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**JUDUL : THE INFLUENCE OF COUNTRY IMAGE AND PERCEIVED RISK ON CONSUMER PURCHASE INTENTION ON KOREAN BRAND AUTOMOBILES IN KOTA KINABALU, SABAH**  
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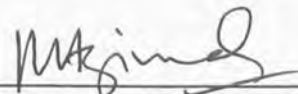
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**THE INFLUENCE OF COUNTRY IMAGE AND  
PERCEIVED RISK ON CONSUMER PURCHASE  
INTENTION ON KOREAN BRAND  
AUTOMOBILES IN KOTA KINABALU, SABAH**

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**DISSERTATION SUBMITTED IN  
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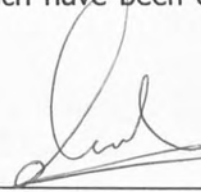


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## DECLARATION

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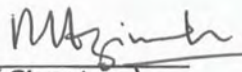


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Chuah Sze Lieh  
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## ABSTRAK

*Kajian ini bertujuan untuk mengkaji pengaruh faktor imej negara dan faktor tanggapan risiko ke atas niat pembelian kereta Korea di Kota Kinabalu. Walau bagaimanapun, faktor tanggapan risiko dikecualikan selepas ujian kebolehpercayaan disebabkan skala pengukuran adalah lemah dalam kebolehpercayaan. Data di dalam kajian tersebut adalah dikumpulkan melalui pengedaran borang soal selidik di pusat membeli-belah dan Universiti Malaysia Sabah. Sampel di dalam kajian ini merupakan responden yang berumur 23 tahun dan ke atas dan juga yang memiliki kereta. Keputusan daripada analisis regresi menunjukkan bahawa hanya satu dimensi imej negara, iaitu mikro imej negara mempunyai kesan yang positif dan signifikan keatas niat pembelian kereta jenama Korea. Manakala satu lagi dimensi imej negara, iaitu makro imej Negara adalah negatif dan tidak mempunyai signifikasi. Keputusan regresi hierarki menunjukkan bahawa kesan penyerdahana cirri-ciri demografi seperti umur, jantina, tahap pendidikan dan tahap pendapatan adalah tidak ketara dalam hubungan antara niat pembelian dan setiap dimensi imej negara. Kekangan kajian dan implikasi dapatan kajian telah dibincangkan. Cadangan untuk penyelidikan masa depan berkaitan dengan penambahan pembolehubah lain, soalan penapis dan menjalankan kajian yang sama di tempat lain juga telah dikemukakan.*



## ABSTRACT

### **THE INFLUENCE OF COUNTRY IMAGE AND PERCEIVED RISK ON CONSUMER PURCHASE INTENTION ON KOREAN AUTOMOBILES IN KOTA KINABALU, SABAH**

The present study aims to examine the influence of country image and perceived risk on the purchase intention on Korean automobiles in Kota Kinabalu. However, the perceived risk variable was excluded after the reliability test due the measurement scale was poor in reliability. The data of this study was collected through distribution of questionnaire in shopping malls and Universiti Malaysia Sabah. The target sample for this study were those who are 23 years old and above and also a car owner. The result from the regression analysis demonstrated that only one of the dimensions of country image (i.e. micro country image) has positive and significant effect on the purchase intention of Korean brand automobiles. While another dimension of country image, the macro country image was negative and not significant. The hierarchical regression results shows that the moderating effect of demographic variables (i.e. age, gender, education level and income level) were not significant in the relationship between purchase intention and each of the country image dimensions. The limitation of the study and contribution of the study were discussed. Suggestion for the future study with adding other predictor variable, adding filter question and conduct in other places were provided.



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## CHAPTER 1

### INTRODUCTION

#### 1.0 Overview

Malaysia had established diplomatic relations with Republic of Korea (hereafter called Korea) since 23rd February 1960 (The Star Online, 2010). Korea is the sixth-largest exportation destination for Malaysian products and Malaysia is the third-largest trading partner of Korea among ASEAN countries after Singapore and Indonesia. The bilateral trade volume between Malaysia and Korea grew 6.7 percent to a record RM50.93bil in year 2011. Furthermore, according to the Malaysian Investment Development Authority, Korea was the second-largest foreign investor in Malaysia for the year 2011 with invests as much as RM5.18bil in 10 projects (The Star Online, 2012). The most well known prior investment projects that invested by South Korean company are Penang Great Bridge by Hyundai Construction and one side of Petronas Twin Towers were built by Samsung Engineering (The Star Online, 2010). The major items that Malaysia import from Korea consist of consumer merchandise, electrical appliances, motor vehicles, consumer durables and consumer electronic (Sohail and Ahmed, 2006).

