CHAPTER I

INTRODUCTION

1. 1 Background

Globalization is a process of interaction and integration among people, companies, and governments of different nations. Its process is driven by international trade and investment and aided by information technology. It gives impact to the world, the environment, culture, political systems, economic development and prosperity, and human interaction in societies.

Policies drive globalization to open economies domestically and internationally. During the past two decades, many governments have adopted free-market economic systems that vastly increase their own productive potential and creating myriad new opportunities for international trade and investment. To promote trade in goods, services, and investment, governments have negotiated dramatic reductions in barriers to commerce and have established international agreements. Corporations have built foreign factories and established production and marketing arrangements with foreign partners as taking advantage of new opportunities in foreign markets. Thus globalization can be defined as an international industrial and financial business structure. It is important for citizens to understand how globalization works and its policy choices facing them due to the right balance between benefits and costs associated with globalization. Nowadays, it is quite popular for many companies to adopt the concept of Corporate Social Responsibility and continue growing. Kotler & Lee (2005) as

cited in Perez (2009) mentioned that 90% of Fortune 500 companies adopt CSR explicitly.

Kim Kercher (2006) said that one of debating issues related to CSR is about the increasing awareness of CSR practices in the area of human rights, environmental protection, health and safety and anti-corrupting which acts as the impact of globalization and the proliferation of cross-border trade by MNEs. The basic concept of CSR is doing something valuable that is not only benefit to the shareholders the value of shareholders, more than that it also must be beneficial for stakeholder and their value. That was the conventional understanding that a corporate only focuses on how to improve shareholders value without any deep consideration towards stakeholders. However, it is crucial to differentiate CSR from donation and good work of the corporate to the society, added Kim.

These days, businesses highly consider about the importance of corporate reputation regarding to its role as valuable asset. Positive corporate reputation can be developed by wisely managing the resources (Gatti, Caruana, & Snehota, 2012). Sheldon (1992) mentioned in the journal of Gatti et al. (2012), positive cash flow and profitability are some of the positive consequences of corporate reputation that is effectively managed.

Corporate identity is important to generate C-C identification due to its privileged capacity that can be used as an instrument (Perez, 2009; Sen & Brattacharya, 2001; Du et al., 2007). According to Kristof (1996) as mentioned by Perez (2009), it is indeed noticeable that the relationship between companies and

customers can be expressed through four different links, including values, personality and characteristics, common objectives, and satisfaction.

The growth and popularity of corporate reputation is strongly influenced by the quality of company products. Liu et al. (2014) stated consumer sees the overall product based on the value of brand. It shows that brand quality is the primary factor that influence customer-based brand evaluation (Chomvilailuk & Butcher, 2010; Zeithaml, 1988). It is indeed possible to say that perceived quality plays an important role in the way customers deem the corporate. Liu et al. also said that brand loyalty and brand image are influenced by perceived quality in terms of hotel industry. Early studies found that the impact of product quality is stronger than societal impact on customer. Terblanche (2001) also added that it is important to understand the idea of product quality (Baker, Grewal & Parasuraman, 1994; Darden & Babin, 1994).

Consequently, quality of a product affects corporate reputation, which can create a positive or negative result to the way customer talk about the brand. One of the most important things that can affect customer behavior towards a brand is trust. Choi et al. (2013) said that a faith motivates the trusting party to perform better in order to fulfill parties' expectation (Fournier, 1998; Rousseau et al., 1998; Singh & Sirdeshmukh, 2000). Customer trust refers to the prior experiences with some opportunities to evaluate a firm's ability, benevolence, and integrity that encourage customers putting a belief on a firm (Berry, 1999). In service provider, trust is strongly related to integrity, honesty, confidentiality, and ethicality of the provider (Coulter and Coulter, 2002). A survey that has been

done by CEOs at the Business Roundtable Institute for Corporate Ethics (2004) indicated that regain public trust is one of top issues in corporate ethics.

