The Role of Governments in Improving Country-of-Origin Effects

The relationship between country-of-origin effects and industrial policies

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Abstract

Consumers evaluate products not only by explicit attributes such as brand, price, or design but also by perception of country where those products are made. Such effects that country of origin has over products are called the country-of-origin effects. Many researchers have studied this topic since 1960s and the number of research articles on the country-of-origin effects was still high in 2000s.

In addition to the academic researchers, there are many governments trying to brand their images in order to take an advantage of the country-of-origin effects. Advertisement campaigns and brand experience management programs, such as quality controls, are utilized for the branding.

Building upon these researches and practices, the purpose of this thesis is to analyze possible conflicts between country image policies and industrial policies and to suggest ways to manage this friction.

Governments need to consolidate the branding policies with other industrial policies because brand experience management programs can be in contradiction with economic competitiveness of industries. Excessive quality controls over products, for example, weaken innovative dynamism of industries by restricting activities of firms. Having said that, brand experience management programs are indispensable because, as previous cases indicate, advertisement campaigns are often insufficient. For instance, reputation of quality of Japanese products is largely a result of the regulatory export inspection mechanism. Therefore, it is important to harmonize branding policies and other industrial policies in order to utilize the country-of-origin effects as an effective tool for improvement of economic competitiveness.

Consistency and flexibility are the keys for such harmonization. Firstly, governments should ensure that brand equity is consistent with strength of industries. For example, environmentally friendly aspect should be promoted if a concerned industry is strong at producing energy-efficient products. Such a branding policy does not require strong restrictions on industries. Furthermore, governments can guarantee to provide products having features that they promised. If there is no adequate strength to be highlighted, governments need to create the strength in the way that improves competitiveness of industries.

Secondly, governments should monitor brand equity periodically and flexibly strengthen or weaken the degree of control as necessary. Otherwise, excessive controls will destroy innovative dynamism of industries. For instance, French wine is losing competitiveness partly because of inadequate labeling quality control mechanism.

In the essence, harmonization of branding policy and other industrial policies effectively strengthen competitiveness of industries.

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Introduction And Research Questions

Nowadays, many governments and industry associations are eager to improve perceptions of their countries to promote exports. In May 2010, for instance, the Italian Trade Commission exhibited "Ceramic Tiles of Italy" at the International Contemporary Furniture Fair 2010 in Manhattan. Their advertisement claimed superiority of technical quality, style and beauty of Italian ceramic tiles, expecting consumers to appreciate ceramic tiles with a "made-in-Italy" label higher than tiles from other countries. Other than "Ceramic Tiles of Italy," such advertisement campaigns can be seen everywhere.

In addition to those advertisement campaigns, governments also conduct brand experience management programs, including quality controls, in order to maintain quality of products. In liquor stores, for example, wines and whiskies are sold in a bottle with a national quality certification label. French government regulation even covers zoning and uses of vineyard land (Porter and Bond, The California Wine Cluster 2008).

These programs are not limited to one single category like tiles or liquors. Some governments conduct comprehensive branding program that applies to multiple categories. The "Proudly South African" campaign, for example, was created to promote South African products and services. Initially this campaign was targeted towards local consumption; however, more recently, with the increased exportation of South African-made consumer goods, the Proudly South African campaign logo has come to represent a brand for good quality products and has become a marketing mechanism to promote South African exports, especially in other Anglophone Sub-Saharan African countries (Donkor, Schutte and Tanizawa 2009). Other countries such as South Korea, Japan, and the United Kingdom have a similar comprehensive program.

The country-of-origin effect is a key concept to understand this phenomenon. This effect is an effect that a product or service's origin has on consumer attitudes and behavior towards that product or service (Dinnie 2008, 84). Academic researchers have been studying the effects for over 40 years since the early 1960s. These researches have revealed that the country-of-origin effects have a substantial impact on economic competitiveness. For example, Seaton and Laskey found that American consumers saw cars produced in Korea or Mexico are 10% less valuable than those produced in the United States (Seaton and Laskey 1999). In general, impact of the country-of-origin effects is stronger for products without strong company brands that are mostly in the early stages of the product lifecycle (Niss 1996).

As a result, the country-of-origin effects have a strong relationship with economic competitiveness of countries and industries. A better image of country improves competitiveness. However, unfortunately, this dynamism does not always work positively. If consumers form a negative image for products from a certain country, exporters of that country may have to provide more discount, which may result in poorer quality and, ultimately, ruins the country image[1] much worse. Therefore, governments need to be serious in managing the country-of-origin effects to maintain the competitiveness of industries.

Having said that, it is questionable whether those measures taken by governments (i.e. advertisement campaigns and brand experience management programs) actually strengthen economic competitiveness of country and industries. While many governments conduct advertisement campaigns to improve their country image, a number of researches show that it is too costly to reach out consumers living globally (Jaffe and Nebenzahl 2006, 174). In addition, quality management

[1] **Country image** is a perception of a country hold by consumers that affect product evaluations. The country-of-origin effect is such an effect that country image has on product evauations.

controls imposed by governments can be an obstacle against innovative dynamism of industries. If quality management programs prohibit more efficient production method, for example, firms may persist in a legacy method and productivity will not grow further. It is what happened in the French wine cluster (Porter and Bond, The California Wine Cluster 2008).

Given these complex relationships between the country-of-origin effects and economic competitiveness of countries and industries, it is important to analyze how governments can harmonize branding policy and other industrial policies and find a way to consolidate them into one single integrated policy.

Building upon such a broad issue, this thesis is driven by the following two fundamental research questions.

1. Analyzing friction between branding policy and other industrial policies and effects of such friction over competitiveness of industries; and

2. Figuring out possible ways to harmonize branding policy and other industrial policies and to effectively strengthen competitiveness of industries by improving country image.

The approach of this thesis draws on literature review, case review, and direct observation. There are two streams of academic studies that are related to this thesis: country-of-origin studies and studies on economic competitiveness of nations and industries. Chapter one will review these two streams of studies.

Following the literature review, chapter two will describe examples of advertisement campaigns and brand experience management programs. The Japanese export inspection system and other cases will be reviewed. It will be also argued that brand experience management program is more effective than advertisement campaigns.

Chapter three, however, will discuss that excessive brand experience management over products may undermine the innovative dynamism of industries. This argument will be drawn upon academic researches on economic competitiveness of countries and industries.

Chapter four will provide a solution to this dilemma. This chapter will suggest that governments should harmonize branding policy and other industrial policies. Consistency and flexibility are key elements for the integration.

Finally, chapter five concludes this thesis with theoretical and managerial implications for both academics and decision makers. In addition to these implications, this chapter will argue limitations of this thesis as well as areas for future researches.

Chapter 1. Literature Review

There are two streams of academic studies that are related to the topic of this thesis: country-of-origin studies and studies on economic competitiveness of nations and industries. This chapter briefly reviews evolution and concepts of two streams of researches.

1-1. Country-of-Origin Studies

Country-of-origin study is a stream of researches that focuses on the country-of-origin effects. The country-of-origin effects are effects that a product or service's origin has on consumer attitudes and behavior towards that product or service (Dinnie 2008, 84).

This effect has long been studied since 1960s mainly by American academics. Jean-Claude Usunier provides a comprehensive overview of studies done in this area (Usunier 2006). While this phenomenon of the country-of-origin effect was somewhat recognized, the first academic articles based on survey data appeared in the middle 1960s. *Elasticity of Product Bias* was the first empirical research that compared consumers' perception on products from different countries, which compared "made-in Japan" and "made-in USA" glassware (Schooler and Wildt 1968). These early researches were followed by country image researches on various countries and products in the 1970s and early 1980s.

In 1980s and 1990s, however, there were some researchers who pointed out that the country-of-origin effects do not have strong impact on consumers' buying behavior as it had been believed. For example, Bilkey and Nes argued that country-of-origin is not a dominant determinant of consumer evaluation of products, but is one of many determinants that characterize products (Bilkey and Nes 1982).

Countering to these critics, Seaton and Laskey found that American consumers see cars produced in Korea or Mexico are 10% less valuable than those produced in the United States (Seaton and Laskey 1999).

