

# CHAPTER I

## INTRODUCTION

### 1.1. Background of the Study

Along with the growth of globalization era, many changes occurred, in which requires many parties to be more dynamic to survive in this world, especially in the business world. Globalization era brings out something new for the business organization and also for society. In line with the development of globalization, the internet currently becomes an essential need for a human. There are several practitioners and academicians who realized that people nowadays tend to be more attracted to online channels rather than the traditional or old ones, which also includes Indonesian people.

It is stated in the previous research conducted by Palmer & Koenig-Lewis (2009) as the impact of globalization, the attention of the customers is shifted, from the old and traditional advertising, like mainstream print and broadcast media, such as Television (TV), Radio, Magazine, and Newspaper to modern advertising. People nowadays are more attracted to online channels and prefer to spend their time in it. By having this condition, the company should limit and/or diminish their budget on traditional advertising, and find another way to promote their products to attract more customers. It is because nowadays people tend to spend their time in online channels.

Based on a survey conducted in wearesocial.com, the data statistics showed that in this world there are **3.42 billion** internet users, equaling **46%** global penetration; **2.31 billion** social media users, delivering **31%** global

penetration in 2016 across the world (Kemp, 2016). With a population of around **259.1 million people**, Indonesia is often referred as the potential digital market. It is because based on the latest survey conducted in early 2016, there were approximately **88.10 million people** who are active Internet users in Indonesia. The number is predicted to grow continuously. In addition, based on the survey that has been done by WeAreSocial.com, Internet users in average spend at least about 4 hours 42 minutes to access the Internet on a PC or tablet in a day. Meanwhile mobile phone users, spend approximately 3 hours 33 minutes to access the Internet in a day (Kemp, 2016).

As mentioned earlier, there are approximately 88.1 million people who are active social media users in Indonesia. When it is compared to the total population, there are about 30 percent of Indonesia's populations who are social media users. It can be seen that the popularity of television in Indonesia is slightly replaced. The users in average only watch television around 2 hours 22 minutes per day. This amount is clearly less than the time internet users use to access internet services.

Social networking (SN) is a site, which people as visitors can register for their account, then they can get connected with each other to communicate or to share about anything reflecting offline relationships or forming new relationships online (Thelwall, 2008). VSN, according to Lai and Turban (cited Moertazavi, Esfidani, & Barzoki, 2014) VSN is similar to SN, yet VSN is formed through an electronic communication medium and it is not bound by space and time. In VSN, the users can share about their experience and their responses toward product or services of one particular brand. However, it is important to highlight

that what they share in their personal account is not only about the positive ones, but also the negative ones toward one brand. Hence, many practitioners and academicians are focused in this area. As we know that, when people share about their experience towards one brand, it can be called as word-of-mouth (WOM). If it is conducted in VSN, it means that WOM is conducted electronically and indirectly, later it can be referred as electronic word-of-mouth (e-WOM).

However, VSN, or known as social networking, also can be related with social media, because they implicitly have the same function. Cohn (2011) explained that social networking could be defined as mutual communication. The objective of social networking is to connect with other people. Social media can be defined as a place where the users can share information to other users. It allows the users share their content to each other. Thus, even social networking and social media have different specific meanings, but actually social networking is a part of social media. It uses social media to build networks among their connections or friends. They might have different specific meaning, but they have the same examples (sites), which can be counted as both social media and social networking, such as Facebook, Twitter, and etc. The social media is the vehicle, while social networking is the one who rides the vehicle. Thus, VSN, social networking, and social media can be mentioned interchangeably in this research.

Social media becomes the most influencing tool for Indonesian people. By knowing the fact that the social users in Indonesia is 30% from its total population (Kemp, 2016), it can be concluded that e-WOM in VSN can have a big influence in people's life. In other words, it can be said that e-WOM can affect the customer purchase intentions towards a particular brand, whether it is

products or services. Thus, many companies nowadays put bigger concern on the power of social networks to attract consumers, and improve their purchase intentions.

In addition, according to Palmer & Koenig-Lewis (2009), VSN provides opportunities for companies to get closer with their markets, which allows them to observe, and collect information about their market, and participate as members of online communities. Therefore, nowadays many companies have developed their own blogs and online forums to get closer to their consumers. Moreover, Internet users tend to be more attracted to and respect companies that have blogs. Hence, because of the power of e-WOM, trusted bloggers' opinions are now becoming more popular compared to e-mail as a mean of social communication. Bareto (cited in Moertazavi, Esfidani, & Barzoki, 2014) stated that friends' recommendation in VSN could gain bigger purchase intentions compared to online ads. Jalilvand & Samiei (2012) emphasize that e-WOM can influence consumers' purchase intentions strongly in the following statement:

E-WOM has a strong direct effect on purchase intention. In VSN, customers can read online recommendations for the product they are interested in directly at the point of purchase, which might have strong effects on their purchase decisions. (p.13)

This study attempts to examine the elements that influence viral marketing and electronic word-of-mouth (e-WOM) through VSN. Based on research by Moertazavi, Esfidani, & Barzoki (2014), there are several antecedents

that play an important role in influencing VSN users' purchase intention, which are virtual social network attributes, flow, trust, and e-WOM.

First, few numbers of researchers found that, there are several attributes of social networking sites, which are communication and social relationships, entertainment, information disclosure and ease of use. The social networking sites are expected to have those attributes because social networking are supposed to fulfill the VSN users needs to communicate with people they want. Also, VSNs are required to provide entertainment for the users, allow the users to get information about anything, and have a user-friendly system.

The second is flow. According to Palmer & Koenig-Lewis (2009) and Guo (2004), flow is a condition of an individual, where one expects the situation can reoccur as often as possible. When the consumer can get the right flow in social networking, they can experience loss of control, self-consciousness, concentration, mergence of awareness, and also they can enjoy the situation while they are surfing on the social networking. Thus, it definitely can encourage them to share and start to post about anything, including opinions against something.

