**

The basis for the analysis is the answer to the surveys of 364 respondents. Originally, 396 respondents participated in the survey. As stated in the methodological chapter, 29 respondents were excluded, because they did not fit the demographic profile that was targeted.

In preparation for the methodological computation of the results, a sequence of preliminary tests for data usability was conducted. These included the creation of scatterplots concerning the relationship of each independent variable with the dependent ones, but also to test for critical correlations among the independent variables. Hence, variables were analyzed in order to prevent overfitting and multicollinearity. Eventually, three respondents were excluded as outliers, since they indicated their product familiarity of bikes to be “1” on a scale from 1 to 10, 1 being the lowest and 10 being the highest product familiarity. The average product familiarity for bikes among the respondents was however 9.18.

Out of the remaining 364 respondents, 201 are female, 158 are male and five preferred not to say. 222 respondents are within the age range 18-25, and 121 respondents are within the age range 26-35. This is a massive overrepresentation of young adults in the sample, which is due to the non-probability sampling approach. For similar reasons, 250 of the respondents are students, while

only 96 are employed and 13 are self-employed. Most of the respondents have a university degree; only 80 respondents indicated a high school diploma as their highest completed education. 133 respondents have the German nationality and 127 respondents have the Swedish nationality, while Dutch (24) and UK citizens (16) are also relatively frequent. 64 respondents have a different nationality. 187 respondents currently live in Sweden, 96 live in Germany, 27 in the Netherlands, 20 in the UK and 34 in other Scandinavian or Western European countries. An overview of the respondents' demographics can be found in the appendix (Table 11). The sample is not fully representative of the population, but is still expected to provide meaningful insights into the country of origin effects and the extent to which communicating the liabilities of newness can have a moderating effect on them.

As mentioned in the methodological chapter, different methods were used in order to test the different hypotheses.

#### **4.1 Regression Analysis COO Effects**

In order to test for the effects of the individual COO variables on the dependent variables "Perception of Quality" and "Purchase Intention", a linear multiple regression analysis was performed for each dependent variable.

Next to the effects of the country of ownership, country of parts, country of assembly and the country images of Slovakia and Sweden, it was tested for the effects of age, sex, nationality, country of residence, education and occupation. None of the latter variables showed to have an effect on the perception of quality. For all demographic variables apart from sex, this can be explained by the fact that the sample was very homogeneous in the respondents' characteristics, which makes it difficult to detect significant effects for some variables.

*Table 2* shows the outcome of the first regression analysis in terms of the unstandardized coefficients of the independent variables for the perception of quality for both the bike and the solar panel. The  $R^2$  values indicate that the model for the bike explains 26.2% of the total variability of the data while the model for the solar panel explains 14.4% of the variability.



The results show significant effects at the 99% confidence level for the country of parts, for the country of assembly and for the country images of Slovakia and Sweden. The effect of country of ownership on the perception of quality is only significant on the 90% level for the bike. For the solar panel, the country of ownership shows no significant effect on the quality perception.

Based on the results, *H1a* can only partly be confirmed. Both country of parts and country of assembly show significant effects on the perception of product quality. The country of ownership effect was however not proven for both products.

**Table 2: Unstandardized Coefficients of Variables in Relation to Perception of Product Quality (N=364)<sup>3</sup>**

	Bike		Solar Panel	
	b	s.e.	b	s.e.
Country of ownership	0.351*	0.205	0.186	0.199
Country of parts	0.705***	0.139	0.481***	0.158
Country of assembly	0.529***	0.152	0.716***	0.146
Country image Slovakia	0.381***	0.046	0.374***	0.048
Country image Sweden	0.217***	0.062	0.220***	0.065
R <sup>2</sup>	0.262		0.144	
*p<0.1; **p<0.05; ***p<0.01		b = coefficient		s.e. = standard error

A similar pattern can be found in *Table 3*, which shows the unstandardized coefficients for the variables in relation to the purchase intention. R<sup>2</sup> values indicate that the model for the bike explains 14.8% of the data's variability, while the model for the solar panel explains 21.5% of the data's variability.

For the bike, the country of parts effect and the effect of the country image of Slovakia are significant on the 99% level. The country image of Sweden has a significant effect on the 95%

<sup>3</sup> The following variables were tested for, but are excluded from the table due to a lack of significance: age, sex, nationality, country of residence, education, occupation

level on the purchase intention, while both the country of ownership effect and the country of assembly effect are only significant on the 90% level. Most effects are stronger for the solar panel. Country of assembly, country image of both Slovakia and Sweden show significant effects on the 99% level. The country of parts effect is significant on the 95% level, but the country of ownership effect is not significant for the solar panel.

