Causal and Effect of Perceived Risk in Brand Extension: A Case Study of Chinese Heritage Brand with Psychological Contract Violation as a Moderator

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Abstract

This study aims to investigate the influence of consumer-perceived risk on brand extension by considering the moderating role of psychological contract violation. Furthermore, the association between perceived risk, perceived fit and brand trust is examined. The study selected the Chinese heritage brand Wu Liang Ye as a case study and utilized a self-administered questionnaire for data collection. Data were collected from 605 residents of the brand's location employing a combination of purposive and random sampling methods. The hypothesized model was assessed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The findings show that perceived risk significantly affects brand extension success in heritage brands, and psychological contract violation (PCV) plays a significant moderating role in the relationship between perceived risk and brand extension success. This study offers new insights into managing heritage brands by highlighting the critical role of perceived risk and psychological contracts in brand extension success. It advances the literature by elucidating the complex interplay between consumer perceptions and brand extension strategies, providing a valuable framework for heritage brand managers to balance market expansion with brand equity preservation.

Keywords: brand extension; perceived risk; psychological contract violation; heritage brand

Introduction

In today's dynamic business landscape, the pivotal role of brands in forging corporate competitive edge and enlarging market share has become increasingly pronounced. A brand transcends being merely a product or service's name and symbol; it encompasses a holistic consumer perception of an enterprise's culture, values, and quality standards. Enterprises frequently adopt brand extension as a key strategic guide for new product development, aiming to uncover fresh growth avenues. Statistically, more than 70% of new market entries are facilitated through brand extension strategies (Nielsen, 2019; Peng et al., 2023a). However, the success rate of brand extension is not optimistic, with approximately 70–80% not reaching successful fruition (Marin et al., 2018; Vahdat et al., 2020). In the U.S., merely 30% of new packaged consumer goods developed through brand extension maintain sales in their first two years (Peng et al., 2023a). Furthermore, unsuitable brand extension strategies can weaken consumers' identification with the brand's flagship product, dilute its market influence, and lead to investment losses (Spiggle et al., 2012; Vahdat et al., 2020). Consequently, adopting a scientifically grounded and judicious brand extension strategy is crucial for promoting a brand's comprehensive market extension, enabling flexible adaptation to rapid changes, and securing sustainable business growth (Kim & Park, 2019).

Heritage brands, known for their long histories and cultural significance, hold a unique market position with deep consumer connections. In China, brands like Wu Liang Ye, Tong Ren Tang, and Wanglaoji represent both commercial entities and cultural heritage, successfully leveraging their historical and cultural resonance to maintain market strength (Zhao et al., 2022). However, balancing relevance with tradition during brand extensions presents a challenge, as consumer preferences shift toward authenticity and sustainability (Huang et al., 2021). Misaligned extensions risk brand dilution and consumer skepticism, especially amid digital transformation and e-commerce trends (Jiang et al., 2023).

Reducing consumer perceived risk is crucial for business success, particularly in brand extensions, but information asymmetry and potential psychological contract violations can impact consumer acceptance and perceived risk (Kazancoglu & Aydin, 2018; Srivastava & Sharma, 2011; Tan et al., 2022). From a relationship perspective, a brand can fundamentally be understood as a trust-based psychological contract between an enterprise and its consumers (Roehling, 1997; Wang et al., 2023). When consumers perceive a breach of this psychological contract, such as a decline in product quality or actions inconsistent with the brand image, their receptivity to brand extensions

diminishes, potentially leading to negative behavioral intentions (Montgomery et al., 2018; Santos et al., 2024). Despite this understanding, scant attention has been paid to the interplay between consumer psychological contract violations, perceived risks, and brand extension success in the existing literature.

Objectives

This study investigates the influence of consumer–perceived risk on the success of brand extensions, particularly focusing on the moderating role of psychological contract violation (PCV) in the context of heritage brands. The research explores how perceived risk affects brand extension success and examines the moderating impact of PCV on this relationship. It also delves into the interplay between perceived risk, perceived fit, and brand trust, providing valuable insights into brand extension strategies for heritage brands. Using the Chinese heritage brand Wu Liang Ye (WLY) as a case study, the study aims to enhance the understanding of factors affecting brand extension success in heritage brands, offering practical guidance for brand managers on developing effective strategies that balance tradition and innovation.

