Do International Retailers benefit from being Global in Emerging Countries? A Multilevel Study in China

By Bernhard Swoboda and Karin Pennemann

1. Introduction

Retailing was originally regarded as a local business with a national scope. However, dynamically internationalising retailers such as Wal-Mart or Zara shifted their attention to emerging volume markets, and these shifts were driven by opportunities in these countries (Goldman 2001; Zentes/Swoboda 1998). To expand their business in such markets, retailers must reconsider major differentiation criteria (e.g., price and quality) to position themselves as strong retail brands against domestic competitors in an effort to attract customers.

Emerging countries such as China are turbulent marketplaces for retailers and consumers. Consumers watch for cues to access new and existing retailers in this intangible and turbulent changing business domain. A core differentiation criterion may arise from being global. Globalness is perceived in the consumers’ mind and defined as perceived brand globalness (PBG), i.e., the extent to which a retailer is viewed as a global player (Steenkamp/Batra/Alden 2003). PBG acts as a general impression that provides access to offered values, allowing consumers to evaluate a retailer without necessarily having prior personal experiences. Thus far, PBG has primarily been researched in fast-moving consumer goods sectors in developed countries (e.g., Dimofte/Johansson/Ronkainen 2008; Özsomer/Altaras 2008), whereas the effect on retailer brand equity (RBE) in emerging countries remains unclear (Swoboda/Zentes/Elsner 2009). RBE represents a retailer as a strong, unique, and attractive brand in the mind of consumers and is known as a strong managerial predictor of success (Ailawadi/Keller 2004). Retailers that are perceived as global are more likely to be chosen based on functional rather than psychological values (Swoboda/Pennemann/Taube 2012). The mechanism for how PBG is translated into positioning as a strong retail brand via important functional values, which, for retailers are traditionally quality and price (Zeithaml 1988), is uncertain and parallels the internationalisation of local competitors. Emerging giants (e.g., Chinese Li Ning) have expanded internationally and have raised questions about whether they can also benefit from PBG despite their country of origin (COO). Thus, differentiating PBG and COO is important, also because both are underexplored in retailing research.

The purpose of this research is twofold. First, we examine the key underlying mechanism through which PBG affects RBE, i.e., how the effect of PBG is mediated by quality and price value as important functional cues in a retailer’s positioning strategy (Sweeney/Soutar 2001). Retailer may not automatically benefit from PBG, as indicated in previous studies (e.g., Swoboda/Pennemann/Taube 2012). We propose that for PBG to become an as-

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Leading international retailers have shifted their attention to developing countries, pursuing different format transfer strategies to succeed within local competition. However, little is known regarding whether such retailers can use their core advantage of being global to increase their local position as a strong retail brand. To further elucidate this issue, the authors use data from 990 Chinese consumer surveys on 30 western and Chinese retailers. They find that retailers’ perceived brand globalness enhances the building of consumer-based retail brand equity by affecting quality and price values. Without enhancing such functional values, being global is less relevant. Moreover, these brand equity creation routes change according to a retailer’s origin. Western retailers benefit from their globalness, especially through quality value. Domestic retailers benefit predominantly through price values. These findings advance our understanding of the role of global retail brands in the internationalisation of retailers.
set for the brand position of retailers, these retailers must provide superior quality and/or price value. Second, we investigate the moderating role that a retailer’s origin plays in the PBG-RBE link. Emerging giants are perceived as global in their home markets (Zhou/Yang/Hui 2010). This perspective differs from that of the past when global brands originated from developed countries. However, how PBG and retailer origins intervene to create RBE is an unexplored issue.

This research contributes to the literature in several important ways. From a theoretical perspective, we address an important issue that is seldom explored within international retailing (Swoboda/Pennemann/Taube 2012): should retailers introduce global brands into an originally local business in which the customers’ heterogeneity forces them to adapt their marketing? What is the underlying mechanism for how a retailer in an emerging market such as China translates its globalness into RBE? Answering these questions extends our understanding of RBE and is important to resolve conflicting findings on whether global or local brands are more successful (e.g., Alden/Steenkamp/Batra 2006; Steenkamp/de Jong 2010). Additionally, a retailer’s origin is viewed as a boundary condition for such effects. This view advances our understanding concerning how retailers may benefit from their COO. Moreover, this research is of interest to retail managers in emerging markets. Because it is parallel to spreading investments over retailer attributes, a specific investment in global appearance may promise leveraging effects for RBE. Finally, we intend to contribute to the literature with a multilevel approach that disentangles the variance of RBE into individual- and brand-level components.