Based on the results, *H1b* can partly be confirmed. Overall, the country of parts as well as the country of assembly have significant effects on the purchase intention of the respondents. The country of ownership lacks a significant effect in the context of solar panels.

**Table 3: Unstandardized Coefficients of Variables in relation to Purchase Intention (N= 364)<sup>4</sup>**

	Bike		Solar Panel	
	b	s.e.	b	s.e.
Country of ownership	0.538*	0.298	0.245	0.237
Country of parts	0.586***	0.205	0.469**	0.191
Country of assembly	0.312*	0.252	0.895***	0.177
Country image Slovakia	0.427***	0.069	0.352***	0.058
Country image Sweden	0.229**	0.093	0.411***	0.079
R <sup>2</sup>	0.148		0.215	

\*p<0.1; \*\*p<0.05; \*\*\*p<0.01      b = coefficient      s.e. = standard error

## 4.2 Independent-Samples T Tests for Product Familiarity and Communication Manipulation

In order to test hypotheses *H2* and *H3*, independent samples t-tests were used. They enable us to compare the means of groups within the sample. As explained in the methodological chapter, an ANOVA, which is the most common method to test for interaction effects, was not consistent with our research design. Comparing the means does not enable us to test for the effects of confounding variables, but it still gives adequate insights to test the hypotheses.

<sup>4</sup> The following variables were tested for, but are excluded from the table due to a lack of significance: age, sex, nationality, country of residence, education, occupation

It has to be noted, that the effect of product familiarity could only be tested for the solar panel, as the sample's product familiarity for bikes was too homogenous.

Table 4 shows the differences in the mean perceptions of quality of solar panels per country-of-origin effect based on product familiarity. Based on *H2a* we expected respondents with a low product familiarity to rely more on the country of origins. We would therefore expect those respondents, whose advertisements indicated that either the country of ownership, country of parts or the country of assembly was Slovakia and who indicated a low product familiarity (1-5) to perceive the product quality as significantly lower than those respondents with a high product familiarity.

*H2a* cannot be supported by the findings presented in *Table 4*. Only the country of ownership effect seems to be coherent with the hypothesis, as only in this case the difference of the means is significant. Product familiarity has no effect on the country of assembly effect when it comes to the perception of product quality. Interestingly, when the country of parts was Sweden, product familiarity has a weak but significantly positive effect in the non-expected direction. In this case, highly familiar respondents gave the product a significantly higher quality rating based on the country of parts being Sweden, which indicates that their product familiarity influenced their decision.

Table 4: Differences in the mean perceptions of quality of solar panels per country-of-origin effect based on product familiarity

	Familiarity	Perception of Quality	Sig	N
<hr/> Country of ownership <hr/>				
Slovakia	Low	6.72	0.008***	29
	High	7.72		46
Sweden	Low	7.42	0.334	120
	High	7.59		169
<hr/> Country of Parts <hr/>				
Slovakia	Low	7.16	0.109	101
	High	7.47		158
Sweden	Low	7.54	0.094*	48
	High	8.02		57
<hr/> Country of Assembly <hr/>				
Slovakia	Low	7.07	0.211	97
	High	7.33		126
Sweden	Low	7.67	0.169	52
	High	8.03		89
*p<0.1; **p<0.05; ***p<0.01		Sig = significance		N = no. of respondents

*Table 5* shows the differences in the mean purchase intentions of solar panels per country-of-origin effect based on product familiarity. The results are similar to those of *Table 4*, the only difference being that product familiarity has no significant effect on the country of ownership's strength. Based on these results, *H2b* has to be rejected.

Not finding significant effects of product familiarity is not in line with the hypotheses. However, the impact of product familiarity has been controversially discussed in previous literature, which is why the results are still in line with some of the literature.

To test hypotheses *H3a* and *H3b*, only the effects of the country of parts and of the country of assembly are considered. As these hypotheses are based on the premise, that new ventures offshore parts of their processes to an allegedly low-quality country, only the surveys in which the country of ownership is Sweden are used. We want to test, whether the negative impact of offshoring to Slovakia can be mitigated by communicating the liabilities of newness. This is why also only those respondents for which either the country of parts or the country of assembly was Slovakia are relevant for this analysis.

