Negative Spillover Effects in Co-branding Service Failures: The Role of Self and Other Referencing

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Abstract

An unresolved problem of increasing importance is how consumers react to a service failure in co-branding. I argue that existing findings regarding co-branded products cannot be fully transferred to the research with respect to co-branded services. Thus, this research bridges this gap by addressing the influence of a co-branding service failure on consumer attribution processes. Specifically, I examine the moderating impact of consumers’ self- or other-referencing mindset, on their reaction to a failure in the dual-branding context. The expectancy-value model is adapted to prove two research propositions: consumers’ negative spillover effect caused by the failure may be amplified on the brand they are loyal to in the self-referencing case; in contrast, the effect may be buffered in the other-referencing scenario. This research advances existing findings by presenting that the buffered negative spillover effect on one brand leads to a free-rider effect of forgiving on the other one. This transfer of customer empathy shows the nature of affect-transfer in the context of co-branded services. Overall, this article is the first to present that customer empathy, among others, is also an effective way for improving the customer-provider relationship in co-branding. Managerial implications are provided from the results.

Key Words: Co-branding, Service Failure, Spillover Effect, Self-Referencing, Other-Referencing

1.0 Introduction

Co-branding, a marketing partnership in which two brands are presented together, is gaining importance among practitioners (Lanseng & Olsen, 2012). Recently, an uptick in the use of co-branded services has been observed. For example, marketplace co-branded services include, among others, concert series featuring two popular singers, retail store co-branding (e.g., Barnes & Noble and Starbucks), hotel chain partnerships featuring in-store restaurants (e.g., Hilton Hotels with Benihana Restaurants), and the dual-branding alliance (Levin, 2002), where two partnering brands operate in the same facility (e.g., the fast-food restaurant of Kentucky Fried Chicken (KFC) and A&W). To achieve and maintain high-level customer satisfaction, co-branded service providers should strive to prevent negative events (e.g., service failures). However, to the best of my knowledge, only a few co-branding studies investigate consumers’ response to a negative co-branding event. That is, the impacts of service failures on consumer evaluation in co-branding alliances have been largely overlooked (Keiningham, Aksoy, Tor Wallin, Cooil, & Wahren, 2006).

Most studies examine only consumer evaluations under co-branded product failures (e.g., Radighieri, Mariadoss, Grégoire, & Johnson, 2014). I argue that current findings regarding tangible co-branded products cannot be fully transferred to the research with respect to the intangible co-branded services. For example, a major consideration is the degree of integration (Newmeyer, Venkatesh, & Chatterjee, 2014).
That is, customers may have difficulties to in identifying the locus of performance in high-level of integration scenario of the co-branded product (e.g., Slim-Fast cakemix by Godiva). However, service alliances (e.g., Barnes & Noble stores with Starbucks Coffee) are often the low-level of integration scenarios, and thus customers are much easier to attribute the performance to each of the partners.

Hence, the current research addresses this overlooked issue. In particular, I bridge this gap by examining the influence of a co-branding service failure on consumer attribution processes, in which consumers identify where the blame lies. In fact, the research topic of consumer attribution processes has received a lot of attention in recent years in the field of strategic alliances (e.g., Bourdeau, Cronin, & Voorhees, 2007; Weber & Sparks, 2010; Li & Murphy, 2013; Newmeyer et al., 2014). I argue that, except the traditional factors that can affect consumer attribution process (e.g. relationship quality; Grégoire & Fisher, 2006), there is another important factor relevant to the “self” concept (cf. Martin, Veer, & Pervan, 2007; Mazodier & Merunka, 2012; Soneji, Riedel, & Martin, 2014), namely, consumers’ self- or other-referencing mode of thought, in service failure contexts (cf. Peterman, Roehm, & Haugtvedt, 1999; Wan, Hui, & Wyer Jr., 2011). This research answers a crucial question: if a service failure occurs in a dual-branding alliance, will consumers’ self- or other-referencing perspective affect the magnitude of the Negative Spillover Effect (NSE) (cf. Schumann, Wünderlich, & Evanschitzky, 2014) on the partnering brand(s)? That is, consider the following case: If a waiter at a KFC-A&W restaurant is rude while serving customers, will consumers’ self- or other-referencing mindset influence the magnitude of the NSE on KFC and A&W?