Scope of the research

This research examines the factors influencing brand extension success for heritage brands, with a particular focus on the Chinese heritage brand Wu Liang Ye. It investigates the relationships between perceived risk, brand trust, perceived fit, and brand extension success and explores how psychological contract violation moderates these relationships.

Literature Review

Consumers perceived risk

Perceived risk is a crucial concept in consumer decision–making, capturing the potential uncertainties and negative outcomes that individuals anticipate when considering a purchase (Hong, 2015; Jacoby & Kaplan, 1972; Yıldırım & Güler, 2022). This risk is inherently personal and varies based on how consumers perceive the likelihood and impact of potential problems (Slovic, 2016). Factors such as the perceived quality of the product, the financial cost, and the emotional impact all play roles in shaping this risk perception. Consumers often navigate these risks by adopting strategies

like gathering more information, comparing alternatives, or delaying their purchase until they feel more confident (Dowling, 1986; Featherman et al., 2021; Toubes, Araújo Vila & Fraiz Brea, 2021). Understanding perceived risk involves exploring its different facets, such as performance, financial, and psychological risks, each contributing uniquely to the overall sense of uncertainty consumers experience (Jacoby & Kaplan, 1972; Orly et al., 2022; Peter & Tarpey, 1975).

Heritage Brand and its extension

Heritage brands embody a unique blend of past, present, and future, offering enduring value rooted in their history and symbolic significance (Balmer & Chen, 2017). They face the challenge of balancing tradition with innovation in a rapidly changing market (Balmer & Chen, 2017). Many heritage brands, particularly in China, struggle with only 10% thriving and 30% showing good development (Alibaba, 2018; Li, 2017). Brand extension has become a strategic growth approach, leveraging existing brand recognition to reduce costs and risks (M.D. Aaker, 1990; Keller et al., 2011). However, success rates are low, and unsuccessful extensions can damage the parent brand (Martínez & Pina, 2010; Nielsen, 2019; Peng et at., 2023a). Brand extension success is evaluated through consumer attitudes, behavioral intentions, and willingness to pay price premiums (D.A. Aaker & Keller, 1990; Evangeline & Ragel, 2015; Hyun et al., 2019). Careful consideration is crucial when extending heritage brands.

Psychological Contract Violation

The psychological contract is an informal agreement based on implicit understanding and expectations between parties, involving unwritten responsibilities and obligations (Rousseau, 1995). While initially applied to employee–employer relationships, the concept has broadened to include consumer–brand relationships (Conway & Briner, 2002; Ma, 2020). In business, a brand embodies an implicit psychological contract, rooted in mutual trust between the enterprise and its consumers (Roehling, 1997; Wang et al., 2023). This contract encompasses consumers' expectations about brand behavior, commitments, and value propositions, shaping brand loyalty and trust (Deepa & Baral, 2021; Guo et al., 2017; Montgomery et al., 2018). For heritage brands, their historical significance and cultural features create a distinct personality, fostering a special emotional bond with consumers (Balmer & Chen, 2017; Rindell & Santos, 2021). These brands are expected to uphold their core values and quality; any perceived failure to do so may lead to negative consumer reactions, viewed as a psychological contract violation (Montgomery et al., 2018).

Perceived Fit

Perceived fit refers to the consumer's perception of the similarity between an extension product and its parent brand in functionality, image, and other key attributes. It plays a crucial role in influencing brand extension evaluations (D.A. Aaker & Keller, 1990). Moreover, perceived fit serves as a vital clue in understanding brand extension assessments and is a significant factor in shaping consumer attitudes toward brand extensions. The evaluation of brand extension fit often involves aspects such as product functionality, characteristics, usage scenarios, resource utilization, and target markets (D.A. Aaker & Keller, 1990; Bhat & Reddy, 2001; Q. Deng & Messinger, 2022; Martínez et al., 2009). Recently, Peng et al. (2023b) built upon previous research to suggest that consumers' perception of brand extension fit encompasses three dimensions: product features, usage occasions, and image of the parent brand and the extension.

