

# 13<sup>th</sup> INSYMA

international annual  
symposium on  
management

## MARKET INTEGRATION IN ASEAN: SUSTAINABLE GROWTH AND CROSS - CULTURAL ISSUES

Ho Chi Minh City, Vietnam | 18<sup>th</sup> - 20<sup>th</sup> March 2016



Co  
Hosts:



VNU-HCM PRESS

ePROCEEDING

**The 13<sup>th</sup> UBAYA International Annual Symposium on Management**

**MARKET INTEGRATION IN ASEAN:  
SUSTAINABLE GROWTH AND  
CROSS CULTURAL ISSUES**

Ho Chi Minh City, Vietnam  
18<sup>th</sup>-20<sup>th</sup> March 2016

Department on Management  
Faculty of Business and Economics, University of Surabaya,  
Surabesia

University of Social Sciences and Humanities, Vietnam National  
University Ho Chi Minh City (USSH, VNU-HCM), Vietnam

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## **Proceeding**

### **The 13<sup>th</sup> UBAYA International Annual Symposium on Management**

#### **MARKET INTEGRATION IN ASEAN: SUSTAINABLE GROWTH AND CROSS CULTURAL ISSUES**

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##### Published by:

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**ISBN (Indonesia): 978-602-73852-0-7**

**ISBN (Vietnam): 978-604-73-4020-0**

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## FOREWORD

It is with deep satisfaction that I write this Foreword to the Proceedings of *THE 13<sup>TH</sup> INTERNATIONAL ANNUAL SYMPOSIUM ON MANAGEMENT (INSYMA)* held at University of Social Sciences and Humanities, Vietnam National University - Ho Chi Minh City, Vietnam, March 18 -20, 2016. The 13<sup>th</sup> Insyima aims to provide a forum for discussion among leading academics, researchers, students, and practitioners from all over the world, experts in economic and social sciences.

The theme for INSYMA 2016 is “**MARKET INTEGRATION IN ASEAN: SUSTAINABLE GROWTH AND CROSS CULTURAL ISSUES**”. This theme represent emerging and highly challenging and opportunities area of research and practice.

There has been tremendous number of researchers investigating the impact of market integration and cultural impacts on economy on several communities. Mainly they found a positive impact on the economic growth as a result on significant increasing of trading for products and services in its country member. Nevertheless, market distabilization is still main disadvantage of the regional integration. Regional community needed to developed the new model of market integration system that could minimize the disadvantages.

Hundreds of scientific papers are sent to the conference commitees in Indonesia and in Vietnam, and the results of a rigorous selection of 160 selected. This paper is derived from a variety of authors, both within and outside Indonesia and Vietnam, academics and practitioners. All the articles are then presented at the symposium and documented in this proceedings.

We thank all authors, participants, sponsors and co-hosts for their contributions and we hope that these proceedings can contribute to the development of science and business practices. Hopefully you can enjoy and gain valuable lessons from this article collection.

Ho Chi Minh, Vietnam, 18<sup>th</sup>-20<sup>th</sup> March 2016

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THE 13<sup>TH</sup> UBAYA INTERNATIONAL  
ANNUAL SYMPOSIUM  
ON MANAGEMENT

**VNU-HCM PRESS**

**MARKET INTEGRATION  
IN ASEAN: SUSTAINABLE GROWTH  
AND CROSS CULTURE ISSUES**

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Production Supervisor:  
*NGUYEN HOANG DUNG*

Editor-in- chief:  
*NGUYEN HOANG DUNG*

Editor:  
*VU THI HANH TRANG*

Revised by  
*AN NHIEN*

Cover Design:  
*University of Surabaya - Indonesia*

**Published in 2016**

© University of Surabaya,  
Surabaya, Indonesia and  
University of Social Sciences and Humanities  
- VNU-HCM,

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Print run 300 copies

Size 14.5 x 20.5 cm

Registered N<sup>o</sup>: DKKHXB No. 643-2016/CXBIPH/03-  
30/DHQGTPHCM

License of Publishing N<sup>o</sup>. 40/QD of VNUP-HCMC  
on March 11<sup>th</sup>, 2016.

