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# Consumer animosity and foreign direct investment: An investigation of consumer responses

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ABSTRACT

This study proposes the concepts of host identity and foreign identity to explain the effect of foreign direct investment (FDI) entry modes and branding strategies on foreign subsidiary product purchases in an animosity context. Two experiments were conducted in two host countries with varying animosity levels toward the home country of a foreign entrant. Experiment 1 examined consumer purchase intentions toward products launched through three FDI modes (greenfield, acquisition joint venture [AJV], and greenfield joint venture [GJV]). Experiment 2 further examined consumer purchase intentions toward an equal-equity GJV subsidiary adopting a co-brand with different brand orders (foreign-local [F-L]) and local-foreign [L-F]). Results show that in a high-animosity host country, consumers prefer products launched through an entry mode and with a brand having a higher host identity (lower foreign identity). In a low-animosity host country, the FDI entry mode and branding strategy have no effect.


## 1. Introduction

This paper presents an investigation of consumer responses to non-import market entry that involves foreign direct investments (FDIs) in an animosity context. Since Klein, Ettenson, and Morris (1998) published their seminal study, the effect of consumer animosity on foreign product purchase has been thoroughly documented in international business and marketing literature (e.g., Bahaee & Pisani, 2009; Ettenson & Klein, 2005; Funk, Arthurs, Treviño, & Joireman, 2010; Klein, Smith, & John, 2002; Klein, 2002; Leong et al., 2008; Nakos & Hajidimitriou, 2007; Nijssen & Douglas, 2004; Riefler & Diamantopoulos, 2007; Russell & Russell, 2006). Such studies have provided strong support for the notion that consumer animosity has a profound negative effect on the consumption of products from animosity-evoking countries. Although this research stream has enriched our understanding of consumer animosity effects, past studies have focused primarily on products imported from particular animosity-evoking countries. Non-import entry modes involving FDIs, such as establishing a new wholly owned greenfield subsidiary (WOGS), acquiring a local firm, and forming an international joint venture (IJV) with a local partner, have been ignored in the animosity research stream. Given the increasing importance of FDIs in international marketing, neglecting FDI entry modes limits our understanding of the effects of consumer animosity. This study addresses this research gap by examining consumer responses toward various FDI entry modes and branding strategies in an animosity context.

To investigate this unexplored issue, we conduct a two-phase experimental study, examining how the entry modes of foreign firm and branding strategies affect consumer purchase intentions. We consider a cross-country situation in which a foreign firm enters two host country markets: one with a significantly high level of animosity (China) and the other with a low level of animosity (Taiwan) toward the home country of the entering foreign firm (Japan). This study specifically examines the host market with high animosity in terms of (1) whether forming an IJV with a local firm improves consumer product purchases in comparison to the setting up of a wholly owned subsidiary (WOS); (2) whether a greenfield joint venture (GJV) enhances consumer acceptance in comparison to an acquisition joint venture (AJV), when adopting an IJV entry mode; and (3) whether a local-foreign co-branding strategy mitigates

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consumer hostility and thus improves product purchases in comparison to a foreign-local co-branding strategy when adopting an equal-equity (50-50) GJV. The consumers in the host country with low animosity toward the foreign firm's home country are treated as a contrast group.

This research draws on a country of origin (COO) perspective to examine consumer responses to these FDI and branding decisions. Researchers indicate that consumer animosity and COO are two interrelated constructs because the first refers to the hostile attitudes of consumers toward a product's national origin (Jiménez & Martín, 2010). Prior studies have indicated that in addition to quality signals, the COO can be an affective and a normative cue that shapes consumer attitudes and behavior (Obermiller & Spangenberg, 1989; Verlegh & Steenkamp, 1999). Consumer animosity has been regarded as an affective and a normative mechanism of the COO effect that may exceed the impact of the cognitive mechanism (Amine, 2008; Verlegh & Steenkamp, 1999). In this article, we propose an FDI entry mode that leads to a hybrid subsidiary associated with two COOs, that of the host country and that of the foreign firm's home country. Accordingly, the products launched by such subsidiaries become hybrids. We further argue that different FDI subsidiaries have varying strengths of the host and foreign COOs, as is reflected in the local-foreign ownership structure, access to ownership, and branding strategy. In an animosity context, the varied host and foreign COO strengths of subsidiaries hold different emotional meanings for consumers, which generate different responses.