Also, a number of research articles point out that strength of the effects depends on circumstances. For example, an interesting article by Hanne Niss demonstrates that the country-of-origin effects are stronger for products in the early stages of the product lifecycle because they lack matured product brands (Niss 1996). The country-of-origin effects become weaker as products get matured. Stimulated by these animated discussions, the number of academic researches on the country-of-origin effects was still high in 2000s.

1-2. Competitiveness of Nations and Industries

The second stream of researches relating to the topic of this thesis deals with economic competitiveness of nations and industries. Governments have been concerned about the economic competitiveness for more than centuries. These theories are strongly related with international trade.

1-2-1. History

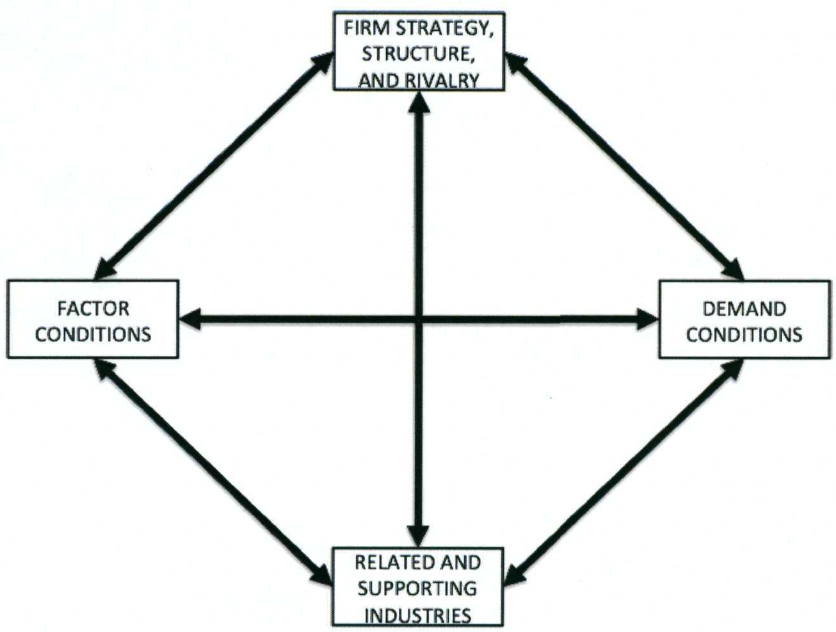
In the 18th Century, the primary concern of European princes was how to maximize their national wealth through international trade. They made much of absolute advantages that thought to be essential for promotion of exports. Their idea is known as the mercantilism.

The mercantilism was taken over by the Ricardian model of international trade. David Ricardo proved that comparative advantage, not absolute advantage, is the primary explanation for trade among countries and both rich and poor countries will benefit from the trade (Feenstra and Taylor 2010). Later, the specific factor model and the Heckscher-Ohlin model followed the Ricardian model to explain that endowment of countries affect pattern of trade as well.

In 1980s, Michael Porter questioned the basic assumptions of these trade theories. He pointed out that while degree of benefits from international trade depend on productivity of nations in the Ricardian model; it does not explain the reason why different countries have different productivity.

In order to answer this question, Porter concluded that nations succeed in particular industries because their home environment is the most dynamic and the most challenging, and stimulates and prods firms to upgrade and widen their advantages over time (M. E. Porter 1990, 71).

Figure 1-1: The Determinants of National Advantage



Source: Porter 1990, 72

As shown in the figure 1-1, Porter specified four determinants that affect competitiveness of the industries. They are (1) the factor conditions, (2) the demand conditions, (3) the related and supported the industries, and (4) the firm strategy, structure, and rivalry. These determinants, individually and as a system, create the context in which a nation's firms are born and compete. Definition of each determinant is as follows:

1. *Factor conditions.* The nation's position in factors of production, such as skilled labor or infrastructure, necessary to compete in a given industry.
2. *Demand conditions.* The nature of home demand for the industry's product or service.
3. *Related and supporting industries.* The presence or absence in the nation of supplier industries and related industries that are internationally competitive.
4. *Firm strategy, structure, and rivalry.* The conditions in the nation governing how companies are created, organized, and managed, and the nature of domestic rivalry.

As a result of dynamics among those factors, innovation occurs and the industries get competitive advantages (M. E. Porter 1990, 71). This model provides with the comprehensive overview on economic competitiveness of countries and industries. Such comprehensiveness is meaningful for analyzing an impact of industrial policies on economic competitiveness.

1-2-2. The Effects of the Country-of-Origin Effects

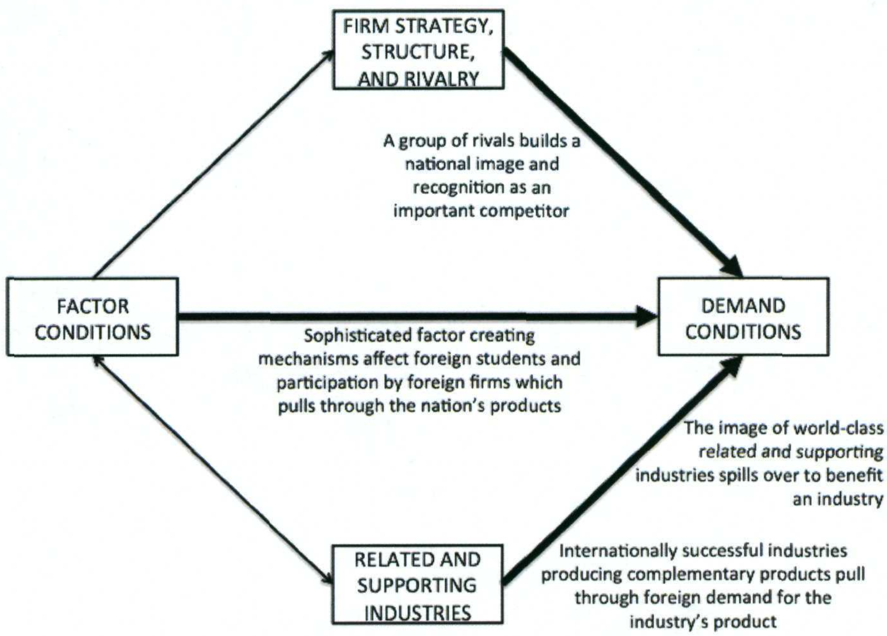
This model provides snapshot of how the country-of-origin effects affect competitiveness of nations and industries. Primarily, a good image of a country stimulates demand for products from that country.

In this framework, the country-of-origin effects are parts of the demand conditions that influence competitiveness of industries. He explained that a better image of nation strengthens industries through stimulating demands for that industry. For example, as the reputation of Italian ceramic tiles improves, constructors in the

United States may think Italy as a primary source of ceramic tiles for their buildings. As a result, demands for Italian ceramic tiles may increase.

Thus, foreign buyers take notice and include the nation in their review of potential sources. Moreover, their perceived risk in sourcing from the nation is reduced by the availability of alternative suppliers (M. E. Porter 1990, 137). These factors are attractive especially for business buyers.

Figure 2-2: The Country-of-Origin Effects in the Context of Industrial Policy



Source: Porter (1990)

Furthermore, country image systematically interacts with the other three determinants of competitiveness. Through this process, it indirectly strengthens competitiveness of industries indirectly as well. Figure 2-2 shows what happens in this process. First, the presence of successful related and supporting industries can enhance international demand for and industry's products through transferability of reputation. Second, factor condition also affects the country-of-origin effects. A nation with sophisticated factor-creating mechanism connected to a particular industry will attract foreign students and firms who often provide foreign demand for a nation's goods and services. Finally, a group of rivals builds a national image and recognition as an important competitor (M. E. Porter 1990, 138).

Chapter 2. Formation of Country Image

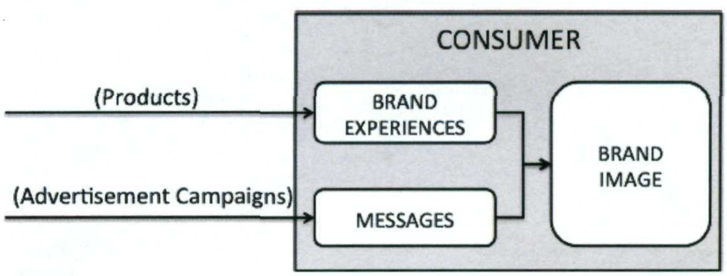
Consumers shape country image trough messages (delivered through advertisement campaigns) and brand experience (delivered by actual products). While messages and brand experience complement each other in many brands, brand experience plays more important role in the case of country image.