Printed by Hung Phu Printing and Packaging Co. Ltd.

Add. 162A/1, Quarter 1A, AnPhu Ward,  
Thuan An District, Binh Duong Province, Vietnam

Copyright deposited in 1<sup>st</sup> Quarter of 2016

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# THE EFFECT OF COUNTRY OF ORIGIN IMAGE ON BRAND EQUITY THROUGH THE MEDIATION OF BRAND ASSOCIATIONS, BRAND LOYALTY AND BRAND AWARENESS ON LG AIR CONDITIONER (AC) IN SURABAYA

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## Abstract

*This study aims to know and analyze the effect of country of origin image on brand equity through the mediation of Brand associations, brand loyalty and brand awareness on LG Air Conditioners (AC) in Surabaya. The research was conducted on all kinds of LG Air Conditioners in Surabaya. This research using Structural Equation Modeling (SEM) with Lisrel 8.7 software. Data collected directly from respondents who meet the specified characteristics of the population by distributing questionnaires. The samples used in this study was 150 respondents. The result of this study showed the influence of brand association on brand equity, the influence of loyalty on brand equity, the influence of country of origin image on brand associations, country of origin image on brand loyalty, country of origin image on brand awareness, country of origin image on brand equity through the mediation of brand associations, country of origin image on brand equity through the mediation of brand loyalty, country of origin image on brand equity through the mediation of brand awareness, while the influence of brand awareness on brand equity and the influence of country of origin image directly on brand equity are rejected.*

**Key words** : Country Of Origin Image, Brand Associations, Brand Loyalty, Brand awareness, Brand equity

## INTRODUCTION

Today's lifestyle has trigger companies to be more innovative in order to develop their products. Companies are often faced with an issue on how to develop their products in terms quality with a strong brand positioning. Brand is crucially needed to differentiate their products with the competitor's. In the middle of these, a lot of brands have gone missing from the market due to management's lack of efforts; resulting in competitors taking over the initial idea and even giving additional value to the product. At the end, consumers choose the competitor's product.

Brand is a very important asset for every company —thus it needs to be managed well— because it has the important role such as fulfilling consumer's expectation when the company has promised something **Durianto (2001:1)**. Managing a brand is also to gain strong brand equity. In this globalization era, each company tries to provide a product that can fulfill the needs and the expectations of consumers. In Indonesia, technology is one of the most growing industry each year. In 2011, home appliance technology growth reach up to 28%. Companies such as Samsung, Panasonic, LG, Sharp, Sony, and others are competing one and another and each

company has a different country of origin. This fact has its own influence towards customers perception related to their intentions to purchase a product. **Bilkey dan Nes (1982) dalam Yasin, Noor dan Mohamad.**

South Korea in one of the example that Indonesia can look upon related to its technology industry. In 1950, South Korea was one of the poorest countries in Asia, but they managed to flip their situations and become one of the rich countries with the most developed technology. That development has also impacting their neighbors in Asia. Not only is that South Korea well known for their K-Pop music that is now worldwide, their electronic devices and products also spread worldwide. There are a lot of home appliance products that are used by Indonesians. (<http://areamagz.com/article/read/2012/11/26/industri-dan-teknologi-korea> )

In 2014, Gabungan Pengusaha Elektronik Indonesia stated optimistically that the market for air conditioner in Indonesia will increase 20%. Total sales of air conditioner nationally in 2013 reached 1.9 million units and 1.4 million in 2012. This shows that the market for air conditioner product increase each year. The numbers of air conditioners sold keep growing due to the fact that it is needed to cool down the room's temperature in countries with tropical climate. Few years ago, air conditioner was considered as luxury goods. Nowadays, when consumers need to buy one, they can come to the store, compare few products that are available, and decide to buy the one that they need. The consideration goes beyond just the price of the product and its capability to cool down the temperature, but also the quality of the product, the power it takes to run, and also health factor.