To the best of our knowledge, this is a pioneering study of the effect of COO and consumer animosity on consumer responses to foreign products launched through various FDI entry modes. The present study contributes to COO, consumer animosity, and foreign entry-mode research in several ways. First, this study relates the concepts of consumer animosity and FDI. This research shows that considering non-import entry modes that involve local investments is critical in an animosity context. The products in the FDI context become complex hybrids that are associated with both the host country and the entering firm's home country. Accordingly, ignorance of the FDI mode can cause validity problems. For example, numerous Chinese consumers know that most Japanese cars sold in China are locally manufactured by Sino-Japanese joint ventures; therefore, when Chinese consumers are asked to explain their attitudes toward Japanese cars, many of them express their reactions toward hybrid products rather than toward Japanese-made cars. It is necessary to reexamine consumer responses toward such hybrid products, which differ from the imported products discussed in previous research. Second, this article addresses the call for additional research into the interaction between two related constructs: COO and animosity (Amine, Chao, & Arnold, 2005; Amine, 2008; Klein et al., 2002). Our pioneering research examines cross-country ownership and the branding strategy issue in an animosity context. Both COO issues are ignored in current research. We show that the local-foreign ownership structure and the brand order in a foreign-local joint venture significantly affect consumer purchase intentions in a host country market with high animosity. Third, we conduct a "cross-country" comparison in two host country markets with different levels of animosity against the home country of a foreign firm. The cross-country approach enables us to observe the existence of significant differences in consumer responses toward products in various FDI entry modes adopted by the foreign firm in these two host country markets. Our findings indicate that, given different levels of consumer animosity, an entry mode may be acceptable in one country but inappropriate in another. In particular, our research demonstrates that although the animosity of two countries may have political, diplomatic, and sociological roots, a foreign firm can mitigate it by adopting an appropriate entry strategy.

## 2. Theoretical background and hypotheses

### 2.1. COO and consumer animosity

COO refers to the home country from which a product or a brand originates (Peterson & Jolibert, 1995). Researchers have suggested three mechanisms that explain the COO effect: the cognitive mechanism, where COO is a cue for product quality; the affective mechanism, where COO reflects symbolic and emotional value; and the normative mechanism, where COO represents social and personal norms (Obermiller & Spangenberg, 1989; Verlegh & Steenkamp, 1999). As an extrinsic attribute, COO has an influence on consumer perceptions of a product's quality (e.g., Bilkey & Nes, 1982; Hong & Wyer, 1989; Maheswaran, 1994; Okechuku & Onyemah, 1999) and purchase intention (Peterson & Jolibert, 1995; Roth & Romeo, 1992). However, COO may represent a national or ethnic identification that can have a positive or negative emotional effect on consumer behavior, regardless of product quality (Chand & Tung, 2011; Verlegh & Steenkamp, 1999).

With regard to consumer animosity, the "remnants of antipathy related to previous or ongoing military, political, or economic events will affect consumer purchase behavior in the international marketplace" (Klein et al., 1998; p. 90). Such a hostile attitude does not necessarily lead to the denigration of product quality (Ettenson & Klein, 2005). Animosity is related to COO in that it emphasizes the hostile attitudes of consumers toward the national origin of a product (Ettenson & Klein, 2005; Jiménez & Martín, 2010). Researchers have categorized consumer animosity into "situational" and "stable" (Amine, 2008; Ang et al., 2004; Leong et al., 2008). Situational animosity arises from current economic and political events. When the impact of events reduces, consumers' hostile attitudes toward the offending country might decrease (Ang et al., 2004). Stable animosity is a result of difficult historical relations between two countries. Such a hostile attitude toward an offensive country can be sustained from one generation to the next (Amine, 2008; Ang et al., 2004; Fong, Lee, & Du, 2013). Chinese consumer attitudes toward Japan are an example of such animosity (Klein et al., 1998). In other words, the hostility to a particular country becomes a negative emotional value in a host country society. This value may affect consumer purchase intentions for the products of the nation deemed as offensive. Thus, the COO reflects a normative belief in a host country society that the purchase of the goods of such a nation violates social norms.

### 2.2. COO, national identity, and FDI entry modes

The globalization of value activity has encouraged the partitioning of the global COO concept into country of design (COD) (Ahmed & D'Astous, 1996; Chao, 1993), country of manufacture (COM) (Chao, 1998; Insch & McBride, 2004), and country of brand (COB) (Fetscherin & Toncar, 2010; Hamzaoui-Essoussi, Merunka, & Bartikowski, 2011). FDI has become an important driver of the global integration of national markets, which has resulted in a proliferation of hybrid products for the foreign entrant, with multiple country affiliations for branding, design, manufacture, assembly, and parts sourcing (Ettenson & Gaeth, 1991; Funk et al., 2010). We focus on a specific type of hybrid product, that is, a product launched through an FDI subsidiary.

An FDI entry mode leads to a hybrid subsidiary associated with two COOs, the host country and the foreign firm's home country. An FDI subsidiary may involve local ownership, local manufacture and other business activities, local employees, and a local brand. As such, the product launched by such an FDI subsidiary essentially becomes a hybrid. The national identity, which is a COO related construct, represents the association between a product and a