Section 2-1 shows examples of how governments conduct advertisement campaigns and manage brand experience to improve their country image. Section 2-2, then, describes that brand experience management is more powerful than advertisement campaigns in the case of the country-of-origin effects.

2-1. Messages and Brand Experiences

In general, consumers form a brand image through messages and brand experiences. Messages are delivered by various advertisement campaigns and consumers experience brands when they actually purchase products and use. These two factors are complementary; while advertising campaigns can help to create name recognition, brand knowledge, and brand preference, brands are not maintained by advertising but by brand experience (Kotler and Armstrong 2008, 238). This mechanism of formation, as described in Figure 2-1, is applicable to many brands.

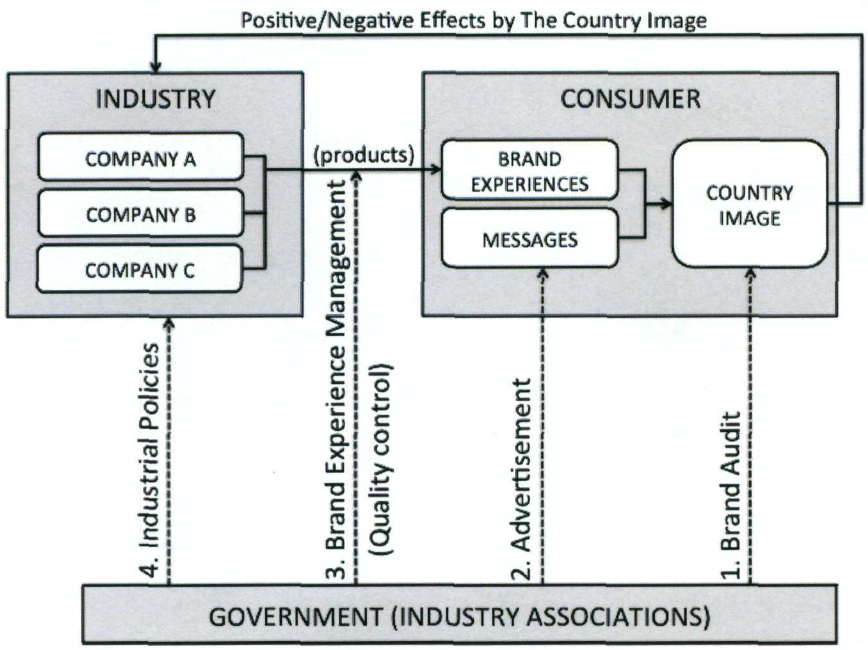
Figure 2-1: Formation of Brand Image



Source: Author

Development of country image also follows this mechanism. Building upon Figure 2-1, Figure 2-2 shows roles of governments in formation of country image. Governments attempt to form country image through (1) brand auditing, (2) advertisement campaigns, (3) brand experience management programs (e.g. quality control), and (4) industrial policies. Industry associations occasionally play similar roles as well.

Figure 2-2: Development of Country Image



Source: Author

Brand Audit

As private firms do, governments evaluate and adjust these policies through brand auditing programs.

Advertisement Campaigns

Consumers are often directly influenced by advertisement campaigns conducted by governments. Advertisements are intended to promote attributes and superiority of national products.

Brand Experience Management

Governments can manage brand experience by introducing programs such as regulatory quality controls. Tastes of wines, for example, are controlled by regulatory quality control and labeling system in many countries.

Industrial Policies

Industrial policies are indirect but important source of country image. Strict environmental regulations, for example, encourage industries to develop energy-efficient products and it may result in environmentally friendly image of the country.

In this context, this section describes advertisement campaigns (2-1-1) and brand experience management (2-1-2) in detail. Industrial policies and brand audit will be discussed in the chapter 3 and 4.

2-1-1. Advertisement Campaigns for Better Country Image

The most popular way to improve country image is government-sponsored advertisement campaigns. As like in private firms, governments create brand name and logos, exhibit products at trade shows, and insert advertisements into major magazines.

Figure 2-3: "Ceramic Tiles of Italy," "Aussie Beef," and "Café de Columbia"

Source: The Italian Trade Commission, the Meat & Livestock Australia, Ltd., and the National Federation of Colombian Coffee Growers

Figure 2-3 shows examples of logos used for advertisement campaigns: "Ceramic Tiles of Italy" by the Italian Trade Commission, "Aussie Beef" by the Meat & Livestock Australia, Ltd., and "Café de Colombia" by the National Federation of Colombian Coffee Growers. The following section describes the advertisement campaigns conducted by these countries in detail.

Ceramic Tiles of Italy

The Italian Trade Commission, together with the Italian Association of Ceramics and the Ministry of Economy Development hold various advertisement campaigns to promote "Ceramic Tiles of Italy." Their advertisement claimed superiority of technical quality, style and beauty of Italian ceramic tiles expecting that consumers appreciate ceramic tiles with a "made-in-Italy" label higher than tiles from other countries. Figure 2-4 is an example of advertisements by the Italian Trade Commission.

Figure 2-4: Advertisement for the "Ceramic Tiles of Italy"

Ceramic Tiles of Italy. A natural beauty.

Choosing Italian tiles is a question of style. Beauty alone is no longer enough, you have to create harmony which is beauty and respect together. The beauty of a product of superior technical quality along with respect for working conditions and the environment.

Source: The Italian Trade Commission

In addition, exhibition is another tool for advertisement. For example, they actively exhibit their tiles at major exhibitions held in the United States. In 2010, they exhibited their ceramic tiles in 6 events in 5 different cities only in the United States.

Figure 2-5: Exhibitions for "Ceramic Tiles of Italy" in the US in 2010

February	Beyond the Surface: The Skinny on Italian Tile	Phoenix
	Product Placement 2.1	New York
April	A Treat for the Senses at Coverings 2010	Orlando
May	International Contemporary Furniture Fair	New York
June	Ceramic Tiles of Italy Returns to Florida for AIA 2010	Miami
November	Total Solutions Plus 2010	Naples, FL

Source: The Italian Trade Commission

The commission also holds an annual competition event in order to attract consumers' attention to the Italian ceramic tiles. Targeting North American designers and architects, "the Ceramic Tiles of Italy Design Competition" awards the best designs with prize of $15,000 and trip to Italy. This competition began in 1994 and the 18th contest is taking a place in 2011.

Aussie Beef

"Aussie Beef" is another example of advertisement campaigns to improve country image. In order to appeal superiority of Australian beef in quality and safety, the Meat & Livestock Australia, Ltd., a private organization funded by both private and public sectors, holds various campaigns including cooking classes in elementary schools.

Café de Colombia

"Juan Valdez," known as a logo for "Café de Colombia," represents the typical Colombian coffee-growing family traditions and highlights the quality of Colombian mountain-grown coffee beans and labor-intensive process required to produce high quality coffee.

Café de Colombia has a long history of advertisement. The National Federation of Colombian Coffee Growers was founded in 1927 and it enthusiastically branded the coffee beans made in Colombia since then. As a result of a series of branding campaigns, Colombian coffee enjoys the advantages coming from the superior image (Deshpandé 2004).

These three examples show that through such enthusiastic advertisement campaigns, there are many industries obtained competitiveness from stronger demand for their products and services. Superior image is desirable for the competitiveness of the industries.

2-1-2. Managing Brand Experience

In addition to advertisement campaigns, governments often manage brand experience, though both regulatory and non-regulatory measures, in order to improve country image. While advertising campaigns can help to create name recognition, brand knowledge, and brand preference, brands are not maintained by advertising but by brand experience (Kotler and Armstrong 2008, 238). Thus, brand experience management is often done with advertisement campaigns. The following examples on the Japanese export inspection and Café de Colombia describes detail of brand experience management.

Improving Quality through Export Inspections

The case of quality management system in Japan is a good example of brand experience management program done by government. In fact, the reputation in quality of Japanese products was partly a result of the strong brand experience management by the Japanese government.