Few air conditioner brands that still survive nowadays are LG, Panasonic, and Sharp. These three brands are competing one to each other to innovate their product as an effort to improving/escalating the quality. One of their continuous efforts is by advertising their product through broadcasting stations. The ad contents their new products with different theme and issue approaches. With often being in the first rank and awarded, LG is the leading company that proves their products are better in terms of quality.

The Top Award Brand survey done by Frontier Consulting Group about the air conditioning category shows that the surviving brands from 2003 until 2012 are LG and Panasonic. Panasonic led from 2003 until 2007, and in 2008 LG started being on the first rank. This proves that LG has established their power in the market and now has become the market leader in air conditioning category. Innovations done by LG and other companies also influenced consumers to deciding which product to be bought. (<http://www.marketing.co.id/langkah-lg-menaklukkan-pasar-pendingin-udara/>)

## **THEORY AND CONCEPT**

### **BRAND EQUITY**

According to **Aaker (1991:15)** brand equity is a set of assets and liabilities linked to a brand that add to or subtract from the value of a product or service to a company and/or its customers.

Brand equity can be categorized in five: (1) Brand Awareness, (2) Brand Loyalty, (3) Perceived quality, (4) Brand Association as an additional towards perceived quality, (5) Other Proprietary Brand Assets such as patents, symbols or icon, distribution channel, et cetera **Aaker (1991:16)**. Although so, this research only uses three elements: brand associations, brand loyalty, and awareness.

### **BRAND ASSOCIATIONS**

**Aaker (1991:109)** stated that brand association is anything in memory to a brand and not only exist but has a level of strength. Brand associations can be measured through: product's dynamism, product's high technology, innovations on product, the level of sophistications, distinction with other products, the perfection of a product, prestige related to a product.

### **BRAND LOYALTY**



In his book, building strong brands, **Aaker (1996 : 21)** stated that in greater scale, brand equity is depending on the numbers of routine consumers. They are valuable for the company as they are the source of revenues. Thus, the concept of brand loyalty is an important component in brand equity.

According to **Aaker (1991:45-46)**, to measure consumers' loyalty we need to measure:

1. Behavior measures

A direct way to determine loyalty to a certain brand based on a pattern of actual purchasing. Several measurements can be used:

a. Repurchase rates

The percentage rate of customers bought the same brand under the same opportunity to buy the product.

b. Percent of repurchase

The percentage rate of customers for each brand was purchased from recent purchases.

c. Number of brands purchase

The percentage rate of customers from a specific product to buy either one particular brand, two or three different brands, or more.

2. Switching cost

This variable is indicating consumers' loyalty towards a certain brand. In general, if it is too costly for customers to switch to another brand, customers will not switch and thus the declining rate of customers is low from time to time.

3. Measuring satisfaction

The positive reaction that comes after customers experienced a product. This will prevent customers to use another brand.

4. Liking of the brand

A level of how much customers like several specific brands, depending on the brand associations. They are such as symbol, a series of experience, or the perceived quality of a brand.

5. Commitment

The pride felt by customers for finding a brand or become its consumers and thus recommending that brand to others.

### **BRAND AWARENESS**

According to **Aaker (1991:61)** brand awareness is the ability of a potential buyer to recognize or recall that a brand is a member of a certain product category.

The contribution of brand awareness upon brand equity depends on the context and in which level does the awareness attained. According to **Aaker (1991 : 62-63)** there are four levels of brand awareness: **(1) Top of mind** is the first brand that someone recalls for a certain product category; in simple terms is the brand leader among its competitors in someone's mind. **(2) Brand recall** is recalling a certain brand without the help of the brand name for a certain product category. **(3) Brand recognition** is the minimum level in the process of creating an awareness towards a brand, in which customer able to recall a brand with the help of the name, but the memory is not too strong. **(4) Unware of brand** is the opposite of top of mind in which customers never recall a brand in a certain product category.

This research uses the concept of brand awareness according to **Aaker (1991:61)**, and is measured by two ways: brand recognition and brand recall.