The current paper presents a new finding in the research field of co-branding services. That is, by following Newmeyer et al. (2014)’s focus on the consumer attribution processes to determine consumers’ possible blame behaviors, I am the first to assert that consumers’ self- and other-referencing mode of thoughts can affect the magnitude of their attribution to each brand partner (e.g., KFC and A&W) in the context of co-branding service failures; specifically, I argue that, the buffered NSE on one brand (e.g., A&W), derived from the loyal customers’ other-referencing mindset, leads to a free-rider effect of forgiving on the other one (e.g., KFC) in a dual-branding setting. Besides, this free-rider phenomenon is somewhat similar to the nature of affect-transfer of attribute beliefs from one partner to the other (Hillyer & Tikoo, 1995). Overall, this article is the first to show that customer empathy, among others (e.g., employee empathy; Keiningham et al., 2006) is also a crucial factor of consumer attribution process, and is an effective way for improving the customer-provider relationship in the scenario of co-branding services (cf. Wan et al., 2011).

The remainder of this article is organized as follows. Section 2 reviews the relevant literature on co-branded services, service failures, and the application of self-referencing in the marketing field. Section 3 presents two research propositions on the influences of self- and other-referencing. Section 4 details the analytical model and proofs of the two propositions. Finally, Section 5 contains the conclusion, contributions, and limitations.

2.0 Literature Review
2.1 Co-branded Service and Service Failure
To the best of my knowledge, the topic of co-branded service was first discussed by Hurwitz (1995). Levin and Levin (2000) used the term “dual branding” to describe an arrangement in which two partners (e.g., KFC and A&W) share the same location to provide a food service and the same kitchen to prepare food for customers who order food from both restaurants at the same counter. The authors found that, in that case, due to the assimilation effect, consumers of this type of co-branded service tend to expect a similar level of service quality from both brands. From a strategic viewpoint, Venkatesh, Mahajan, and Muller (2000) and Rahman and Areni (2009) explored the antecedent conditions of a successful co-
branded service. Utilizing attribution theories, Newmeyer et al. (2014) analyzed the partner selection decision in the co-branded service context.

However, to my understanding, only a few studies on co-branding service failure have been published in the marketing field. For example, Keinningham et al. (2006) examined customer satisfaction and retention in a call-center context, and found that call center staff’s empathy for the client can mitigate the impacts of a failure on the primary brand (e.g., KFC in KFC-A&W). Weber and Sparks (2010) explored consumer evaluations before and after a service failure in an airline brand alliance setting, and found that, under a co-branding service failure, if the airline responsible for the service failure employed a good service recovery strategy, consumer satisfaction ratings after the failure increased and their positive feelings were transferred from the company responsible for the service failure to its brand partner. In short, researchers have essentially overlooked a potential risk in the co-branding service context: the influence of service failures on consumer evaluations of the partnering brands.

In fact, the term “service failure” is an important topic in the service marketing field. A service failure can cause consumers’ NSE to the service provider (Schumann et al., 2014). Among service failure studies, one research stream has found that the level of psychological connection that a customer has with a service provider may moderate the magnitude of NSE to the service provider in the event of a service failure, but other studies have presented mixed findings (Cowart, Ramirez, & Brady, 2014). For example, Bolton (1998) argued that a consumer’s strong relationship with a service provider formed by a high level of customer satisfaction may amplify the consumer’s NSE (i.e., an amplifying effect). Mattila (2004) reported that a customer’s high level of commitment to a service provider may mitigate the magnitude of NSE (i.e., a buffering effect) if a service failure occurs. Grégoire and Fisher (2006) found that the buffering effect exists if consumers attribute a failure to a cause beyond the service provider’s control — the “love-is-blind” effect. Wan et al. (2011) was the first study to consider a consumer characteristic relevant to the “self” concept, namely self- and other-referencing, and concluded that the NSE could be moderated by the two different modes of thought.