Table 5: Differences in the mean purchase intentions of solar panels per country-of-origin effect based on product familiarity

	Familiarity	Perception of Quality	Sig	N
<b>Country of ownership</b>				
Slovakia	Low	6.93		29
	High	7.30	0.438	46
Sweden	Low	7.23		120
	High	7.53	0.146	169
<b>Country of Parts</b>				
Slovakia	Low	7.11		101
	High	7.28	0.460	158
Sweden	Low	7.29		48
	High	8.05	0.038**	57
<b>Country of Assembly</b>				
Slovakia	Low	6.93		97
	High	7.12	0.458	126
Sweden	Low	7.62		52
	High	8.00	0.169	89
*p<0.1; **p<0.05; ***p<0.01		Sig = significance		N = no. of respondents

*Table 6* (bikes) and *table 7* (solar panels) show the differences in the mean perceptions of quality and differences in the mean purchase intentions per country-of-origin effect based on whether the

liabilities of newness were communicated or not. For the bike, no effects of communicating the liabilities of newness are detected. For solar panels, the communication of the liabilities of newness has a significant effect on the perception of product quality when the country of parts is Slovakia. The direction of the effect is however not in line with *H3a*, as those respondents who were exposed to the liabilities of newness' communication had a significantly lower perception of quality than those respondents who were not exposed to the communication.

Overall, *Tables 6* and *Table 7* do not show effects that are significant to the extent that a generalizable statement on the effect of communicating the liabilities of newness could be made. The results however rather point towards the communication being rather counter-productive for new ventures. *H3a* and *H3b* are rejected.

Table 6: Differences in the mean perceptions of quality and in the mean purchase intentions for bikes per country-of-origin effect based on communicating liabilities of newness

	Communication of liabilities of	Perception of Quality	Sig	Purchase Intention	Sig	N
<hr/>						
Country of Parts						
<hr/>						
Slovakia	No	6.93		6.46		136
	Yes	6.88	0.831	6.58	0.704	74
<hr/>						
Country of Assembly						
<hr/>						
Slovakia	No	7.05		6.85		175
	Yes	7.07	0.919	6.65	0.493	84
<hr/>						
*p<0.1; **p<0.05; ***p<0.01		Sig = significance		N = no. of respondents		

Table 7: Differences in the mean perceptions of quality of solar panels per country-of-origin effect based on communicating liabilities of newness

	Communication of liabilities of newness	Perception of Quality	Sig	Purchase Intention	Sig	N
<hr/>						
Country of Parts						
<hr/>						
Slovakia	No	7.46		7.29		175
	Yes	7.12	0.095*	7.06	0.239	84
<hr/>						
Country of Assembly						
<hr/>						
Slovakia	No	7.33		7.11		145
	Yes	7.00	0.116	6.90	0.427	78
<hr/>						

\*p<0.1; \*\*p<0.05; \*\*\*p<0.01      Sig = significance      N = no. of respondents

The previous result is supported when comparing the individual surveys as a whole without taking the individual country-of-origin effects, but the whole combination, into account. *Table 8* (bikes) and *Table 9* (solar panels) show the differences in the mean perceptions of quality and the mean purchase intentions based on whether the liabilities of newness were communicated or not. Compared are the groups of respondents of the surveys with the same country combinations, while in each case one of the groups' survey included a communication of the liabilities of newness. The results show only one significant effect. In the case of Sweden being both the country of ownership and parts, but Slovakia being the country of assembly, the mean purchase intention of the group receiving the communication manipulation was significantly lower than the mean of the group who did not receive the communication manipulation. No other mean differences are significant, which supports the rejection of *H3a* and *H3b*.

Table 8: Differences in the mean perceptions of quality and in the mean purchase intention of Bikes based on communicating liabilities of newness

Country of			Communi- cation	Perception of Quality	Sig	Purchase Intention	Sig	N
Owner- ship	Parts	Assembly						
Sweden	Slovakia	Sweden	No	7.64	0.157	6.86	0.741	36
			Yes	7.12		6.71		34
Sweden	Sweden	Slovakia	No	7.56	0.613	7.56	0.047**	75
			Yes	7.43		6.83		44
Sweden	Slovakia	Slovakia	No	6.20	0.176	6.2	0.593	35
			Yes	6.68		6.68		40

\*p<0.1; \*\*p<0.05; \*\*\*p<0.01      Sig = significance      N = no. of respondents

Table 9: Differences in the mean perceptions of quality and in the mean purchase intention of solar panels based on communicating liabilities of newness