In the late 1940s, right after the end of the World War II, Japan was suffering from negative reputation over its products. Unlike today, "made-in-Japan" meant poorness in quality. For example, Akio Morita, a founder of SONY, wrote that the company tried to make "made-in-Japan" label as small as possible so that they can avoid negative stereotype regarding Japanese products (Morita, Reingold and Shimomura 1986, 77).

As a result, it was an important issue for the Ministry of International Trade and Industry (MITI) to improve reputation of made-in-Japan products. Many exported goods were returned to Japan because of poor quality. In response, the government introduced regulatory and non-regulatory measures in order to improve quality of products and to improve the reputation.

Firstly, MITI set the mandatory quality standards for exported goods and introduced export inspection system to execute these standards. This governmental intervention guaranteed that all exporting companies met the minimum standards (Jaffe and Nebenzahl 2006, 175). The system was amended a coupe of times to strengthen the control.

This regulatory measure began in 1948 as the Allied Powers lifted the embargo. In order to "improve the reputation and quality of exports," the Japanese government legislated the Export Goods Control Act of 1948. The law specified 55 important items to be controlled and required exporters of these items to evaluate and display the quality level of goods. In addition, the government set the minimum quality and packing standards for the seven most important items, that are tea, processed foods, medicine, reagents, matches, optical equipment, and light bulbs, and banned all exports of items that were not meeting with the minimum standards.

Later, the regulation was strengthened gradually in order to respond to needs for stronger regulations. In spite of the Export Goods Control Act of 1948, reputation of Japanese products was still low in many foreign countries. The Japanese

Government was afraid that foreign countries would impose higher tariff over Japanese products in order to eliminate low-quality goods imported from Japan. In response, the government amended the Act several times and, finally, they abolished the Act and re-legislated the new law – the Export Inspection Act of 1957.

The Export Inspection Act of 1957 was much stricter than the Export Goods Control Act of 1948. It applied to 145 items and introduced the direct inspection by the government for the most important items.

Moreover, the new Act was more sophisticated than its predecessor. Interestingly from the branding perspective, the government adjusted level of the mandatory quality standards taking into account the difference in consumers' expectations in each country. For example, the quality standards for canned fish to the United States and the United Kingdom were higher than those for other destinations. Similarly, the higher standards were set for squirts to the United States, Canada, and Mexico [Ministry of International Trade and Industry 1990, 312].

Secondly, in order to complement the export inspection mechanism, the government and some public organizations sponsored various programs to improve quality management practice in private firms. For example, the Union of Japanese Scientists and Engineers held various quality control seminars for private firms (Jaffe and Nebenzahl 2006, 174). Since then, quality controls became one of the most important principles in Japanese manufacturers. As a result, total quality control (TQM) and *kaizen* (continuous improvement), for example, became terms that symbolize strength of Japanese industries.

In order to complement these brand experience management programs, the Japanese Government held advertisement campaigns as well in order to appeal the improvement of quality of the exports. They distributed brochures on the new export inspection system through chambers of commerce and consulates in foreign countries. However, the effects of these campaigns might have been relatively small because of the limited size of campaigns. The number of the brochures distributed was less than 10,000 in the whole world. Figure 2-6 shows the record of these campaigns.

Figure 2-6: Advertisement Campaigns of the Export Inspection System

Year	Name of Brochures (The Number of Circulation)	
1958-59	Inspection System of Japan's Exports and the Governing Law	6,500
1959	Japanese Export Inspection Standards Meal and Machinery Vol. I	1,500
1960	Japanese Export Inspection Standards (General Merchandise)	1,500

Source: The Ministry of International Trade and Industry, 1990

As a result, in spite of the small-sized advertisement campaigns, the export inspection system and other measures taken by the government and private firms improved reputation of Japanese products. Since then, consumers around the world began to recognize "made-in-Japan" label as a guarantee of high quality. The positive brand experience from Japanese products improved country image of Japan in consumers' mind.

Café de Colombia

Brand experience management also played an important role in the case of Café de Colombia. Along with advertisement campaigns (e.g. Juan Valdez), the National Federation of Colombian Coffee Growers established minimum quality standards for coffee exports in order to maintain quality of coffee beans. They also monitored quality control, research and development, shipping and logistical support, and coffee sale and promotion.

This quality control is supplemented by the regulatory controls, which is similar to the Japanese export inspection system. The coffee beans were graded and sorted by size and density and checked for imperfections in color and other visual defects. It was only after this long process that the Colombian beans received their stamp of approval for export (Deshpandé 2004). This system enabled consumers to enjoy high quality coffee beans from Colombia.

As seen in these cases, the better country image is resulting from advertisement campaigns and/or brand experience management. The next section will compare these two measures and show that brand experience management is more powerful than advertisement campaigns for improvement of country image.

2-2. Brand Experience Management Is More Important

As described in the previous section, consumers form country image through advertisement campaigns and/or brand experience management. However, advertisement campaigns are less important than brand experience management because advertisement campaigns are not strong enough to alter consumers' image of countries that is formed through actual brand experience.

Partly, it is too costly for governments to have a massive advertisement campaign that can influence consumers all over the world and alter their image of countries (2-2-1).

In addition, even if governments conduct massive advertisement campaigns, consumers may get dissatisfied if actual brand experience cannot meet expectations that consumers have. Hence, advertisement campaign without brand experience management may not work well (2-2-2).

2-2-1. Advertisement Campaigns Are Not Strong Enough

It is often too costly for governments to have advertisement campaigns that are massive enough to influence consumers all over the world. Heavy and repeated advertisement is necessary for reaching consumers but it is often too expensive.

Hence, advertisement campaigns are often insufficient to change consumers' image of countries.

Given that branding campaigns often target broad range of consumers, the amount of money the governments needs to spend for advertisement campaigns becomes very expensive. From a number of case studies, Jaffe and Nevenzahl pointed out that failure of branding attempts by several countries is due to insufficient budgets. For example "Scotland the Brand" campaign spent only £10 millions (about $16 millions) in 2003-2004 while the average budget for promoting the top five new brands was $143 millions per annum per brand. In the end, they concluded that the contribution of advertising campaign alone is questionable at best (Jaffe and Nebenzahl 2006, 174).

2-2-2. Advertisement Campaigns Cannot Prevent Dissatisfaction

Even if governments conduct massive advertisement campaigns that can reach all target consumers, consumers may get dissatisfied if actual brand experience cannot meet basic expectations that consumers have. Any great advertisement campaigns cannot compensate this type of dissatisfaction. Therefore, brand experience management is indispensable.

Customer dissatisfaction occurs when products or services cannot meet "a must-be requirement" that consumers have. While fulfillment does not lead to satisfaction, customers will be extremely dissatisfied and can become "terrorists" who communicate their negative feelings to others (Berman 2005, 131). As a result, it hurts country image seriously.

There are many examples where country image has been jeopardized because of customer dissatisfaction. In 1940s, people bought made-in-Japan products got extremely dissatisfied because of its unacceptably low quality. More recently, "made-in-China" is facing a similar challenge. In 2007, lead-polluted toy abased products manufactured in China. Newspapers screamed out about this accident. One newspaper wrote an article titled "China exports lead poisoning: From eye shadow to glazed pottery, products pose danger to U.S. kids[2]."

Advertisement campaigns alone cannot prevent or recover consumer dissatisfaction. Hence, brand experience management is essential in order to keep consumers away from dissatisfaction.

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[2] World Net Daily. "China exports lead poisoning: From eye shadow to glazed pottery, products pose danger to U.S. kids." June 07, 2007

Chapter 3. Contradiction: Country Image and Competitiveness

The relationship between the country-of-origin effects and competitiveness of industries is complex. While a positive country image strengthens economic competitiveness, excessive controls over industries occasionally weaken innovative dynamism of industries. As a result, governments should take into account two sides of branding policy before introducing it.

This chapter describes how the country-of-origin effects work in the context of the competitiveness of the industries using Michael Porter's framework on competitiveness. As explained in the chapter two, brand experience management is essential for improvement of country image. However, excessive controls by the governments undermine innovative dynamism of industry and ultimately ruin the competitiveness. Moreover, regulation increases bureaucratic procedures, which result in interruption against efficiency. Hence, brand experience management also has contradictory effects over the competitiveness.

3-1. Blocking Innovative Dynamism of Industries

As many economists suggest, excessive regulatory controls by governments undermine innovative dynamism of industry and ultimately ruin competitiveness of economy. Even though governments' intention is to improve economic welfare, interventions occasionally block flexibility of firms at the same time.