Third is trust. Trust also has an important role in influencing VSN users' purchase intention. Some people those feel insecure when they find and/or get information from the Internet. According to Lu et al. (2010) and Zhou (2012), trust in VSN can be divided into several kinds. The first one is trust in a website. It is defined as a belief that a Web site or sponsor of a virtual community has an ability to provide quality services and provide good service to its users. The other types of trusts are trust in users' ability, and trust in users' integrity and

benevolence. From the combination of those three kinds of trusts, it can lead to one type of behavior, which can maintain conversations in the virtual social network (VSN).

The last important thing that influencing VSN users' purchase intention is electric word-of-mouth (e-WOM). According to Hennig-Thurau et al. (2004), e-WOM occurs when a customer share, whether it is about positive or negative thought, about a product or company via Internet that can be seen by many people and institutions (p. 39). E-WOM is a useful tool for the consumers to gain information about the brand-related products, while for the company, e-WOM can be an advertising tool.

The purpose of this research is to investigate that along with the development of Internet, e-WOM is now becoming more popular and used more often by VSN users. VSN users have a tendency to share their experiences and gather information about other people experiences toward a product, service, and brand. Thus, it can impact their purchase intentions. It can be seen now, newspaper now replaced with online news, and also the other traditional medias. Thus, many company have to realize this shifting condition, they have to consider about the existence of social networking. This research is based on the research conducted by Moertazavi, Esfidani, & Barzoki (2014). However, the results might be different. Since, the previous research was conducted in 2014, and only conducted at Iran. While this research is conducted in 2016, which the VSN and the occurrence of e-WOM are getting increased. Also, the researcher wants to conduct this kind of research in Indonesia. The research conducted by

Moertazavi, Esfidani, & Barzoki (2014) consist of several dimensions for each variable, except purchase intention. In this research, in order to simplify the previous research, researcher deleted the dimensions, so that the measurement directly connected to the variables.

## **1.2. Problems Formulation**

This research study attempts to determine factors that influencing VSN users' purchase intentions, which are VSN attributes, flow, trust, and also e-WOM behaviors. The following are some specific issues that will be investigated in this study:

1. Do Virtual Social Networks attributes have a positive impact on flow?
2. Do Virtual Social Networks attributes have a positive impact on e-WOM?
3. Do Virtual Social Networks attributes have a positive impact on trust?
4. Does flow has a positive impact on e-WOM in VSNs?
5. Does trust has a positive impact on e-WOM in VSNs?
6. Does trust has a positive impact on flow in VSNs?
7. Does e-WOM have a positive impact on purchase intentions in VSNs?

## **1.3. Limitations of the Study**

Due to some conditions and existing limitations during this research process, there are several limitations of this research study, which are:

1. This research only takes Indonesian young-adult who register, using, and experiencing social networking account as the respondent.
2. This research focuses on variables that affect VSN users' purchase intention, which are VSNs' attributes, flow, trust and e-WOM.

#### **1.4. Research Objectives**

In accordance with the problems that have been formulated above, the specific objectives of this research study are:

1. To describe whether Virtual Social Networks attributes have a positive impact on flow
2. To describe whether Virtual Social Networks attributes have a positive impact on e-WOM
3. To describe whether Virtual Social Networks attributes have a positive impact on trust
4. To describe whether flow has a positive impact on e-WOM in Virtual Social Networks
5. To describe whether trust has a positive impact on e-WOM in Virtual Social Networks
6. To describe whether trust has a positive impact on flow in Virtual Social Networks
7. To describe whether e-WOM has a positive impact on purchase intentions in Virtual Social Networks



## **1.5. Research Contributions**

This research is based on a research conducted by Mortazavi et al., (2014) with some modifications and improvements to get better results. There are, at least, two major theoretical contributions of this study. First, this research can examine the influence of VSN attributes, flow, trust, and e-WOM, which might affect VSN users' purchase intentions in Indonesia. The current marketing researchers consider this phenomenon new. Second, this research will provide new empirical study about the relationship between e-WOM and VSNs users' purchase intentions. This will complement the findings of existing studies, which are generally performed in developed countries.

In addition, for the marketing department, this study will contribute to the understanding of the strategic implications contributing to the Internet marketing literature. Besides, this study can be used as additional information that can be further analyzed and compared to other findings or study conducted in different networking area. Furthermore, this study might help business organizations, especially marketing department to understand and adapt with the current conditions, which Internet plays an important role in people's life nowadays.

## **1.6. Systematical Writing**

Systematics thesis consists of five chapters, which each chapter consist of several sections. The formulation systematics and explanation of this thesis are as follows:

## Chapter I: INTRODUCTION

This chapter discusses the background of the research, the formulation of the problems, the limitation of the study, the purpose of the study, the contribution of research, and systematic research.

## Chapter II: LITERATURE REVIEW

This chapter exhibits the theoretical foundation of the VSNs attributes, flow, trust, and e-WOM, and purchase intention. In addition, there are researches hypotheses and the framework of the study provided.

## Chapter III: RESEARCH METHOD

This chapter explains the models and methods used in this research, population, and sample, sampling technique, the variables of the study and the testing methods used.

## Chapter IV: DATA ANALYSIS AND DISCUSSION

This chapter shows data analysis and discussion of the results obtained from statistical calculations using theoretical concepts and interpretation of research on theories that already exist.

## Chapter V: CONCLUSIONS AND RECOMMENDATIONS

This chapter contains the conclusions on the results of the analysis and calculation of data obtained from the research. In addition, this chapter will also describe the weaknesses of the studies conducted and for future research.