Country of			Communi- cation	Perception of Quality	Sig	Purchase Intention	Sig	N
Owner- ship	Parts	Assembly						
Sweden	Slovakia	Sweden	No	7.72	0.617	7.55	0.945	65
			Yes	7.58		7.58		40
Sweden	Sweden	Slovakia	No	7.40	0.956	7.06	0.598	35
			Yes	7.38		7.29		34
Sweden	Slovakia	Slovakia	No	7.26	0.113	7.06	0.267	35
			Yes	6.70		6.59		44

\*p<0.1; \*\*p<0.05; \*\*\*p<0.01      Sig = significance      N = no. of respondents



## 5. Discussion and Conclusion

The goal of this research was to explore whether communicating the liabilities of newness can justify young ventures' offshoring decisions to such an extent that it moderates country-of-origin (COO) effects. Attention is given to the respondents' reaction concerning their perceived product quality and the following assessment of purchase intention. The much-discussed COO concept has been adjusted for an entrepreneurial context. Instead of using 'country of design', 'country of ownership' (CO) has been incorporated alongside the commonly used variables 'country of parts' (CP) and 'country of assembly' (CA). The integration of the COO concept and the liabilities of newness is done for the first time within entrepreneurship research. Interviews with three new ventures from Sweden prior to this study have revealed how problematic the obstacles in form of the liabilities of newness actually are. Hence, the contribution of this study is found in a survey with 396 respondents who performed the role of potential buyers for two selected products (bicycle and solar panel).

In line with our theoretical assumptions, CP and CA showed for both products to have a significant effect on quality perception and purchase intention. The CO however turned out to only have a significant effect on the bicycle but not on the solar panel for both quality perception and purchase intention. This implies valuable practical implications for new ventures with regard to decisions concerning their CP and CA operations. The study also found significant effects of the country images of both Sweden and Slovakia on both the product quality perception and the purchase intention.

Addressing product familiarity, no empirical support was found to confirm the expected 'halo assumption' (Josiassen & Whitwell, 2008). Only in the case of CO findings show to be significant, indicating that the moderating effect of product familiarity is only applicable to the country of ownership effect. Overall, the tendency however points rather towards the opposite line of the 'halo assumption'. This line argues that COO effects can only be significant and influence product quality evaluation when product familiarity is high (Johansson, 1989).

The empirical data also indicates that there is no significant effect to the extent that a generalizable statement on the role of communicating the liabilities of newness could be made. The results however suggest that the respective communication of their liabilities is rather counterproductive for new ventures. In the following a more extensive presentation of all findings is provided.

## **5.1 Country-of-origin effects on the perception of product quality and the purchase intention**

### *Country of ownership effects*

All individual country-of-origin effects show relevant findings in this thesis. The country of ownership effect however deserves special attention in the discussion. As stated in the theoretical framework, the country of ownership replaces the country of design in this thesis. First, it is a more accurate term for what it is supposed to signify. Second, it enables us to fully transfer the COO literature to the entrepreneurial context and study the effect of starting a new venture in a country with a specific country image. Furthermore, the country of ownership effect is the only COO effect that does not fully show the expected results in the analysis.

Both the country of parts effect and the country of assembly effect have shown the results that were expected based on the theory. In line with the findings of Chao (1998) and Insch and McBride (2004), both show a significant effect on the perception of quality as well as the purchase intention. The country of ownership however, shows significant effects only on the perception of quality and the purchase intention of the bike, and the effect is comparably weak.

According to Thakor and Lavack (2003), who also included the country of corporate ownership in their study, the CO effect was expected to be stronger. The authors found that the country of manufacture (CP and CA) has no significant effect on the perception of quality when the CO was present. This is not in line with our findings. While in our study the CO effect is rather weak, both the CP and the CA effects are consistently significant.

This suggests that the country of ownership's impact on the brand image is not as strong as claimed by Thakor and Lavack (2003).

### *Product Involvement*

The country of ownership being significant for the bike, but not for the solar panel, yields interesting grounds for discussion when linking this fact to the concept of product involvement. Expensive and complex products are often linked to a high product involvement, because of the financial implications of a purchase (Nugroho et al., 2014). The solar panel represents such a product that is both complex and comparatively expensive, even though the price was left out as a

cue in the experiment. Theory on product involvement suggests that COO effects are stronger when the product involvement is high. This is based on the assumption that potential customers pay more attention to the information that is provided, which in this case are information on the country of origin. In line with this reasoning, it is surprising that the country of ownership shows a significant effect only for the bike, which is a less complex and costly product compared to a solar panel. This result raises the question for the importance of the individual COO effects for different product categories. Our findings suggest that for products with a high product involvement, especially the country of parts and the country of assembly are important to the customer, while the country of ownership has no effect. Previous literature has already shown that COO effects can differ between product categories (Costa et al., 2016).