Recently the global auto sales are potentially experience an uptrend, with 6.7 percent growth (Clothier, 2012), accompany with the strength of emerging markets, especially BRIC nations, Brazil, Russia, India and China besides the increase demand and improving economy in the U.S. The upbeat condition in the auto segment comes despite an uncertain economic prospect and the Euro Zone attempting to figure out solution to come out of the credit mess (iStockAnalyst, 2012). In Malaysia, the Malaysian Automotive Association (MAA) has forecast of 615,000 of car sales volume in 2012 in domestic market (Bernama, 2012).

In 2011, Hyundai Motor and Kia Motors have experience strong run with double digit growth and capture the market share of Japanese carmakers. Its outbound shipments of automobiles increase by 60 percent in February from the



early of 2012. Despite economic slowdowns occurred in the United States and Europe, demand for Korean brand automobiles escalated by 99 percent and 230 percent in February of 2012 (Hwang, 2012). This is due to the Japanese vehicle production disruption of that cause by the March earthquake and result with fall in sales (The Malaysian Insider, 2011).

Korean brands automobiles have entered Malaysia since early 1990s. Hyundai is the first Korean brand automobile that entered Malaysia. However during that time consumers in Malaysia are unconvinced with the quality of Korean brand automobile and also think that it is not at the same level as Japanese models (New Sabah Times, 2011). In the past few years, it is able to observe the increasing number of Malaysian owning Korean brand automobiles. Additionally, this phenomenon also portrayed through the joint venture relationship between local companies and Korean car manufacturers such Naza and Kia, and also Hyundai Motor Company and Sime Darby. Hyundai vehicles for instance, is assemble by Inokom Corp Bhd that co-owned by Hyundai and Sime Darby in Kulim Kedah. Moreover, Kavan Mukhtyar, Frost & Sullivan's head of automotive and transportation practice was quoted as saying, "Korean carmakers Kia and Hyundai are slowly gaining market share, supported by the launch of their new SUVs (sports utility vehicles) and sedans with fascinating features and value for money" (Chong, 2012).

There are several past studies regarding country of origin (hereafter called COO) related study and consumer perception on foreign products conducted by foreign researchers and local researchers in Malaysia, such as Korean products (Sohail and Ahmed, 2006), COO (Maznah Ghazali, Mohamad Said Bin Othman, Ahmad Zahiruddin Yahya and Mohd Sarif Ibrahim, 2008), and imported cars (Nezaki *et al.*, 2011). Nonetheless, all of studies were conducted in Klang Valley, which is west Malaysia, while country image related study as well as study in consumer purchase intention of imported product still remains scarce in Kota Kinabalu, Sabah. Furthermore, consumer in Sabah especially Kota Kinabalu still more prefer with Japanese brand cars than Korean brand cars.



## 1.1 Problem Statement

Despite the Korean brand automobiles experiencing rapid growth in sales and slowly capture market share of Japanese car makers in global market as well as in Malaysia market, it is surprising that auto market in east Malaysia especially Sabah is not affect much. Based on the car brand position or ranking in Sabah of year 2011, there are five Japanese car brands (Toyota, Isuzu, Nissan, Mitsubishi and Honda) rank higher than Korean car brands (Hyundai and Kia) in terms of unit of car sales (Motor Trader, 2011). The total unit of car sales in Sabah for Japanese car manufacturer brands are 11,057 units, while Korean car manufacturer brands are only 300 units (Motor Trader, 2011). Thence, this shows that consumer in Sabah more prefer with Japanese brand car than Korean brand car.

Furthermore, although there was an increased of conducted study regarding COO and imported product in other region or area in Malaysia, it is surprising that so little related study has been conducted in other place of Malaysia, especially in Kota Kinabalu, the capital of Sabah. Past researchers, Nezaki *et al.* (2011) also suggest that future study should be conduct in others area except from Klang Valley. Both researchers had conducted study to determine factors that influence consumer purchase behaviour (purchase intention) towards imported car in Klang Valley, such as price consciousness, value consciousness, beliefs, risk averseness, perception, attitude and group influence.