2. Knowledge on retailers PBG

Initially Swoboda/Pennemann/Taube (2012) examined whether and through which functional or psychological values PBG enhances retail patronage and how boundary conditions interact with these value mechanisms in emerging countries. The authors found important results on which we build and which we therefore summarise briefly.

The authors found that although a retailer is often perceived as being global and local, retail patronage is only enhanced via consumers’ functional and psychological values; thus patronage behaviour is driven indirectly. Concerning the underlying mechanism through which PBG and perceived brand localness (PBL) drive customers’ retail patronage the authors show that the total effect of PBG on retail patronage is significantly stronger than that of PBL. The effect via functional values is stronger than those via psychological values. Also in past retailing research functional values dominate (Pan/Zinkhan 2006).

Beyond mixed findings on the identity of consumers, which we do not observe here, Swoboda/Pennemann/Taube (2012) show that the origin of retailers (foreign, either Western or Asian, or domestic) interacts with PBG and PBL. A possible obvious assumption underlines that foreign retailers benefit more from PBG than domestic retailers which benefit more from PBL. But concerning the mechanism through which PBG and PBL affect retail patronage, the authors show that foreign retailers convince consumers mostly by the functional value route, in contrast to the predominant psychological value route for domestic retailers.

Based on this finding, this research examines whether and through which functional values PBG determines RBE. We focus on PBG and functional values as both particularly determine consumers’ responses to international retailers in emerging countries and as it is unexplored which functional values are more important. Because PBG does not directly influence retail patronage, we focus on RBE as an important intervening variable of retail patronage. A strong brand allows retailers to expand their store networks and has increasingly garnered interest in retailing research (e.g., Grewal/Levy 2009). Finally, we investigate the role that a retailer’s origin plays in the PBG-RBE link and contribute to literature with a two-level analysis of consumer data from China that is nested in 30 foreign and domestic retailers.

3. Conceptual foundation and research hypothesis

3.1 Prior research and theory

For the issue considered here, three research priorities are particularly important: the benefits of global brands, the effects of these brands and their respective contextual factors. First, the general question of whether a global or local brand appearance is beneficial has generated contradictory answers: global brands are preferred based on brand trust and prestige (e.g., Steenkamp/Batra/Alden 2003), whereas local brands better address the customers’ needs and score higher in awareness and trust in emerging countries (e.g., Schuiling/Kapferer 2004). However, Steenkamp/Batra/Alden (2003) were among the first to explore a positive direct effect of the degree of PBG on purchase behaviour, known as the belongingness path, which is based on consumer culture theory. Second, the indirect effects of PBG are known as halo effects (Han 1989), as suggested by the information processing theory and as conceptualised by mediators such as quality and prestige or global myth and social responsibility (Steenkamp/Batra/Alden 2003). In contrast, authors indicate that quality is an artefact of the use of actual brand names (e.g., Dimofte/Johansson/Ronkainen 2008). Thus, the results are mixed. Third, the aforementioned findings were found for consumer goods manufacturers in developed countries. Therefore, it is debatable whether such results can be generalised to retailing, in which, for example, price-oriented firms such as Aldi build strong brands and must be locally responsive. As mentioned,
Swoboda/Pennemann/Taube (2012) show that retailers with a high PBG are more likely to be chosen based on functional values. For the authors, PBG is easily accessible information that does not attract store patronage directly but becomes diagnostic via these values. We add to this research by systematically investigating the PBG-RBE link mediated by two important functional values and by the incorporating retailers’ origin. Thus, we aim to explain the RBE based on the individual level and the brand level (see Fig. 1). Our explanation appears to be particularly important for emerging countries (Lehnert/Zentes 2012), where a retailer may be unknown until market entry and therefore must invest in building a strong retail brand to attract consumers in a culturally/geographically distant environment.

The literature provides three important theoretical explanations that contribute to the understanding of our framework (Özsomer/Altaras 2008). First, consumer culture theory is used to understand its direct effects. PBG, which is primarily achieved through the use of global symbols in marketing communications (e.g., brand name/logo, spokesperson), evokes emotional responses by joining global consumer culture and by reflecting status, prestige, and belongingness (e.g., Strizhakova/Coulter/Price 2008; Steenkamp/Batra/Alden 2003). A global retailer is symbolically charged with cultural meanings from the global consumer community. Second, information processing theory (Jacoby/Olson/Haddock 1971) proposes a more cognitive argument, namely, that consumers use different cues for evaluation and rely on extrinsic cues (e.g., PBG) when intrinsic cues (e.g., quality) are inaccessible. We argue that PBG is an extrinsic cue and is thus a determinant of perceptions (e.g., quality). This phenomenon is especially true within the context of intangible retailers’ service where intrinsic cues may not be easy to evaluate. Third, the accessibility-diagnosticity theory (Feldman/Lynch 1988) leads Swoboda/Pennemann/Taube (2012) to conceptualise PBG as an accessible piece of information that becomes diagnostic for a brand through the evaluation of values. In our context, two mechanisms are of interest: accessibility represents the ease of retrieving an input from memory, and diagnosticity refers to the usefulness of the retrieved information for the evaluation of RBE. Thus, a high degree of accessibility, e.g., for affective information, can serve as a proxy for diagnosticity. In the following, we refer to these theories to underline our research hypothesis.