### *Product familiarity*

We have shown that the overall country of ownership is not significant for the quality evaluation and the purchase intention of solar panels. However, this can be further differentiated when taking the product familiarity into account. As we have seen in the analysis, the moderating effect of product familiarity could not be shown in this study, except for the case in which the country of ownership is Slovakia. In this specific case, respondents with a low product familiarity rated the quality of the solar panel significantly lower than respondents with a high product familiarity. This suggests that these respondents relied stronger on the country of ownership effect, based Slovakia's comparatively bad country image, when they rated the product quality. This is in line with the halo-assumption that has been introduced in the theoretical framework and is advocated for by the majority of scholars (Hong & Toner, 1989; Li et al., 2000; Inch & McBride, 2004; Josiassen & Whitwell, 2008).

For the greater part, our analysis however does not support the halo assumption. The overall effect of product familiarity could not be proven to go into either direction for all COO effects. The country of parts effect however shows to be affected by product familiarity, yet not in the expected direction. Those respondents with a high product familiarity ranked both indicated a high perception of quality and a high purchase intention for the solar panel when the parts come from Sweden. Their ratings are significantly higher than those of the respondents with low product

familiarity, which suggests that they relied stronger on the country of parts effect. This is in line with of reasoning that is opposing the halo assumption. A number of scholars (Johansson, 1989; Phau & Suntonnond, 2006; Chen et al., 2011) argue that customers can only judge whether a country is able to deliver high quality products when product familiarity is high.

## **5.2 Communicating liabilities of newness and the effect on COO effects**

The central question of interest in this thesis is whether communicating the liabilities of newness can mitigate country-of-origin effects.

As COO effects have never been studied in the entrepreneurial context before, this is the first time this relationship is examined. We have constructed a theoretical framework based on which we hypothesized that communicating liabilities of newness would indeed moderate COO effects. The main considerations in this framework relate to literature on the effect of communication, transparency and trust on the purchase intention. While Schindehutte et al. (2009) mainly emphasize the importance of communication in the relationship-building with customers, Kang and Hustvedt (2014) and Reynolds and Yuthas (2008) clarify that transparency has significant positive effects on building trust. Trust in turn has been found to increase the purchase intention (Gefen et al., 2003) and perception of quality (Elliot & Cameron, 1994) in previous studies.

Signaling product properties to customers has been identified as a strategy for young ventures to persuade potential customers of the superiority of its products compared to established companies' products (Helm & Mark, 2007).

Based on the above-mentioned considerations, the respondents to our survey were exposed to product advertisements signaling the positive differentiators as well as transparently informing the respondent about the country-of-origin properties of the products. To some respondents the liabilities of newness were communicated, thereby justifying the offshoring decisions. As our analysis has shown, the hypotheses on the positive effect of communicating liabilities of newness have to be rejected. The communication does not yield positive effects on any of the individual country of origin effects. The only significant effect was found on the strength of the country of parts effect for solar panels' perception of quality. The effect was however in the opposite direction, indicating that communicating the liabilities of newness has a negative effect. Overall,

the theoretical framework has failed to accurately predict the effect of communicating the liabilities of newness.

If the communication has any effect, our study indicates it to be of negative nature. Signaling product properties should therefore not be combined with communicating the liabilities of newness.

The exact reasons for the slightly negative effects of the communication cannot be identified. Potentially, justifying offshoring decisions might raise pity among the respondents, which is a negative feeling that could result in a lower evaluation of product quality or a lower purchase intention. Another explanation might be that when signaling the positive features of the product, but at the same time communicating openly that the venture is not able to compete with established companies in terms of producing in high-quality countries, might decrease the legitimacy of the venture. Legitimacy is an issue that has been raised by the start-ups that were interviewed prior to this study. All three of them made clear that a great part of their legitimacy stems from the fact that they are based in Sweden. They try to avoid communicating that the country of parts and/or country of assembly are countries with less positive country images than Sweden. Our study suggests that they should refrain from communicating this also in the future.

Addressing the research question *“To what degree can a new venture mitigate country-of-origin effects by openly communicating its liabilities of newness to prospective customers?”*, it has to be concluded that based on our study, communicating the liabilities of newness is to no degree an adequate way to mitigate COO effects.

### **5.3 Practical implications and suggestions for future research**

The practical implications for entrepreneurs are quite straightforward: If the country of parts and / or the country of assembly is a country with an allegedly bad country image, the entrepreneur should avoid communicating this. The marketing efforts should be directed towards building legitimacy by highlighting the products' differentiators, taking away the focus from the country of origin and potentially bad country-of-origin effects.

