UNDERSTANDING BRAND EXTENSION EVALUATION IN THE MALAYSIAN MARKET: THE MODERATING ROLE OF STYLE OF THINKING

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Abstract

Since styles of thinking vary across cultures, it is necessary to explore and examine, how consumers evaluate brand extensions in a multi-cultural country. Therefore, this study made an attempt to identify whether style of thinking moderates the perceived fit and brand extension evaluation relationship in the Malaysian market. Employing 141 valid responses, this study found a positive and significant relationship between perceived fit, style of thinking, and consumer's evaluation of brand extension. It also found that holistic style of thinkers evaluates brand extension more favourably than analytical style of thinkers (t=2.042 at the 5% level). This finding is further supported by f^2 effect sizes. The amount of variance suggested by the overall model is considerable, and it also offers a good amount of predictive capability. This finding has significant implications for companies worldwide as they commonly implement brand extension strategies.

Keywords: Perceived Fit, Style of Thinking, Brand Extensions, Malaysia, PLS-SEM.

JEL Classification: M370

Introduction

Brand extension (BE) is actually the use of existing brand names to introduce new products in existing or new market. Brands extension within the original product category is considered to be cost-effective strategy, since, overall, it is presumed that using already known existing brands that are recognised well in the market, require lesser new product introduction expenses and fewer marketing activities such as advertisement and trade deals (Tauber, 1988; Collins-Dodd & Louviere, 1999). Nevertheless, consumer's favourable evaluation of extended brand is indeterminate, and the rate of its

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failure in many fast-moving consumer goods (FMCG) product categories is roughly 75-80% (Ernst, Young & ACNielsen, 1999; *Marketing* 2003; Schneider & Hall, 2011). However, in order to minimise failure, key factors of brand extension success have been recognised (e.g., Aaker & Keller, 1990; Dacin & Smith, 1994). Perception of fit is one such important factor among perceived risk (PR), parent brand reputation (PBR), and perceived quality (PQ) (Hem, Chernatony, & Iversin 2001) that determines the performance of a brand extension. However, the perception of fit varies among people from different cultures (Monga & John, 2007). Using medium split analyses on fifty-seven U.S. and sixty-two Indian students[4]they confirmed the existences of cultural differences. However, previous empirical evidence on cultural differences in multi-cultural country is still insufficient. Therefore, this study made an attempt to fill this gap by considering a multi-cultural country Malaysia (Ibrahim, 2007) since Malaysia has a diverse culture. We also combined previous fragmented literature on perceived fit (categorical similar and benefit similar) as identified by Chang (2014).

Theoretical Background and Hypotheses Development

Theoretical Background

The theories we used to frame the argument in this study are based on Hofstede (1984) cultural difference model and categorization theory. We used Hofstede model, since, consumer behaviour is different in cross-cultural settings. Categorization theory is considered as *consumers can evaluate the extension by their category memory* (Barone & Miniard, 2002; Fanzen & Bouwman, 2001; Fudali-Czyz et al., 2016).

Brand Extension Evaluation (BEE)

The concept of consumers' evaluation of brand extension is originated from "*categorization theory*" Keller (2002). He continues by saying that consumers can effortlessly move their current attitude about parent brand (PB) to brand extension (BE) because both the PB and the extension may be categorized by the brand. Therefore, consumers categorise and identify an object as a member of a class. Having this in mind, BEE is therefore, the way in which consumers evaluate an extended brand. Monga and John (2007: 529) further elucidated this notion by supporting that consumer evaluates an extended brand by perceiving that how well it fit with the present brand. They further argued that several factors affecting whether consumers will evaluate an extended brand favourably. Similarly, data from several sources (e.g., Aaker & Keller, 1990; Keller, 2002: Volckner & Sattler, 2006) identified "perceived fit" (PF) between the PB and the BE as a crucial determinant of brand extension success, among others.

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Perceived Fit (PF)

For the favourable evaluation of BE it is important that the customers perceive similarity between the PB and the newly launched product. Earlier studies Volckner and Sattler (2006), Asker and Keller (1990), De Ruyter and Wetzels, (2000) and Boush and Loken, (1991) find a positive association between PF and BEE. According to Buil, Chernatony and Hem (2009) Chung and Kim, (2014), Pontes, Palmeria, and Jevons (2017) and Marva et al. (2019), a high extend of PF increases the likelihood of customer showing a positive attitude towards an extension.