To my knowledge, the co-branding literature appears to view the NSE similar to that of service marketing literature. In the co-branding field, the NSE is defined as the negative influence of the co-brand on the post-exposure evaluations of its partnering brands (Simonin & Ruth, 1998). Co-branding researchers have often investigated the NSE on two levels: the attitude and the attribute-belief level (hereafter the “belief level”). While numerous studies have focused on the NSE on the attitude level (e.g., Simonin & Ruth, 1998; Washburn, Till, & Priluck, 2000), very few have focused on the NSE on the belief level (e.g., Park, Jun, & Shocker, 1996). However, all published studies of the NSE on the belief level have reported the same findings — customers’ beliefs about a partnering brand may affect their beliefs about the other partner (i.e., affect-transfer effect) (e.g., Hillyer & Tikoo, 1995; Lee, 2014).

2.2 Self-referencing and Other-referencing

This study explores the moderating impact of a key consumer characteristic — self- and other-referencing — on the magnitude of NSE in the co-branding field. The term “self-referencing” refers to a cognitive information-processing mechanism that individuals use to process incoming information by relating it to relevant personal events, experiences and feelings stored in their memories (Turco, 1996; Escalas, 2007). Self-referencing is a key concept in cognitive psychology and marketing research (e.g., Bower & Gilligan, 1979; Hung & Wyer, 2009). Psychologists have found that self-referencing helps to enhance learning, information recall (Klein & Loftus, 1988), and persuasion (e.g., Turco, 1996). Marketing researchers have reported that self-referencing has a positive influence on the design of product features and advertising messages (e.g., Escalas, 2007). Because self-referencing can be operationally motivated by giving subjects tasks that prompt them to relate information to themselves and their personal experiences, marketing researchers have used this tactic to investigate the impact of self-referencing on
consumer reactions to specific events (e.g., Wan et al., 2011). Self-referencing can influence an individual’s attribution process and attitudinal judgements in encoding and retrieving stimulus information (e.g., Debevec, Spotts, & Kernan, 1987). For instance, in the web-advertising context, Peterman et al. (1999) reported that consumer attitudes towards online advertising can be negatively moderated by respondents’ memory of Internet interruptions and failures. Wan et al. (2011) investigated whether a friendly relationship between the customer and service provider may influence the magnitude of NSE to the service provider following service failures. The authors found that customers with self-referencing mode of thought (i.e., a tendency to focus on their own needs) react more negatively (i.e., amplifying effect) to a service failure; in contrast, the severity level of the failure is perceived to be lower when customers understand the situation (e.g., the service failure) from the service provider’s viewpoint. This mindset, which results in empathy, is considered the other-referencing mode of thought. Building on the strength of Peterman et al. (1999) and Wan et al. (2011), this research applies the concepts of self- and other-referencing to the co-branding field, an unexplored research stream.

3.0 Propositions

Two propositions are offered with a case of a dual-branding alliance between two firms in the same industry segment, fast-food restaurants (e.g., KFC-A&W). Both brands share the same kitchen to prepare food, and the customers order both brands’ food and pay for it at the same counter (Levin & Levin, 2000). Assuming further that the restaurant staff is a mixture of employees from each brand partner, and that customers cannot distinguish which brand the wait staff is from and that the number of wait staff from each brand is equal. In this case, assuming all other things are equal, I argue that normally both brands’ customers may attribute a service failure — rude behavior of a wait staff — equally to both brand partner. Additionally, the two brands are well-known for their excellent performance of two service-related attributes — A&W is perceived to excel in “customer courtesy” and KFC is perceived to excel in “fast service”. Let us suppose that a specific service failure relevant to the two service-related attributes occurs in one of the co-branded KFC-A&W restaurants — “rude behavior” of a KFC-A&W waiter, and that this failure is inconsistent with consumers’ beliefs about A&W’s perceived “courtesy” attribute.

Following Wan et al. (2011)’s finding, I argue that if a failure occurs under the co-branded KFC-A&W restaurant, a loyal customer of one brand partner may become more upset with that brand if the customer focuses only on her/his personal unmet needs when encountering the service failure (cf. Wan et al., 2011). Due to the need of parsimony of this mathematical model, I assume that the loyal customers of one brand have an established communal relationship with that brand. Proposition 1 is stated as the following:

Proposition 1: The Amplifying Effect

When a failure occurs within a co-branded service, consumers’ self-referencing mode of thought (relating the service failure to their personal unmet needs) may amplify the NSE to the brand to which they are loyal.