In this thesis, COO effects are examined for the first time in an entrepreneurial context. Accordingly, our study on the potential impact of communicating the liabilities of newness on the COO effects is the first of its kind. Our findings suggest that the communication has no positive effect. However, in the future studies should test whether our findings can be replicated, ideally using a probability sampling approach, which in contrast to our sampling method would allow for more generalizable conclusions as well as testing for the effect of demographic variables such as age, occupation and education.

Based on the homogeneity of our sample, it was not possible to test for a potential home country bias, which are expected to be reflected studies on COO effects (Balabanis & Diamantopoulos, 2004).

As stated in the theoretical framework, a number of previous studies distinguishes between the design quality perception and the product quality perception as two individual dependent variables (Chao, 1998; Inch & McBride, 2004). Including the perception of design quality would have exceeded the scope of this study. For future research, the design quality perception can be studied in an entrepreneurial context in order to further narrow down the construct of COO effects into relevant aspects.

## **5.4 Conclusion**

This study had the objective to answer the question: *“To what degree can a new venture mitigate country-of-origin effects by openly communicating its liabilities of newness to prospective customers?”* Embedding the ‘liabilities of newness’-concept into the overall framework of country-of-origin effects is realized for the first time within entrepreneurship research. Hence, a gap within the COO-literature is addressed. Interviews with three young ventures from Sweden prior to this study revealed how omnipresent the liabilities of newness actually are. For the purpose of answering the aforementioned research question, a survey was developed that is mainly based on the findings from the interviews. An overall amount of 396 responses was collected, whereby 364 became subject of the final analysis. Thus, the research aims of constructing a comprehensive study on COO effects in an entrepreneurial context and gathering quantitative data in order to have solid foundations to answer our research question has been achieved.

On the basis of a multiple regression analysis and independent samples t-tests, insightful findings could be generated. In line with our theoretical assumptions, ‘country of parts’ (CP) and ‘country

of assembly' (CA) show for both products (bicycle and solar panel) to have a significant effect on quality perception and purchase intention. The 'country of ownership' effect on quality perception and purchase intention only proves to have significant effects for the bicycle, but not for the solar panel. Adding to that, the study found significant effects of the country images of both Sweden and Slovakia on both the product quality perception and the purchase intention. Addressing product familiarity, only in the case of 'country of ownership' (CO) findings show to be significant, i.e. the product familiarity has only a significant moderating effect on the CO effect when the country of ownership is a supposedly low-quality country. The empirical data also indicate that communicating the liabilities of newness has no moderating effect on the COO effects. The results rather denote that the communication of liabilities of newness is slightly counterproductive for new ventures that offshore to countries with bad country images.

The findings shall be perceived with care as they are based on a non-probability sampling method. Taking this into account as the main limitation of the study, we can say that the research aim has been fulfilled to the largest possible extent. All hypotheses have been successfully tested, which enables us to present statistically significant results. The research question is answered by concluding that the communication of the liabilities of newness is to no degree an adequate way to mitigate COO effects.

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## Appendices

Table 10: Definitions of key concepts

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Country of Assembly (CA) -	Country where all individual parts are finally assembled (Insch & McBride, 2004)
Country-of-Origin Effects (COO) -	Effects on the quality perception and purchase intention of a product based on underlying country images of the country of product origin (Insch & McBride, 2004)
Country of Ownership (CO) -	Country in which a company is registered (Insch & McBride, 2004)
Country of Parts (CP) -	Country where all individual parts used in a product are manufactured (Insch & McBride, 2004)
Halo Assumption -	Country-of-origin effects are strong when product familiarity is low (Josiassen & Whitwell, 2008)
Liability of Newness -	Corporate lack of established structures, skills, routines, but may also refer to cost inefficiencies (Stinchcombe, A.L. & March, J.G., 1965)
Offshoring -	For cost purposes manufacturing in and sourcing from outside of the company's headquarters region (Ellram et al., 2013)
Signaling Theory -	A company undertakes effort to convey their truthfulness with regard to a product's properties (Helm & Mark, 2007)

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Table 11: Overview of the Sample (N=364)

