CHAPTER II

LITERATURE REVIEW

2. 1 Positive Word-of-mouth

Conventional definition of word-of-mouth (WOM) refers to a process of sharing opinions and information about specific product among customers (Bataineh, 2014; Jalilvand et al., 2011). It is undeniable that relation between word-of-mouth and customer satisfaction is very close to each other. In the study of Hsu (2011), mentioned that word of mouth is one of behavioral outcomes of customer satisfaction (Donio et al. 2006; Brady & Robertson 2001; Cronin et al. 2000). Additionally, a previous study that has been done by Choi et al. (2013) stated, customer satisfaction with better service commonly known indeed possible to lead various outcomes, including satisfaction, loyalty, and positive word-of-mouth.

Customer satisfaction results in word of mouth publicity. When customer expectations are fulfilled, then positive word-of-mouth could be highly influenced (Rizwan Ali, 2015). In contrast, it is common for dissatisfied customers to complain through negative word-of-mouth (Whels, 2006; Dube and Maute, 1996). It works vice versa, when a customer has a positive perception, then they are more likely to have a favourable behavioural intention like positive WOM (Liu et al. 2001). Bataineh (2014) stated that many customers prefer to read a review or suggestions given by experienced customers before buying certain types of products or services

(Senecal & Nantel, 2004).

Liu (2006) found in the field of movie industry that there is no considerable difference between positive or negative reviews, the volume of word-of-mouth significantly increases box office income. Moreover, word of-mouth does not have a significant impact on consumer attitudes (Duan et al., 2008), all explain clearly in the study of Eberle (2012). Customers share the positive and negative information about the product and services to the one in pre purchasing stage (Frambach, Roest, & Krishnan, 2007). Then marketers decide to use eWOM to attract customer directly. Positive word-of-mouth is largely created by all parties involved with the organization or community who has sense of belonging (Hennig-Thurau & Walsh, 2003), stable relationship creates a commitment that will result in long-term relationship with long-terms benefits (Anderson & Weitz, 1992). Gao, Sirgy and Bird (2005, p. 399) as mentioned by Terblanche (2007) said that committing party's purposeful and consistent engagement of resource are some of the characteristics of commitment in a relationship that can maintain a relationship over a period of time.

2. 2 Corporate Social Responsibility

Corporate social responsibility is well known as CSR, is commonly associated with product differentiation and at the end with brand differentiation (Choi at al., 2013) and link to corporate sustainability, corporate social investment, triple bottom line, socially responsible

investment and corporate governance Kim (2006). As mentioned by Kim (2006) in her review that there is no single global-accepted definition of CSR, however the concept still develops. There are some individuals and even organizations have developed the exact definition of CSR, for instance from World Business Council on Sustainable Development said that CSR is the commitment of a business working together with all the stakeholders to contribute something for improving the quality of life of a particular society. In addition, Business for Social Responsibility stated that running a business ethically to meet public expectations. Canadian Centre for Philanthropy also claimed CSR as the way company behaves positively and decreasing or even losing the negativity created. Therefore, CSR is the point of integration between business's vision and mission with all stakeholders' value (The Corporate Social Responsibility Newswire Service).

Corporate social responsibilities have multiple dimensions (Choi et al., 2013; Carroll, 1991; Salmones et al., 2005), including philanthropic component, the ethical-legal component, company ethics, and service failure. Even tough most previous research has focused on the philanthropic component of CSR, which is a component of cause-related marketing (Barone et al. 2000; Berger & Kanetkar, 1995; Creyer & Ross, 1997), however it is closer to the ethics and the failure.

CSR is important factors influenced consumer decision making (Perez, 2009), based on Market and Opinion Research International (2004), 38 percent of European consumers consider CSR is important as a form of

corporate commitment affecting decision making process. Furthermore, 46 percent consumer argued that it is highly important for them to see corporate action for society. This proves how crucial CSR is for corporate positioning strategy to create competitive differentiation (Drumwright, 1996; Du et al., 2007), it is kind of smart strategy to generate the public perception and positive consumer behavior towards businesses (Brown & Dacin, 1997; Creyer & Ross, 1997), on the other hand, contrast research have shown that CSR is not strongly relevant for consumer's decisions (Carrigan & Attalla, 2001; Uusitalo & Oksanen, 2004).