Prop. 1 is relevant to self-referencing, and, intuitively, this amplifying effect can be explained by “the higher the brand is (in terms of customer loyalty), the harder the brand falls” effect (Grégoire & Fisher, 2008). Furthermore, I argue that, this magnified effect of one brand (KFC) in the dual-branding alliance may lead not only to an unfavorable association of that brand, but also to a magnified negative perception of its partner (A&W) (e.g., Levin, 2002). Eventually, both brands may jointly suffer amplified damage due to the poor wait service. This example illustrates the negative “affect-transfer” effect (e.g., Levin, Davis, & Levin, 1996).

In contrast to Prop. 1, Prop. 2 relates to other-referencing. Following Wan et al. (2011)’s finding, I postulate that if a failure occurs under a dual-branding scenario, a loyal customer of one brand may develop a mitigated negative feeling of that brand, when he/she sees this failure from the provider’s
perspective. Prop. 2 thus follows:

**Proposition 2: The Buffering Effect**

When a failure occurs within a co-branded service, consumers’ other-referencing mindset (considering the failure from the provider’s perspective) may buffer the impact of the NSE on the brand to which they feel loyalty.

The intuition behind Prop. 2 is that one brand’s loyal customer (KFC) may forgive that brand, and thus might also forgive its partner (A&W) for the bad service (e.g., Levin, 2002). Eventually, this buffering effect can lead to a free-rider effect of forgiving service failures in a partnership. In other words, in this case, A&W could be a free-rider of forgiveness in a co-branding service failure.

### 4.0 A Model

#### 4.1 Model Structure

I adapt the expectancy-value model (e.g., Bass & Talarzyk, 1972) to prove the propositions because this model is best suited for showing consumers’ NSE in terms of negatively updating their existing beliefs about intangible service-related attributes (Bolton, 1998). To begin, suppose that A and B are equally-reputed (Balachander & Stock, 2009) and are prospective players to build a “dual-branding” alliance in terms of a co-branded fast-food restaurant. Assuming that there are two customer segments of sizes, $M_{F(i)} > 0$ ($F \in \{A, B\}$), that prefer A and B (i.e., the loyal customers), respectively; I use $U (U \in \{a, b\})$ to indicate preference segments. Assuming further that, at time point $i = 1$, a co-branded restaurant is formed by the two brands; at time $i = 2$, a service failure already occurs and customers already notice it. Thus, consumers’ NSE occurs for each brand at $i = 2$.

For each segment, consumer preference at time $i$ is formulated as a relative value (cf. Bolton, 1998) consisting of segment $U$’s relative weights of attribute importance $w^{H, U} \in (0, 1)$ and segment $U$’s belief of each attribute of each brand $P^{H, U}_{F(i)} > 0$. Notice that $H \in \{x, y\}$ denotes the two service-related attributes; in this model, $x$ represents the good service attitude (staff courtesy) and $y$ represents a quick staff response to food orders (fast service). By using the expectancy-value model, $U$’s preference value $\Phi_{F(i)}^U$ can be formulated as:

$$\Phi_{F(i)}^U = \sum_H w^{H, U} \times P^{H, U}_{F(i)} .$$

(1)

In the following I will use Eq. (1) to formulate three types of consumer evaluations: pre-alliance evaluation, co-branding evaluation, and post-alliance evaluation.

Assuming that $A$ ($B$) is known by all customers at the two segments that it performs well on $x$ ($y$) but not $y$ ($x$) at $i = 1$; that is, customers perceive $A$ to have a very high level of “courtesy” and customers perceive $B$ to have a very high level of “fast service”. This yields

$$P^x_{A(i)} > P^x_{B(i)},$$

(2)

$$P^y_{B(i)} > P^y_{A(i)}.$$  

(3)

I use $w^{H, U}$ to capture the between-segment heterogeneity. That implies

$$w^{x, a} > w^{x, b}, \text{ where } \sum_H w^{H, a} = 1, \quad (4)$$

$$w^{x, b} > w^{x, b}, \text{ where } \sum_H w^{H, b} = 1. \quad (5)$$

Eqs. (4) and (5) show that segment $a$ considers attribute $x$ to be more important while segment $b$ thinks of
as more important. Eqs. (2) to (5) together imply:

$$\Phi_{A(i)}^a > \Phi_{B(i)}^a, \tag{6}$$

$$\Phi_{B(i)}^b > \Phi_{A(i)}^b. \tag{7}$$

Inequalities (6) and (7) show the preference order of each segment, and also express consumers’ pre-alliance evaluation.