3.2. Hypothesis development

3.2.1. Individual level: Role of PBG for RBE

Main effect: We expect that PBG is positively related with RBE due to consumer culture and accessibility-diagnosticity theoretical reasoning. While the empirical results on direct effects of PBG are mixed, one may argue that because of its affective nature, PBG is an accessible piece of ‘ready-to-use’ and emotionally charged information (Dimofte/Johansson/Ronkainen 2008), which drives consumers’ evaluations of RBE. Authors argue that, especially in emerging markets, the average consumer is fascinated with objects that are associated with global images and that the emotional and social power of global brands to persuade consumers is particularly strong in those markets (Batra et al. 2000). In detail, authors argue along a belongingness pathway (Steenkamp/Batra/Alden 2003) or using self-identity/global citizenship (Strizhakova/Coulter/Price 2008). Hence, PBG should directly add value to RBE because of its emotional character and its high degree of accessibility. Thus, we propose:

H1: PBG positively affects RBE.
Mediating effects: We expect that quality value and price value enhance the PBG-RBE link. The literature assumes, based on information processing theory, that the extrinsic PBG cue determines the intrinsic quality perceptions of brands. However, while the empirical results are mixed, Swoboda/Pennemann/Taube (2012) show that PBG specifically determines functional values in the case of global retailers. The authors argue that PBG is an accessible piece of information, but it may not be diagnostic unless it can influence consumers’ perceptions of functional and psychological values. By focusing on different functional values, we argue that consumers need to link PBG with quality and price values, the most important functional positioning issues in retailing (e.g., Zeithaml 1988; Pan/Zinkhan 2006), to make PBG a diagnostic tool for influencing RBE. However, the question remains whether PBG comprises a signalling effect through both quality and price value. Research documents a strong relationship between global brands and quality and argues that the international prevalence of global brands may provide consumers with an indication of quality; thus, such prevalence reduces the perceived brands’ risk because the brands are accepted among a large consumer group. However, in retailing, a similar argumentation could be drawn on price value. For example, Wal-Mart and H&M indicate that price is a core competition criterion. The international prevalence of such price-oriented firms may provide consumers with an indication of price as diagnostic information due to, for example, the estimated cost advantages of global retailers. Consequently, we hypothesise the following:

H2: PBG affects RBE positively by influencing (a) quality value and (b) price value.

Importance of effects: PBG may become diagnostic for RBE directly (based on emotional responses) or indirectly (through quality and price value). However, consumers in emerging markets focus more on functional attributes such as quality and price than on affective issues (Holt 2002). Furthermore, price and quality are known as important antecedences of a retailer’s image and RBE (Sweeney/Soutar 2001; Altavadi/Keller 2004). We assume that the key mechanisms for enhancing RBE by PBG are quality and price value, i.e., PBG operates dominantly indirectly through quality value and price value. We therefore propose the following:

H3: Relative to its direct effect on RBE, PBG has a stronger indirect impact on RBE through quality value and price value.

3.2.2. Brand level: Moderating role of retailer origin

On the brand level, we focus on retailer origin. We differentiate between objective foreign and domestic retailers because, especially within the context of emerging countries, foreign versus domestic brand origin is significant for consumers’ evaluation (Batra et al. 2000; Zhou/Yang/Hui 2010) and because this differentiation enhances the weak body of research on COO in retailing (for exceptions, e.g., Baldauf et al. 2009). This differentiation is important because PBG and COO are related but distinct concepts that were previously used interchangeably when foreign brands were global brands after emerging countries opened their economies (Batra et al. 2000). However, as mentioned, this has changed.

One may intuitively argue that foreign retailers will draw more strongly from PBG than domestic retailers. However, this argument has yet to answer whether the RBE of foreign retailers is perceived as stronger than that of domestic retailers (after controlling for PBG) and how the mentioned mediating effects are determined by the retailer’s origin. According to information processing theory, COO is an important extrinsic cue when a brand is difficult to evaluate. However, COO has cognitive, affective, and normative aspects that may lead to different conclusions (e.g., Verlegh/Steenkamp 1999). This cognitive aspect is regarded as an extrinsic cue that signals quality; consumers from emerging countries evaluate products from western countries as having higher quality (Batra et al. 2000). The affective aspect represents symbolic and emotional benefits for foreign brands, whereas the normative aspects represent personal and social norms and refer to ethnocentrism and animosity as reasons for consumers to prefer domestic brands. Our theoretical approach suggests a normative reasoning for the main effect and a cognitive/affective reasoning for the cross-level effects on RBE.