### **COUNTRY OF ORIGIN**

Each scholar defines country of origin differently. **Nagashima (1970) in Yasin, Noor and Mohamad (2007)** defined it as the image that consumers relate to country of origin that is given through picture or logo, reputation, stereotype that entrepreneur and consumer attach on a

product from particular country. This image was created from several variables such as representative product, national characteristic, economic and political background, history and traditions. (**Han and Terpstra, 1988 ; Parameswaran and Yaprak, 1987**) added the definition of country image as the consumers' general perception related to the product quality made in certain country.

In his journal, **Cordell (1992)** stated that country of origin is cue or extrinsic instruction of a product, a set of characteristics that are not tangible products that include brand products, prices and guarantees. All of these characteristics are associated with the characteristics of the product.

The research done by **Knight (1999)** explains that the purchasing preferences of consumers are more influenced by the country where the product is made rather than the manufacturing company country of origin. Country of origin image can be measured through: the country of origin is a country that is innovative in its manufacturing sector, the country of origin is a country that has a high level of technology advancement, the country of origin is a country known for its design, the country of origin is a country that is creative in producing goods, country of origin is a country that has a high quality standard in terms of producing goods, the country of origin has a prestigious image, a product originating from a country that has an image as a developed country.

### **THE RELATIONSHIP BETWEEN COUNTRY OF ORIGIN IMAGE AND BRAND EQUITY**

**Bilkey and Nes (1982) in Yasin, Noor and Mohammed (2007)** said that consumer perceptions of a particular country of origin affects the evaluation of the products from a country, it would affect the preferences, purchase intentions and choice to purchase a particular brand. This shows the implications for brand equity.

### **RESEACH METHODS**

This research uses a causal research type, in which this research aims to determine the effect of five different variables. Based on the technique used, this research uses a survey for collecting data by directly asking the respondents through questionnaires.

The scale of measurement used is a numerical scale in which respondents were asked to give an assessment upon a series of questions related to the object being studied that each of them is measured on a scale and the end of the question is closed by adjectives. The examples of numerical scale used is as follows: Disagree 1,2,3,4,5 Agree

The targeted population in this study is consumers who ever bought, used, know, understand the country of origin of LG air conditioner, able to compare LG air conditioner with air conditioner products of other brands from different countries of origin, and have been using the LG air conditioner is the past year. Characteristics of the population are men and women who live in Surabaya with a minimum education of high school or equivalent under the reason that by that minimum educational level, the respondents are able to comprehend and understand the questionnaire given.

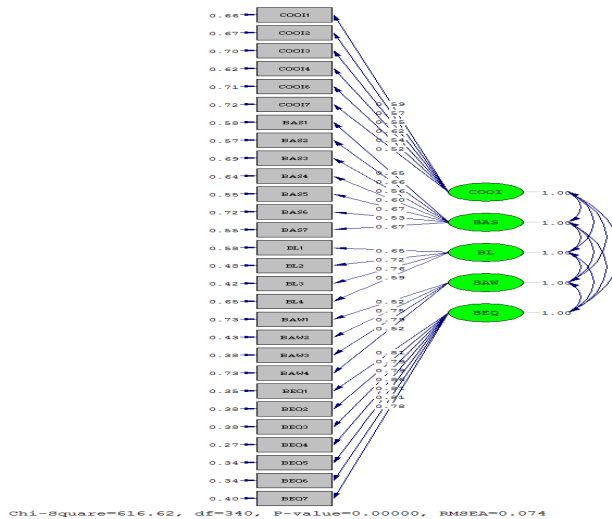
This study uses a non-probability sampling technique. This technique was chosen because researchers do not know the number of the entire population of consumers who buy and use the air conditioner product, so the probability of the sample to be chosen is not known. Thus, the sampling technique uses convenience sampling that will select members of the population who can provide information to the fullest or most easily found.

