

REGIONALIZATION OR LOCALIZATION IN SOUTHEAST ASIA – LESSONS FROM A RECENT CROSS-COUNTRY STUDY

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ABSTRACT

Location-related decisions are not a new phenomenon, but country-of-origin (COO) research has started only some decades ago. Research gaps exist for products (e.g. automobiles) and geographies (e.g. Southeast Asia), whilst practical (re)location strategies require actual data. Using experimental design in three countries, this paper examines country-of-assembly (COA) and country-of-components (COC). There was a significant impact on the perception of image and quality based on COA – related also to product type (luxury versus non-luxury cars). Consequently, (assembly) location strategies for car manufacturers will be strongly influenced. Potential directions for regional value chains plus a set of remedial strategies are presented.

INTRODUCTION

Whilst “Made in...” markings have been used for a long time, related country-of-origin (COO) research has started only some decades ago. The use of the labels in fact goes back more than 100 years [1] [2]. In the first research effort into this field, Dichter concluded that such markings “can have a tremendous influence on the acceptance and success of products” [3, p. 162]. But still, several geographic areas and product areas have not been researched from a COO perspective yet, with the Association of South East Asian Nations (ASEAN) and its regional automotive industry providing examples for such gaps in research.

At the same time, the case of the automotive industry in Southeast Asia is a timely one: Unenthusiastically and three years behind schedule, Malaysia as the largest regional automotive player has – just in 2006 – complied with the ASEAN Free Trade Area (AFTA) Agreement by cutting its import tariffs to the requested 5%. Thailand, which imports 10% of its vehicles from Malaysia, in response has stated in June 2006 that it will not reduce its import tax of 20% on Malaysian cars due to non-tariff barriers set up by Malaysia [4].

Such disputes reflect on the decisions that producers have to take in the region. Producers must decide now on how to position themselves, as “full implementation of AFTA will gradually lead to consolidation of the ASEAN automotive industry”, and the related “product and production strategies for next-generation products for the ASEAN market will be crucial in determining winners and losers” [5, p. 264].

LITERATURE REVIEW

The literature and theory review in fact reveal a wealth of constructs and products studied in very

different countries, but also quite different theoretical approaches; a situation that results in what Lim and Darley call the “erratic nature of COO findings” [6, p. 201]. The constantly emerging COO research stream examining the related consumer preferences has been “receiving increased attention ... in recent years. That it has commercial as well as academic interest has added to its legitimacy as a research topic” [7, p. 344]. In that context, both the terms origin bias or home country bias (standing for better evaluations of products with home country COO) and “hierarchy of bias” (standing for a preference for products from more developed countries) are of high prominence among researchers.

Interestingly, since the last major literature review done in 1998 by Al-Sulaiti and Baker [8], no update has been published so far, leaving researchers with a somewhat unstructured starting point for his or her endeavours. At the same time, the research subject itself has become more complicated itself: With the trend towards multi-national production and sourcing structures [9], oftentimes products can be associated with more than just one COO cue — making them so-called hybrids. As a consequence, the identification of “Made in ...” becomes increasingly blurred [10]. Furthermore, it is widely acknowledged that COO effects are specific for product categories [11] [12] [13], and practitioners are increasingly searching for specific information rather than for generic results. Today’s literature, however, still tends to mix COO findings identified for unrelated product categories.

Theory building, also, is far from complete. The authors of one of so far only two books in the field recently even describe COO research as fragmentary, generally atheoretic, and not sufficiently programmatic because they cannot identify a “central research paradigm” as yet [14, p. 37].

METHODOLOGY AND STUDY

This paper presents research of COO effects for the major regional automobile markets Thailand, Malaysia and Indonesia, just before specific tariff changes take place for most of the ASEAN members. The relevance of automobiles for this region is taken from Liefeld’s [15] meta-analysis reporting that the largest COO effects are found for complex, fashion-oriented and expensive products such as cars. The study is conceptualised by full consideration of the country of target (COT), which in principle is the complement of COO: Taking cars “made in and for” the three main markets of ASEAN, the research attempts to study perceived quality and image of hybrid products. Using interviewer-guided questionnaires in the three countries of target, a 3 x 2 (x 2 x 2) factorial design was applied in each location, with 40 subjects assigned to each of the between-subjects treatment cells — resulting in 720 observations collected for the study.

The authors’ strategy to develop their construct measurements, especially for perceived quality and image, was based on combining and culling from several previously published scales, using a set of selection criteria. Two multidimensional construct measurements were proposed, i.e. perceived quality and perceived product image. Findings reported here thus represent a small component of a much larger study. The questionnaire was developed in English, back-translated into local languages and then pre-tested for Thailand, Malaysia, and Indonesia. This process was continued till all ambiguities in the survey instrument were eliminated. Interviewers were trained and monitored to ensure validity and consistency.