	Mean Perception of Quality Bike (Mean = 7.21)	Mean Perception of Quality Solar Panel (Mean = 7.48)	Mean Purchase Intention Bike	Mean Purchase Intention Solar Panel	N of respondents and % within group
<b>Sex</b>					
Male	7.15	7.28	6.56	7.32	158
Female	7.22	7.59	6.93	7.36	201
Prefer not to say	8.80	9.40	7.80	8.40	5
<b>Age</b>					
18-25	7.18	7.49	6.96	7.31	222
26-35	7.31	7.46	6.59	7.41	121
36-45	6.45	6.73	5.18	6.36	11
46-55	7.20	8.40	6.90	8.6	10
<b>Nationality</b>					
Sweden	7.15	7.61	6.97	7.55	127
Germany	7.05	7.35	6.35	7.17	133
Netherlands	7.58	7.29	6.96	7.17	24
UK	7.88	8.44	6.06	7.81	16
Other	7.37	7.33	7.42	7.42	64
<b>Country of residence</b>					
Sweden	7.21	7.57	7.00	7.50	187
Germany	7.00	7.29	6.19	7.13	96
Netherlands	7.44	7.33	6.52	6.96	27
UK	8.20	8.35	7.25	7.90	20
Other	7.06	7.12	7.18	7.18	34
<b>Highest level of education</b>					
High School Diploma	7.20	7.53	6.80	7.54	80
Bachelor's Degree	7.22	7.48	6.59	7.22	165
Master's Degree	7.20	7.45	7.03	7.42	119
<b>Occupation</b>					
Student	7.19	7.44	6.80	7.25	250
Employed	7.31	7.64	6.82	7.59	96
Self-employed	7.31	7.77	5.92	7.92	13
Other	6.00	6.00	7.00	6.40	5

### Interview Questions

1. What is the company name and when was it established?
2. What product(s) do(es) your company offer?
3. Is your product marketed as a Swedish/Scandinavian product?  
In the case that all your processes (ownership, parts manufacturing incl. software, product assembly) have been kept in Sweden, why did you decide to do so? What obstacles came up while doing so?
4. Where is your product designed? (Country of Design, CD)
5. Where do the individual parts for your products come from? (Country of Parts, CP)
6. Where do the individual product parts get assembled? (Country of Assembly, CA)
7. Do you think your customers know about your CD, CP and CA?
8. Do you want them to know? Why, why not?
9. What is your strategy in communicating features of your products? How does the status quo look like with regard to transparency? If you communicate the foreign origins, how?
10. How did the initial decision-making process look like when the company had to ponder whether a domestic production or offshoring is the more appropriate option?
11. What are the reasons that you decided to outsource a part of the process?  
*(Possible Factors: costs, focus on core competencies, consumer perception of quality, real quality, legal regulations (EU vs non-EU), geographical proximity (of production and customers), relationship with sub-contractors (also cultural differences?), network, logistics, speed of delivery)*
12. Did you consider other countries than the one(s) you finally decided to outsource to?  
Why did you finally not outsource there?
13. To what extent do you believe that the fact that you are based in Sweden strengthens your customers' perception of buying a high-quality product?
14. Do you think the fact that you are outsourcing some aspects abroad could undermine this perception of quality?
15. Have CD, CP and CA have come up during negotiations with your retailers?



16. What sales channels do you have (only website)? What do your retailers think about the fact that parts of your processes are outsourced?
17. In the case that your processes have been offshored, how do you think your company would have evolved if you had decided to keep all processes within Sweden?

## Appendix 2: Survey 1

Section 1 of 9

### Master Thesis Survey

Please take 3 minutes and help a good cause by filling in the survey for our Master Thesis on product quality perceptions in an entrepreneurial context.

We appreciate your honest responses, which are going to be completely anonymous and will be solely used for the purpose of our thesis.

€0.15 will be donated for every response to one of the organizations below.

Thank you very much for your participation. Please note that you can leave this survey at any time.

What organization do you want the donation to go to?

"Barncancer Fonden" uses its donations for research on childhood cancer treatmen...

"HOOP" tries to break the cycle of poverty through education in Peru.

## Product Familiarity

Description (optional)

⋮

Please indicate how familiar you are with the following product: \*

Bicycle

1 2 3 4 5 6 7 8 9 10

Not familiar at all           Very familiar

Please indicate how familiar you are with the following product: \*

Solar Panel

1 2 3 4 5 6 7 8 9 10

Not familiar at all           Very familiar

## What you need to know

Country of Ownership: The term "Country of Ownership" refers to the country in which a company is registered.

Country of Parts: The term "Country of Parts" refers to the country where all individual parts used in a product are manufactured.

Country of Assembly: The term "Country of Assembly" refers to the country where all individual parts are finally assembled.