The data processing method in this research is Structural Equation Modelling (SEM) with Lisrel 8.7 software. Sample in this research is using the invention by Hair et al who set out that the appropriate sample size is 100-200 samples. Hair et al suggested that the minimum sample size is 5 observations for each parameters estimation or indicators. Thus, the number of samples used in this study is 30 indicators multiplied by five variables, namely the 150 respondents

**RESEARCH RESULT**

Based on data from the results of the questionnaire, the obtained information is that the variable country of origin image is well-perceived by respondents with the average values of 4.093, the average for the brand association variable is 3.783 which showed that respondents had a good response towards the association that LG created. The average for the brand loyalty variable is equal to 3.676 which means that the respondents will be more loyal to the LG, the average for the brand awareness variable is 4.24 which means that respondents feel or aware of LG, the average for the brand equity variable amounted to 3.474 which means that the respondents have a good response to the brand equity created by LG.

The result of Running Lisrel 1 shows that there are indicators with the Std Loading value smaller than 0.5, which are on COOI5 indicator with a value of 0.48 and BL5 with a value of 0.47. Data processing will be proceed with removing the COOI5 indicator and BL5. The following is the result of Running Lisrel 2.



**Figure 1**  
**Measurement Model Resulted from Running Lisrel 2**  
 Source: Lisrel 8.70

The result of Running Lisrel 2 shows that there are no indicators with Std Loading value smaller than 0.5, thus the data processing can be continued.

**Table 1**  
**Result of Compatibility Test of Measurement Model**

No.	Compatibility Test	Compatibility Criteria	Result	Description
1.	<i>Chi-Square Statistic</i>	Expected to be small, $p \geq 0,05$	616,62 P = 0,00000	<i>Not fit</i>
2.	GFI	$GFI \geq 0,9$	0,77	<i>Not fit</i>

3.	RMSEA	$RMSEA \leq 0,08$	0,074	<i>Good fit</i>
4.	AGFI	$AGFI \geq 0,9$	0,73	<i>Not fit</i>
5.	TLI/NNFI	$TLI \geq 0,9$	0,93	<i>Good fit</i>
6.	CFI	$CFI \geq 0,9$	0,93	<i>Good fit</i>
7.	CMIN/DF	$CMIN/DF \leq 2$	1,814	<i>Good fit</i>

**Table 2**  
**Calculations of Composite Reliability Result**

Variable	( $\sum$ std.loading)	( $\sum$ std.loading) <sup>2</sup>	$\sum$ error	<i>Composite reliability</i>
COOI	3,39	11,4921	4,08	0,73799
BAS	4,34	18,8356	4,3	0,81414
BL	2,72	7,3984	2,13	0,77646
BAW	2,58	6,6564	2,27	0,74569
BEQ	5,65	31,9225	2,46	0,92845

**Source: Result of Output Running Lisrel 8.70, processed**

The value of std. loading can be obtained directly from the output of Lisrel program, and the value of error is the measurement error for each indicator —this value is also obtained from the output of Lisrel program. Based on the test results, the composite reliability values on all variables were obtained and it is greater than 0.7, means all variables used are generally reliable.

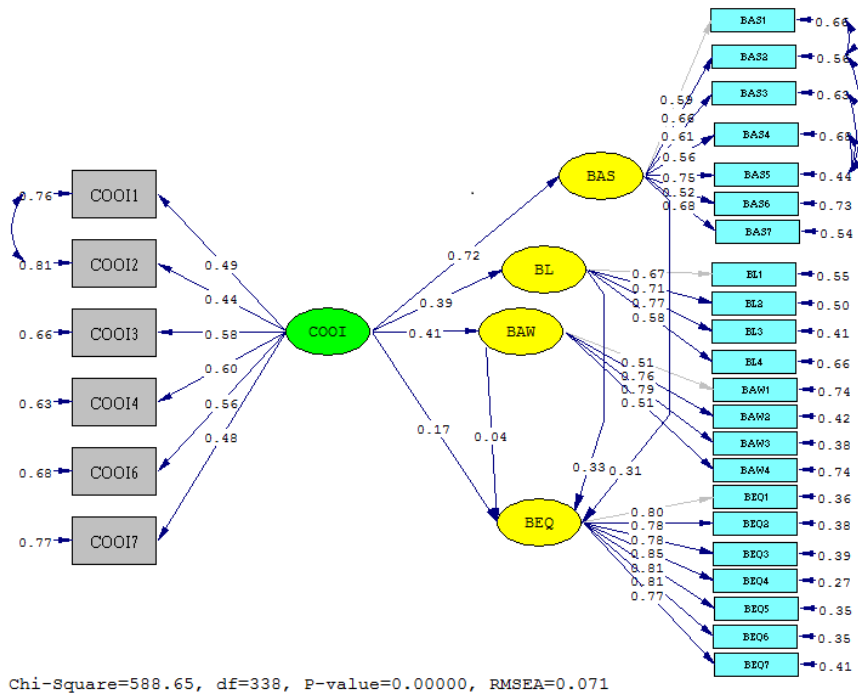
**Table 3**  
**Calculations of Variance Extracted Result**