Main effect: We assume that retailer origin has a direct impact on RBE after the effect of PBG has been controlled for. Following consumer culture theoretical reasoning, we speculate that the normative aspects (e.g., ethnocentrism, patriotism) determine the direct effects of retailer origin on RBE by controlling for the cross-level effects. Research has shown that consumers prefer domestic brands to foreign brands based on ethnocentric feelings or animosity. From a theoretical perspective, such normative aspects are related to a ‘we-group’ feeling (Balabanis et al. 2001) that directly impels consumers to favour their own domestic brands. Furthermore, collectivistic cultures prefer their domestic brands even though foreign brands are qualitatively superior. Through such a mechanism, the retailer’s origin may also serve as a diagnostic criterion in an immediate affective response to evaluate RBE. Thus, we propose the following:

H4: After controlling for the presence of PBG, domestic retailers score higher than foreign retailers in RBE.

Cross-level effects: The cross-level effects reflect the interactions between retailer origin and the individual-level slopes. When evaluating these relationships, we suggest that although consumers in emerging countries are likely to associate PBG preferably with quality value for both foreign and domestic brands, this effect should be stronger for the foreign retailers. According to Feldman/Lynch (1988), a piece of information is more diagnostic when it is congruent with schematic memory. Thus, in
our context, PBG is more diagnostic within the context of foreign brand quality value because it is congruent with foreign rather than domestic origin. However, emerging giants may have adopted the appearance of ‘globalness,’ which may contradict the intuitive assumption. Nevertheless, we argue that consumers in emerging countries have experienced the link between foreign origin and global appearance for an extended period of time. Thus, the link may resist categorisation as an established schema in consumers’ minds, thus encouraging foreign origin and PBG to become more congruent and thus more diagnostic. We assume that PBG operates more through quality value for foreign retailers, which is supported by the cognitive aspect of COO (Batra et al. 2000).

A similar argumentation leads us to expect that retailer origin more powerfully moderates the effect of PBG on price value for domestic retailers. Our proposition remains grounded on the diagnosticity argument of PBG within the context of price value and on weaker congruency between price value with foreign rather than domestic brands. In emerging countries, domestic retailers are perceived by customers as offering more value for money (Kinra 2006). Modern retailing emerged within the last two decades when the first foreign retailers entered China in 1992 and evoked associations of quality of service, merchandise, and assortments. In contrast, domestic retailers are more familiar with structures of local markets and may be more flexible in their pricing strategies. Consequently, we hypothesise the following:

**H5:** The effect of PBG (a) on quality value will be stronger for foreign than for domestic retailers, and (b) the effect on price value will be stronger for domestic than for foreign retailers.

Finally, we expect that the PBG-RBE link is stronger for foreign than for domestic retailers. Again, PBG is more congruent with foreign than domestic origin and, therefore, becomes more diagnostic in evaluating RBE (Swoboda/Pennemann/Taube 2012). Our assumption refers to the affective aspect of COO, according to which less affluent consumers receive affective and symbolic benefits when evaluating a foreign brand (Batra et al. 2000; Verlegh/Steenkamp 1999). Although some domestic retailers adopt a global brand appearance (e.g., the use of English brand names or foreign celebrities, such as basketball star Kevin Garnett, for the Chinese fashion retailer An-ta), consumers may take time to adjust to the incongruity between the ‘domestic brand’ and the ‘global image.’ Thus, we hypothesise the following:

**H6:** The effect of PBG on RBE will be stronger for foreign than for domestic retailers.

### 4. Empirical study

#### 4.1 Sample design

We chose China as the context for this research for several important reasons. China is among the three largest retail markets for fashion and groceries. Unlike other high-volume emerging markets (e.g., other BRICS-countries), foreigners entered China early in the 1990s and have accumulated country-specific knowledge. China has a high penetration rate of foreign retailers in different retail sectors, but it also possesses strong domestic retailers. The retailer selection procedure in different sectors and cities is thus presented and is followed by the development of the consumer sample (Swoboda/Pennemann/Taube 2012). Using desk research on various sources (e.g., planet-retail data, retail institutions, and firms’ homepages), we identified more than 120 foreign and domestic retailers among the five largest retail industries: grocery, apparel, electronics, furnishing, and service retailing. We selected grocery, fashion, and service retailing because these industries typically cover standardised (e.g., fashion) and nonstandardised (e.g., grocery) industries and because a sufficient number of foreign and domestic retailers were active with outlets in five major cities in these industries. In two focus group interviews with twelve Chinese students from these cities, we selected retailers that are known and other retailers that were not identified in advance. Most retailers were present and were familiar to consumers in Beijing, Shanghai, and Chengdu, which determined our final city selection. We finalised our retailer selection with an online panel of 23 middle-aged respondents in these cities to explore which retailers from the list are known; ten retailers for each industry (preferring equal formats, no luxury brands) were then chosen. For this research, the retailers were divided according to domestic origin (Greater China) and foreign origin (including the U.S. and Europe, but not, e.g., Japan), to preserve a homogenous, cultural related selection and to eliminate potential feelings of animosity. The familiarity of the selected retailers (see Tab. 1) was validated by three interviews in each city.

The sample includes 990 valid responses. Respondents were randomly selected from the inhabitant list, which was provided by the Chinese registration office. This list was restricted to urban populations between 18 and 45 years of age to include retail brand affine population (following Steenkamp/Batra/Alden 2003). For each city, the selection procedure first identified districts, then blocks, and, finally, a street from which households were chosen through a specific counting procedure. We gave the list of selected households to interviewers (trained over the course of one day in each city) from the federal statistics office, who conducted the personal interviews based on a structured questionnaire. The sample is representative of the population according to age and gender (see Tab. 1). Each consumer responded to one retailer with which he/she was familiar. Prior to answering the focal questions, interviewees provided information about their age, sex, and their familiarity with each retailer in a preselected industry. We included retailers that were rated as “strongly agree, agree, or somewhat agree” on a seven-point Li-kert-type scale of retail brands in the pool, from which one retailer was randomly chosen for the respondent.
4.2. Measurement and method

We drew scales from previous studies using a seven-point Likert-type scale (see Tab. 2). PBG was measured according to Steenkamp/Batra/Alden (2003) and Swoboda/Penemann/Taube (2012), price and quality values were drawn from Sweeney/Soutar (2001), and RBE was measured according to Keller (1993) and Verhoef/Lange-rak/Donkers (2007). At the brand level, the retailer origin was a binary variable (0 domestic, 1 foreign) and was approximately consistent with the consumers’ perceived origin (correctly identified by 94 % of the subjects).

The constructs and items passed psychometric tests for reliability and validity (see Tab. 2, 3). Convergent validity was determined using significant t-values of the factor loadings, which ranged between .872 and .674 for all main constructs. Cronbach’s alpha ranged between .893 and .801. Discriminant validity and the nomological validity of the measures are given. In addition, we ensured face validity in the mentioned pretest panel. To ensure semantic equivalence, we applied the translation-back-translation method (following Hult et al. 2008). Because our measurement model showed a satisfactory fit (CFI = .935; TLI = .922; SRMR = .076; χ²(126) = 671.93), we modelled each latent variable measured using a single indicator with fixed error variances to reduce the model’s complexity; single indicators were calculated as summat-ed indices. The error variances of these calculations were fixed to an appropriate level of reliability and sample variance, as suggested by Bollen (1989) (see equation 1). The error variance of the measurement of RBE and PBG on the second level was fixed to zero.

(1-reliability) * sample variance

<table>
<thead>
<tr>
<th>Construct and item wording</th>
<th>λ</th>
<th>ITC</th>
<th>CA</th>
<th>SVar</th>
<th>EVar</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBG (adapted from Steenkamp/Alden/Batra 2003)</td>
<td>.848</td>
<td>.778</td>
<td>.885</td>
<td>1.49</td>
<td>.171</td>
</tr>
<tr>
<td>To me, this is a global retail brand.</td>
<td>.852</td>
<td>.786</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>This retail brand is located all over the world.</td>
<td>.847</td>
<td>.766</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality value (Sweeney/Soutar 2001)</td>
<td>.699</td>
<td>.576</td>
<td>.801</td>
<td>.456</td>
<td>.091</td>
</tr>
<tr>
<td>[Retailer] offers consistent quality.</td>
<td>.696</td>
<td>.620</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[Retailer] offers high-quality goods.</td>
<td>.724</td>
<td>.652</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[Retailer] offers an acceptable standard of quality.</td>
<td>.719</td>
<td>.616</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[Retailer] is characterized by high overall quality.</td>
<td>.762</td>
<td>.877</td>
<td>.893</td>
<td>.810</td>
<td>.087</td>
</tr>
<tr>
<td>Price value (Sweeney/Soutar 2001)</td>
<td>.824</td>
<td>.858</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>[Retailer] does have fair and competitive prices.</td>
<td>.872</td>
<td>.848</td>
<td></td>
<td></td>
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<tr>
<td>[Retailer] offers high value for money.</td>
<td>.830</td>
<td>.864</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>[Retailer] offers good deals for the price.</td>
<td>.764</td>
<td>.602</td>
<td>.812</td>
<td>.706</td>
<td>.133</td>
</tr>
<tr>
<td>RBE (Keller 1993; Verhoef/Lange-rak/Donkers 2007)</td>
<td>.723</td>
<td>.664</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[Retailer] is a well-known brand.</td>
<td>.781</td>
<td>.688</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[Retailer] is a strong brand.</td>
<td>.722</td>
<td>.604</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[Retailer] is favorable to me.</td>
<td>.674</td>
<td>.602</td>
<td>.812</td>
<td>.706</td>
<td>.133</td>
</tr>
<tr>
<td>[Retailer] is a unique brand.</td>
<td>.764</td>
<td>.877</td>
<td>.893</td>
<td>.810</td>
<td>.087</td>
</tr>
</tbody>
</table>