Brand Trust

Brand trust is a multifaceted construct that plays a crucial role in consumer decision–making and brand loyalty. It includes trust in the quality of the brand's products—defined by attributes such as reliability, ability, and credibility—and trust in the brand's image, which is associated with perceptions of honesty, integrity, and benevolence (Kabadayi & Kocak Alan, 2012; Reast, 2005). Trust also stems from consumer satisfaction, which reflects the positive experiences and fulfillment consumers derive from their interactions with the brand. (Rudzewicz & Strychalska–Rudzewicz, 2021). In uncertain situations, brand trust becomes crucial in alleviating consumer anxiety and doubt (Delgado–Ballester, 2004; Halwani & Cherry, 2023). This multi–dimensional approach highlights that sustaining brand trust requires a strategic focus on delivering high–quality products, fostering a strong brand image, and ensuring high levels of customer satisfaction, which together contribute to enhanced brand loyalty and equity.

Based on these concepts, the study proposes four hypotheses:

Hypothesis 1: Brand trust has a significant impact on perceived risk. This is based on the understanding that trust is a heuristic individuals rely on to evaluate danger and assess risks (Slovic, 1993). In situations involving multiple risk factors, trust often determines the evaluation of potential benefits and risks (Siegrist, 2021).

Hypothesis 2: Perceived fit has a significant impact on perceived risk. Brand extension fit influences how consumers classify new products using existing knowledge of the parent brand (Peng

et al., 2023b). High fit prompts consumers to associate new products with the parent brand, enhancing acceptability and transferring positive associations (M.D. Aaker, 1990; Loken et al., 2023).

Hypothesis 3: Perceived risk has a significant impact on brand extensions success. The theory of perceived risk posits that consumers' uncertainties about new products can markedly influence their purchase intent (Mitchell, 1999). In brand extension, consumer evaluation is influenced by their attitudes and behavioral intentions towards the extension (Peng et al., 2023a; Sichtmann & Diamantopoulos, 2013).

Hypothesis 4: Psychological contract violation mediates the relationship between perceived risk and brand extension success. When consumers experience a psychological contract violation, they're more likely to view brand extensions with heightened skepticism, increasing awareness of risks associated with extension products (X. Deng & Long, 2020; Malhotra et al., 2017; Zhao et al., 2007).

Research Methodology

Research Design

This study adopts a descriptive and explanatory research design. The descriptive aspect aims to provide a detailed account of the perceptions and attitudes of consumers towards the brand extension of WLY, a renowned heritage brand in China (D.A. Aaker & Keller, 1990; Keller et al., 2011; Völckner & Sattler, 2007). The explanatory component seeks to explore the relationships between perceived risk, psychological contract violation, perceived fit, brand trust, and brand extension success. This design is chosen because it allows for both an in-depth understanding of consumer behavior and the identification of causal relationships between key variables.

Sampling Technique

The study utilizes a mixed sampling technique, combining purposive and random sampling methods. Purposive sampling was used to target permanent residents of Sichuan province, where the WLY brand originates, ensuring familiarity with the brand. To achieve a representative sample, random sampling was applied within this population. A final sample size of 605 participants was determined through power analysis and practical considerations, providing adequate statistical power to detect significant relationships in the data.

Data Collection Instruments

In this study, all items were answered based on a 5-point Likert scale (1=least disagree to 5=most agree). The study utilized 16 items to measure perceived risk, including performance risk, psychological risk, financial risk, and social risk, adapted from Stone and Gronhaug (1993), Kim et al. (2005) and Hanjun et al. (2004). Brand extension success was assessed with 12 items evaluating attitudes, behavioral intentions, and acceptance of price premiums, adapted from Chiu et al. (2017), Dwivedi et al. (2018) and Van Weelden et al. (2016). Psychological contract violation was measured using 4 items, with scales from Robinson and Wolfe Morrison (2000), Gong and Wang (2022). Higher scores reflect stronger feelings of psychological contract violation. Brand trust was evaluated with 12 items covering trust in product quality, brand image, and customer satisfaction, adapted from Başer et al., (2015); Rudzewicz and Strychalska-Rudzewicz (2021) and Dam and Dam (2021). Perceived fit was measured with 12 items assessing usage fit, feature fit, and image fit, based on Martin (2005) and Salinas and Pérez (2009). Higher scores indicate a stronger perceived fit between the extension and the parent brand.