There are some strategic reasons for adopting CSR, including creating and maintaining close connection between consumer and company to generate positive behavioral responses from consumer (Bhattacharya & Sen, 2003). Then, managers should improve the attractiveness of company identity to satisfy consumers' needs and wants (Perez, 2009; Marín & Ruiz, 2007). CSR is also a big factor affecting consumers' response. According to Lii and Lee (2012) consumers give response and act differently to different types of CSR strategies. Previous research that has been done by Skad and Helge (2013) suggested that neutral third-party sources more effective to evaluate CSR messages rather through company sources (Simmons & Becker-Olsen 2006; Yoon et al. 2006).

Perez (2009) also confidently said that actually, responses towards CSR initiatives depend on the degree of consumer identification that the company generates through the messages of its social responsibility

(Lichtenstein et al., 2004; Marín & Ruiz, 2007; Sen & Bhattacharya, 2001). Consumer's identification about the company significantly works as psychological link, which perfectly connect consumer behaviour and the organization's objectives to go on the same direction (Du et al., 2007). Most of corporations use CSR programs as an effort to generate branding benefits for their business (Liu et al., 2014; Hoeffler & Keller, 2002).

Liu et al. (2014) suggested that in general customers respond toward positive CSR practices under particular circumstances, react positively or negatively to the lack or ineffective of CSR practices (Brown & Dacin, 1997; Sen & Bhattacharya, 2001; Ricks, 2005). Liu et al. (2014) also claimed some forms CSR activities, such as environmental friendly initiatives (Sen & Bhattacharya, 2001). Moreover, Mohr et al. (2001) clearly divided CSR into two general classifications, the first category discusses CSR in relation to the various stakeholders of the organization and the second is about societal marketing concept, classification based on Kotler's (2008). A research from Xu (2013) showed that CSR performance is most influential factor in shaping consumers' loyalty behaviors, even though CSR from some popular franchisors in China is unknown. However, the point goes to the way global companies highly consider about how to set CSR programs to engage with specific target markets.

2. 3 Perceived Quality

In most industries, perceived brand quality is one of the most important components that affect consumer preference (Liu et al., 2014; Kayaman & Arasli, 2007; Taylor, 2001). Ali (2015) stated that product quality and services are greatly important. Physical properties are considered as an indicator to measure product quality. Many factors give impact to quality and make it hard to measure the service quality due to its complexity. It is not necessary for a service provider to serve a quality based on customer expectation (Crosby, Evans, & Cowles, 1990). Consequently, many businesses defined perceived service quality as a way to identify and satisfy customer needs and wants. He found that perceived service quality have strong negative influence on customer satisfaction. It proved the perceived service quality in the minds of customer changes over the period of time.

Zeithaml (1988) in the research of Liu et al. (2014) defined perceived brand quality as a value of a brand which is considered as a factor influence customer view toward the brand. Perceived brand quality is also influential factor in brand evaluating (Chomvilailuk & Butcher, 2010). Furthermore, brand quality link to brand preference (Liu & Smeesters, 2010).

In service context, brand quality takes an important role influencing brand preference which indicate that it directly influences respondents' brand preference levels, add Liu et al. (2014). In practice of Chinese consumers, a socially responsible brand image may impact the brand preference. However,

no matter how positive CSR for a business is, it cannot tackle the negative factor, for example the low product quality. It shows the importance of the understanding of product quality that will be perceived by consumers (Terblanche, 2011; Baker, Grewal & Parasuraman, 1994; Darden & Babin, 1994).

2. 4 Corporate Reputation

Fombrun et al. (2000, p. 243) in the study of Walsh (2006) defined corporate reputation as valued outcomes to a representative group of stakeholders. In this term, reputation can be deemed as the perception of all relevant stakeholders involved who experience the services and interact with the corporate activities. Fombrun et al. also composed six dimensions of accepted reputation, including emotional appeal, products and services, vision and leadership, workplace environment, social and environmental responsibility, and financial performance. However, Walsh and Wiedmann (2004) evaluated the dimensions in a study of corporate reputation in Germany and found that the original six dimensions failed to capture the corporate reputation construct in a German cultural setting. They suggested additional German dimensions, such as fairness, sympathy, transparency and perceived customer orientation.