Notes: 
- Goodness of fit statistics for CFA: CFI = .935; TLI = .922; SRMR = .076; χ²(126) = 671.93; λ=standardized factor loadings (CFA); ITC = item-to-total correlation; CA = Cronbach’s Alpha (≥ 0.7); SVar = sample variance; EVar = error variance.
- Quality and price value measure were extended to four items compared to the study by Swoboda/Penemann/Taube (2012).
### 4.3. Results

The multilevel approach accounts for two sources of variance. To estimate our proposed model, we followed Raudenbush/Bryk (2002) to apply a stepwise procedure (see Tab. 4). *Step one* defines the null model, which has no predictors to partition the variance of the dependent variable into individual and brand-level variance. The majority of variance occurred at the individual level; 73.3% (p < .001) of the variance can be attributed to the brand level. In *step two*, we defined the one-way random effect model, which first includes only control variables and then includes all individual-level variables. The residual variance of the dependent variable on the individual level for the full individual model is .151 and is therefore lower than that of the null (.634) and baseline (.397) models. We concluded that RBE can be explained by individual perceptions of PBG, quality value, and price value (R-squared = 66.4%). In *step three*, we examined whether slopes vary across brands. Therefore, we modelled the slopes on the individual level without using them as predictors on the brand level. The variances of the slopes vary significantly (p < .05) across brands. In *step four*, we followed Luke (2005) and specified an intercept and the slopes as the outcome model. We added the brand-level control variables, followed by the brand-level predictor variables, to the full individual model. The full model includes the random intercept and slopes that vary with retailer origin; this model is preferred because it achieves the lowest residual variance and a lower Akaike Information Criterion (AIC) and Bayes Information Criterion (BIC) than the respective baseline model.

At the individual level, *H1* posits a positive relationship between PBG and RBE, which is supported by our data (b = .071, p < .01). For *H2a* and *H2b*, we found support for the impact of PBG on quality value (b = .275, p < .001) and on price value (b = .223, p < .001), as well as the indirect effects of PBG on RBE by the mechanisms of quality value (b = .200, p < .001) and price value (b = .026, p < .05). *H3* proposes that the indirect effect of PBG on RBE is stronger than the direct effect. We compared the proposed model to a direct-effect model (with only PBG as the predictor; quality and price value were omitted as mediators) in terms of R-squared adjusted using Cohen’s (1988) formula for calculating the effect size. The results show that dropping the quality and price values from the model significantly reduced the explained variance to 42.1% (f² = .555). Additionally, the direct-effect model had significantly lower predictive validity. A further analysis of the total effects, indirect effects, and direct effects of PBG on RBE showed that 76.1% of the PBG’s total effect on RBE flows through the mediators, with an indirect effect (b = .226, p < .001) that was significantly larger than the direct ef-

### Table 3: Correlation matrix and descriptives

<table>
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<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>PBG</td>
<td>.721</td>
<td>.174</td>
<td>.053</td>
<td>.190</td>
<td>.006</td>
<td>.069</td>
<td>.000</td>
<td>.001</td>
<td>.002</td>
<td>.176</td>
</tr>
<tr>
<td>2</td>
<td>Quality value</td>
<td>.417 ***</td>
<td>.504  ***</td>
<td>.053</td>
<td>.190</td>
<td>.006</td>
<td>.069</td>
<td>.000</td>
<td>.001</td>
<td>.002</td>
<td>.229</td>
</tr>
<tr>
<td>3</td>
<td>Price value</td>
<td>.230  ***</td>
<td>.602  ***</td>
<td>.004</td>
<td>.193</td>
<td>.000</td>
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<td>.000</td>
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Notes: AVEs are on the diagonal; squared correlations are above the diagonal; correlations are below the diagonal. Pearson correlation for metric variables, Eta for dichotomy and metric variables, contingency coefficient for dichotomy variables. *p < .05, ** p < .01, ***p < .001, ns = not significant.