Consumers’ co-branding evaluation can be formulated by showing a mixed process of existing beliefs about the two brands (e.g., Geylani, Inman, & Hofstede, 2008). So, I use \( \kappa_{F}^{H,U} \) \((1 \geq \kappa_{F}^{H,U} \geq 0)\) to denote the consumer’ mixed weights of existing beliefs about the two brands. That is, their perceived attribute-beliefs of the co-branded service (i.e., co-branding beliefs) are assumed to be

$$P_{A(i)}^x = \kappa_{A}^{x,U} P_{A(i)}^x + (1 - \kappa_{A}^{x,U}) P_{A(i)}^y, \tag{8}$$

$$P_{B(i)}^y = \kappa_{B}^{x,U} P_{B(i)}^y + (1 - \kappa_{B}^{x,U}) P_{B(i)}^y. \tag{9}$$

Finally, consumers’ post-alliance evaluation of each brand at \( i = 2 \) can be formulated via an updating process composed of customers’ pre-alliance evaluations and co-branding evaluations (e.g., Geylani et al., 2008; Lee, 2014). Therefore, customers’ post-alliance beliefs can be modeled as

$$P_{F}^{H,U} = \gamma_{F}^{H,U} \times P_{A(i)}^x + \left(1 - \gamma_{F}^{H,U}\right) \times P_{B(i)}^y. \tag{10}$$

Note that the updating weight, \( \gamma_{F}^{H,U} \), measures the degree of consumers’ NSE on the belief level of the two partnering brands. Consumers’ preference value at \( i = 2 \) is expressed as

$$\Phi_{F}^{a} = \sum_{U} W^{H,U} \times P_{F}^{H,U}. \tag{11}$$

4.2 Proofs of Propositions

Note that hereafter I will discuss two types of NSE. Customers’ belief change is called “NSE on the belief level,” and the respective customers’ preference change is called “NSE on the attitude level.” Also notice that I will only discuss segment \( a \)’s NSE to brand \( A \) hereafter and that, for notational simplicity, I drop the segment index, \( U \). Besides, due to the need of parsimony of this model, co-branding beliefs are assumed to be

$$P_{A(i)}^x \in \left(0, \text{Min}\left[P_{A(i)}^x, P_{B(i)}^x\right]\right), \tag{12}$$

$$P_{A(i)}^y = \text{Max}\left[P_{A(i)}^y, P_{B(i)}^y\right] = P_{B(i)}^y. \tag{13}$$

That is, the service failure that I considered is caused only by the damage to the performance level of courtesy (i.e., a very rude attitude; attribute \( x \)), and I argue that, at \( i = 2 \), segment \( a \) will notice this failure and use co-branding evaluation to revise their pre-alliance evaluation (Eq. (10)) and they will have the NSE on brand \( A \).

Let \( S^x \) and \( S^y \) be the magnitude of segment \( a \)’s NSE on the belief of attribute \( x \) and the respective changes on their attitude level, respectively. That is

$$S^x = P_{A(i)}^x - P_{A(2)}^x, \tag{14}$$

$$S^y = \Phi_{A(i)}^a - \Phi_{A(2)}^a. \tag{15}$$

As noted in section 3, the amplifying (Prop. 1) and buffering (Prop. 2) effects occur only with a high level of customer loyalty. So, \( f \) is utilized to formulate a customer loyalty level for brand \( A \), and I assume that \( \gamma_{A}^x \) in Eq. (10) is a monotone increasing function of \( f \) \((\partial \gamma_{A}^x / \partial f > 0)\). To formulate a high level of customer loyalty, I also assume \( f \in (0, 1) \) and posit that \( f > 0.5 \) (cf. Loginova, 2010).
To prove Prop. 1, I first designate $T$ (assuming $T \in [0,1]$) as an occurrence of the self-referencing mode of thought, and then assume that $\gamma_A^x$ in Eq. (10) is a monotone increasing function of $T$. That is