According to Sohail and Ahmed (2006) who had conducted study regarding COO that only focuses single country alone, which is Korea in Klang Valley area, also has the same point of view as Nezaki *et al.* (2011), where future researcher should conduct their study at outside from Klang Valley.

Moreover, the previous study by Sohail and Ahmed (2006) has explored the sources of information that consumer use to evaluate Korean product, consumer evaluation on product dimension of Korean product, and also preference of Malaysia consumer in Klang Valley towards several Korean products such as electrical appliances, consumer electronic, personal computers and motor vehicles. However, the influence of COO effect or country image effect of Korea, from the





perspective of economical development, political condition, industrialization level, standard of living, technology development, product quality, reliability of product (Martin and Eroglu, 1993; Lin and Chen, 2006), on consumer purchase intention of Korean product was not been investigated.

Thus, this study will investigate the factors that influence consumer purchase intention towards Korean brand automobile, and the country image of Korea will be measured as well.

## 1.2 Research Questions

The study attempts to address the following research questions:

- a. What is the level of consumer purchase intention of Korean brand automobiles in Kota Kinabalu?
- b. To what extent country image of Korea will influence consumer purchase intention towards Korean brand automobiles in Kota Kinabalu?
- c. To what extent the level of perceived risk will influence consumer purchase intention towards Korean brand automobiles?
- d. To what extent demographic variables such as age, income and gender moderate the relationship between country image and perceived risk with purchase intention of consumer on Korean brand automobile in Kota Kinabalu.

## 1.3 Research Objectives

- a. To determine the level of consumer purchase intention of Korean automobile in Kota Kinabalu
- b. To determine the extent to which country image of Korea will influence consumer purchase intention towards Korean automobile in Kota Kinabalu.
- c. To determine the influence perceived risk on consumer purchase intention towards Korean automobile in Kota Kinabalu.
- d. To investigate the moderating effects of demographic (age, gender, income, and education level) on the relationships between country

image of Korea and behaviour of willingness to take risk on the purchase intention of consumer on Korean automobile in Kota Kinabalu.

#### **1.4 Scope of Study**

This is an exploratory study and is conducted on consumer in Kota Kinabalu, Sabah. There are voluminous of study has been conducted especially in USA, Japan, Korea, China, Taiwan, as well as West Malaysia. But studies on the factors that influence purchasing intention in East Malaysia context remain scarce. The scope of study focuses on consumer from all types ethnic groups and background, as well owned car in Kota Kinabalu, Sabah.

The lists of factors suggested has impact on intention to purchase foreign products are country image (Roth and Romeo, 1992; Kim, 2006; Lin and Chen, 2006; Hanzaee and Khosrozadeh, 2011; Wang, Li, Barnes and Ahn, 2011) and level of risk averseness (Huang, Lee and Ho, 2004; Norjaya Mohd Yasin, Ramayah, Osman Mohamad and Lim, 2009; Nezakati, Kok and Asgari, 2011).

Hanzaee and Khosrozadeh (2011), and Huang *et al.* (2004) models are adapted in this study for examine the consumer purchase intention towards Korean brand cars in Kota Kinabalu. It is expected from the finding of this study may provide evidence for possible effect on the purchase intention on Korean brand cars among consumer in Kota Kinabalu. Moreover, this study further examined the moderating effect of consumer demographics between the country image and behavior of willingness to take risk on consumer purchase intention towards Korean brand cars in Kota Kinabalu.

#### **1.5 Significance of Study**

This research is useful for the policymaker of Malaysia. The findings of this study intended to benefit not only the policymaker of Malaysia in creating favourable country image, but also the local car manufactures PROTON and PERODUA. The aim of this study is to examine the influence of country image of Korea and

influence of perceived risk on consumer purchase intention of Korean brand automobiles in Kota Kinabalu.