VARIABLEL	( $\sum$ std.loading)	$\sum$ std.loading <sup>2</sup>	$\sum$ error	<i>Variance extracted</i>
COOI	3,39	1,9219	4,08	0,32022
BAS	4,34	2,7104	4,3	0,38663
BL	2,72	1,8666	2,13	0,46705
BAW	2,58	1,7274	2,27	0,43213
BEQ	5,65	1,5154	2,46	0,38119

**Source: Result of Output Running Lisrel 8.70, processed.**

Based on test results in Table 3, the value of variance extracted for country of origin image (COOI) variable is 0.32022, brand association (BAS) is 0.38663, brand loyalty (BL) is 0.46705, Brand awareness (BAW) is 0.43213 and brand equity (BEQ) is 0.38119. All five variables have a value of <0.5.

BL and BAW variables have a value  $\geq 0,4$ , so these two variables are accepted. This is consistent with researches done by Bagozzi and Yi (1988); Gerbing and Anderson (1988) in Verhoef et al. (2000). While the other three variables, namely COOI, BAS and BEQ have a value <0.5, which according to Hatcher in Longino (2007: 121) "The variance extracted estimate test is conservative, can reliabilities acceptable even if the variance extracted estimates are less than 0,50". The test of variance extracted is conservative; the reliability can be accepted even if the variance extracted value is less than 0.50.



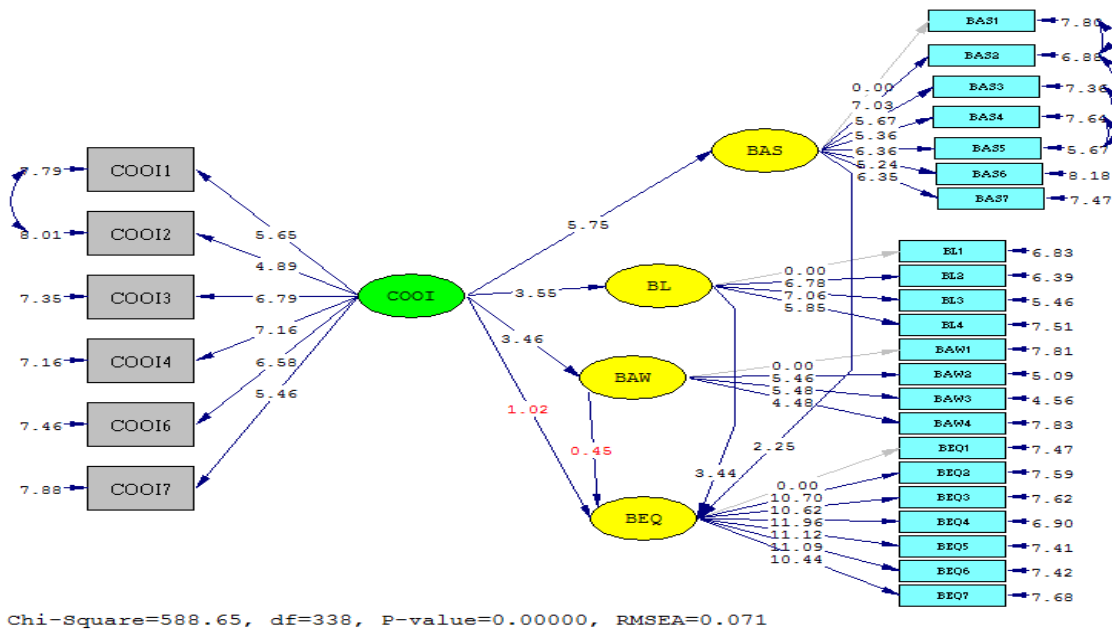
**Figure 2**  
**Structural Model After Modification**