Data Analysis Techniques

Figure 1 is the research model, which describes the relationships mentioned in the hypotheses. This study employed Partial Least Square (PLS) path modeling to examine the research framework and test the hypotheses. Compared to covariance-based modeling approaches, PLS uses a component-based technique, which is more adept at handling the relationships between constructs in complex models (Sarstedt et al., 2016). Due to the inclusion of multiple second-order constructs and moderating variables in this study, PLS-SEM was deemed more appropriate. Following the recommendation by Anderson and Gerbing (1988), a two-step approach (namely, measurement model and structural model) was employed for data analysis (Foroughi et al., 2019; Hanafiah, 2020).

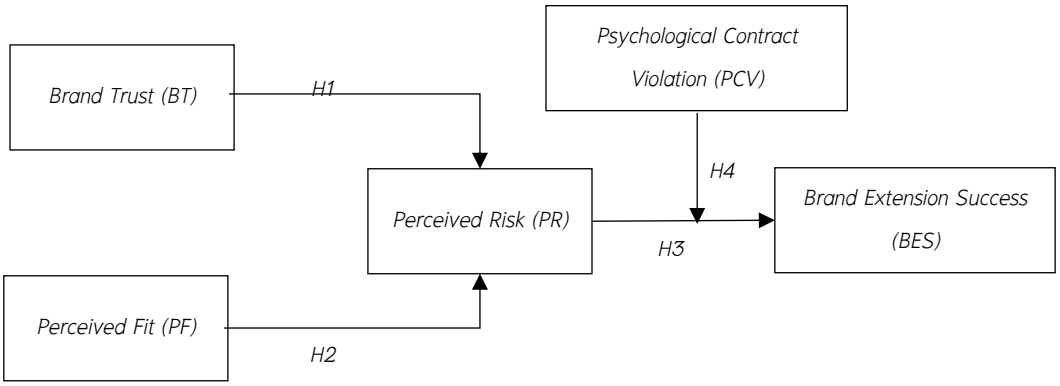


Fig. 1 Proposed research model

Results

Measurement Model

During the examination of the measurement model, we rigorously evaluated both convergent and discriminant validity. Convergent validity was assessed through the analysis of indicator outer loadings, composite reliability (CR), and average variance extracted (AVE), The values for item loadings, AVE, and CR should be higher than 0.7, 0.5, and 0.7, respectively (Hair et al., 2014). In this research, perceived risk, brand extension success, brand trust, and perceived fit were conceptualized as second–order constructs. A two–stage approach was adopted for the construction of these constructs. As Table 1 shows, Cronbach's alpha values were also checked to ensure reliability. The overall values of Cronbach's alpha range from 0.744 to 0.885, which is higher than the threshold value. Furthermore, all item loadings are well above 0.7. Additionally, the CR values for all second–order constructs, as well as for psychological contract violation as a first–order construct surpassed the recommended threshold of 0.7. The AVE values associated with the respective constructs also exceeded the critical value of 0.5, thereby validating the study's reliability and convergent validity (Hair et al., 2014).

Table 1 Convergent validity and reliability.

First-order Construct		Factor Loading	Alpha	CR	AVE
Psychological Contract Violation		0.847–0.876	0.885	0.920	0.743
Second-order construct					
Perceived Risk	Performance Risk Psychological Risk Financial Risk Social Risk	0.728–0.821	0.763	0.854	0.584
Brand Extension Success	Attitudes toward Extension Product Behavioral Intention Acceptance of Price Premiums	0.771–0.846	0.749	0.856	0.665
Brand Trust	Quality Trust Image Trust Customer Satisfaction	0.782–0.835	0.747	0.855	0.663
Perceived Fit	Usage Fit Feature Fit Image Fit	0.810–0.815	0.744	0.848	0.661