According to Roth and Romeo (1992), country image has influence on consumer perception towards a specific country and will influence he or she to purchase the product that manufactured and imported from that particular country. According to Nezakati *et al.* (2011), the purchase behaviour of local consumer is very important for local car manufacturers. From the study of both researchers, consumers are gladly to pay more for acquiring imported car. There is need for a study in the critical factors that influence consumer in Kota Kinabalu intends to purchase Korean brand automobile. This is because recently Korea's car export achieved a record high in export volume due to strong overseas demand for Korean brand cars, and in addition that previous study in consumer purchase intention of imported cars was conducted in other place in Malaysia; the perception might be disparate for consumer in Kota Kinabalu, Sabah, Malaysia. Hence, it is crucial to understand the purchase behaviour of consumer in Kota Kinabalu as well as the influence of country image of foreign country that lead them intends to purchase imported cars, especially Korean brand automobiles in order to assist policymakers of Malaysia in enhancing favourable country image for the country that indirectly contribute to the development of local car manufacturing industry.

## **1.6 Definition of Variable**

The following terms were further clarified to avoid confusion on the meaning of each variable in the context of this study.

### **1.6.1 Independent Variables**

- a. Country image: A consumer's thorough acknowledgement to a COO and perception level on the product quality of a particular product (Lin and Chen, 2006).
- b. Perceived Risk: The expectation of losses associated with purchase, as such; act as an obstacle to purchase (Peter and Ryan, 1976).

### **1.6.2 Dependent Variable**

- a. Purchase intention: Possibility of consumer's willingness to purchase a specific brand and its product (Dodds *et al.*, 1991).

### **1.6.3 Moderating Variables**

- a. Demographics: The analysis of human populations in terms of size, density, location, age, gender, ethnicity, occupation and income (Kotler *et al.*, 2005).

## **1.7 Summary**

In Kota Kinabalu, most of the consumers are prefer Japanese brand automobiles as compare to Korean brand automobiles. Furthermore, most of the existing studies in COO and consumer perception towards imported product were conducted in Klang Valley or in west Malaysia. Yet very little research has been done in Kota Kinabalu or other places outside of Klang Valley. The test country image of Korea can be one of source reference for Malaysia policymaker to comprehend and facilitate the country image of Malaysia, which able to contribute to the further development of the local car manufacturers to understand more in depth regarding consumer's perception, purchasing behaviour and preference toward imported product, in return able to assist them to improve quality of product and operation processes.

## CHAPTER 2

### LITERATURE REVIEW

#### 2.0 Introduction

This section will lay out the past literature of the only dependent variable of this study, which is purchase intention. Furthermore, the past study of country image and perceive risk, which are the independent variable in this study will also reviewed in this section. Moreover, prior studies that indicate relationship between each independent variable and the only dependent variable will be reviewed and followed by developing of hypotheses. In addition, demographic characteristics that will be tested as the moderating variable in study will be reviewed as well to prove that there are past researchers utilize it as moderating variable in their study.

#### 2.1 Purchase Intention

Ramayah, Lee and Osman Mohamad (2010) define intention as a purpose to act in particular way. According to Bagozzi (1983), intentions incorporate a wilful nature of choice where one initiates self-implicated statement as to a future course of action. Purchase intention means the likelihood of a consumer's willingness to buy a particular brand and its product (Dodds, Monroe and Grewal, 1991). Crosno, Freling and Skinner (2009) identifies that purchasing intention is an anticipation that consumer in a certain purchasing situation select a particular brand of a product category.

#### 2.2 Country Image

A considerable amount of literature has been published on country image or COO image. In 1965, it was the earliest study that was related to the impact of the image of the country or perception on the country was conducted by Schooler. He had explored the attitude of country members in Central American Common Market (CACM), such as El Salvador, Guatemala, Nicaragua, Honduras, and Costa Rica toward products imported from each member of CACM, which influence by factors like regional fears, jealousies, and animosities.



Country image was first defined in Nagashima (1970), country image or “made in image” defined as picture, the status, stereotype that consumer attach to the product from specific nation. It is constructed by the product that it specialized in manufacture, the national characteristics, history, traditions, and also economic background.

Roth and Romeo (1992) defined country image as the thorough perception of consumers on the form of products from a specific country based on antecedent perception of the country’s production and its marketing strengths and weaknesses. This is due to both researchers tending to bring the country image close the mode that consumer use in evaluating imported products. Furthermore, through reviewed several past research in country image or COO, Roth and Romeo (1992) determined that country image is a multidimensional construct, comprises of innovativeness, design, prestige and workmanship, which functioned as operational measurement of country image. Multiple measures in measuring country image will able to assist consumer to make solid distinctions about characteristics of a country.