Brand and corporate reputations are important substitution to one and another. Once in the energy sector, brands play a subordinate role due to product homogeneity, whereas corporate reputations are highly relevant.

When a company's reputation is positive, then it can be meant that customer will perceived positively the services (Ali, 2015).

Brand image is a direct reflection of brand promise that is given by a company. An expert, Susan Gunelius said that brand image will grow organically when the brand promise is consistently communicated finely through branded experiences. The interaction between experiences, impressions, beliefs, feelings, and knowledge people have about the company will result in existing of brand image (Worcester, 1970). Branding is very important due to its role in all aspects of a business: marketing, operations, sales and more, which shows how effective integration and consistent portrayal of a brand image can benefit a business (Rains, 2011).

Understanding corporate branding is very crucial; due to it helps the company in achieving higher levels of performance. One of brand image strength does not only help a firm to achieve a competitive advantage, more than that it encourages repeat purchases (Da Silva & Alwi, 2010). According to Davies et al. as mentioned by Da Silva and Alwi (2010), when a company see the corporate brand from the internal, they call it as corporate brand identity, but when stakeholder see it from the external side, it is called as brand image.

Da Silva and Alwi (2010) also explained that brand image as the sum of values that represent an organization and these values or perceptions held by stakeholders are based on their accumulated experiences with an organization. In addition, brand image is about the consumer' s emotional

response to a brand that leads to the personification of brand attributes. It also represents brand as a person.

An article about brand image as written in the website of Finance Maps of World (2013), there are some purposes of brand image, one of them is brand image helps the producer in setting up the following: price of the product, customer base (target audience), strategy of the brand, strategy of promotion and packaging.

Proving great value to the customers is the only way to achieve customer trust, and trust is the king in inbound marketing to create a great connection between customer and company. Using a website to introduce or promote a brand is an example of approachable identity, since it allows readers leave their comments or send personal emails to the company (Tampon, 2013).

Making a positive impact to the world is a truly incentive for a company to influence public opinion toward its brand, it leads the company to reach its objectives and to build its brand in the eyes of customer. It is indeed possible happen because consumer prefer caring brands, the brand is meaningful to drive customer purchasing. Corporate social responsibility influence stakeholders and make the brand on top of mind. Expanding brand awareness is one of purposes for building a brand. The values of the brand will increase stakeholders' trust toward the company (Mainwaring, 2015).

Maiyaki (2013) shared that corporate image could be beneficial for organizations in a number of ways (Fombrun, 1996; Carmeli & Tishler, 2005;

Rindova, Williamson, Petkova, & Sever, 2005), for instance delaying rival mobility into the industry, charging premium price for customers, attracting higher-quality and larger amounts of investments from the stock market, managing a high spirit among employees, supporting and encouraging innovation and recovery strategies in a crisis. Above of all those examples, corporate image positively impact financial performance.

According to Eberle (2012), companies are more concerned about the impact of interactive communication on their reputations. For example, Greenpeace claimed Nestle´ palm oil for its activity putting Orangutan in a danger situation. A YouTube movie ''Have a Break?'' that shows an employee chewing an orangutan's finger in the shape of a Kit-Kat has caused 200,000 protest emails. It resulted in virtual boycott campaign against Nestle´ and overwhelmed the company's Facebook page with negative comments (e.g., McCarthy 2010). It proves that stakeholders view indeed affecting corporate reputation. Eberle suggested that companies should pay attention to the new forms of communication regarding to its affection on reputation.

2. 5 Trust

Choi et al. (2013) defined Trust as "a willingness to rely on an exchange partner in whom one has confidence" (Moorman et al., 1993). Further, the concept of trust in a service provider is having confidentiality, honesty, integrity, and high ethical standards (Coulter & Coulter, 2002). There are some importances of trust in particular service contexts based on

characteristics of service, such as intangibility and heterogeneity (Liljander & Roos, 2002; Singh &Sirdeshmukh, 2000). Customer trust refers to the trust owned by customers toward a firm, which is formed based on past experience with a firm that provides customers with many opportunities to evaluate a firm's ability, benevolence, and integrity (Berry, 1999). When a firm gets trustworthiness, it leads to customer trust (Mayer et al., 1995).