In contrast, Campbell and Goodstein (2001) projected that brand extension in different product category may create a sense of inappropriateness and high level of PR. Dawar (1996) supports this view by mentioning that distant extension is usually viewed dubiously by consumers, which increases the chances of failure. Hence, consumers' attitude concerning brand extensions is contingent upon the degree of analogy between the parental brand (PB) and its extension. Thus, the direct relationship between PF → BEE is conceptualize from the study conducted by Aaker and Keller in 1990 on brand knowledge. Furthermore, the theoretical backdrop behind this relationship is based on categorization theory. Thus:

H1: The higher Perceived fit (PF) the higher is the probability that consumer will evaluate an extended brand favourably.

Cultural Differences

The review of literature confirms that brand extension evaluation differs across nations as consumer behaviour is different in cross-cultural settings (Guoqun & Saunders, 2002; Hadi, Gul & Muhammad, 2018; Echambadi et al., 2006; Sunde & Brodie, 1993; Holden & Barwise, 1995). Aaker and Keller (1993) cite that the dissimilarities found in a comprehensive study by Sunde and Brodie (1993) could be traced back to culture differences. Bottomley and Holden (2001) also put forward that cultural differences influence the association between PF the extension, the PB, and finally, BEE. Therefore, overlooking cultural differences may reduce the financial performance of a company. According to Monga and John (2007), brand evaluation is a judging process that includes cognitive interaction. They examine this interaction by style of thinking with two components: holistic thinking, and analytical thinking. Furthermore, the importance of cultural differences is also found in a recently study by Fan et al. (2016). They found that different cultural differences do affect marketing success.

Style of Thinking (SoT)

People from diversified societies differ in their judgement of BEE Monga and John (2007) found that this is due to different cultural SoT. Thus, style of thinking, which is a personality dimension, is a cognitive process that influences values, attitudes, and social interaction. Perceptive processes may be distinguished as either analytical or holistic (Nisbett, Choi, & Norenzayan, 2001; Peng &

Nisbett, 1999). They are of the view that "holistic style of thinkers are prone focus the associations between a focal object and its context". However, "analytical style of thinkers often detaches an object from its context and tend to focus on the attributes and features of the object that assign it to a specific category".

Previous research emphasises the role of SoT on CEBE (Monga & John, 2007). Likewise, in a study by Buil et al. (2008) and Hadi et al. (2018) cited that cross-cultural issue has been found to influence consumer behaviour. Thus, previous studies of brand extension evaluation have not dealt with the interactive role of *style of thinking* on the relationship between PF → BEE. Therefore, the purpose of this theoretical unification is to integrate the diverse aspects of style of thinking (Analytic versus Holistic) within the framework of Hofstede (1984) cultural difference model, and examine the interactive role of SoT on the relationship between PF → BEE to enhance our understanding on how consumer evaluate an extended brand (EB) in a multi-cultural country such as Malaysian, which to our knowledge is less understood in literature.

H2: The influence of perception of fit (PF) on consumer evaluation of brand extension (CEBE) is affected by holistic style of thinking (HST).

H3: The influence of perception of fit (PF) on consumer evaluation of brand extension (CEBE) is affected by analytic style of thinking (HST).

Methodology

Questionnaire Design and Measurement

To find valid measures for each construct, the questionnaires for the current study were adopted from (Hem et al., 2001). To ensure face validity, Malaysian cultural differences and linguistic characteristics were considered by translating the questionnaires into local language. Decisions of experts[5] were considered to ensure content validity of the constructs. Construct validity is some time affect by cultural differences, therefore, construct validity was also examined by means of factor analysis (sub-section4.1). All questionnaires measured responses on a 6-point Likert scale [(Hem et al., 2001) (Appendix A)].

Sampling and Data Collection

The sample was collected from customers at Nike stores in the Kelang Valley in Malaysia (Nike has been in the Malaysian market for years, and their products have earned a strong reputation).

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[5] Dr. Muhammad and Dr. Kamisan-Malaysian citizen checked the content of the questionnaires.

Screening and Cleaning of Data

In order to inspect for missing values and suspicious responses, a total of 195 observations were statistically analysed. Two types of missing data can be found in a survey-based questionnaire. If more than 15% of the data are missing, the observation is rejected (Hair et al., 2014). We found 35 such cases, which reduced the number of observations to 160. The rest of the missing values were controlled by means of the expectation maximization algorithm. Such observations were 25 in number. 19 responses were further removed while checking for straight-lining.