Innovation is critically important for competitiveness of industries. Innovation upgrades economy by bringing it to the next stage. Hence, interruption of innovation damages industries seriously. In the Porter's framework, excessive regulations negatively affect one of the four determinations: the firm strategy, structure, and rivalry.

Similarly, excessive brand experience management occasionally undermines competitiveness of industries. In other words, policies intended for better country image sometimes worsen competitiveness ironically.

The quality improvement campaigns in Japan faced this dilemma. Even though the export inspection system and other measures did improve competitiveness of the Japanese industries at the beginning, as a notion that "firms can succeed if they improve the quality of products" spreads out among Japanese firms, it did discourage Japanese firms to make innovation and to differentiate one another. Rather, they began to work under defensive routine.

In *Creative Destruction*, Foster and Kaplan pointed out that lack of innovation destroys firms. Companies bound by "cultural lock-in" – the inability to change the corporate culture even in the face of clear market threats – may find itself difficult to respond to the messages of the marketplace and one source of cultural lock-in is defensive routines created by control systems (Foster and Kaplan 2001, 16-18). In the end, the Japanese economy is still suffering from lack of innovation that upgrades the entire economy.

3-2. Case: Labeling Scheme and French Wine Industry

Many wine producing countries have own quality and labeling standards. In Australia, for example, the Australian Wine and Brandy Corporation was established in 1980 as a regulatory body. It administrated export licenses, label integrity, and compliance with regulations (Porter and Solvell 2010). Similar quality and labeling standards also exist in California, France, Italy and other wine producing countries. Overall, such quality and labeling standards help wine industry to improve the country-of-origin effects by managing consumers' brand experience.

In France, however, quality and labeling standards are becoming a source of protectionism. The French government played a major role in regulating quality standards and safeguarding the French tradition of appellations or quality grades, which were attributed to different geographic areas. Surprisingly, these assignments were based on history and largely had not changed in over 200 years (Porter and Bond 2008, 13). These restrictions negatively impacted competitiveness of French wine industry. As a result, the annual growth in wine export value between 1985 and 1997 was only 8.6% in France while other countries had made tremendous growth in the same era (36.0% for Australia, 35.6% for Chile, and 25.2% for the United States).

3-3. The Increasing Number of Bureaucratic Procedures

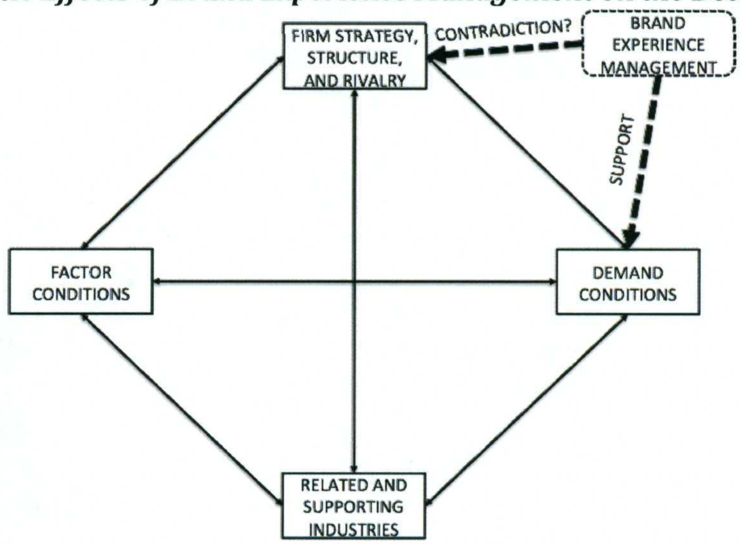
In addition to the problem of being obstacle against innovative dynamisms of industries, mandatory regulation for brand experience management often increases unnecessary bureaucratic procedures. In the case of the Japanese export inspection system, the increase in the amount of trade resulted in the skyrocketing number of bureaucratic procedures. In 1970s, industry associations repeatedly requested the government to withdraw or relax the Export Inspection Act of 1957.

3-4. Conclusion

These contradictions are critical dilemma for governments that want to strengthen competitiveness of the industries through the country-of-origin effects because, as described in the previous chapter, brand experience management is indispensable for improvement of country image. Implication of this dilemma is that the pursuit of a better country image sometimes contradicts between the competitive advantages.

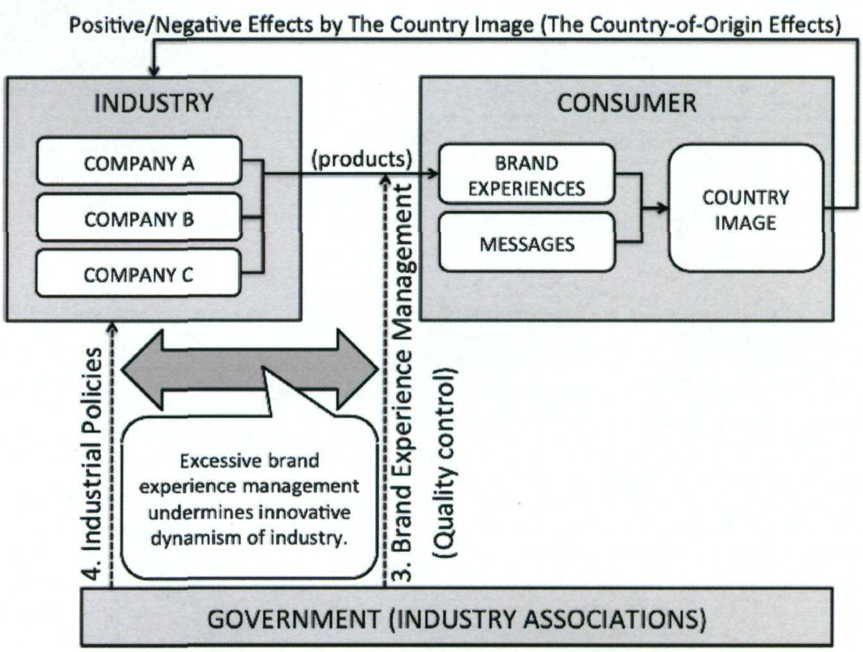
As shown in figure 3-1 and 3-2, brand experience management affects two factors: firm strategy, structure, and rivalry and demand conditions. The next chapter will suggest what government can do to minimize such dilemma through solving such a dilemma.

Figure 3-1: The Effects of Brand Experience Management on the Determinants



Source: Author, using Porter's framework

Figure 3-2: Effects of Brand Experience Management over Industrial Policies



Source: Author

Chapter 4. Integration: Country Image and Industrial Policies

The previous chapter shows that brand experience management often contradicts with economic competitiveness. While a positive country image strengthens economic competitiveness, excessive controls over industries occasionally weaken innovative dynamism of industries.