To assess discriminant validity, the current study utilized the heterotrait–monotrait ratio of correlations (HTMT) (Henseler et al., 2015). The HTMT ratio, when approaching 1, indicates a lack of discriminant validity in path analysis (Henseler et al., 2016). The results of this study, as detailed in Table 2, revealed that the HTMT ratio values were less than 0.85. Accordingly, the findings substantiate the discriminant validity across all evaluated constructs, confirming the absence of validity concerns (Kline, 2023). Additionally, the assessment of discriminant validity was conducted by comparing the correlation coefficients between constructs with the square roots of their respective average variance extracted (AVE) values (Fornell & Larcker, 1981). As Table 3 shows, the results indicate that discriminant validity is not a problem because the diagonal values (square root of AVE) are higher than the inter-construct correlation coefficients (Henseler et al., 2016), implying discriminant validity is acceptable.

Table 2 Hetrotrait–Monotrait (HTMT) ratios.

Variables	BES	BT	PF	PR	PCV	PCV * PR
BES						
BT	0.562					
PF	0.541	0.570				
PR	0.477	0.489	0.494			
PCV	0.442	0.461	0.444	0.408		
PCV*PR	0.405	0.316	0.301	0.052	0.148	

Notes: PR = perceived risk; BES = brand extension success; BT = brand trust; PF = perceived fit; PCV = psychological contract violation.

Table 3 Fornell–Lacker criterion discriminant validity.

Variables	BES	BT	PF	PR	PCV
BES	**0.816**				
BT	0.420	**0.814**			
PF	0.420	0.423	**0.813**		
PR	–0.365	–0.374	–0.378	**0.764**	
PCV	–0.365	–0.374	–0.362	0.340	**0.862**

Note: The bolded values the square root of the average variance extracted (AVE) from each construct.

Structural Model

To assess the structural model, this study utilized Partial Least Squares Structural Equation Modeling (PLS–SEM) and applied non–parametric bootstrapping with 5000 replications (Hair et al., 2014). The proportion of variance explained was used to gauge the predictive accuracy of the research model. In this study, the R^2 values for perceived risk and brand extension success were found to be 0.199 and 0.291, respectively. Furthermore, this study acquires Q^2 values through the blindfolding technique, and a Q^2 value above zero suggests the predictive relevance of exogenous constructs on the endogenous construct (Chin, 2010). Thereby confirming the predictive relevance of the endogenous constructs in this research. The VIF metrics revealed no signs of collinearity present in the structural model (Table 4) (Hair et al., 2014).

Table 4. Collinearity diagnostics of the structural model.

Constructs	VIF
BT –> PR	1.218
PF –> PR	1.218
PR –> BES	1.131
PCV –> BES	1.15
PCV* PR –> BES	1.02

A summarized overview of the structural model's results from the PLS–SEM is depicted in Table 5. The analysis results support all four of the proposed hypotheses.

Table 5. Structural model of path analysis.

Hypothesis	Relationship	β	S.D.	t–value	p–value	Decision
H1	BT⟶PR	–0.260	0.041	6.318	0.000	Supported
H2	PF⟶PR	–0.268	0.041	6.464	0.000	Supported
H3	PR⟶BES	–0.272	0.040	6.727	0.000	Supported
H4	PR*PCV⟶BES	–0.336	0.037	9.122	0.000	Supported

The results show that perceived risk significantly affects brand extension success (β = – 0.272; p–value $<$ 0.001), with lower perceived risk leading to more favorable attitudes, increased purchase willingness, and acceptance of higher prices. This finding aligns with previous research on perceived risk and consumer behavior (Barriskell, 2023; Toubes et al., 2021). Perceived fit significantly influences perceived risk (β = – 0.268; p–value $<$ 0.001), supporting that higher perceived fit reduces perceived risk, consistent with prior studies (Chung & Welty Peachey, 2022; Keller & Aaker, 1992; Loken et al., 2023). Brand trust significantly reduces perceived risk (β = – 0.260; p–value $<$ 0.001), aligning with previous research (Elena & Jose, 2001). Psychological contract violation significantly moderates the relationship between perceived risk and brand extension success (β = –0.336; p–value $<$ 0.001). Lower levels of psychological contract violation mitigate the negative impact of perceived risk on extension success, supporting the notion that contract violations can negatively influence consumer attitudes and behaviors (Malhotra et al., 2017; Montgomery et al., 2018). Heritage brands must carefully balance cultural inheritance with market expansion to avoid psychological contract violations (Balmer & Chen, 2015; Hede & Watne, 2013;

Ke & Wang, 2021).