The combination of satisfaction, the consistent delivery of quality service, the fulfillment of customer needs, honesty and fair treatment, and confidence that have been done by the firm resulted in trust as long as the firm success to fulfill customer expectation (Choi et al., 2013; Berry, 1999; Ballester & Alema´n, 2001; Liljander & Roos, 2002; Morgan & Hunt, 1994). Choi at al. also added that the idea is customer trust works as a principal component of sustainable long-term relationships between customers and service firms (Molm et al., 2000). Feelings of trust help the trusting party to accept a position based on the expectation from another party (Fournier, 1998; Rousseau et al., 1998; Singh & Sirdeshmukh, 2000).

Svensson and Wood (2004) argued that corporate ethics affect trust. They also provide a conceptual framework for corporate ethics and trust in intra-corporate relationships (Choi et al, 2013). When the consumer does not trust the brand, it will be difficult for him to committing with the relationship (Gambetta, 1988; Anderson and Narus, 1990; Ganesan, 1994; Morgan and Hunt, 1994; Hocutt, 1998; Frisou, 2000; Darpy and Prim-Allaz, 2006). In a marketing context, Brockner et al. (1997) have demonstrated that individuals

do not really think about a firm they trust making problem, because they already put a belief on that firm. In the terms of interpersonal relations, trust tends to record a perception of a partner's bad behavior, after the fault-finding process (Rempel, Holmes & Zanna, 1985).

2. 6 CSR, Perceived Quality, Corporate Reputation, Trust, and PWOM

CSR is commonly associated with social attributes, which works as product differentiation (Hsu, 2011; Varadarajan & Menon 1988). The information about CSR initiatives impact corporate reputation (Hsu, 2011). Consequently, invest in CSR activities is the right thing to do for a company as a source of competitive advantage (Porter & Kramer 2006; Smith, 2003) that may result in consumer actual behavior (Gatti et al., 2012; Creyer, 1997; Beckmann, 2006). At the end, CSR contributes in creating a positive brand image and corporate reputation.

In addition, Xueming and Bhattacharya (2006) have investigated the way CSR affect firm value in the market. When scholars looked at the relationship between CSR and customer performance, it showed that CSR influences corporate reputation, because CSR activities are not only impact on brand equity and human resources motivation, but also corporate reputation (Lucia Gatti et al., 2012; Dawkins and Lewis, 2003). The research of Eberle (2012) explained the way CSR strongly influence corporate reputation. Therefore, the researcher hypothesizes that:

Hypothesis 1: CSR strongly influences positive corporate reputation.

Previous research that has been done by Brown and Dacin (1997) showed that CSR is able to influence either directly or indirectly consumer responses towards company product (Choi et al., 2013). Furthermore, Choi et al. claimed that CSR is also able to affect customer-company identification (Sen & Bhattacharya, 2001), donations from customer (Lichtenstein et al., 2004), customer attitudes (Berens et al., 2005), and financial outcomes (Luo & Bhattacharya, 2006). Perception towards CSR is known influencing consumer behavior and attitude towards companies and their products (Brown & Dacin, 1997; Maignan & Ferrell, 2004) and positively improves their loyalty toward firms (Maignan & Ferrell, 2004). Some similar studies also said, the favorable evaluation and attitudes toward firms result in positive consumer perceptions and word-of mouth (Brown & Dacin, 1997; Gu¨rhan-Canli & Batra, 2004; Sen & Bhattacharya, 2001).

Eberle's (2012) findings suggested that the inclining number of attractiveness leads to higher message credibility and stronger feelings to the company, which boost corporate reputation and word-of-mouth. The study explains to what context the use of CSR activities increase firm's effectiveness in terms of word-of-mouth. The main ide of the paper was the use of interactive communication of CSR affect word-of-mouth. They suggested that the credibility of company's communication and identification can be measured through word-of-mouth intentions. Moreover, the results also suggested that stakeholders who know the company would like to engage in positive word-of-mouth behavior (Hennig-Thurau & Walsh, 2003; and

Wang & Fesenmaier, 2001). A firm needs CSR strategies which are different with others based on market characteristics in order to win supports from its consumers in terms of positive words-of-mouth (Xu, 2013). Therefore, the hypothesis is:

Hypothesis 2: CSR direct impact on PWOM is either stronger or as strong as its impact on corporate reputation.

