Negative country of origin effect and customer perception of locally-made goods in Nigeria

This article provides a theoretical review regarding the negative country of origin effect on customers’ perception of locally made goods in Nigeria. COO plays a significant role in the industrial sector growth of a country. Unfortunately, negative COOs are encouraged by constraints that impede both their development and growth. These limitations include perceptions that locally made goods are of low quality and that customer view of status discourages people from buying locally made goods. This negative perception has led to a dwindling economy and economic hardship prevailing in the country.

The study is conducted to examine the impact negative country of origin has on customer perception of locally produced goods in Nigeria. Previous studies suggest that Nigerian consumers prefer products from advanced countries to those from their own country. In preferring these products, consumers may also be willing to pay a higher price compared to products from developing countries. The authors recommend that government limit the import of goods that can be easily manufactured or produced in the country. Developing trade alliances with the developed countries is a sure way developing countries can ease the effects COOs have on their economies.

Introduction

The role of country of origin (COO) effect in the process of economic development, particularly in developing countries, cannot be overemphasised. The successes recorded recently in developed countries such as Japan and the United States have been linked to the promotion of the country of origin effect (Kalicharan 2014). It is now recognised that most developed countries, through the promotion of country of manufacture, have the potential to accelerate the economic development process. The promotion of entrepreneurship through COO has, therefore, been advocated. The recent economic successes in some countries have revealed that countries of origin have the potential for development considering their comparative advantage, labour intensive nature, income generating capabilities, and ability to use local resources as input and/or raw materials, capacity to save capital, flexible nature, innovativeness and their strong linkage, both forward and backward, with the other sectors of the economy.

In the early 1960s to the mid-1970s, when the country relied on agriculture, Nigerian products were popular as people from different countries came to patronise Nigerian-made products because of the early emphasis on producing locally (Nigerian Nation 2016).

Nigerians have continued to spend the nation’s foreign reserves on importing finished consumer products that could be sourced locally if efforts were made to patronise Nigerian products. As the pressure on the naira begins to mount over the country’s excessive import bills and low foreign exchange from exports, the federal government has intensified efforts to encourage Nigerians to buy locally made goods (Iloani 2016). Relevant data from the National Bureau of Statistics show that consumer confidence, business confidence, competitiveness and corruption ratings remain worrisome and affect the image of goods made in Nigeria. Consumer confidence in Nigeria, as at the last quarter of 2015, dropped to -3 from -1.9, recorded the previous quarter, whilst business confidence stood at 8.3% at the end of last year, down by 6.6% from 14.9% recorded in the third quarter of 2015 (National Bureau of Statistics 2016). On competitiveness and corruption rankings, locally produced goods continue to attract negative attention (Iloani 2016).

Empirical studies indicate that there are a number of underlying reasons for the impact of country of origin information, ranging from the country stereotype (positive and negative) playing a role in consumer product evaluation process to individual outright rejection of foreign made products because of their concern for the well-being of the local economy (Bilkey & Nes 1982), but that is...
not the case in Nigeria. The impact of the COO effect also differs across product categories. Apart from focusing only on where the product is from, people consider other factors when buying. For durable and luxury products, the COO plays an important role in a consumer’s decisions (Ing. Petr Kral 2015). Nigerian consumers seem to value foreign brands and regard them as status symbols. However, consumers want the advantages of affluence and the latest services that technology and business can offer (Achumba 1998). If a brand is perceived as globally acceptable, consumers are likely to attribute a superior quality to it. It has also been reported that consumers buy foreign goods for prestige and nationalistic belief (Adina, Gabriela & Roxana-Denisa 2015; Zhon & Belk 2004). Therefore, it can be suggested that consumers in developing countries have conflicting reactions towards foreign brands. Nagyova and Cech (2004) suggests that, from a marketing perspective, the image of the country must be taken as an external factor which the marketer cannot influence on the one hand, whilst, on the other hand, the brand’s and/or product’s identity is fully in the marketer’s hands. The final purchase decision of the consumer is then based on both factors. Thus, the identity of the brand and/or product and the image of the country from which the product and/or brand originates influence the image of the brand.