$$\frac{\partial \gamma_A^x}{\partial T} > 0. \quad \text{(16)}$$

The rationale behind Eq. (16) is that the customers may update their pre-alliance beliefs about attribute $x$ of brand $A$ more if they have a self-referencing mode of thought. In this case, an amplifying effect on the belief and attitude levels occurs (i.e., because $\partial S^T / \partial P_{A2}^x < 0$, $\partial P_{A2}^x / \partial \gamma_A^x < 0$, and $\partial \gamma_A^x / \partial T > 0$, thus $\partial S^T / \partial T > 0$ and $\partial S^O / \partial T > 0$).

The following steps are relevant to the proof of Prop. 2. Because the self- and other-referencing modes of thought are considered flip sides of a coin (Symons & Johnson, 1997; Maki & McCaul, 1985) and cannot exist simultaneously (Hung & Wyer, 2009), I let $(1-T)$ denote the occurrence of other-referencing mode of thought. This means that the “self-referencing” and “other-referencing” cases are located at the opposite ends of a continuum (cf. Hotelling, 1929). If I assume that $\gamma_A^x$ in Eq. (10) is a monotone increasing function of $T$, then, ceteris paribus, $\partial \gamma_A^x / \partial (1-T) < 0$, $\partial S^T / \partial (1-T) < 0$, and $\partial S^O / \partial (1-T) < 0$ (i.e., a buffering effect on the belief and attitude levels occurs).

Note that this study is the first to mathematically show that consumers’ other-referencing mode of thought can be enhanced when their self-referencing thought mode is mitigated. This formulation could be a first step toward further applications of the “self-concept” by using a mathematical approach in the research field of service marketing.

5.0 Conclusion, Contributions, and Limitations

This paper bridges a major gap in the co-branding literature in that it identifies the importance of self- and other-referencing in co-branding service failures. I offer two propositions corresponding to the impacts of each cognitive mode on consumers’ NSE. I posit that the self-referencing (or other-referencing) effect may amplify (buffer) the magnitude of a consumer’s NSE. I adapt the multi-attribute model to mathematically prove two propositions. I argue that in the dual-branding context the amplifying and buffering effects lead to a transfer of the magnified negative associations from one brand to the other, and a free-rider effect of forgiving in a partnership, respectively.

This study contributes to the co-branding literature in three important ways. First, I am the first to incorporate the “self” concept (cf. Martin et al., 2007) into consumer attribution processes in the field of co-branded services. I suggest that, among others, partnering with a brand that has more loyal customers with other-referencing mindset (e.g., a religious-based brand – the Taiwanese Leezen organic retailer; cf. Cowart et al., 2014) is also an effective way for resolving the potential service failures in a dual-branding alliance. Because, in that case, when a failure occurs, the corresponding NSE can be buffered much more readily on both partners. Furthermore, this article is the first to formulate the self- and other-referencing as the extremes of a continuum (cf. Hotelling, 1929) in the marketing research field. Finally, I extend Wan et al. (2011)’s findings on self- and other-referencing from a traditional single-brand context to a two-brand alliance context. For brand managers, this research provides a normative guideline for horizontal service partnerships (e.g., Bourdeau et al., 2007).

This study has three major limitations that offer directions for future exploration. First, the two propositions are derived from theories and thus have not been empirically validated. Hence, future studies may validate the propositions with laboratory experiments (e.g., Wan et al., 2011) or meta-analyses. Another limitation is the use of the expectancy-value model, as this model’s inherent assumption (e.g., “the more the better”) (Shocker & Srinivasan, 1979), may hamper analyzing service failures under...
different scenarios. Lastly, a crucial limitation is that I did not discuss how firms and marketing professionals can help firms to assist consumers to shift from the self-referencing cognitive mode to other-referencing. This too opens an avenue for further examination.

References


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