Nov 9th, 12:00 AM

The New Owner behind a Veil: Luxury Brand Cross-Border M&A and Its Impact on Brand Credibility and Prestige

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Keywords: Country image, cross-border M&A, brand credibility, brand prestige

Background and Research Objectives: *Country image* refers to the overall beliefs that consumers hold toward a particular country (Papadopoulos & Heslop, 1993). Traditionally, only one country image existed for one apparel brand; an Italian brand, owned by an Italian, was made in Italy. However, this notion is challenged today. Due to globalization, country-of-brand origin, country-of-company, country-of-design, country-of-manufactured often differ within one brand (Papadopoulos & Heslop, 1993). One growing trend is *cross-border Merger and Acquisition* (M&A) in the luxury brand sector. A cross-border M&A results in a discrepancy between the *country-of-brand origin* (COB) and *country-of-company* (COC) by shifting COC from home country to another. Such shift of COC happens in two different directions: downward and upward. For example, Valentino (COB: Italy) was acquired by a Qatari company (COC: Qatar), and a Chinese jewelry brand, Qeelin (COB: China), was acquired by a French fashion group Kering (COC: France) (Weiteng, 2015). Valentino was a *downward M&A* case where a brand from a high-fashion-image country is acquired by a firm in a low-fashion-image country (Italy→Qatar), while Qeelin was an *upward M&A* case where a brand from a low-fashion-image country is acquired by a firm from a high-fashion-image country (China→France).

When consumers find that COC possessing brand business ownership actually differs from COB, what cognitive change will occur in consumers' minds? How will cognitive change impact consumers' brand credibility and prestige evaluations? Does such impact differ between downward and upward cross-border M&A cases? Based on Festinger's (1957) *cognitive dissonance theory*, the purpose of this study is to examine the effect of discrepancy between COB and COC on luxury brands' credibility and prestige through experiments.

Conceptual/Theoretical Background & Hypotheses: Festinger's (1957) cognitive dissonance theory posits that consumers' exposure to incongruent information causes cognitive dissonance in consumers' minds, which motivates consumers to modify their attitudes toward the object to release the dissonance (Festinger, 1957). Applying the theory, this study posits that when consumers find the COB and COC of one brand are incongruent, cognitive dissonance will occur in their minds, thus they will modify their brand evaluations, such as brand credibility and prestige. *Brand credibility* (BC) is the perceived believability of whether a brand delivers what has been promised; *brand prestige* (BP) is the perceived high status of the brand (Baek et al., 2010). As both are determined by the consistency and trustworthiness in brand attributes (Baek et al., 2010), inconsistency between COB and COC may significantly change perceived brand credibility and prestige. This study hypothesized that in the case of downward M&A (e.g., Italian luxury brand acquired by a Chinese firm), the shift of COC to a low-fashion-image country decreases brand credibility and prestige. In the case of upward M&A (e.g., Chinese luxury brand acquired by an Italian firm), however, the shift of COC to a high-fashion-image country will increase brand credibility and prestige. Thus, hypotheses were: in downward M&A, discrepancy between COB and COC decreases brand credibility (H_1) and prestige (H_2); in upward M&A, discrepancy between COB and COC increases brand credibility (H_3) and prestige (H_4).

Methodology: Through pre-tests, Italy and China were selected as a high-fashion-image country and a low-fashion-image country, and the images of two fictitious brands (i.e., Italian and Chinese luxury brands) were developed. Manipulation check confirmed those selections to be valid. At five Southeastern universities, 111 college students were randomly assigned to one of the two scenarios describing downward and upward cross-border M&A. Then the changes in their evaluations of brand credibility and prestige *before* and *after* the manipulation of the scenarios were tested via repeated measure ANOVA. The measurements of brand credibility and prestige were adapted from Baek et al. (2010) (*Cronbach α*=.90-.94). Results of hypotheses testing are below.

Results of Hypotheses Testing: Repeated Measure ANOVA

Group	*N*	*Shift of COC*	*Mean (before→after)*	*F-statistic*	*p*	*H Testing*
Downward M&A	57	Italy→China	BC: 5.44→3.81 BP: 5.97→3.79	$F_{(1,56)}$=85.9 $F_{(1,56)}$=6.6	.00* .01*	H_1 Supported H_2 Supported
Upward M&A	54	China→Italy	BC: 5.05→4.21 BP: 5.54→4.73	$F_{(1,53)}$=12.8 $F_{(1,53)}$=15.3	.00* .00*	H_3 Not supported H_4 Not supported

Note. Dependent variables: BC (Brand credibility), BP (Brand prestige); *p<.05

Results and Conclusions: A downward shift of COC significantly decreased luxury brands' credibility (H_1) and prestige (H_2) among consumers. Opposite to H_3 and H_4, an upward shift of COC also decreased luxury brands' credibility (H_3) and prestige (H_4). The findings of decreased brand evaluations in both downward and upward M&A directions not only suggest that consumers, overall, reacted negatively toward the change in corporate ownership, but also imply that simply being acquired by a firm from a high-fashion-image country cannot change the original image of brands from a low-fashion-image country. Theoretically, this study contributes to the literature by exploring the effect of *discrepancy* in country image on brand images, particularly finding the negative outcomes of such discrepancy in the cases of downward and upward shifts of COC. In order to minimize the decrease of brand images after cross-border M&A, brand marketers will need to develop effective post-M&A communication strategies such as emphasizing the original brand heritage over the new owner of the brand, and promising consistent product offerings after the M&A. Detailed practical implications were discussed.

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