Parameswaran and Pisharodi (1994) mentioned that country image concept has regularly evolved from the idea that people relate stereotypical “made-in” concept to product from particular countries. Similar to research finding of Roth and Romeo (1992), Parameswaran and Pisharodi (1994) also suggested that country image is multiple dimensional construct. However, the multidimensional facets of country image that suggested in Parameswaran and Pisharodi (1994) are more in depth, where both researchers used twelve statements to measure general country attributes (GCA), eighteen statements for measuring general product attributes (GPA) and twenty one statements for evaluating specific product-related (SPA) cues.

Similar to the past study, Amonini, Keogh and Sweeney (1998) has also found that country image is a multidimensional construct. The dimension of country image can be categorized to two, which are macro country image and micro country image. The meaning of macro country image was derived from the country image scale that develop by Martin and Eroglu (1993), where country image was emerged based three dimensions, which are political, economic and technological.



While the micro country image was derived from the study of Nagashima (1970) who defined country image based on quality of the product from a specific country.

Laroche *et al.* (2003), conducted study of extend knowledge of cognitive processing of county-of-origin cue by refining the concept of country-of-origin image and investigating its role in product evaluation. The data and sample of this study is collected from resident in large North American metropolitan through distributing questionnaire. The analytical method that applied by the researchers is EQS structural equation modelling software. The finding of the research is country image has three dimensional concepts that consist of cognitive, affective and connective components. The result of the study also shows that country image influences product evaluation directly and indirectly through product beliefs. Alternatively, product evaluation was smaller than its effect on product beliefs.

A recent study by Wang *et al.* (2011) highlighted that most of mainstream researches on country image or COO image theme are focus more on cognitive aspects of country image, which measure with elements such as respondent belief of a country, accompany with the economic development, living standard, technology advancement and industrialization in a particular country. Despite, study in affective country image that measure based on respondent's positive or negative perception towards a specific country is neglected in past researchers' study.

### **2.3 Perceived Risk**

A considerable volume of literature has been published on risk averseness or perceived risk. Peter and Ryan (1976) defined perceived risk as expectation of losses affiliated with purchase, per se, act as an obstacle to purchase. They claim that perceived risk typically treated as consisting of two elements, which one related to probability of loss notion or uncertainty, and the other one related to a consequence or salient of loss notion. They also concluded that consumers who are highly risk adverse sight products and brands more towards to potential of losses than those who are low in risk aversion (Peter and Ryan, 1976).

Havlena and DeSarbo (1991) points out that 'risk' are affiliated with purchase of new products that often associate with high uncertainty due to consumers' lack of information and past experience. According to both researchers, there are many types of consumer goods are in high risk due to those consumer goods are a general concern for health and also threat of damage, commonly associated with product likes automobiles, clothing and personal services. In their study, the multidimensional nature of consumer's perceived risk was clearly demonstrated which comprise of performance, financial, safety, social, psychological, and opportunity/time (Havlena and Desarbo, 1991).

The relationship exists between perceived risk and every stages of consumer decision process had been identified in Mitchell's (1992) study. Mitchell (1992) discusses every types of risks and uncertainty condition that consumer might encountered in the five stages of consumer decision process namely problem recognition, pre-purchase information search, evaluation of alternatives, purchase decision, and post-purchase behaviour.

#### **2.4 The influence of Country Image on Purchase Intention of Imported Product**

Numerous studies have examined the influence of country image on purchase intention from the past until recently (Roth and Romeo, 1992; Kim, 2006; Lin and Chen, 2006; Hanzaee and Khosrozadeh, 2011; Wang *et al.*, 2011).

According to Roth and Romeo (1992), favourable country image that perceive by consumer towards a specific country will influence he or she to purchase the product that manufactured and imported from that particular country due to they perceive the image the product is favourable as the image of the origin country. Furthermore, characteristics of a product that rated highly for one country's product will influence consumer to rate eminently for other product from the same country which inevitably yield their intention to purchase. However, mismatch between country and product will detrimental the product assessment among the consumer and cause them unwilling to purchase the product from that particular country. Both researchers has used Japanese beer as an example, where



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