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PREVIEW

**"Interaction of Country-of-Origin Effects and Perceived Risk in
a Capital Equipment Setting"**

by
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**A Dissertation submitted in partial fulfillment of the
requirements for the degree of Doctor of Professional Studies
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**To My Parents,
Joseph P. and Eleanore L. Scuralli**

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PREVIEW

Abstract

This study is concerned with the interaction of country-of-origin effects and perceived risk in capital equipment situations. A survey instrument containing an "in-basket" test was sent out to approximately 1400 subjects and is completed by 102 industrial users of twin screw extruders used in the production of plastic compounds. The subjects were all American-based companies and were drawn from a national sample. The hypothesis testing was based on the within-subjects results of a repeated measures analysis of variance technique. While the small sample size and low response rate limit the generalizability of the results, the research reveals that a country-of-origin bias does exist in purchasers of capital equipment. A significant difference in levels of perceived risk is found in buyers considering purchasing Chinese, German and American machinery. Various risk reduction strategies are tested, including the use of customer reference lists, warranty & performance guarantees, trial performance runs and trade show participation. Three risk reducers are found to cause a significant reduction in perceived risk, namely, the use of a customer reference list, the offer of warranty & performance guarantees and offer of trial performance runs. Risk reduction strategies are tested for significant effects individually and as a group. Country-of-origin effects are modified by risk reduction strategies, but even after all are used, a significant country of origin effect remains. The study also examines sources of information about twin screw extruders, the reliability of these sources, the features of twin screw extruders, the importance of various factors in the purchase of twin screw extruders, and the subjects' years of experience.

Chapter 1 - Introduction

Over the years, a substantial amount of literature has been developed that addresses the country-of origin effect. As is described in the review of the literature that follows, this research has concentrated, for the most part, on consumer goods (Bannister and Saunders 1978; Cordell 1992; Ettenson and Gaeth 1991; Han 1988; Wall Liefeld and Helsop 1991). One will also notice that a substantial amount of literature has also been developed on the effect of perceived risk on purchase decisions (Bettman 1973; Folkes 1988; Woodside 1974). Again, this research has primarily addressed consumer goods.

Consumer goods are attractive to researchers because a large amount of subjects can be easily obtained, since all people, in one way or another, are consumers of goods. For example, most of the people in developed countries are consumers of food and durable goods such as washing machines, televisions, radios, and etc. Due to the large size of consumer goods markets, there are many who are interested in these markets for commercial reasons. Also, research findings that come from the research of consumer markets are generally easier to relate to lay people, because they can empathize with the consumer buying process, since they have been and continue to be participants in the consumer buying process on a daily basis. In light of these facts, it is easy to understand why the literature has been focused on these markets (Cordell 1991; Ettenson and Gaeth 1991).

There are other markets besides those of consumer goods. These include the industrial goods markets which are also known as business-to-business markets. These markets are the products which are used by businesses in their activities. Industrial markets are very large and comprise a wide range of products which include, but are not limited to, raw materials, semi-finished goods, industrial supplies, consumables and capital goods. These items can range from soap used in bathrooms of factories, to photographic chemicals used in photo processing, raw materials, and any other product that a company buys in the ordinary course of business. The literature also has developed a segment of research on the industrial goods

markets and for many purposes, this literature is adequate. However, when one examines the classification "industrial goods", one might intuitively conclude that the segment is too large for reasonable generalizations about the marketing or purchasing of such products. For example, the buying of a fleet of vans for a plumbing supply manufacturer seems intuitively different than purchasing of chemicals for batch production of antifreeze or the purchase of machinery that produces plastic compounds. Specifically, on a time continuum, van fleets are transportation which last for a few years, chemicals are raw materials that are immediately burned up in the process and machinery is capital equipment that lasts for many years. On a dimension of investment, vans might be a small investment or even leased, chemicals are current costs that are actually part of the product sold and machinery is a capital expense that depreciates over many years and can cost hundreds of thousands of dollars.