Most of the time, the attitudes and perceptions of consumers towards their choice of goods depend on product categories. For example, electronics from the United States or Spain may be regarded as low quality, whilst those from China or Japan are perceived as high or reputable quality. Previous studies (Achumba 1998; Aire 1973; Akomolede & Oladele 2008) confirm that the poor quality of locally produced goods is responsible for consumers' preference for foreign products. COO play a significant role in the industrial sector growth of a country. Unfortunately, COOs are faced with constraints that impede both their development and growth. These constraints include: infrastructural challenges, which may also contribute to poorly manufactured goods; negative perception that locally made goods are of low quality; status symbol is also a factor that discourages people from buying locally made goods. There is no doubt that of all these constraints, negative perception constitutes the greatest challenge to the promotion and growth of COOs in most developing countries like Nigeria. Hence, the objective of the study was to examine the impact the negative effect the country of origin has on customers’ perception of locally produced goods in Nigeria.

The remainder of the article is divided into the literature review, design and methodology, discussions on the negative perceptions of locally manufactured goods as well as conclusions, recommendations and suggestions for further research.

**Literature review**

**Factors affecting the country of origin**

Over the years, researchers have held perceptions of products that originate from countries of origin. According to them, consumers usually have several options in choosing products (Ahmed & d’Astous 2003). Research findings suggest, firstly, that better understanding of the country of origin is required to appreciate the perceptual decision of consumers. Secondly, the country of origin is used by consumers as a criterion to evaluate products and to make purchasing decisions (Hong & Wyer 1990; Parameswaran & Pisharodi 1994). More importantly, the country of origin may create a ‘halo effect’ which influences customers’ attention and evaluation of product features and dimensions (Erickson, Johansson & Chao 1984). Country stereotyping may also affect consumers’ attitudes towards the brand of a country, thus altering attitude rating (Wright 1975). The conclusions that emerged from country of origin research indicate that consumers use the country of origin as a criterion to evaluate products (Han 1989; Johansson 1989). For example, Johansson (1989) argues that consumers use information about the country of origin to evaluate product quality. Other authors suggest that the country of origin could be used as an attribute (Hong & Wyer 1989, 1990). Despite consumers’ frequent and numerous remarks that a product’s country of origin is not important (Hugstad & Durr 1986; Papadopoulos & Heslop 1993), they will readily use country of origin as an important factor in quality evaluation (Adina et al. 2015), and, in fact, consumers care about the origin of their products (Solca 2015). This is markedly so with products such as cars, household appliances, computer technology and apparel, amongst others. Therefore, it is not surprising that a number of studies undertaken in the past 30 years corroborate the hypothesis that country of origin image influences a purchase decision. Purchase decision is a concept which reflects and describes basic consumer perception of the quality of a product coming from a certain country, as well as of the people from that particular country (Vriontis & Thrassou 2007). The most frequently used definition of the country of origin image is that which defines it as ‘the picture, the reputation, and the stereotype that businessmen and consumers attach to products from a certain country’ (Johansson 2000).

COO is a hint that consumers use to evaluate foreign products and brands. It has been defined in several ways: as the country of location of the corporate headquarters (Özsonmar & Caraggil 1991), country of manufacturing or assembly (Papadopoulos & Heslop 1993) and the country of product design (Ahmed & d’Astous 1993). COO is also defined as any influence or bias that consumers may hold resulting from the COO of the associated products or services (Samiee 1994). The sources of the effect are varied: some are based on the experience of consumers with products from a country in question, whilst others are from personal experience, knowledge regarding the countries’ political beliefs, ethnocentric tendencies or fear of the unknown (Samiee 1994). It has been empirically demonstrated that the COO effect has significant price-related consequences and brands with favourable COO associations are able to charge price premiums over and above those attributed to observed product differentiation (Saridakis & Baltas 2016).
are seeking to communicate the COO and to increase their customers’ COO awareness with a number of different strategies such as the use of the phrase ‘Made in …’, use of quality and origin labels, COO embedded in the company name, use of the COO language, use of famous or stereotypical people from the COO, use of COO flags and symbols, and or use of typical landscapes or famous buildings from the COO, amongst others (Aichner 2014).