Wang et al.'s (2003) research of banking industry in China is mentioned in the study of Hsu (2011) that empirically identified the relation between service quality and corporate reputation, which showed that customer satisfaction positively, affects corporate reputation (Bontis et al., 2007). The link between service behavior and perceived service quality has been proven to have valuable position in marketing management (Ali, 2015; Heskett & Sasser, 2010), because marketing researchers discovered the advantages of satisfaction and quality, for example as organization competitive benefit, Birgelen, Wetzels, and de Ruyter, (1997) as cited by Ali.

Additionally, individualism also has a significant moderating effect on the relationship between technical quality, perceived value and corporate image (Maiyaki, 2013). The customer behavior can determine the perceived value and corporate image (Andreassen & Lindestad, 1998; Bloemer et al., 1998; Nguyen & LeBlanc, 1998; Oh, 1999; Maiyaki & Mokhtar, 2010b; Maiyaki & Mokhtar, 2011a; McDougall & Levesque, 2000; Varki & Colgate, 2001). Service quality has possibility to develop corporate reputation, added

Maiyaki (Reichheld & Sasser, 1990; Cronin, Brady, & Hult, 2000; Kang & James, 2004; Yoon & Suh, 2004).

Perceived quality affects corporate reputation (Gatti et al., 2012; Brammer & Pavelin, 2006) and brand image (Liu et al., 2014) which acts as signal reputation (Lucia Gatti et al., 2012; Rindova et al., 2005; Fombrun & Stanley, 1990). Brammer and Pavelin (2006) also added that high-quality product tends to have better reputation. Hsu (2012) concluded that the combination of satisfaction and CSR leads to the improvement of corporate reputation. Due to these explanations, then the researcher hypothesizes that:

Hypothesize 3: Perceived Quality strongly influence positive corporate reputation.

Zeithaml (1988) in the research of Liu et al. (2014) defined perceived brand quality as a value of a brand which is considered as a factor that influences customer view toward the brand. Perceived brand quality is also influential factor in brand evaluating (Chomvilailuk & Butcher, 2010). Furthermore, brand quality link to brand preference (Liu & Smeesters, 2010).

In service context, brand quality takes an important role in influencing brand preference which indicate that it directly influences respondents' brand preference levels, added Liu et al. (2014). In practice of Chinese consumers, a socially responsible brand image may give impact the brand preference. However, no matter how positive CSR of a business, it cannot tackle the negative factor, for example low product quality. It showed how important the understanding of product quality that will be perceived by consumers

(Terblanche, 2011; Baker, Grewal & Parasuraman, 1994; Darden & Babin, 1994). Service quality strategically influences word-of-mouth communication (Ali, 2015; Harrison-Walker, 2001). Therefore, the researcher hypothesize that:

Hypothesize 4: Perceived Quality direct impact on PWOM is either stronger or as strong as its impact on corporate reputation.

Corporate reputation has a powerful role to make consumers into the real customers (Martin Williams et al., 2012; Boyd et al., 1994; Helm, 2006). Martin William et al. also suggested that positive corporate reputation creates intellectual relationship with target customer for sustainable profit outcome (Dowling 2004). Corporate may take time to be built, however it can be destroyed very easily (Balmer & Stotvig, 1997).

Interestingly, Martin William et al. claimed that WOM contributes to corporate reputation (Cornellisen, 2000) based on cultural situation (Falkenreck & Wagner et al., 2007). There might be cause and effect relationship between WOM and corporate reputation (Davies et al., 2010), added them. Their research discovered customer satisfaction resulted in PWOM and positive reputation. Surprisingly, tag line also has an important role to create PWOM and corporate reputation. PWOM with value can enhance corporate reputation.

Generally, some critical views come negatively or positively which influence corporate brand, since consumer reviews increase consumer awareness rather than directly affect public opinion (Eberle, 2012). In terms

of electronic WOM, eWOM and the purchase intention are positively improved by corporate image (Bataineh, 2014). 'Doh and Hwang (2009) found that the credibility of electronic word-of-mouth was the highest when there were also some negative comments about a product' (cited in Eberle, 2012). The same research from Eberle suggested that stakeholders would like to spread the information about the product and give recommendation to improve the corporate reputation in the view of target consumer when they have heard the positive information about that corporate and sense of belonging has been built among them.