This study is concerned with the last of these, specifically capital equipment. Little research has been done on the purchase of capital equipment when one considers the vast amount of literature on consumer goods and general industrial goods. Because of their high initial costs, expected and required durability, their importance to the production of quality products, and the moderating influence of the buying situation, capital equipment is in a segment by itself.

Taking the comparison of the existing literature one step further, little, if any, research has been done to examine the country-of-origin effect and perceived risk roles in the purchasing and marketing of capital equipment. This study attempts to achieve that goal, specifically, to study the interaction of country-of-origin and perceived risk in a capital equipment setting.

The existing literature in the field was reviewed. From this body of literature, a theoretical framework and relevant research questions were developed as a basis for the research study. The capital equipment buyers were studied by a survey instrument that contains an "in-basket" test designed to study the country-of-origin effect, the levels of perceived risk and the effect of risk reduction strategies on both were examined. Plastic

twin screw extruders were used as a proxy for capital equipment. A survey instrument with an "in-basket" test was developed which consisted of three bids from fictitious twin screw extruder suppliers located in China, Germany and the United States of America. The survey instrument was mailed to about 1,400 plastic compounding executives and about 101 subjects finally responded with acceptable data. The data was analyzed using repeated measures analysis of variance procedures which are advanced statistical techniques used for hypothesis testing. Note, however, the generalizability of the results is limited due to the small sample size and low response rate. Still, the results of this study are important because little or no research has been done in this specific area of capital equipment, so practitioners of marketing in this field are without this type of specific knowledge. This study enables them to be more effective in their jobs and to more closely adjust marketing programs to customer's needs in the field of capital equipment. Finally, the implications of the research on the theory and practice of marketing capital equipment are discussed.

Chapter 2 - Literature Review

The literature review discusses previous findings in three areas: 2.1 Country of Origin Effects discusses the Country of Origin literature and what effect the country of origin has on perceptions and buying decisions of consumers and industrial buyers. 2.2 Industrial Marketing discusses the Industrial Marketing literature concerned with industrial buying behavior and purchase decision processes. 2.3 Perceived Risk discusses the Perceived Risk literature in the industrial purchasing field.

2.1 Country of Origin Effects

Initially, one might believe that country of origin effects do not exist in the realm of industrial purchasing decisions. This might especially be expected in the area of capital equipment purchasing, of which this study is concerned. At first, culturally based stereotypes do not seem to be important in such dry and unemotional decisions as industrial products or machine tool purchases. Capital equipment purchasing is, by its nature, a process driven by specifications, engineering requirements and costs. However, since culture based issues are pervasive in the realm of human activity, culturally based stereotypes and bias are found also in the human activity of purchasing industrial capital equipment. Today, there is ever increasing international trade in capital equipment and foreign suppliers must be considered if companies wish to remain competitive in the global arena, since the best technology may be found across the domestic border.

2.11 Country of Origin Bias and Stereotypes

Different product attributes influence the industrial buyer's decision. Three underlying dimensions have been identified as follows: (1) product quality, (2) marketing characteristics and (3) price (White 1979). Professional purchasing managers do have stereotypes

associated with industrial products from different countries (White 1979). This is a worldwide phenomena that stretches across cultures, continents, political and economic systems, as well as across industries. Stereotypes and bias are important because of the clear trend of globalization taking place in manufacturing. Bias concerning country-of-origin is not exclusively western, since Japanese businessmen also harbor bias as exhibited in "Made In" surveys (Nagashima 1977). These stereotypes do not only exist in developed and lesser developed countries with free market economic systems, they also exist in Chinese machinery buyers who have lived for years under socialist management practices (McGuinness, Campbell and Leontiades 1991).

While one may have assumed that such bias might not be observed in socialistic countries, it appears that although many countries since World War II have been under socialist economic systems, evidence of country of origin bias has been identified (Papadopoulos, Helsop and Beracs 1990). Perhaps this bias may be a by-product of the diverse manner in which socialism was implemented. A comparison of the Union of Soviet Socialist Republics with countries such as East Germany, Romania, Poland and Hungary would reveal the different ways governments in each country implemented socialist ideas (Kiezun 1991).