Chi-Square is used to test the compatibility between models and samples; in which in this model the result is non-fit which means that the model is not suitable to the sample used in the reserach. RMSEA is used to determine the level of error when the model is estimated in the scale of population. The value of RMSEA is 0.071, which is  $\leq 0.08$ , thus it called good fit. This means the model’s level of error when being estimated in the scale of population is not too high. GFI is a non-statistical measure that has a value between 0 (poor fit) to 1 (perfect fit). The GFI value from the compatibility test result is 0.78. This value is below the boundary between  $AGFI \leq 0.9 \leq 0.82$ , so the result is not fit

**Table 4**  
**Model Structural’s Compatibility Test Results After the Modification of Model Index**

	Compatibility Test	Compatibility Criteria	Result	Description
1.	Chi-Square Statistic	Expected to be small, $p \geq 0,05$	588,65 P = 0,00000	Not fit
2.	GFI	$GFI \geq 0,9$	0,78	Not fit
3.	RMSEA	$RMSEA \leq 0,08$	0,071	Good fit
4.	AGFI	$AGFI \geq 0,9$	0,74	Not fit
5.	TLI/NNFI	$TLI \geq 0,9$	0,93	Good fit
6.	CFI	$CFI \geq 0,9$	0,94	Good fit
7.	CMIN/DF	$CMIN/DF \leq 2$	1,74	Good fit

Source: Result of Processing Lisrel 8.70, processed.



**Figure 3**  
**T-Value Structural Model**  
**Result of Processing Lisrel 8.70, processed.**

Hypothesis test is done by looking at the value of T (T-Value) for each coefficient. T value is significant if the t value  $\geq 1.96$ ; means that the hypothesis is acceptable, if the t value  $\leq 1.96$  means t value is not significant and the hypothesis is rejected. Hypothesis test can also be seen from the structural model T-Value; the red colored numbers means that is not significant or the hypothesis is rejected.

In Table 5, it can be seen that the hypothesis is proven are H1.a, H1.b, H2.a, H2.b, H2.c, H3.a, H3.b, and H3.c while the hypothesis is not proven are H1.c and H4.

**Table 5**  
**Evaluation of the Amount of Influence and the Relation with Research Hypothesis**

Hypothesis	Path	T-value	Estimates	Description
H1.a	BAS→BEQ	2,23	0,32	Significant (hypothesis is accepted)
H1.b	BL→BEQ	3,44	3,44	Significant (hypothesis is accepted)
H1.c	BAW→ BEQ	0,45	0,04	Not significant (hypothesis is rejected)
H2.a	COOI→ BAS	5,75	0,72	Significant (hypothesis is accepted)
H2.b	COOI→BL	3,55	0,39	Significant (hypothesis is accepted)
H2.c	COOI→BAW	4,36	0,41	Significant (hypothesis is accepted)
H3.a	COOI→ BAS→BEQ	-	0,22	Significant (hypothesis is accepted)
H3.b	COOI→BL→BEQ	-	0,13	Significant (hypothesis is accepted)
H3.c	COOI→BAW→BEQ	-	0,16	Significant (hypothesis is accepted)

H4	COOI → BEQ	1,2	0,17	Not significant (hypothesis is rejected)
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**Source: Result of Processing Lisrel 8.70, processed.**

The result of this research showed a significant effect of brand associations on brand equity. This means that LG air conditioner has a unique and different brand association, thus consumers are able to associate LG air conditioner according to the associations created by LG.