The results of a research that has been done by Maiyaki (2013) implied if technical quality, perceived value and corporate image are expected to be high, then customers with low individualism cultural orientation have greater propensity to express positive word-of-mouth commendation. He concluded marketing managers should recognize customers from different orientations, and then adjust the appropriate marketing strategies for each category. Prior researches have studied the impact of traditional word of mouth on customer behavior. They discover that marketer needs to identify and analyze how electronic word of mouth might affect customer's intention to purchase certain product regarding to the development of eWOM (Bataineh, 2014).

From all the explanation above, there is a relation among CSR, perceived quality, corporate reputation, and trust that influence positive word-of-mouth. Liu et al. (2014) examined the link between CSR and marketing, current understanding of CSR's impacts on branding (Sen & Bhattacharya, 2001; Singh et al., 2008). Mandhachitara and Poolthong (2011) stated CSR and attitudinal loyalty significantly strong associate to each other that indeed possible to end with positive word-of-mouth. Due to this reason, the researcher intends to examine the role of CSR, perceived quality, and corporate reputation on positive word-of-mouth. This study will compare which one among CSR, perceived quality, and corporate reputation that significantly affect positive word-of-mouth where trust will be set as moderating variable between corporate reputation and positive

word-of-mouth.

1. 2 Problem Identification

Based on the study background above, the basic problem that has been identified is which one is giving stronger impact to positive word of mouth between direct impact of CSR and perceived quality, or through corporate reputation which is followed by trust. Positive word of mouth is important to suggest the customer to stay loyal and to attract new customer. This study seeks to develop a conceptual model of CSR and perceived quality related to corporate reputation and positive word of mouth.

1. 3 Problem Formulation

There are some research questions as problem formulation that will be found the answer in this study,

1. Does CSR have a significant impact to corporate reputation?

2. Does CSR have direct impact to positive word of mouth?

3. Does perceived quality have a significant impact to corporate reputation?

4. Does perceived quality have direct impact to positive word of mouth?

5. Does corporate reputation significantly influence positive word of mouth?

6. Does trust have a role as moderating variable influencing the relation between corporate reputation and positive word of mouth?

1. 4 Scope of Research

This research is focusing on the comparison between CSR and perceived quality, or through corporate reputation, which is followed by trust that strongly impact to the positive word of mouth. This research is going to be conducted in Indonesia, and the scope is specifically retailing industry in Yogyakarta, including Indomaret and Alfamart. The population and sample of the research are people in Yogyakarta, specifically university students.

1. 5 Research Objectives

There are some objectives of this study. They are to analyze:

1. Whether CSR has a significant impact to corporate reputation.

2. Whether CSR has direct impact to positive word of mouth.

3. Whether perceived quality has a significant impact to corporate reputation.

4. Whether perceived quality has direct impact to positive word of mouth.

5. Whether corporate reputation significantly influence positive word of mouth.

6. Whether trust have a role as moderating variable influencing the relation between corporate reputation and positive word of mouth.

1. 6 Research Benefits

The benefits of this study are divided into three bases on occupation, which is for students, practitioners, and researcher.

1. Students

    The results of this research are expected to enrich the knowledge useful for students in learning about the role of CSR, perceived quality, and corporate reputation on forming customer behavior, positive word-of-mouth. This study can be used to guide students to learn deeper about factors that influence PWOM.

2. Practitioners

    The results of this research are expected to provide information to the practitioners which one of CSR, perceived quality, or customer reputation that will significantly affect positive word-of-mouth. It helps practitioners to discover the best term they should emphasize on to encourage customer behavior. Through this research, companies can gain more information and consideration to wisely decide which one of those should be used effectively to attract customer contribution in faming the brand.

3. Researchers

    The results are expected to broaden the knowledge and used as a reference for the next researchers who want to continue conducting a research in a similar topic. It is also hoped this study can provide information about conditions at the same picture obtained by researchers so as to support further research.