Bannister and Saunders (1978) identified a variance in attitudes towards "Made-in" labels among consumers in the United Kingdom when segments based upon age and sex are considered. However, little variance was observed when socioeconomic segments are compared. Schooler (1971) found that bias is significantly different when segments based upon sex, age and race are tested; however, bias is not significantly different when segments based upon occupation and residence are tested. Eastern European consumers hold strong and distinct images about western products, even when there is a general lack of information and lack of experience with these products (Papadopoulos, Helsop and Beracs 1990). With regard to "made-in" labels, Schooler (1971) found little semantic differentiation among American consumers as they do not exhibit significantly less bias towards products labeled

regionally such as "Made in Asia," than towards products that are labeled on a country basis such as "Made in India." Schooler (1971) also found a hierarchy of bias, since American consumers exhibit significantly different levels of bias intensity against different foreign origins. Consumers across various countries, including Americans typically rate domestic products highly (Cordell 1991), and some countries like Japan are rated highly by consumers in many countries (Papadopoulos, Helsop and Beracs 1990).

2.12 Moderating Factors and Country of Origin Effect

Although country of origin bias is a worldwide phenomena, it is not "cast in stone." If the country of origin bias is not too intense, consumer attitudes can be made significantly more favorable even by small exposure to communication and promotion activities (Reierson 1967). Specifically, exposure to magazine and brochure advertising as well as informative publications yield favorable results, when this promotional material stresses that the products featured in the promotion are made in a specific country (Reierson 1967). Over time, due to internal and external changes, there can be a change in the strength and direction of bias since Reierson found there to be a strong unfavorable rating towards Japanese products in 1967, but Papadopoulos, Helsop and Beracs found Japanese products to be rated first in six out of eight countries in 1990.

2.13 Use of the Country of Origin Cue

Situational variables effect use of the country of origin cue when evaluating products. People use the country of origin cue under the following conditions: first, when systematic differences are perceived between countries and when people are informed about the country as a producer of specific products (Johansson 1989). For example, American consumers are likely to perceive Japan as a producer of quality automobiles because of their wide use and reputation in the United States, while they might perceive Russian cars as having a lower

quality because of the reputation of post-communist consumer goods. Second, country-of-origin cues are used when there are wide variations in product attributes across countries, and/or when there is a large amount of product differentiation (Johansson 1989). For example, American consumers might perceive German luxury cars differently than Korean economy cars because the products vary widely in attributes and are differentiated by features, price, quality and other attributes.

Recent purchases of products from a particular country of origin tends to positively bias the individual's perception of the same products from that country (Lawrence, Marr and Prendergast 1992). Credibility of product attribute claims has also been shown to be influenced by country of origin. American consumers perceive product attribute claims as more credible from domestically manufactured durable goods than goods made in newly industrialized countries (Chao 1989). Furthermore, American consumers have more positive perceptions when the product made in a newly industrialized country is sold by a widely known domestic retailer such as Lord & Taylor when compared to discount chain retailers such as K-Mart (Chao 1989). When consumers evaluate unrelated products, their quantitative evaluations of products produced in lesser developed countries have smaller standard deviations than the evaluations of products produced in developed countries, whose standard deviations are much larger (Cordell 1992). Developed countries may be seen as having a special talent for production of certain goods (Cordell 1992). Alternatively stated, consumers tend to group developing countries while tending to differentiate among developed countries. Other factors can also influence the effect of the country of origin cue.

2.14 Country of Origin Cue Interaction with Other Factors

The magnitude of country of origin effect on perceived product quality and overall attitude towards the product are moderated by warranty and retail store image, but the magnitude of country of origin effects on purchase intentions is not moderated by warranty

and/or retail store image (Thorelli, Lim and Ye 1989). Other studies have similar findings, specifically, that country of origin is related to the assessment of product quality but not to purchase likelihood when the brand considered is well known. The same study finds that country of origin reputation does have a significant positive effect when the brand is unknown to the purchaser (Wall, Liefeld and Heslop 1991).