Store image dimensions like value and employee competence have a direct effect on positive word-of-mouth (Terblanche, 2011). It is important for a company to satisfy their customers since satisfied customers has a strong willingness to spread positive word-of-mouth about them (Terblanche, 2011; Heskett, Sasser & Schlesinger, 1997). Ali (2015) stated that corporate image is about emotional connection like word of mouth (Nguyen & Leblanc, 2001). Therefore, the researcher hypothesizes that:

Hypothesize 5: Corporate reputation has a strong influence on PWOM, and vise versa.

Based on Groenland (2002), a positive corporate reputation has positive impact on consumer trust (Ali, 2015). Paine (2000) in the journal of Choi et al. (2013) stated that trust is one of ethical standards that helps build reputation. When the consumer does not trust the brand, it will be difficult for him to committing with the relationship (Cisse-Depardon, 2009; Gambetta,

1988; Anderson & Narus, 1990; Ganesan, 1994; Morgan and Hunt, 1994; Hocutt, 1998; Frisou, 2000; Darpy & Prim-Allaz, 2006).

In service provider, trust significantly impact WOM (Martin Williams et al., 2012; Stichman, 2007). Additionally, in the research of Martin Williams et al., trust contribute to corporate reputation that leads on WOM (Walsh et al., 2009). They also found that trust is important for reputation (Jahdi &Acikdilli, 2009; Stanaland, 2011). Furthermore, they believe that trust is the main idea of reputation which can be strengthened through advertising, owing to the way trust impacts both WOM and corporate reputation. When trust has been built, it will increase certainty and motivate customer to endorse the activities of the organization through PWOM. Therefore, the researcher hypothesizes that:

Hypothesize 6: Trust works as moderating variable influence the relationship between corporate reputation and PWOM.

2. 7 Theoretical Framework

In Skad and Helge's (2013) study, the CSR messages to engage society should be different from the social sponsorship messages used (Yoon et al., 2006). As Benn et al. (2010) argued, consumers may assume CSR activities as a public relation strategy. They found that CSR initiative through social sponsorships was able to expand the popularity of brand conditions. The brand condition from customer point of view comes from perceived quality, which obviously influences the corporate reputation that leads to the