Statistical Analysis

Descriptive Statistics

A total of 141 valid responses were taken into account for analysis. 76 male participants and 65 female participants completed the questionnaires, with ages ranging from 18-24 years, and 25-34 years respectively. Their ethnic demographic comprises of 88 participants from the "*Muslim Malay*" majority. 35 "*Chinese*" and 18 Indian ethnicity, comprising of two religious backgrounds (16 Hindu and two Christian).

Common Method Bias

In this study, all variables were assessed perceptually, therefore, there is chance of common method variance (CMV). To test for CMV, we used "*Harman's single factor test*" by means of exploratory factor analysis (EFA). The results indicated that the maximum variance that is explained by a single factor is 23.7, indicating that approximately 24% of the variance is explained by a single factor. Therefore, it is deduced that this data set does not suffered from the CMV issue because less than 50% of variance is explained by a single factor.

Uni-Dimensionality Test

Scales used in current were found to be valid and reliable, as the pattern of correlation indicates that all items are related to their corresponding construct. While inspecting structure matrix, it was also found that the items not related to other constructs are in reality not related. Therefore, both forms of construct validity (convergent and discriminant) are ensured (Hadi et al., 2016a).

Partial Least Squares (PLS)

PLS-SEM was used to test the hypothesised relationships. The main reason for using PLS-SEM is that PLS is suggested for testing complex models with small sample size (Hair et al., 2014 & Chin et al., 2003).

Assessment of Measurement Model

The quality of outer models was confirmed by the assessment of three indicators: "*consistency reliability*", "*indicator reliability*", and "*construct validity*" (Fornel-Larcker criterion). The results of the outer models show that the data fit the model well.

Table 1
Construct Validity and Reliability

Constructs	CR	AVE
AST	0.851	0.657
BEE	0.725	0.469
HST	0.870	0.627
PF	0.830	0.620

Table 1 indicates that the instruments used for PF, holistic thinking, analytical thinking, and BEE have good amount of reliability. The value of CR for each construct is appropriate. The values of CR range from 0.725 to 0.870. This result meets the threshold of 0.70 Fornell and Larcker (1981). All the values of AVE are above the minimum threshold of 0.5, signifying that most of the variance is explained by each item than the error variance. This result indicates the existence of uni-dimensionality (Hadi et al., 2016).

Discriminant Validity

Discriminant validity was also ensured in this study, we found each construct representing distinct phenomena, as all square roots of the AVE are higher than the off-diagonal values.

Table 2
Discriminant Validity

Constructs	AST	BEE	HST	PF
AST	**0.810**	-		
BEE	0.235	**0.685**	-	
HST	0.247	0.336	**0.792**	-
PF	0.193	0.038	0.038	**0.788**

Structural Model

In the structural model, all possible hypothesised effects pointing from exogenous constructs to endogenous constructs are examined. Four model fit indices for PLS-SEM were tested by computing path coefficients, i.e., β, t-value and p-value: R^2, f^2 effectsize, Q^2, and q^2 effect size as proposed by

Hair et al. (2004), Hadi et al. (2016b) and Irfan et al. (2016).

For the evaluation of moderating effect, a two-stage approach was applied as proposed by Chin et al. (2003). In stage 1, the direct effect of exogenous variable on endogenous variable was examined. In stage 2, the moderating effects were considered. Results from stage 1 indicate that the direct effect of perceived fit on brand extension evaluation is significant at the 5% level (t>1.96). Perceived fit explains 31% of the variance in brand extension evaluation as shown in;
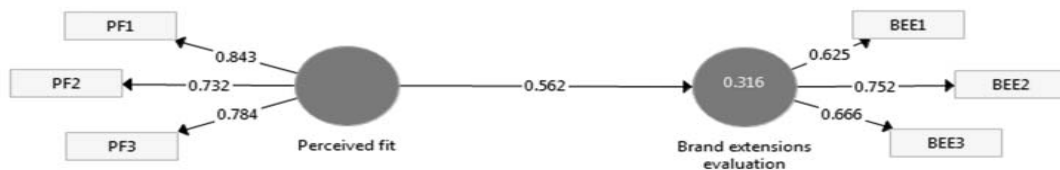