Some products are binational or "hybrid," which means that they have a domestic brand and a foreign country of origin or a foreign brand and a domestic origin. One other possibility is that the products are produced or branded in a third country. This case has not been considered in the literature. The interaction between country and brand has shown that unknown brands are evaluated higher by consumers when they come from countries with high perceived reputations, but not for low perceived reputation countries (Wall, Liefeld and Heslop 1991). Consumer evaluations were influenced more by country-of-origin than brand name when binational products are considered, and furthermore, serviceability was a factor that encouraged consumers to prefer home country products (Han and Terpstra 1988). Well-known brand names do not compensate for negative country of origin bias against products from developing countries (Wall, Liefeld and Heslop 1991; Nes 1981). Negative country of origin evaluations have less of an effect on consumer goods with well known brand names than those with lesser known brand names (Cordell 1992). Marketing strategies designed for hybrid products are especially applicable for high involvement products, such as industrial equipment that have strong brand images and established country of origin effects (Ettenson and Gaeth 1991). Industrial equipment has been established as a high involvement product in the literature (Ettenson and Gaeth 1991) and meets the criteria of high involvement products that the brands be evaluated and then purchased as opposed to low involvement purchases where a purchase decision is made and evaluation occurs later (Assael 1987). This high involvement activity can cause problems when there are apparent conflicts in images concerning products.

2.15 Congruity Theory

Congruity theory states that when individuals experience an inconsistency between two images tensions arise to force a return to congruity or balance. Apparel that has a low perceived quality country of origin image that is marketed through a high perceived quality store or brand challenges congruity. This appears to be restored by consumers who lower their perceptions of the perceived quality of the store or brand, and not by raising the perceived quality of the country of origin of the product (Khachaturian and Morganosky 1990).

2.16 Country Image

An interaction between country image and product category has been shown to exist across cultures (Roth and Romeo 1992). This suggests a favorable or unfavorable match may arise when perceived country images and perceived important product category dimensions are compared. A framework has been developed (see Fig. 1, on next page, "Country and Product Category Dimension Matches and Mismatches" (Roth and Romeo 1992)) which allows managers to help manage country of origin effects that can either be positive or negative since willingness to buy a product from a given country is related to whether or not the country image is an important characteristic for the product's category (Roth and Romeo 1992). Price positioning also has an effect on level of country of origin effect as it is found to have greater influence for high end priced products than low end priced products within a product class (Cordell 1991). Country of origin can be considered an image variable which is defined as an aspect of the product distinct from physical characteristics but still identified with the product (Erickson, Johansson and Chao 1984).