**Perceptions about country of origin and evidence from Nigeria**

Verlegh and Steenkamp (1999) suggest that the country of origin effect has a significant effect on consumer evaluation of products and that consumers tend to use COO as an extrinsic cue to make judgment about the quality of products. This may result from personal experiences, through information acquired from other sources or because of stereotypical beliefs about countries. Consumers also tend to develop product-country images. These are images of quality of specific products marketed by firms associated with different countries (Papadopoulos & Heslop 1993). A few examples of product-country images are Columbian coffee, Swiss watches, US appliances, Japanese electronics and German automobiles because of the product-country images consumers hold, and their sensitivity to COO. COO is believed to be one way of enhancing brand equity (Keller 1993; Shocker, Srivastava & Ruekert 1994). The COO image is related to economic development, technology, world status of the country, as well as to the availability and familiarity of products and advertising. It was found in previous studies that consumers prefer products from advanced countries rather than those from less developed countries (Adina et al. 2015). In preferring these products, consumers may also be willing to pay a higher price compared to products from developing countries.

Nigeria’s total foreign capital imports declined by as much as 54.34% to $710.97 million in the first quarter of 2016 compared to $1.55 billion in the last quarter of 2015 (National Bureau of Statistics [NBS] 2015). Year-on-year, capital importation also declined by 73.79%. Both the quarterly and year-on-year decline also represented the lowest records since the series began, the NBS stated. It added: ‘As a result of these changes, total capital importation has fallen by 89.13% since its peak level in the third quarter of 2014’. According to the summary of the Capital Importation Report for the first quarter of 2016, the magnitude of the decline in the first quarter attested to the challenging period which the Nigerian economy is currently undergoing following the fall in crude oil prices. Adding to that, a huge drop could also explain why the amount of capital imported into the country in recent years may have been higher than usual. One such theory was the inclusion of Nigeria in the JP Morgan Bond Index and globally low interest rates triggering a search for higher yields over this period (NBS 2015).

The NBS further said:

The fact that the amount of capital imported has dropped to a record low suggests that there are further reasons why Nigeria has attracted less foreign investment in recent quarters. ‘Investors may be concerned about whether or not they will be able to repatriate the earnings from their investments, given the current controls on the exchange rate’. In addition, as growth has slowed in recent quarters, there may be concerns about the profitability of such investments. (n.p.)

In the period under review, portfolio investment was largest, accounting for $271.03 million, or 38.12% of all capital imported, with equity as the largest subcomponent which accounted for $201.69 million, representing 74.41% of portfolio investment and 28.37% of total capital imported. Equity has been the largest part of portfolio investment in every quarter since 2007. Although it remains the largest subcomponent, this is despite contributing the most to the decline in portfolio investment, equity recorded a quarterly decline of 74.54%, and a yearly decline of 82.30%, the NBS stated.

It further stated:

The second largest subcomponent of Portfolio Investment was Money Market Instruments, which accounted for $67.85 million, or 25.03% per cent of portfolio Investment, despite recording a quarterly decline of 57.62 per cent. In contrast to the same quarter of 2015, Bonds were relatively unimportant, accounting for only 0.35% per cent of portfolio investment. This followed a year on year decline of 99.79 per cent, from $705.12 million to $1.50 million in the first quarter of 2016 (NBS 2016).

According to the statistical agency, the second largest component was ‘other investment’ which accounted for $265.48 million, or 37.34% of all capital imported. As in the final quarter of 2015, only two subcomponents recorded any investments: loans, which accounted for $241.81 million or 91.09% of other investments, and other claims, which accounted for $23.66 million or 8.91%. Each of these subcomponents had seen large quarterly declines of 42.54% and 60.86%, respectively. In contrast to other investment types, Foreign Direct Investment (FDI) recorded a quarterly increase in the first quarter of 2016, from $123.16 million to $174.46 million. The NBS (2016) added that:

As a result its share of total capital importation increased from 7.91 per cent to 24.54 per cent, although it remained the smallest part of imported capital. FDI is dominated by equity, which accounted for $173.73 million in the first quarter, or 99.58 per cent of FDI. This share represents an increase relative to the previous quarter; as a result of equity increasing by 43.60 per cent relative to the previous quarter, and Other Capital declining by 66.60 per cent. Given the respective shares of Equity and Other Capital, movements in FDI largely reflect movements in Equity. (n.p.)