Figure 1: Structural Model with Direct Effect

In stage 2, the interactive effects of both holistic as well as analytical styles of thinking on the association between PF and CEBE were examined. The results indicate that the value of R^2 increased from 31.6% to 52.9%. This result provides support of better explained variance. Interestingly, it was found that HST moderates the relationship between PF and CEBE (β=0.144, t=2.042, and p=0.045)] in the context of Malaysia (Figure 2 and Table 3).
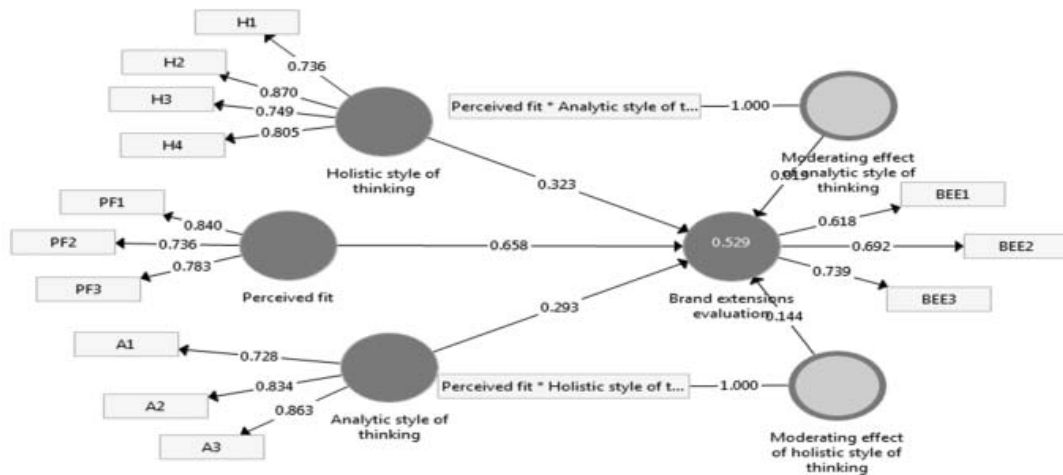

Figure 2: Structural Model with Moderating Effect

To enhance our understanding of the contribution of each moderating effect towards the R^2 value, we examine the effect size of each effect. The effect size of HST on BEE (R^2 value) is medium.

The effect size of AST on BEE is considered to be low (0.14), below the threshold of 0.15. Finally, the effect size of both styles of thinking simultaneously is considered to be large (0.43), above 0.35. It was also found that the model has good predictive relevance Q^2 is above the recommended value of zero.

Table 3
Hypotheses Test

	B	S mean	Std dvt	t value	p value
AST→ BEE	.293	.290	0.078	3.764	0.000
HST → BEE	.323	.321	.072	4.503	0.000
PF → BEE	.658	.654	.061	10.781	0.000
Moderating effect of AST	.01	.026	.070	0.274	0.784
Moderating effect of HST	.144	.134	.071	2.042	0.042

The relationship between PF and CEBE show that PF is significantly and positively related to CEBE (Table 3). Findings from the moderating relationships indicate that HST do moderates the relationship between PF → CEBE, while the AST is insignificant (Table 3).

Findings and Discussion

Analysis of the path coefficient PF → CEBE showed that PF significantly and positively related to CEBE. A 100-points increase in the SD of perceived fit will bring about a 65.8-point increase in the SD of brand extension evaluation. From this path it can be argued that PF is a critical factor for CEBE. Meaning that if the similarity between PB and BE is highly related, consumers can perceive the fit among BE.

Furthermore, our analysis showed that the interaction of HST on the relationship between PF and BEE was found to be considerable ($\beta = 0.323$, $t = 4.503$, and a p value = 0.000). It can be claimed from this finding that BEE can be increased with holistic style of thinking. The interactive effect of analytic style of thinking surprisingly revealed that analytic style of thinking shows no improvements of BEE in Malaysian market.