action of word of mouth. Indeed, trust has a big role in terms of promoting a brand or corporate to others through positive word of mouth. Furthermore, the framework will be like this:
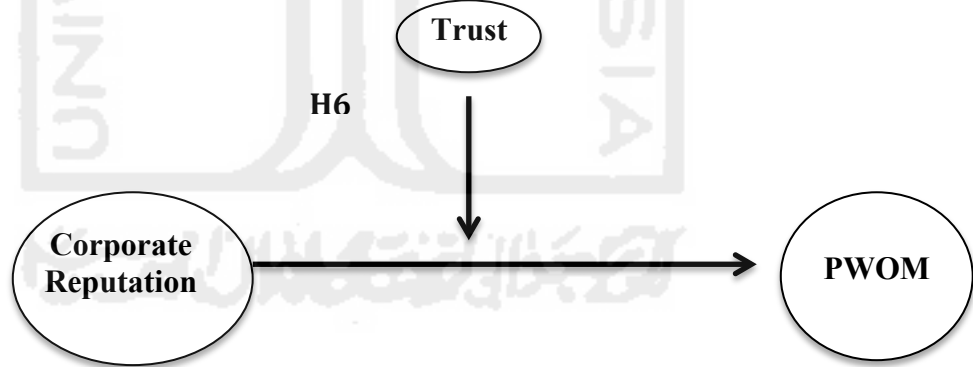
Figure 1. **Full Framework Model is adapted from Gatti et al. (2012), titled The Role of CSR, PQ, and CR on Purchase Intention: Implications for Brand Management**
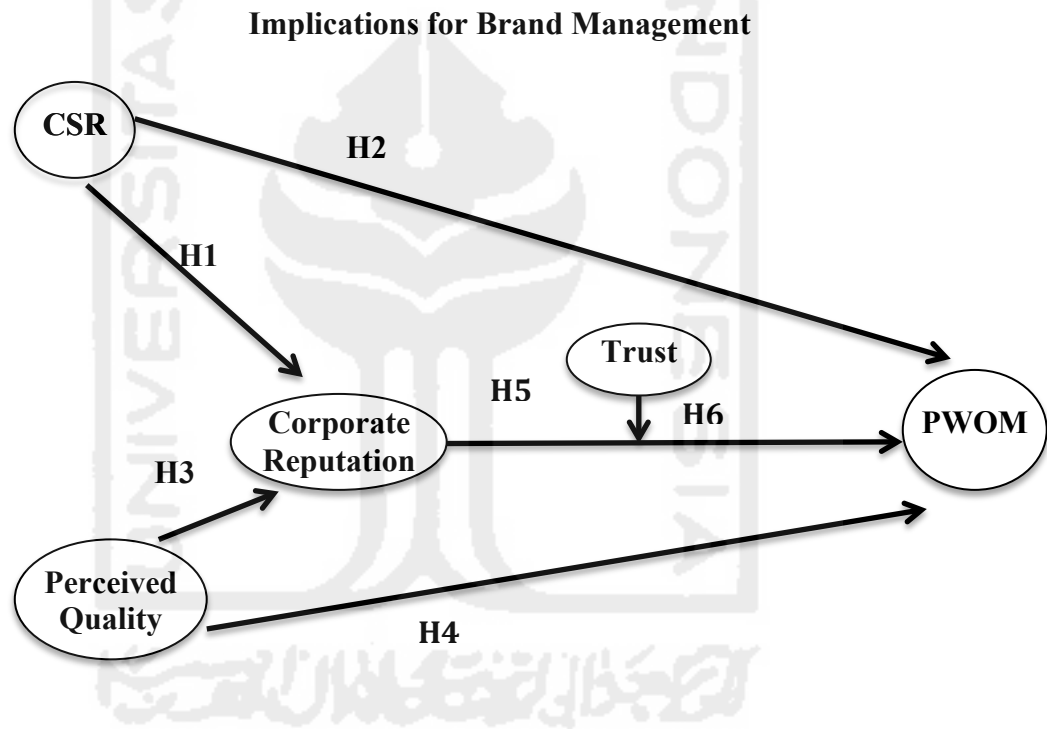
Figure 2. Framework Model 1
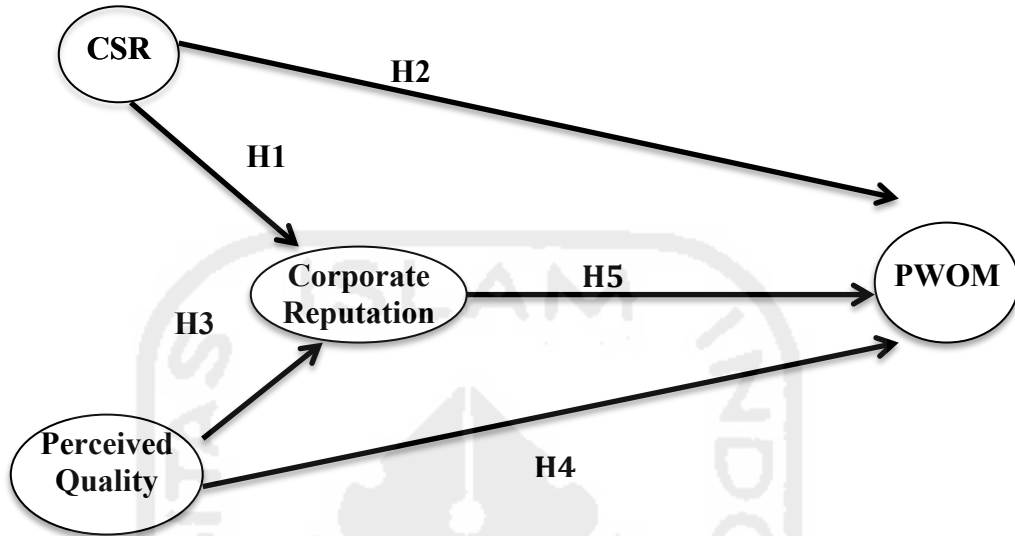
Figure 3. Framework Model 2

Adapted from Gatti et al. (2012