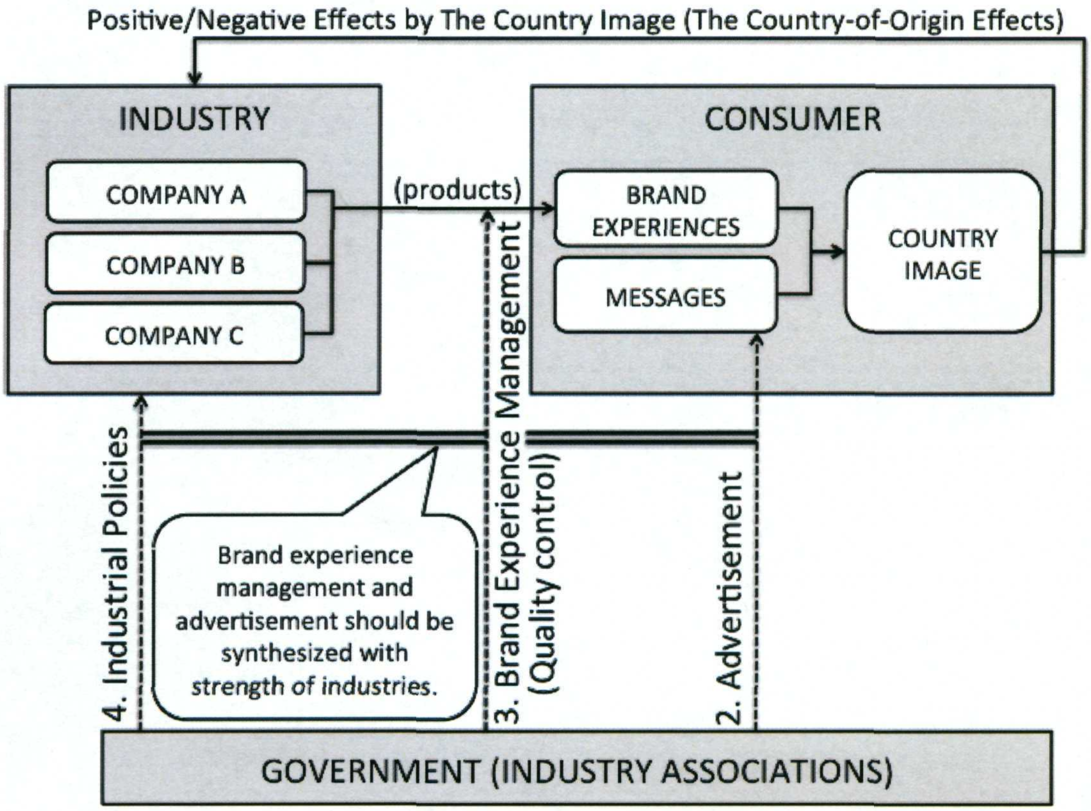
Therefore, governments trying to take an advantage of the country-of-origin effects should harmonize branding policy (i.e. brand experience management and advertisement campaigns) and other industrial policies in order to avoid such a contradiction. Consistency and flexibility are the keys for harmonization. When promoting country image of products, governments should focus on brand equity that is consistent with actual strength of industries. If there is no adequate strength to be highlighted, governments need to create the strength in the way that improves competitiveness of industries. In addition, governments should monitor brand equity periodically and flexibly strengthen or weaken the degree of control as necessary.

4-1. Synthesizing Branding and Industrial Policies

In order to improve country image effectively, governments should synthesize branding policy and other industrial policies through focusing on brand equity that is consistent with actual strength of industries. As shown in figure 4-1, advertisement campaigns, brand experience management, and other industrial polices need to be synthesized. It helps governments to avoid excessive intervention that blocks innovative dynamism of industries.

Governments can also target strength of industry that has not been realized yet. If that is the case, however, extensive industrial policy and brand experience management are necessary to build that strength. Otherwise, consumers may be disappointed for products that do not meet their expectations.

Figure 4-1: Synthesizing Branding Policy and Industrial Policies



Source: Author

4-1-1. Focusing on Strength of Industries

Focusing on actual strength of industries minimizes negative impacts on innovative dynamism of industries. Governments do not have to remedy the industries forcibly in order to alter attributes of their products and services.

Moreover, such consistency also works positively for improvement of country image. It relates to consistent brand experience and customer satisfaction. As mentioned in chapter 2, consumers may get dissatisfied if products do not meet their expectations.

For instance, if a country highlights quality of their products in their marketing campaign but actual quality is poor, consumers may become angry and may never purchase their products.

Thus, in advertisement campaigns, government should not promise beyond actual attributes of products. Consistency, keeps governments away from such a pitfall. By focusing on actual strength of industries, consumers will come into contact with consistent brand experience. Consistency of brand experience is essential for branding.

This point is truly important for country-level branding compared to company brands because governments often have less control over products. SONY, for example, can modify its products as much as they want but governments often cannot.

4-1-2. Focusing on Desirable Strength of Industries

Although it is ideal if countries or industries actually have attractive features, not all of them have such attractiveness. If that is the case, brand equity can be strength in the future, which has not been realized yet. Strength of the industries is dynamic, not static, and changes over time. Governments can improve such attributes simultaneously with branding through extensive industrial policy and brand experience management.

Environmental regulations, for example, can be a tool for such harmonized policy. In *the Competitive Advantage of Nations*, Michael Porter raised examples of various government policies that can strengthen industries (M. E. Porter 1990, 617). Porter analyzed that stringent regulations that anticipate standards that will spread internationally, such as environmental regulations, are beneficial for competitive advantage of the industries because tough standards encourage the start-up of specialized manufacturing and service firms to help address them, which can develop strong international positions (M. E. Porter 1990, 648). It indicates that industrial policies can create attractive attributes for consumers.

The case of energy efficient products in Japan is a good example. The Japanese Government introduced the Energy Conservation Act in 1979 in order to improve energy efficiency of products such as automobiles. Although this measure was a passive response to the Energy Crisis in 1970s, Porter analyzed that this regulation improved competitiveness of Japanese the industries (M. E. Porter 1990, 648).

Such regulations, may have a much stronger impact if done with branding policies. In the case of Japanese energy efficient products, the Japanese government missed an opportunity to promote those products more actively. The government could have done much better by advertising Japanese products as "eco-friendly" goods given that consumers were becoming more conscious about the global climate change. It could become an effective combination of branding and industrial policy because consumers would come across with consistent advertisement and brand experience.

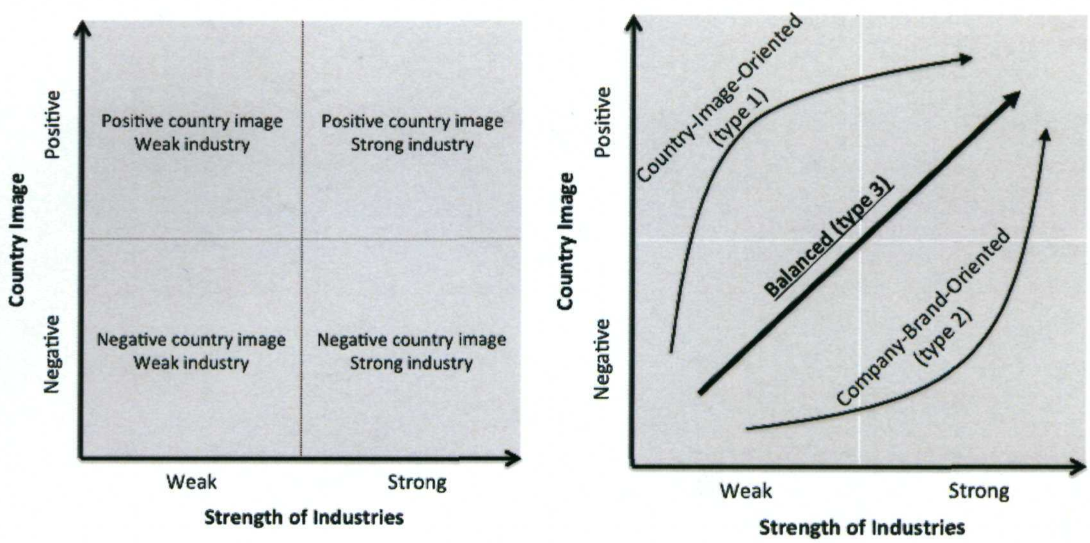
Effectiveness of such regulatory measures depends on adequacy and timeliness of regulation. As seen in the case of French wine, inadequate regulations work negatively for the competitiveness of the industries. Regulation undermines competitive advantage if a nation's regulations lag behind those of other nations or are anachronistic (M. E. Porter 1990, 649). Hence, the brand equity must be carefully selected and executed integrally with the industrial policies. Governments should select branding equity based on deep insight into future consumer needs.

4-2. Three Processes to Improve country image

Country image and strength of industries make a great leap in competitiveness when both factors are synthesized and interact positively each other.

Figure 4-2 is a matrix that shows relationships between country image and strength of industries. The vertical axis shows attractiveness of country image while the horizontal axes shows strength of industries. For example, the bottom left corner demonstrates that industry is less competitive and has a negative country image. Contrary, industries in top right corner have both attractive country image and strength. If an industry moves from the bottom left corner to the bottom right corner, it indicates that the industry has become stronger its country image is still negative.