RESULTS AND DISCUSSION

The overall sample characteristics, covering 240 samples in each of the three countries, present a picture in line with the researchers’ expectations. Next, testing showed that all measurement constructs

produced high reliability in the study — with Cronbach alphas being very high for perceived quality and image (0.97 and 0.95 respectively). Moreover, convergent validity was excellent. Other results are as follows:

- . • For the regional sample of 720, significant COA effects were confirmed at 0.01 level — both for perceived quality ($p = 0.009$) and image ($p = 0.000$), with perceived image demonstrating a larger effect size in terms of domestic bias than the traditional quality dimension. Contrary to expectations, even at 0.05 level there were no significant COC effects to be reported for hybrid cars in the region, with components being defined as power trains originating from ASEAN versus non-ASEAN locations (Germany or Japan).
- . • With significant differences as per COA in both perceived quality ($p = 0.011$) and image ($p = 0.000$), Malaysia was evaluated highest, Thailand middle, and Indonesia marked lowest for the between-subjects design of the overall sample. COC differences were not significant.
- . • Testing for COA and COC effects in each country, accepting reduced sample size, only Malaysia produces statistically relevant results very similar to the overall sample. In order to confirm a potential hierarchy of bias, an effort was made to establish a peer-evaluated hierarchy of COA locations, each COT comparing the other two countries as COA: The approach seems to hold promise for perceived quality ($p=0.046$ and $p=0.002$) for two settings, although it falls short of significance ($p=0.27$) for one evaluation set (COT = Thailand).
- . • Still, directionally the findings support a tentative order similar to a hierarchy of bias, with Malaysia leading as COA — a noteworthy finding looking at the hypothesis-driving assumption that Thailand's car industry is more highly developed than Malaysia's, whilst its overall economy is not.
- . • Finally, in segment-related tests for one of the hypothesized moderating factors, luxury versus non-luxury models do show differences in COA effects for quality perceptions ($p = 0.005$), whilst COC differences again are not significant.

In the new framework of AFTA, manufacturers must decide for either the generic strategy of multiple production locations in ASEAN or for a main regional production hub in a single location. Furthermore, they have to make decisions about component locations possibly taking political considerations into account. The above study results offer several obvious cues, including the opportunity to relatively freely locate component investment – a somewhat surprising finding, but one that would hint towards considering the location of drive train operations in the Philippines, given the country's specialization in this field [16, p. 264].

Naturally, specific recommendations for the final assembly location of car manufacturers depend on existing investment, product portfolio and potential volumes in relation to the target markets, plus partners that can support. For example, with pickup trucks being dominant in Thailand [ibid], a clear case would emerge for this location, whilst Multi Purpose Vehicles dominating the Malaysian market [ibid] would still speak for consolidation in that location, taking the risk of non-acceptance and cost due to remaining tariffs.

It seems difficult to make a case for a new location in Indonesia, whilst keeping an existing operation may have its specific economics. Thus, for new entrants the decision matrix may look different than for existing market players, but in any case there seem to be remedial strategies: For example, based on some of the more detailed data analyses performed, specific detailed conclusions can be provided. For example, to counterbalance the COA effects of given assembly locations, warranty strategies are potentially one of the instruments that manufacturers can resort to. As the data — somewhat contrary to commonly held beliefs in the industry — show, this would be similarly true for luxury producers and non-luxury producers or brands.

Further areas of relevance include market segmentation, positioning and communication. Some good amount of localization may be helpful here, e.g. by exploiting the possibilities in the field of accessories (and their local assembly) as well as communication at dealer or regional level, stressing some local value chain elements when basic COA is in fact not domestic. In essence, our above findings regarding the — local and regional — relevance of COA as a key origin element clearly underline the necessity to engage in localized rather than global approaches [17] [18] (Liouville, 1999; Nebenzahl and Jaffe, 1996). Standardized marketing and business strategies across countries are not an adequate answer in a marketplace that still values origin.

LIMITATIONS AND CONCLUSION

Clearly, the above findings and conclusions for automotive producers in the region are subject to limitations of the authors' own research study as well as to limitations in former research visited here: The number of countries, products (and brands) is limited, as is sample size. Most evaluations provided in this paper focus on product evaluations rather than on actual purchasing behaviour, which itself can be influenced by several other variables; and country borders are not necessarily cultural borders.

For the manufacturers, their existing investment as well as target segments per market are relevant as well. The presented research also can just provide a current view on a field that has proven to be evolving, fascinating and relevant at the same time [19]. It is suggested that the results may help guide both regional manufacturers and future research reflecting on changes to come.

KEYWORDS

Country of Origin (COO), Country of Assembly (COA), Country of Components (COC), Hierarchy of Bias, Hybrid Products, Emerging Markets, Automotive Industry, Regional Strategy, International Marketing, Southeast Asia, ASEAN

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