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We accounted for covariates. At the individual level, we controlled for consumers’ local identity, which may stimulate the evaluation of global and local brands (questions regarding local community and self-identification as local citizen, Zhang/Khare 2009). We controlled for brand familiarity (question on the degree of knowledge about a retailer) because the mere-repeated-exposure paradigm suggests that familiarity with a stimulus object raises its positive evaluation. The city control between first-tier and second-tier cities was coded as a binary variable (Beijing/Shanghai coded as 1), as was gender (0 female, 1 male). Age was coded in age classes. At the brand level, dummy variables were used to differentiate all three industries.

Using the hierarchical modelling technique and the Mplus software, we accounted for the nested data structure, therefore ensuring an unbiased estimation of standard errors. The individual level (level one) captures individual differences (n = 990) in RBE that are predicted by the PBG, quality value, and price value. The brand-level (level two) model captures differences between brands (n = 30) and predicts random slopes and intercepts on level one with the level-two variable retailer origin. The specification of both models is shown in the Appendix. All individual-level variables are group-mean centred for numerical stability and specification (Raudenbush/Bryk 2002).
effect ($b = .071, p < .01$). The mediation test, finally, supports H3.

On the brand level, H4 specifies that a domestic retailer has a more positively evaluated RBE than foreign retailers. However, we did not find any significant direct effect of retailer origin on RBE ($b = .008, p > .10$). Neither domestic nor foreign retailer origin has a direct impact on RBE after the effect of PBG has been controlled for. H5a states that the effect of PBG on quality value is stronger for foreign retailers, which is supported by a significant interaction between retailer origin and the PBG-quality link at the individual level ($b = .093, p < .05$). H5b specifies that the effect of PBG on price value is stronger for domestic retailers, and evidence supports this effect ($b = -.130, p < .05$). Consistent with H6, the retailer origin exerted a significant impact on the PBG-RBE link ($b = .077, p < .05$).

The controls familiarity ($b = .101, p < .001$) and city ($b = .151, p < .01$) contributed to RBE. The consumers in the first-tier cities evaluated retailers more positively in RBE. On the second level, only the grocery industry contributed marginally to RBE ($b = .118, p < .10$); thus, grocery retailers that are more locally adapted were evaluated more positively on RBE.

5. Discussion

This research examines whether and through which functional value globalness enhances the position of a strong retail brand and how a retailer’s origin interacts as a boundary condition with these value mechanisms. This topic is relevant because prior research shows that globally perceived retailers are more likely to be chosen based on functional rather than psychological values but do not question which functional values are of importance. Furthermore, Swoboda/Pennemann/Taube (2012) shows that PBG does not directly influence retail patronage but may influence the important intervening variable RBE. Therefore, we were guided by the attempt to analyse the mechanism of how RBE draws from PBG by observing important quality and price values. Our observations allow for two major theoretical implications and suggestions for managers.

Concerning the first research question our conceptualisation suggests that PBG is ‘ready-to-use’ information that consumers can use to assess price value and quality value, which are the two mechanisms through which PBG affects RBE. In the individual level model, PBG indirectly strengthens RBE via quality and price values, whereby quality remains more important. Regarding the strong influence of quality, our results are consistent with those of previous research (Steenkamp/Batra/Alden 2003) but
have been generalised to the retailing context. PBG directly leads to RBE and thus becomes diagnostic for consumers by its affective nature. This finding enhances previous observations (Swoboda/Pennemann/Taube 2012). Finally, we contribute to the retail branding research by showing that RBE is indirectly influenced by PBG as a quality halo (b = .026, p < .001) and a price halo (b = .071, p < .01). In contrast to existing literature on manufacturers, the effect of PBG on price value was positive (b = .223 p < .001). This finding underlines the nature of retailing in which discounters are also strong brands. Consumer perceptions on the individual level explain the major variance in RBE. Our second research question explored the role of retailer origin, conceptualised at the brand level and viewed as a diagnosticity multiplier that facilitates the activation of the learned RBE-schemas in consumers’ minds. We observed a stronger PBG-quality link for foreign retailers, indicating that those retailers can benefit more regarding quality halo and the extrinsic cue brand origin. We observed a stronger PBG-price link for domestic retailers. Foreign retailers leverage PBG more than domestic competitors in emerging countries, underlining the stronger direct PBG-RBE link for foreign retailers. This result holds over different retailers and retail sectors. However, we found no direct effect of retailer origin on RBE, which indicates that a consumer culture theoretical explanation concerning consumers’ preferences for domestic over foreign brands – even if foreign brands are superior – does not hold for retailers in emerging countries and that foreign origin does not affect RBE directly. A retailer’s foreign origins do not represent a sufficient ex- trinsic cue or an affective symbol to directly attract retail brands. However, we measured origin as a binary variable, and further research on this issue is encouraged.

