Does Consumer Ethnocentrism affect loyalty strategies of Domestic Brands?

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Abstract

Fragile international and economic relationships between nations in the last decade, have resulted in shifts of consumer behaviour towards import offerings, mostly in favor of domestic brands. This turbulence has escalated nationalism, animosity and ethnocentrism. Hence, the basic question is whether the tendency of consumers to prefer domestic brands has an impact on the effects of branding strategies. This paper explores the moderating effects of CET on the effectiveness of loyalty strategies, also known as Customer Equity Drivers (CEDs). As far as the methodology is concerned, 400 Greek consumers participated in a survey in Athens, Greece. The sampling method was that of a stratified sample following a Mall-intercept approach. Findings illustrated that CET strengthened the positive relationship between Value Equity and (re)Purchase Intentions (PI). Hence, this paper facilitates brand managers of domestic brands to apply loyalty strategies sensitive to CET and CC.

Keywords: Consumer Ethnocentrism, Loyalty Strategies, (re)Purchase Intentions

1. INTRODUCTION

Favourable consumer behaviour towards the brand has been one of the most researched topics in the last thirty years, since it helps businesses to apply successful strategies and practices (Rust, Lemon, and Zeithaml, 2004; Vogel, Evanschitzky and Ramaseshan, 2008; Veloutsou, Christodoulides, and de Chernatony, 2013). Purchase Intention suggests a basic Key Performance Indicator, since it predicts consumer behaviour and future sales (Frank, Enkawa, and Schvaneveldt, 2014). The higher the (re)purchase intention of the company’s products the higher the revenues deriving from both new and existing customers in the future (Vogel et al. 2008). The discounted sum of these revenues at the present concerns the market-based capital known as Customer Equity (CE) (Rust et al., 2004). Most academic research is focused on antecedents and effects of Customer Equity Drivers. The aforementioned CEDs, which concern the key marketing strategies in order to forge brand preference, include 1) Brand Equity, 2) Value Equity and 3) Relationship Equity (Rust et al., 2004; Ou and Verhoef, 2017). According to Rust et al. (2004), BE is Subjective and emotional in nature and suggests the sum of brand related perceptions, attitudes and behaviour resulting on superior emotional bonding. VE regards the utility’s objective assessment made by customers about a product relied on perceptions of customer costs comparing to value received or customer value (Rust et al, 2004). RE suggests the customers’ inclination to prefer a brand regardless of subjective as well as objective brand evaluations (Vogel et al. 2008). Marketing efforts’ effects on CEDs depend on the product category as well as on the customer involvement (Ou, de Vries, Wiesel, and Verhoef, 2013). As for the results of CEDs on consumer behaviour constructs such as brand loyalty and purchase decisions, these are found to be positive (Ou et al., 2013; Vogel et al. 2008; Rust et al., 2004).

However, in the last the rising ethnocentrism created a significant research gap, since the existing CEDs models mainly explore antecedents and effects of CEDs. In this project, we research on the sensitive CEDs related to Consumer Ethnocentrism (CET). More specifically, we explore the moderating effect of CET on the relationship between CEDs and (re)Purchase Intentions (PI). As a result, this paper enables academics and practitioners to conceptualize on the implementation of sensitive strategies needed to forge (Re)Purchase Intentions (PI) in different contexts of CET.
2. LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESES

In this study, CEDs’ direct effect on PI is not the basic question. The basic scope of this research is to explore the effects of CET on the relationship between CEDs and CC. As for CET, Shimp and Sharma (1987) stated the need to explore the morality of preferring foreign products and they were the first to develop a scale measuring CET, which concerns a tendency against domestic products or in favour of import goods. Since then, there has been a multitude of projects exploring the effects of CET on consumer behaviour. According to these, CET was proven to be a barrier for import products and an opportunity for domestic ones, since there was found favourable consumer behaviour towards domestic products (Balabanis and Siamagka, 2017; Diamantopoulos Schlegelmilch and Paliwadana, 2011). He and Wang (2015) further unveiled CET to be a negative antecedent of brand preference for foreign brands. Akram, Merunka and Akram (2011) stressed that low ethnocentric consumers develop higher preference for global brands comparing to high ethnocentric consumers by applying moderation analysis. Rosenbaum and Wong (2009) explored the role of CET on buying criteria for a local automobile company. The aforementioned authors reinforced that low ethnocentric customers have different buying criteria than that of high ethnocentric consumers. In fact, high CET posed a motive for customers to “accept lower product quality, higher prices and less convenience than low-ethnocentric customers to assist domestic manufacturing production” (Rosenbaum and Wong, 2009; page 555). Hence, we expect that CET will positively moderate the relationship between CEDs and PI for domestic brands. Thus, we hypothesize the following:

\( \text{H}_1 \): Consumer Ethnocentrism strengthens the relationship between BE and Purchase Intention for domestic brands

\( \text{H}_2 \): Consumer Ethnocentrism strengthens the positive relationship between Value Equity and Purchase Intention for domestic brands

\( \text{H}_3 \): Consumer Ethnocentrism strengthens the positive relationship between Relationship Equity and Purchase Intention for domestic brands

The conceptual framework of this research is being presented on Figure 1 below.

3. METHODOLOGY

3.1 Sample and Data Collection

The collection of research data were conducted in Athens, the capital of Greece. This city was suitable for this study, because it has rich consumer culture and infrastructure that offers a variety of domestic and import brands. Survey questionnaires were distributed and collected at busy retail and shopping destinations. Potential shoppers were randomly approached in order to complete the questionnaire. This technique is known as a street survey or mall-intercept and has been widely adopted in consumer research (Chaney and Gamble, 2008). In total, 400 valid questionnaires were collected using a methodology of a stratified sample to reflect national statistics of Greece. The choice of product category was determined by the availability of domestic alternatives. According
to Watson and Wright (2000) the issue of availability of domestic alternative cannot be ignored in CET research, since ethnocentrism may not be triggered when domestic production is poor. Consequently, chocolates were eventually selected as the testing category, because there is a wide variety of domestic and import brands available in Greece.

3.2 Questionnaire, Measurement & Pilot Testing

Customer Equity Drivers (CEDs) were analysed using and adjusting the scales developed by Rust et al. (2004), Verhoef, Langerak and Donkers (2007), Vogel et al. (2008), Zhang, van Doorn and Leeflang (2014). First and foremost, VE was measured by the scale developed by Rust et al. (2004) and Verhoef et al. (2007). This 3 item scale focuses on the price – quality ratio and convenience. For the BE measurement, we incorporated the 4 item scale of Vogel et al. (2008), which facilitates the overall perception focus on brand image. In addition, RE was measured via the 3 item scale of Zhang et al. (2014). In order to gauge CET, the extended 17-item scale of Shimp and Sharma (1987) was adopted. However, due to the fact that many respondents did not understand 5 items of the initial construct, the researchers took the initiative to limit its length. As a result, a reduced CET scale of 12 items was employed. The Likert scales, which ranged from 1 ('Strongly Disagree') to 5 ('Strongly Agree'), were adopted for all of the above measurements.

The questionnaire was initially developed in English and then translated into Greek. The research team which contains native Greek speakers carried out the translations, and the questionnaires were translated back by university colleagues to ensure accuracy. Last but not least, a pilot testing was undertaken among 20 Greek consumers and the research instrument was adjusted according to their recommendations in order to maximize reliability and accuracy.

4. RESULTS

4.1 Scale Validity

In order to test the validity of the construct measures, an Exploratory Factor Analysis (EFA) was conducted. Overall, six components were extracted (Brand Equity – BEQ, Value Equity – VE, Relationship Equity – RE, Purchase Intention – PI, Consumer Ethnocentrism – CET, Consumer Confidence – CC), which accounted for 64.49% of the cumulative variance. This six-factor model retained 20 of the original 28 items. These items exhibited high factor loadings (mostly above .70) and each component illustrated high reliability coefficients (BEQ: four items, α = .82; VE: two items, α = .88; RE: two items, α = .80; PI: two items, α = .90; CET: seven items, α = .91; CC: three items, α = .80). Generally, the coefficient alpha was above the commonly accepted threshold of .70 (Nunnally and Bernstein, 1994). As a result, convergent validity is supported. As far as discriminant validity is concerned, no cross loadings were found and each factor correlated with one another at level less than .70.