Conclusion

This study examines the impact of perceived risks on the success of brand extensions in heritage brands, focusing on attitudes towards the extension, behavioral intentions, and acceptance of price premiums, with psychological contract violation as a moderating factor. It also explores how consumers' brand trust and perceived fit—usage, feature, and image fit—affect perceived risks related to heritage brand extension products. Utilizing a quantitative approach, data were collected via self-administered questionnaires among residents near the WLY heritage brand's location and analyzed using PLS-SEM. Findings reveal that perceived risk negatively affects brand extension success, and psychological contract violation intensifies this effect. The study further shows that higher brand trust and perceived fit reduce perceived risk, leading to more favorable attitudes, greater purchase intentions, and higher acceptance of price premiums. Lower psychological contract violations also correlate with more positive evaluations of brand extensions.

Suggestion

From a theoretical perspective, this study introduces the concept of psychological contract into brand extension research, linking psychological contract violations with perceived risk and brand extension success. This approach fosters an interdisciplinary application of psychological contract theory within marketing and brand management, providing a novel viewpoint for developing brand extension strategies. The study also explores heritage brand extensions through the lens of perceived risk, enhancing understanding of consumer perceptions in this context and expanding existing literature. It confirms the significant roles of perceived fit and brand trust in shaping perceived risk, emphasizing the importance of these constructs in guiding brand extension strategies and reducing consumer risk.

From a practical perspective, the study highlights the importance of perceived fit and brand trust in reducing perceived risk during brand extensions. Perceived fit, involving brand image, product features, and usage scenarios, is crucial for aligning traditional brands with target market expectations and consumer needs. The findings suggest that while strong associations with specific product categories may limit cross-category extensions, consumer trust (Kladou et al., 2020; Rindell

& Santos, 2021) can enable successful brand extensions. Building brand trust involves focusing on quality, image, and consumer satisfaction. Additionally, heritage brands must manage their traditions and values carefully to avoid psychological contract violations, which can harm brand extension success (Montgomery et al., 2018). Maintaining strong emotional ties with consumers helps mitigate perceived risk and supports long–term brand growth.

The study has several limitations that should be considered in future research. Firstly, it focuses on a single brand case, providing detailed insights but limiting the generalizability of the findings. Future research should examine multiple brands across different industries to enhance generalizability. Secondly, while the study explores the impact of psychological behaviors on perceived risk and brand extension evaluation, it does not account for other factors such as consumer innovativeness and product involvement, which could moderate perceived risk. Future studies could include these variables for a more comprehensive understanding. Lastly, the concept of psychological contract violation, though relevant, is under–researched in the context of brand extensions. Future research should investigate its causes and impacts more deeply to offer better guidance for brand managers during extension strategies.

New knowledge

This study provides ten significant contributions to brand extension and heritage brand management. It highlights that psychological contract violation (PCV) crucially moderates the relationship between perceived risk and brand extension success, offering new strategic insights. The research underscores the importance of brand trust and perceived fit in reducing perceived risk, emphasizing their role in successful brand extensions. Additionally, it reveals that perceived risk significantly affects brand extension success, stressing the need for effective risk management. By integrating psychological contract theory into brand extension research, this study introduces a novel theoretical perspective. It also identifies the challenges heritage brands face in balancing tradition with innovation and explores how consumer trust is grounded in product quality, brand image, and customer satisfaction. The study points out that the high failure rate of brand extensions—70–80%—serves as a cautionary note for brand managers. It offers a comprehensive framework for assessing perceived fit, including dimensions such as product features, usage occasions, and image congruence. Empirical evidence from Wu Liang Ye, a Chinese heritage brand, enriches the cultural perspective

of brand extension research. Finally, the use of Partial Least Squares Structural Equation Modeling (PLS–SEM) effectively handles complex relationships among multiple constructs, providing a methodological reference for future studies.

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