The findings of this study indicate an outcome comparable to those from past descriptive, theoretical, and empirical studies (Aaker, 1990; Aaker & Keller, 1990; Keller & Aaker, 1992; Aaker & Keller, 1993; Monga & John, 2007; Buil et al., 2009; Chang, 2014; Rubio & Marrin, 2015). Since this study was conducted in the multi-cultural country of Malaysia, our finding support the belief about Eastern style of thinking, and the generalised conclusions of well-known studies conducted by Choi et al. (1999), Ji et al. (2000), Nisbett et al. (2001), and Monga and John (2007). The study found that favourable evaluation of brand extension by Malaysian consumers is strongly dependent on

similarities between the original brand and its extension. We also found that the evaluation of brand extension depends either directly or indirectly on style of thinking. The direct effect is in line with Norenzayan et al. (2002), John (2004), and Monga and John (2008). Holistic thinking moderates the strength of the association between PF → CEBE. This finding is in line with previous *fragmented literature* by Chang (2014) on perceived fit (categorical similar and benefit similar).

Therefore, the interactive role of HST on the association between PF and BEE is considerable, whereas the moderating role of AST on the association between PF and BEE is not as strong in the context of the Malaysian market.

Conclusion and Contributions

To examine the interactive role of SoT (holistic *vs* analytical) on the relationship between PF and BEE in the context of the Malaysian market this study analysed 141 valid responses by means of PLS-SEM with the application of SmartPLS3.2.4. We found that higher perception of similarities between the newly launched product and PB leads to a favourable evaluation of brand extensions in Malaysian context. Interestingly, the study also found that HST has an interactive effect on the PF → CEBE link. This effect was further supported by the f^2 effect size which was found to be medium. We also found the interactive role of AST on the relationship between PF → CEBE to be insignificant. This was also supported by the f^2 effect size, which was found to be low. Furthermore, R^2=53%, R^2 change value with the inclusion of interactive terms was also found to be considerable (21.3%). It was concluded that the model research has a good amount of predictive capability (Q^2 =above zero).

Findings of the present study also advance our understanding in the context of Malaysia concerning cultural differences in BEE. Prior studies (e.g., Bottomley & Holden, 2001) suggest that "consumers from different cultures emphasise different factors when evaluating brand extensions". The present study did not split the scale in order to separately measure holistic and analytical thinking behaviour, but used each scale for each style of thinking. This may be seen as a methodological contribution of the study. Our results found that the concept of perceived fit is important across cultures. To conclude, insights from this study expand our knowledge of MNCs as they extend their products from time to time.

Managerial Implications

This study have several implications i.e. theoretical and managerial. Firstly, in relation to theoretical implication, findings of the study have added to the body of knowledge and understanding of consumer behaviour in the context of Malaysia. Secondly, about managerial implications we found that analytical thinkers moderate the above-mentioned relationship. Therefore, a similar brand extension would be a good strategy for companies that market their offering globally.

Limitations and Opportunities for Future Research

In this study we only examines PF as a key determinant of BEE. Other factors, such as perceived risk, perceived difficulty, and innovation need to be investigated. A further limitation of this study is that it considers holistic versus analytical styles of thinking as the only interactive variables; styles of thinking other than these – such as abstract versus concrete – also need to be examined in future studies. In this study, we used the 6-point Likert scale for holistic and analytical thinkers, modified in the context of Malaysia. However, EFA was conducted for construct validity. According to Aaker (1991), perceived fit is a multidimensional construct.

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Appendix A: Survey Questionnaires

Overall evaluation of extension (adopted from E. Hem et al., 2001):

    a.   Overall, I am very positive to the bike extension by Nike:

       [(Totally disagree (1) to Totally Agree (6)]

    b.   What attitude do you have towards bike extension by Nike:

       [(Dislike (1) to Like (6)]

    c.   Overall evaluation of the potential extension relative to existing brands in the extension category:

       [(one of the worst (1) one of the best (6)].

Similarity between the original brand and extension (adopted from E. Hem et al., 2001):

    a.   Think of what you associate with Nike _____, how much overlap exists with extension bike?

    b.   Think about Nike _____, how similar is the user situation with extension bike?

    c.   Think about Nike _____, how similar is the competence for making the original brand and extension bike?

       Anchored by: *Not at all similar (1) to Highly similar (6).*

Style of thinking (Holistic):

    a.   Everything in the universe is somehow related to each other.

    b.   Nothing is un related.

    c.   The whole rather parts should be considered in order to understand the phenomenon.

    d.   The whole is greater than the sum of its parts.

Style of thinking (Analytic):

    a.   It is more important to pay the parts than the whole.

    b.   It is not possible to understand the whole picture without considering the parts.

    c.   It is important to pay attention to the details rather than the whole context.

    d.   Anchored by: *Never (1) to Very Often (6).*