## Case 1/2

Description (optional)

Please meet the following entrepreneurs and rate the quality of their product \*

Hello cycling enthusiasts, we are Amanda and Per, and we recently set up our new company in Sweden and just launched the single-gear city bike "Pave champ 2018". It is not only lighter and more robust than existing city bikes, but also runs extremely smoothly. All our parts are sourced from within Sweden, which is also where we assemble our bikes.



	1	2	3	4	5	6	7	8	9	10	
Very low product quality	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Very high product quality

## Purchase Decision

IMPORTANT: PLEASE DO NOT GO BACK TO PREVIOUS SECTIONS TO CHANGE YOUR ANSWERS, EVEN IF YOU FEEL AN URGE TO DO SO!

If you were to purchase a bicycle, how likely would you be to purchase the one presented above if its price and warranty were equal to those of the competition's bicycles? \*

1 2 3 4 5 6 7 8 9 10

Not likely at all           Very likely

## Case 2/2

Description (optional)

Please meet the following entrepreneurs and rate the quality of their product \*

Hej solar community, we are Matilda and Oskar, and we recently established our new solar company in Sweden. We launched a solar panel module with an energy conversion rate and efficiency rating ranking as the number one product being commercially available on the European market in 2018. Our solar cells are built from thin films of organic semiconductors and exhibit above-average endurance. All product parts incl. solar cells are manufactured in Slovakia, which is also the location where we get our modules assembled.



1 2 3 4 5 6 7 8 9 10

Very low product quality           Very high product quality

## Purchase Decision

IMPORTANT: PLEASE DO NOT GO BACK TO PREVIOUS SECTIONS TO CHANGE YOUR ANSWERS, EVEN IF YOU FEEL AN URGE TO DO SO!

If you were to purchase a solar panel module, how likely would you be to purchase the one presented above if its price and warranty were equal to the competition's solar panel modules? \*

1 2 3 4 5 6 7 8 9 10

Not likely at all           Very likely

## Country Images

IMPORTANT: PLEASE DO NOT GO BACK TO PREVIOUS SECTIONS TO CHANGE YOUR ANSWERS, EVEN IF YOU FEEL AN URGE TO DO SO!

How do you generally perceive the quality of products from Sweden? \*

1 2 3 4 5 6 7 8 9 10

Very low           Very high

How do you generally perceive the quality of products from Slovakia? \*

1 2 3 4 5 6 7 8 9 10

Very low           Very high

## Information about you

Description (optional)

### Nationality \*

- Sweden
- Germany
- Other...

### Country of residence \*

- Sweden
- Germany
- Other...

### Sex \*

- Female
- Male
- Prefer not to say
- Other...

### Age \*

1. 18-25
2. 26-35
3. 36-45
4. 46-55
5. 56-65
6. 66+

### Occupation \*

- Student
- Employed
- Self-employed
- Unemployed
- Retired
- Other...

### Highest level of education \*

- High School Diploma
  - Bachelor's Degree
  - Master's Degree
  - Doctorate Degree
  - Other...
-

## Appendix 3: Survey 6

All other sections are the same as for survey 1.

Section 4 of 9



### Case 1/2

Description (optional)

Please meet the following entrepreneurs and rate the quality of their product \*

Hi, we are Amanda and Per, and we recently set up our new company in Sweden and just launched the single-gear city bike "Pave champ 2018". It is not only lighter and more robust than existing city bikes, but also runs extremely smoothly. As a new company, we do not yet have our own established production facilities and due to a currently small customer-base, we have to start with relatively low production quantities. For these reasons, it would be impossible for us to keep all processes within Sweden while still offering our bikes at a fair price. Eventually, we decided to use individual parts coming from Slovakia, however the final assembly of the products takes place in Sweden.



	Country of Ownership	
	Country of Parts	
	Country of Assembly	

1 2 3 4 5 6 7 8 9 10

Very low product quality           Very high product quality

## Case 2/2

Description (optional)

Please meet the following entrepreneurs and rate the quality of their product \*

Hej solar community, we are Matilda and Oskar, and we recently started our solar company in Sweden. We launched the solar panel module "Sun Absorb P3" with an efficiency rating and energy conversion rate ranking as the number one product being commercially available on the European market. Our solar cells are built from thin films of organic semiconductors and exhibit above-average endurance. Just like our fellow entrepreneurs Amanda and Per, we do not yet have our own production facilities and due to our currently small customer base, we have to start with low production quantities. Since we still want to offer our solar panels at a fair price, we decided to get our modules assembled in Slovakia. However, the individual panel parts come from Sweden.



	1	2	3	4	5	6	7	8	9	10	
Very low product quality	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Very high product quality