Figure 4-2: Matrix of Country Image and Strength of Industries



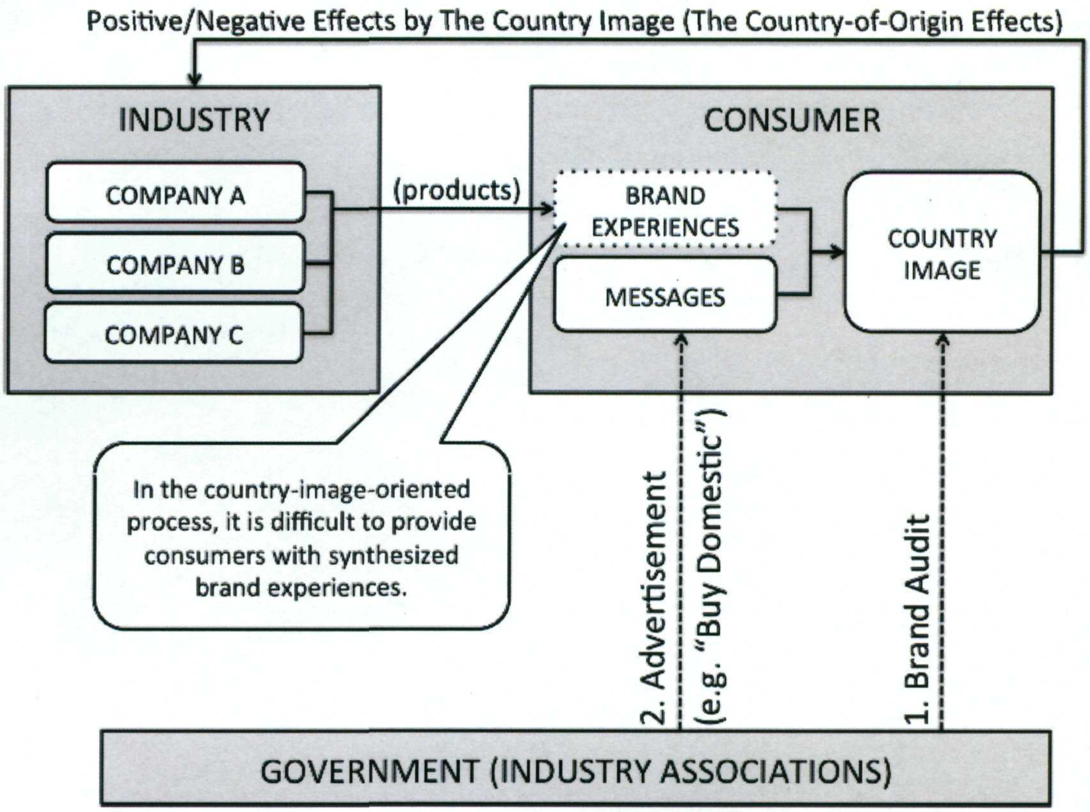
Source: Author

Three arrows demonstrate different patterns that industries grow in this framework. Type 1 is the country-image-oriented process where country image improves at first and then that positive country image strengthens industries. Type 2 is the company-brand-oriented process where industries become strong at first and it is followed by improvement of country image. Finally, type 3 is the balanced process where country image and strength of industries improve simultaneously.

4-2-1. Type 1: The Country-Image-Oriented Process

The first process is the "country-image-oriented" process where country image improves primarily while competitiveness of industry stays low. Afterwards, strong country image improves strength of industry. There are many cases governments tried to take this pattern.

Figure 4-3: The Country-Image-Oriented Process (Type 1)



Source: Author

In "buy domestic" campaigns, for example, governments try to stimulate consumer ethnocentrism without improving actual strength of industries. Consumer ethnocentrism is consumers' feeling that provides consumers with a sense of identity, a feeling of belongingness and an understanding of what purchasing behavior is acceptable or unacceptable within their in-group (Burton 2009, 81). "Buy American Campaign" is a typical example.

This process, however, is often ineffective because it is not reflecting real state of industries. As described in chapter two, advertisement campaigns do not work without brand experience management. Although governments can illuminate their unattractive products beautifully through advertisement campaigns, it is difficult to make consumers satisfied with those products. As shown in figure 4-3, this process is not effective for formation of positive country image because of lack of positive brand experience.

4-2-2. Type 2: The Company-Brand-Oriented Process

Next, the "company-brand-oriented" process is a process where strength of industries (and company brands) creates positive country image. While role of governments in this process is limited to brand experience management and other industrial policies, governments sometimes do not play any role at all. Rather, it emphasizes activities by individual companies.

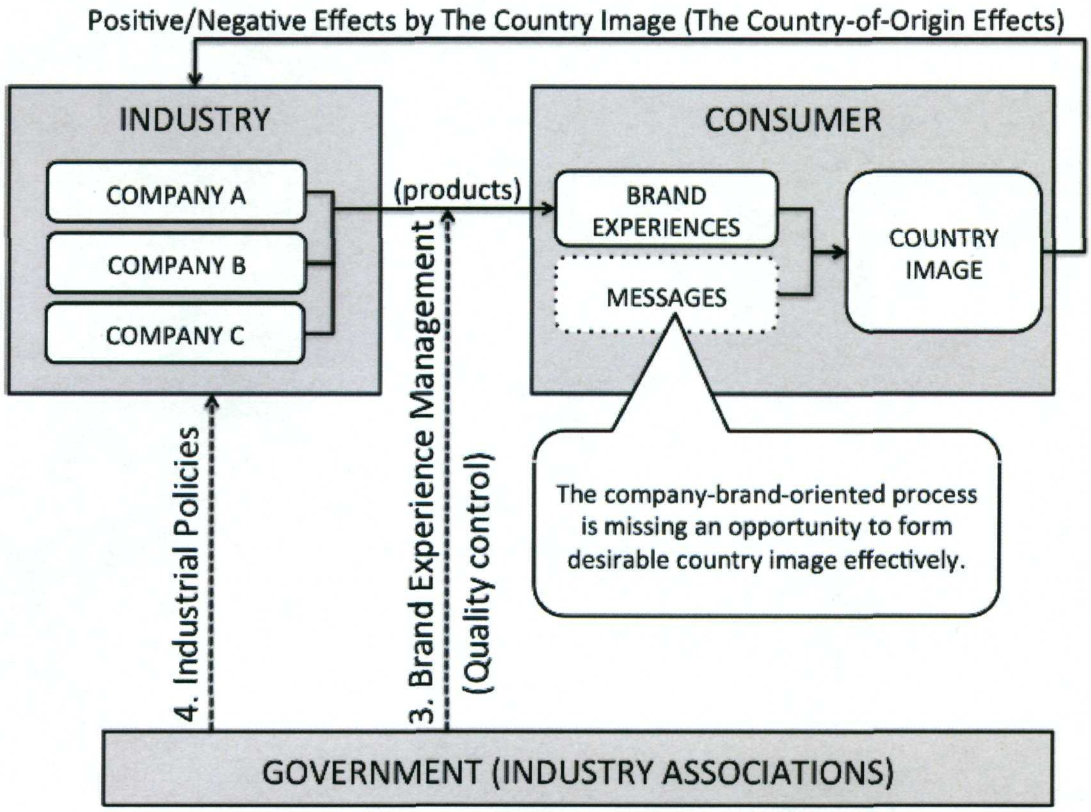
In the case of Japanese products, SONY and Matsushita did marketing individually, not collectively. The role of the governments is to assist those companies through the industrial policies such as introduction of export inspection system.

The case of "made-in-Japan" products in chapter two is a good example for this process. Although the Japanese government ran a few advertisement campaigns, reputation over quality of Japanese products is mostly from the positive brand experience from actual improvement of products. It was SONY or Matsushita that made Japanese products strong, not reputation of Japanese products made these companies strong.

While there are a number of industries that obtained competitiveness through this process, there is a room for improvement. Governments can take advantage of the country-of-origin effects through appealing their products more aggressively. Figure

4-4 shows how this process works. This process is missing an opportunity to form a desirable country image effectively by delivering positive messages.

Figure 4-4: The Company-Brand-Oriented Process (Type 2)



Source: Author

4-2-3. Type 3: The Balanced Process

The third process is a combination of previous two processes. It is a balanced process where country image and strength of industries improve together. This approach enables governments to improve industries most effectively by integrating branding policy and other industrial policies.

From branding perspective, governments can provide consumers with consistent messages and brand experiences because stronger industries can deliver better brand experience. Also from industrial policy perspective, stronger country image is helpful for competitiveness of industries because it strengthens the demand conditions of industries, as Porter described. Clearly, this process is preferable to the other two processes. Figure 4-5 summarizes these three processes.