Managers of internationalising retailers may find that in emerging markets such as China, global brand appearance can be translated into the position of a strong retail brand directly, and especially indirectly, through quality value. PBG also enhances RBE through price value, but domestic chains benefit more from this link. However, western retailers have frequently perceived quality advantages upon entry to emerging markets due to their relative modern retail concepts, and those retailers only benefit weakly from psychological values (Swoboda/Pennemann/Taube 2012). Thus, years after entry, the RBE of these retailers benefits from functional quality. Managers may ask themselves whether the PBG quality route will remain in the future or whether price values will increase in importance, as observed in many western markets. In contrast, today’s domestic retailer managers benefit from price values as well as psychological values and may enhance the quality value when becoming emerging giants (such as Chinese Li Ning and Bossini, who benefit from PBG in their home country by highlighting their RBE within their global positioning strategy).

6. Limitations and further research

Finally, we offer concluding remarks concerning our limitations and suggest avenues for further research. We wish to mention three points. First, our sample was drawn from brand-affine consumers in three cities comparing retailers from western countries and Greater China. Further research should also focus on rural areas and disparities within emerging countries because the cities chosen in this study may not be representative of the whole Chinese population and hence may influence RBE. In particular, investigating the interaction between the consumers’ environment and consumers’ identities may be fruitful. Studies should examine other BRICS-countries, including their specific cultural, economic, or retailing structures as well as possible differences in format transfer strategies (Swoboda/Elsner 2013). Second, differences in factor constitutions between the individual and the brand levels should be investigated. We assume that globalness dimensions may affect the RBE dimensions differently, and the measurement of these differences could allow a more precise deduction of managerial implications. In addition, the perceptual construct should be combined with a multilevel approach that uses objective data that measure the globalness dimension to highlight the difference between being global and being perceived as global. Third, in addition to objective brand-level data, we suggest focusing on additional consumer data such as their attitudes toward global/local brands (Steenkamp/de Jong 2010). Further research should also address COO in retailing.

Appendix: Model Specification

The level-one model is specified as follows:

\[ BE_{ij} = \beta_0 + \beta_1 RO_{ij} + \beta_2 QV_{ij} + \beta_3 PV_{ij} + \beta_4 Controls_{ij} + \epsilon_{ij} \]

where

- \( i \) = individual,
- \( j \) = brand,
- \( \beta_0 \) = intercepts that vary across brands,
- \( \beta_1, \beta_2, \beta_3, \beta_4 \) = random slopes,
- \( \beta_4 \) = fixed slopes,
- \( Controls_{ij} \) = beta of control variables,
- \( Controls_{ij} \) = controls on level 1, e.g., local identity, familiarity, gender and city,
- \( \epsilon_{ij} \) = error term,
- \( BE \) = retailer brand equity,
- \( PBG \) = perceived brand globalness,
- \( QV \) = quality value,
- \( PV \) = price value.

The level-two models are as follows:

\[ \beta_2 = \gamma_20 + \gamma_21 RO + \gamma_22 Controls + \gamma_23 QV + \gamma_24 PV + \eta_2 \]

where

- \( RO \) = retailer origin,
- \( \eta_2 \) = error term.
These equations (2a-d) are substituted into equation (1), as the following equation (3) shows:

\[ BE_{ij} = \{\gamma_{00} + (\gamma_{01} \cdot RO_{j})\} \times \{\gamma_{20} + (\gamma_{21} \cdot RO_{j}) \cdot PBG_{ij}\} + (3) \]

(\[ \{\gamma_{30} \cdot PBG_{ij} + (\gamma_{31} \cdot RO_{j}) \cdot PBG_{ij}\} \times \{\gamma_{40} \cdot PV_{ij}\} + (4) \]

(\[ \{\gamma_{50} \cdot PV_{ij}\} + (\gamma_{51} \cdot RO_{j}) \cdot PV_{ij}\} + (5) \]

References


Keywords

international retailers, retail brand equity, perceived brand globalness, country of origin, hierarchical modelling