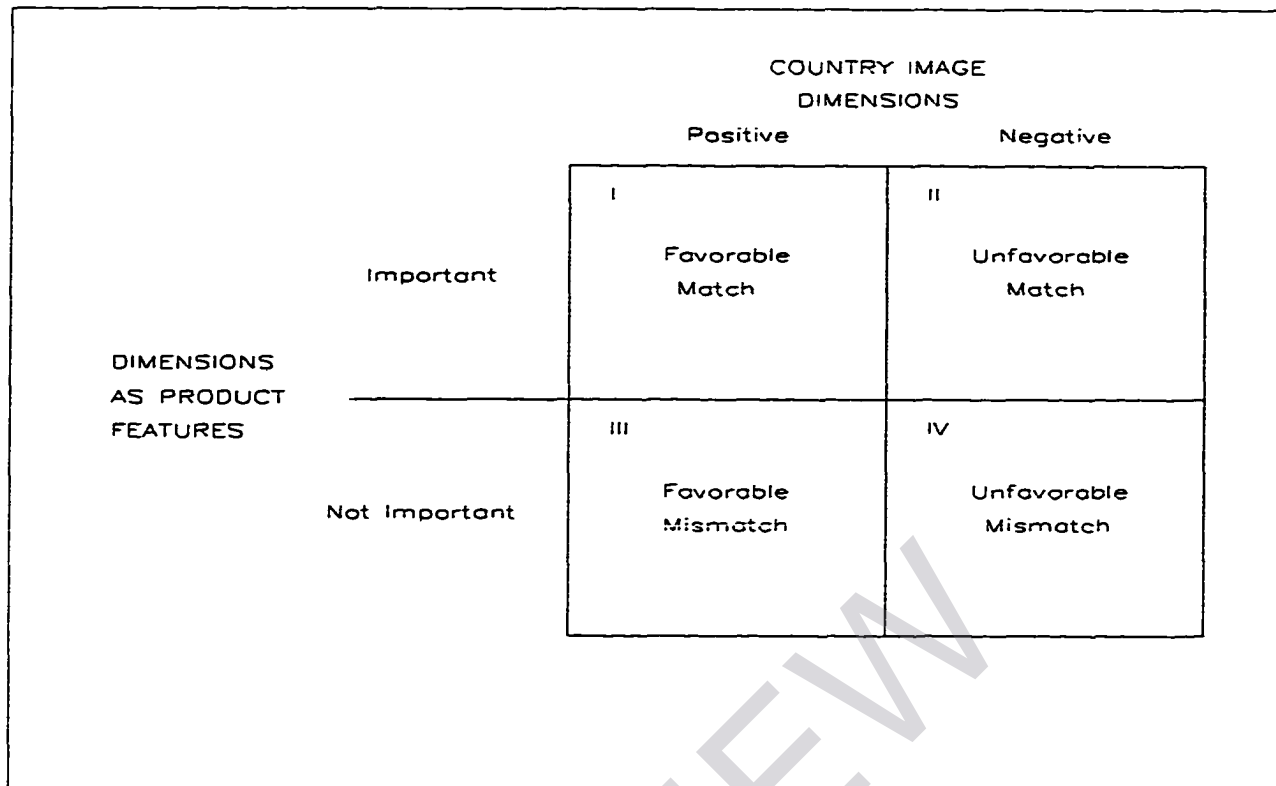


Fig. 1 - Country and Product Category Dimension Matches and Mismatches (Roth & Romeo 1992)

Country image has been described in some studies as a unidimensional image because even though multiple dimensions were measured, multicollinearity was found and factor analysis resulted in a one factor solution which explained up to 76% of the variance (Roth and Romeo 1992). However, an earlier study by Nagashima (1977) suggested a multidimensional country image.

2.17 Country Image: Halo or Summary Construct?

Country image has been classified as either a halo or a summary construct. This question deals with the issue of country image as a moderator of beliefs which in turn affect attitudes or, conversely, attitudes which in turn affect beliefs (Han 1989). Attitudes are object oriented learned predispositions, enduring systems of evaluations, emotional feelings, action tendencies and overall liking or preferences (Assael 1987). Alternatively, beliefs are

brand oriented and are the cognitive components of attitudes which represent the characteristics a brand is believed to have and the extent to which the brand possesses each characteristic (Assael 1987).

While these consumer studies are not part of the theoretical foundation of this study, they are important to understanding country-of-origin effects. The Halo hypothesis states that country image affects beliefs about product attributes and indirectly affects product evaluation through these beliefs (Han 1989). For example, country of origin was found to have an effect on beliefs, but not on attitudes towards automobiles (Erickson, Johansson and Chao 1984). Consumers make inferences about automobile product quality from country image and country image then affects consumer rating of the product attributes such as price, reliability, durability and workmanship, which then affects brand attitude (Erickson, Johansson and Chao 1984; Johansson, Douglas and Nonaka 1985; Han 1989).