The result of this research showed a significant effect of brand loyalty on brand equity. This is due to the reason that consumers like associations of the brand created by LG, thus consumers develop brand loyalty towards LG air conditioner; further, consumers repeat the purchase of LG air conditioner and other LG products.

The result of this research does not show the effect of brand awareness on brand equity. This is probably because consumers could easily imagine LG's logo on their mind, but they don't give additional value for LG.

The result of this research showed a significant effect of country of origin image on brand association. This is because consumers associate South Korea with various good associations which eventually make South Korea has a good image, thus directs consumers to a better brand image of LG air conditioner, and at the end consumers are more interested with LG air conditioner.

The result of this research showed a significant effect of country of origin image on brand loyalty. As previously discussed, consumers are aware that South Korea is a developed country, thus consumers feel that LG that is originating from South Korea are more reliable than other brands produced in countries with the worse image. At the end, consumers prefer LG and loyal towards LG.

The result of this research showed a significant effect of country of origin on brand awareness. This is because consumers know LG air conditioner is originated from South Korea who has a country a good image, thus consumers seek out more information about LG air conditioner, and become more familiar with the LG air conditioner.

The result of this research showed a significant effect of country of origin image on brand equity through the mediation of brand awareness. This is because consumers associate South Korea as developed county, thus consumers associate the LG air conditioner with the associations in South Korea, resulting a good brand image that affects the improvement of brand associations and the value of brand equity of LG air conditioner would be higher.

The result of this research showed a significant effect of country of origin image on brand equity through the mediation of brand loyalty. This is due to the reason South Korea has a good brand image, thus consumers will like the LG air conditioner and develops loyalty towards LG; whereas the more loyal the consumers are, the higher it gets the value of LG brand equity.

The result of this research showed a significant effect of country of origin image on brand equity through the mediation of brand awareness. This is because consumers know that LG is originated from South Korea with a good country image, thus consumers recall about South Korea and LG, consumers put more value into LG will be aware of developments made by LG. The more consumers know about LG, The greater the value of LG brand equity would be.

The result of this research showed that country of origin does not affect brand equity directly. As seen in Figure 6, country of origin image only affect brand equity LG air conditioner through three existing mediation: brand associations, brand loyalty and brand awareness. When consumers are associating South Korea with a good country image, they are indirectly associating LG air conditioner according to the associations for South Korea, and when consumers know the associations of the brand, consumers develop a loyalty towards LG air conditioner, and ultimately they get to know more about LG air conditioner. The higher the value of three dimensions, the higher the value of LG air conditioner brand equity will get.

## CONCLUSION AND RECOMMENDATIONS

Although there are two hypotheses are not proven in this study, there are still other eight accepted hypothesis and proven models that describe the actual data in the filed through the goodness of fit test which showed that the level of conformity of the model to the data can be considered as good. Recommendations that are given based on the results of this research are addressed to the LG company. In addition, the recommendation is also addressed for further research based on the limitations of the research. This is the further explanation:

1. Recommendation for LG company
  - a. LG should introduce more to the consumers that South Korea as the country of origin of LG has other superiorities. LG can do an exhibition that shows demo for products, so that consumers have the product knowledge. LG can also emphasizes more the associations of the brand such as product dynamism, demonstrated by producing environmentally friendly air conditioner, so that the air coming out of the air conditioner will not contribute additional impact that is worsening the global warming.
  - b. LG can do promotions in the form of trade in or barter with additional prices to other product categories. Thus consumers would be more tied to the LG not just through one product, but several product categories.
2. Recommendations for future research
 

This research has limitations. Those limitations can be fixed in further research. These limitations are

  - a. This research was done only in Surabaya. Further research can be done in the other cities and the results can be compared with the results of further research,
  - b. Other objects can be used for the research, such as refrigerator and television or using the air conditioner with different brands and the result can be compared with the result from this research.

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