Afterwards, a Confirmatory Factor Analysis (CFA) was performed with AMOS 21.0. Its results indicated that the measurement model yielded an excellent fit: $\chi^2$/d.f. = 1.54 (recommended between 1 and 5); CFI = .96 (recommended ≥ .93); TLI = .95 (recommended ≥ .90); GFI = .90 (recommended ≥ .90); RMSEA = .04 (recommended ≤ .06); SRMR = .04 (recommended ≤ .08). The aforementioned analysis proved that standardized factor loadings ranged from .63 to .95 and were statistically significant at p < .001 level. The latter signified the existence of convergent validity of the model. In addition, Composite Reliability (CR) and Average Variance Extracted (AVE) were calculated. Every factor scored CR values of above .60 (minimum = .73; maximum = .92) and AVE values of above .50 (minimum = .53; maximum = .85) (Bagozzi and Yi, 1988). Furthermore, AVE values exceeded the squared correlations between factors, supporting discriminant validity. Finally, a common method bias test was undertaken, where the unconstrained common method factor (CMF) model was compared to the zero constrained CMF model. The chi square test of this comparing turn out to be significant, which signaled that there was significant shared variance. The latter led the researchers to retain the CMF, when they imputed factors scores.

4.2 Hypotheses’ Testing

In order to test the research hypotheses and develop reliable research models, Structural Equation Modeling (SEM) was generated. The model tested the interaction effects of CET on the relationship between the Customer Equity Drivers (BEQ, VE, RE) and the PI regarding domestic brands. This model yielded an excellent fit: $\chi^2$/d.f. = 1.85; CFI = .99; TLI = .94; GFI = .97; RMSEA = .05; SRMR = .04. These figures suggest a robust SEM model (Bagozzi and Yi, 1988). In addition, the R² of the PI was excellent at level .87, meaning that 87% of the PI variance is explained by BEQ, VE, RE and the interaction effects of CET and CC separately. H₁ posit that CET strengthens the positive relationship between BEQ and PI regarding domestic brands. This hypothesis was
not supported as the interaction effect (BEQ x CET) was not statistically significant ($p = .99 > .05$). However, $H_2$ was verified, because it was proved that CET strengthens the positive relationship between VE and PI of domestic brands ($\beta = .09, p < .05$). Finally, the prediction of $H_3$ that CET strengthens the positive relationship between RE and PI of domestic brands was not supported ($p = .51 > .05$) (See Table 2 and Figure 3). Figure 2 below illustrates the positive moderating effects of CET on the (positive) relationship between VE and PI. Thus, ethnocentric consumers tend to value more the VE of domestic brands.

**Figure 2. Consumer Ethnocentrism (CET) effect on (re)Purchase Intentions (PI) of domestic brands**

![Figure 2](image-url)

**Table 2. Direct and Interaction Effects - SEM Model**

<table>
<thead>
<tr>
<th>Model</th>
<th>Variables</th>
<th>$\beta$</th>
<th>t-Values</th>
<th>$p$</th>
<th>Model $R^2$</th>
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<tr>
<td>CEDs - PI</td>
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<td>-.83</td>
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<tr>
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<td></td>
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</table>

**Model Fit:** $\chi^2$/d.f. = 1.85; CFI = .99; TLI = .94; GFI = .97; RMSEA = .05; SRMR = .04
5. DISCUSSION, CONCLUSION, LIMITATIONS AND FURTHER RESEARCH

The main goal of this research is to shed light on the effectiveness of marketing strategies, and more specifically on the impact of CEDs, in terms of domestic brands’ (re)purchase intentions taking into account Consumer Ethnocentrism. The basic findings unveiled that CET suggests an opportunity for domestic brands, since it strengthens the positive effect of VE on their PI. These results are in congruence to the research of He and Wang (2015), Akram et al. (2011) and Rosenbaum & Wong (2009). Thus, firms should focus more on other CEDs, such as RE. Another implication lies on the fact that import brands, in case they are perceived as domestic ones, gain a considerate advantage in order to compete in a foreign market. As a result, global firms could proceed on an acquisition of a local firm, or launch a new brand with a domestic name. The basic limitation of this research is that we only considered customers of chocolate brands, which is a product of low-medium customer involvement. On the other hand, this research was conducted in Greece. We suggest a further cross-check validation of these results to other countries. However, this project is valuable, since it fills a considerate gap on branding strategies sensitive to Consumer Ethnocentrism.

REFERENCES