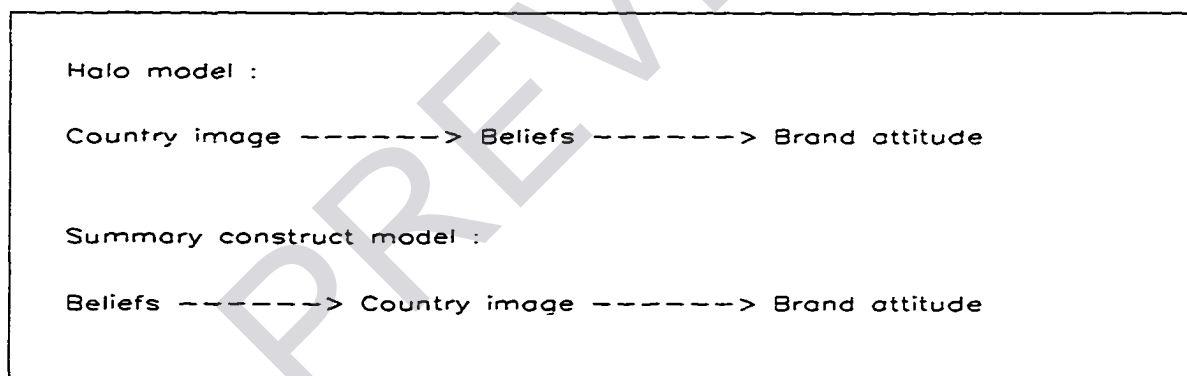


Fig. 1A - Halo Model and Summary Construct Model (Han 1989)

The summary construct hypothesis is similar except in this case the beliefs about the products are formed into a country image which then affects the brand attitude (Han 1989). In both cases, the halo or the summary construct hypothesis, country image indirectly affects purchase preferences.

2.18 Information Processing

The country of origin effect can also be considered from an information processing perspective. Under an information processing perspective, the relative time or sequence in which consumers learn about a product's country of origin also effects the influence of the country of origin effect. When subjects learn about a product's country of origin a substantial amount of time before learning about product attributes they form an initial evaluative concept of the product based upon its country of origin alone. Then the concept is used as a basis for judgement alone and it also influences the processing of attribute information acquired later. When subjects are given country of origin information at the same time as other product attributes, they treat it as just another product attribute (Hong and Weyer 1990). Country of origin has a stimulating effect on consumers also, by acting as a catalyst for cognitive activity. Country of origin effect is found to be more stimulating in situations where the country image does not match the product attributes. Specifically, a product's country of origin stimulates subjects' interest in the product and consequently leads them to think more extensively about product information and its evaluative implications (Hong and Weyer 1989).

2.19 Industrial Situations and Country of Origin Effect

Choosing industrial suppliers often involves competitive bid evaluations. Considering the purchase of special custom made fasteners (screws), location of the supplier has been shown to be the most important supplier characteristic, especially in high need uncertainty situations, where purchasers are lacking some relevant dimension of the need or the need is not directly measurable (Hankansson and Wootz 1975). This is important because country of origin is a *prima facie* indicator of supplier location. However, that study is limited because it does not address the reasons location mattered to the subject. This type of situation might occur where an industrial buyer does not feel total confidence that he or she has ascertained

all of the possible requirements, criteria or demands the product or supplier must likely fulfill to bring about satisfaction within the buyer's organization, now or in the future. Industrial products that are sourced from lesser developed countries or LDC's can involve risks of price stability, delivery time, quality and might require third party guarantees, independent laboratory tests and local warehousing (Bilkey and Nes 1982). Meta-analysis shows that purchasing agents place much more emphasis on country of origin cues in their product evaluations than do consumers (Liefeld 1992). Industrial buyers place more emphasis on cost than consumers do when considering country of origin information about products they buy, but they clearly prefer goods that are made in the manufacturer's home country. This is relevant when manufacturers attempt to shift production to lesser developed countries in order to gain manufacturing cost reductions (Stewart and Chan 1992). Since buyers are influenced by the country of origin, the cost reductions that might be gained by shifting to a lesser developed country could be offset by lost sales, resulting in overall lost profits.

Bias towards various countries of origin or manufacturing locations does not necessarily extend to salespeople. Salespeople can either be from the country of origin of the product, a native of the target market or from a third country. When considering industrial products, bias towards salespeople from the product's country of origin have been compared to bias towards salespeople who are natives of the target market. This comparison took place in a study by McGee and Spiro using Indian, Japanese and American salespeople/actors who gave presentations regarding products made in India or Japan. Attitudes towards (1) the salesperson and towards key intervening variables such as (2) the sales presentation, (3) the product (4) the company and (5) intentions to buy have been tested. All five variables are not significantly different when a salesperson from the country of origin or a native to the target market is used (McGee and Spiro 1991). Therefore, the hypothesis that intentions to buy will be significantly greater when the sales presentation is made by the salesperson from the target country than by the sales person from the product country of origin is rejected (McGee and Spiro 1991).