**Design and methodology**

This article is exploratory in nature through the use of a literature review to investigate and examine the impact negative country of origin effect has on customers’ perception of locally produced goods in Nigeria.

**Discussion**

Negative COOs have a significant effect on a country’s economic growth and development. It is vital for Nigeria to
refocus and dedicate its efforts to ensure that good quality products are manufactured locally. This will persuade Nigerians to support locally manufactured products instead of imported commodities. Iloani (2016) aver that federal government has exerted effort in encouraging Nigerians to support locally manufactured products. However, this can only be achieved if the federal government financially supports Nigerian manufacturers, particularly small businesses, with skills development and proper infrastructure. Implementing these measures would reverse the situation back to the 1960s and 1980s when other countries imported goods from Nigeria and had confidence in the quality of goods Nigeria produced at the time (Nigerian Nation 2016). It is important to note that customers place prestige at the forefront when purchasing a product. It is paramount to emphasise superior quality at the product development stage with efforts to attract not only local but foreign markets. Zhon and Belk (2004) concur with this by affirming that consumers opt for foreign goods because of prestige and national belief. Other researchers have also confirmed that lack of good quality in locally manufactured commodities has led to consumer preference for foreign goods (Achumba 1998; Aire 1973; Akomelede & Oladele 2008). It is also important for the federal government to maximise efforts to stabilise the country’s economy, political climate and to ensure harmony between cultural and religious dynamics. This is imperative because researchers highlight that customers are likely to use the COO as a primary factor in product quality evaluation (Johansson 2000; Verlegh & Steenkamp 1999; Vrionitis & Thrassou 2007). Consumers tend to have a positive bias towards products manufactured in developed countries and a negative bias towards those produced in underdeveloped countries. However, these perceptions may change over time because of technological advances, personal lifestyles or more sophisticated marketing techniques (Chuin & Mohamad 2012).

Conclusions, recommendations and suggestions for further research

This article has presented a theoretical review of negative country of origin opinion and its effect on customers’ perception of locally produced goods in Nigeria. Concluding remarks suggest that a country of origin effect plays an important role in consumer product evaluation for both weak and strong brands. Even for a product with a strong brand image, the negative consequences of COO stemming from consumers’ unfavourable attitudes (COO) may influence a marketer to avoid direct comparison between products made in favourable countries regardless of their brand strength.

Recommendations

• If Nigerians want local products to be sellable, the appropriate authority, which is the government, needs to set trade tariffs to force the prices of imported goods to increase so that buying locally made goods becomes attractive to people. The United States enacted something similar in the past when Japanese manufacturers were dominating the electrical appliances market in the United States.

• Nigerians have negative attitudes towards local products; they should try to de-emphasise the country of origin labelled on the product and emphasise the country of brand. Developing trade alliances with their developed counterparts is a sure way for developing countries to ease the effects COO has on their economies.

• The government needs to refocus the policy reforms towards small and medium size enterprises to ensure a certain percentage of goods can be exported, for example, 80% of locally made goods and 20% of foreign made products.

• Government should try to limit the importation of goods that can be easily manufactured or produced in the country and inculcate patriotic consumerism, a practice the Japanese and the Americans have adopted.

• Government should provide funding to emerging entrepreneurs, particularly manufacturing firms, to source sufficient supply of commodities to meet their needs in order to provide quality products appreciated by the consumers.

• As Nigerians complain about the low quality of the finished goods, government should provide the necessary infrastructure to produce quality made goods. Infrastructure such as regular supply of electricity, good roads and potable water would enhance the provision of quality goods.

• Today’s product market is highly globalised and interdependent. Nigeria could fare better if its government sensitises citizens to adopt some level of consumer ethnocentrism for nationalistic or patriotic reasons. Consumer ethnocentrism will combine with other sound marketing and advertising measures to strengthen competition and ensure the survival of firms in the country.

Suggestion for further research

This study focused on a theoretical review of COO. Empirical studies may be conducted in the future using a mixed methodology approach to understand why Nigerians would prefer imported products and what could be done to enhance patronage of locally manufactured goods for Nigeria’s economic growth.

References


Ing. Petr Kral., 2015, The ‘Made In’ Dilemma: To label, or not to label, University of Economics, Prague.