Figure 4-5: Summarizing the Three Processes

		Messages (Advertisement)	
		Yes	**No**
Brand Experience	**Yes**	***Balanced Process (Type 3)*** ↑ Consistent branding and industrial policies improve the industries	***Company-Brand-Oriented Process (Type 2)*** ↑ Strong company brands improve country image ↓ Not taking advantage of the COO effects
	No	***Country-Image-Oriented Process (Type 1)*** ↑ Positive country image strengthens industries ↓ Unable to provide good brand experience	

Source: Author

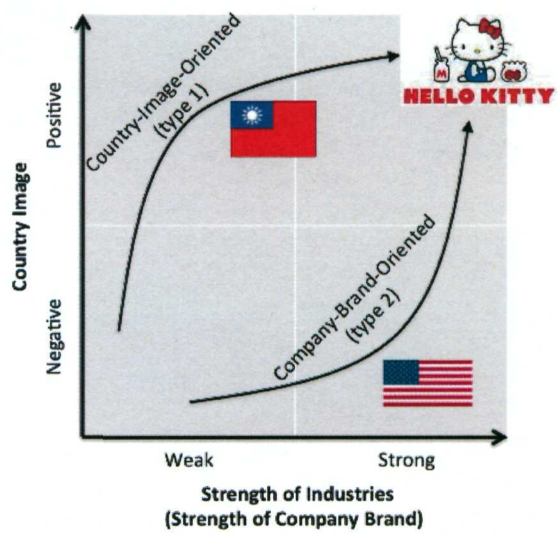
4-2-4. Case: Hello Kitty in the United States and Taiwan

These three processes are not determined solely by characteristics of industries. Rather, the case of Hello Kitty shows that same industries may take different processes in different countries.

Hello Kitty is a famous merchandise character created by a Japanese firm, Sanrio (see figure 4-6). When Sanrio launched Hello Kitty in 1974, it was a domestic company unknown in foreign countries. Similarly, unlike today, Japanese pop culture was consumed only domestically. It took two more decades until Nintendo launched Super Mario Brothers in 1985 (Belson and Bremner 2004).

Sanrio was one of the first Japanese companies expanded globally in this merchandise character industry. Following Hello Kitty's success in Japan, the company soon established Los Angeles office to export this character (Belson and Bremner 2004). Later, various Japanese characters such as Super Mario and Pokémon followed hello Kitty in the United States. As a result, reputation of Japanese pop culture was improved. Clearly, it is a good example of the company-brand-oriented process.

Figure 4-6: Rise of Hello Kitty in the United States and Taiwan



Source: Author (picture is retrieved from www.sanrio.com)

Hello Kitty, however, took different process in Taiwan. Contrary to the case in the United States, being Japanese made Hello Kitty popular. Sanrio launched Hello Kitty in Asian countries including Taiwan in 1990s. At that time, Sanrio localized Hello Kitty by dressing it with local traditional costumes. This attempt was soon failed and sales were decreased. Later, Sanrio found that consumers were buying Hello Kitty because they wanted something Japanese; sales increased again after they redesigned Hello Kitty in Japanese way (Belson and Bremner 2004). In Taiwan, Hello Kitty took the country-image-oriented process. These two stories indicate that same industry can take different processes in different countries.

4-3. Flexibility in the Management

Flexibility is another factor for effective management of the country-of-origin effects. Governments should monitor country image periodically and adjust brand experience management to avoid unnecessary restrictions over industries.

In the case of the Japanese export inspection system, the Japanese government imposed strict control in the beginning and withdrew it later when country image had improved enough. As descried in chapter two, the Japanese Government enacted two legislations in 1948 and 1957 in order to improve reputation of quality of Japanese products. However, as Japanese goods acquired better reputation, the government withdrew the regulations category by category to avoid excessive controls over industries. The number of items under the mandatory quality control was peaked in 1960s and decreased since then. In terms of volume, about 50% of items exported from Japan were under the mandatory quality control system in 1960 but the ratio dropped to 23% in 1970.

The pressure from the industries also played an important role in the withdrawal of the regulation. Although the Export Inspection Act of 1957 dramatically improved reputation of "made-in-Japan" products, it was unpopular among firms because it undermined the efficiency of export procedure. The Japan Business Federation, one of the largest industrial organizations in Japan, was lobbying against the export inspection system. Finally, the Export Inspection Act was abolished in 1997.

Chapter 5. Conclusion

In the nutshell, policy aimed at images works most effectively when they are integrated into other industrial policies and vice versa. It has a couple of important theoretical and managerial implications for both academics and decision makers. In addition to these implications, this last chapter argues limitations of this thesis as well as areas for future researches.

5-1. Theoretical and Managerial Implications

Theoretically, the conclusion implies that improvement of country image does not necessary strengthen competitiveness of industries. Similarly, decision makers in governments should keep this fact in their mind and try to synthesize branding policy and other industrial policies. Decision makers in governments, however, may face obstacles to such changes in policy.

Firstly, branding already competitive industries may be politically incorrect. In Japan, for example, the branding policy mainly focuses on the declining industries. The Small and Medium Enterprise Agency takes an initiative of the Japan Brand Development Assistance Project that supports over 30 branding projects every year. This project mainly targets textile, agricultural, and handcraft industries that already have lost competitive advantages in many decades ago. Because of political power these industries still possess, it would be difficult for governments to abandon these projects and shift to more competitive industries such as automobiles, electronics, or information technologies.

Secondly, an organizational issue may arise as governments try to integrate branding and industrial policies. As many researchers insist, Branding project in nation level is always complex due to a number of actors to be involved (Dinnie 2008). Integration with industrial policies will add another actor such as commerce department of the central and local government, for example, to this complex world of nation branding. More frequent and smooth communications among these actors will be necessary.

5-2. Limitations And Future Research Areas

There are a couple of limitations and potential future research areas regarding this thesis.

Firstly, this thesis is based on limited amount of data. Especially, it lacks quantitative data supporting this conclusion. Furthermore, the number of case studies used is limited. Therefore, further quantitative and qualitative research is needed.

Secondly, this thesis does not consider difference between product categories. There may be some product categories that country-image-oriented process is better than company-brand-oriented process or the balanced approach.

Firm's ability to expand production may affect this choice. Country-image-oriented process may be better for product categories where expansion by individual firms is difficult. In general, companies do not invest to build a brand if they cannot expect enough return by expanding sales. For example, farmers cannot expand production easily because they need to purchase new fields to do so but law sometimes restricts such acquisition. In such a case, farmers may not have any incentives to build own brand. Therefore, "company-brand-oriented" process may not work at all and country-image-oriented process may be more efficient.

However, it does not mean that all agricultural products should be promoted through country-image-oriented process. In fact, some of agricultural products are produced in factories and companies can build own brand for it. For example, Yukiguni Maitake Manufacturing Corporation America, a Japanese mushroom producing company recently decided to build a new mushroom factory in the US in order to sell its branded mushroom, Yukiguni Maitake.

Also, it does not also mean that all industrial products should be promoted through company-brand-oriented process because there are some cases where it is impossible to expand production rapidly. In case of artistic plates, for example, skilled craftsmen must manufacture them if machines are not capable to do the same job. In this case, the number of the skilled craftsmen limits the growth of sales.

Therefore, future research must focus on relationship between characteristics of each product category and government's role in branding.

5-3. Concluding Remarks

The theme of this thesis originates from my summer internship at an export promotion agency in New York. My assignment was to help promoting Japanese well-designed furniture at the International Contemporary Furniture Fair 2010. During the exhibition, our team was working hard to appeal excellence of Japanese furniture through leaflets, posters, small gifts and so on. It was a great, lively experience on nation branding.

However, there were some questions sticking to my mind: Is this project really effective? Are we doing this project for a few companies that exhibiting at the Fair? Or are we doing it for entire furniture industry? Honestly speaking, I thought the project was not coordinated with other industrial policies well and had more areas for improvement.

In this context, after coming back to the Fletcher School, I began to write this thesis to suggest possible ways to improve effectiveness of such projects by coordinating them with other industrial policies. I hope that this thesis can contribute help people in both public and private sectors who are trying to take advantage of nation branding.

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