

CHAPTER I

Introduction

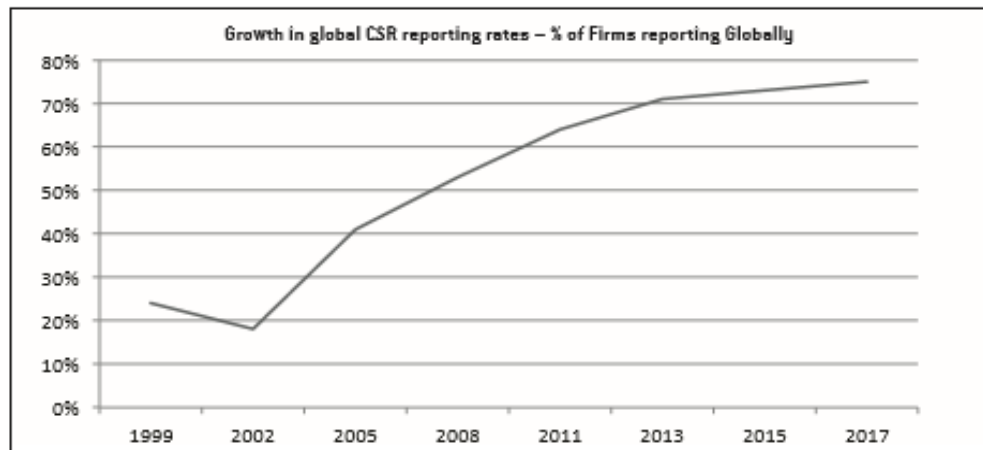
I.1. Background

In recent years, the implementation of corporate social responsibility is prospering. The concept of corporate social responsibility has been around since the 1800s but only in 1953 when the father of CSR, Howard Bowen, an American economist officially coined the term through his publication of *Social Responsibilities of the Businessman* (ACCP, 2019).

According to Islam, Salim, Choudhury, and Bashir (2013), after the Second World War, Bowen states that the topic of social responsibility entered the management education, basing corporation policies and decisions value desired by society. In 1960, Keith Davis shows CSR from the managerial point of view as actions and decisions are taken beyond the firm's economic interest. In 1963, Joseph William McGuire points out that social responsibility should be accepted by business even beyond the business' economic and legal obligations. In 1962, Rachel Carson published a book about environmental movement and how corporations neglect and ignorance are causing environmental disasters. These inspired movements within America and Europe which was believed to begin a ground for corporate social responsibility. In the 1970s, general social responsibility was gaining popularity where there are major changes upon power in labor laws and labor union. But due to a recession within the late years of 1970s, unemployment rises and power of the labor union fall. Manufacturing companies operated in developing countries for cheaper labor. The economy improved in the 1980s and more laws are developed upon disability employment, race and gender equality. Within the US, social responsibility was directed upon a responsibility of the community which became a major part of social responsibility in the 1980s. In 1979, Archie B. Carroll concluded a CSR model that includes economic (to be profitable), legal (regulation-complaint), ethical (acting in a righteous and fair manner) and philanthropic (contributing to a broader civic society for educational, cultural or recreational purposes) responsibilities. In 1980s and 1990s, CSR received much more attention.

According to KPMG as cited in Ruane and Quinn (2018), the number of growths in global CSR keeps on increasing annually. Figure 1.1 shows a graph of the global CSR growth from 1999 to 2017.

Figure 1.1 Growth in Global CSR



Sources: KPMG (2017) as cited in Ruane and Quinn, (2018)

CSR can be perceived as how a company's responsibility is not only economic but within social as well as environmental. Aside from maximizing profits for shareholders, a company should also address other stakeholders equally. This could include both internal and external stakeholders such as employees, customers, government, etc (Freeman as cited in Ridho, 2018). "Corporate social responsibility encompasses the economic, legal, ethical, and discretionary (philanthropic) expectations that society has of organizations at a given point in time" (Carroll, 2016, p. 2). This is often identified through a variety of activities from environment recovery to helping underprivileged families. These actions have delivered so many positivity for the environment, society as well as businesses.

According to Lee, Chang, and Lee (2017), CSR activities bring positive influences for businesses reputation and customer loyalty. CSR movement by companies could increase their positive brand image as well as increasing emotional attachment to companies which led them to higher customer satisfaction and to be more loyal customers. These are examples of how CSR are proven to influence customers' behavioral intention. The Institute of Medicine defines behavioral intention as the

probability of one's subjective whether he or she will engage in a accustomed behavior (Institute of Medicine, 2002). However, these subjective behaviors are a matter of response after being exposed to certain factor(s). Comparable to how CSR are exposed to customers, a matter of response from some customers could subjectively be the positive influence of recommend intention (Deng & Xu, 2017).

Aside from enterprises, consumers are currently more sensitive in being responsible. As the world develops, people are more aware of their surroundings. This led more people to be attentive to their daily activities and how they affect their surroundings. They started to be more responsible within their daily consumption. From things as simple as using a one-time use plastic straw, they switch to other alternatives. A lot of businesses are involved and support this movement by implementing a no straw movement. These consumers are recently also known as 'responsible' consumers or 'ethical' consumers. According to Mintel (2019), in Britain alone, British consumers has spent around £8.2 billion on ethical food and drink in 2018, it is forecasted to see a further 4% growth to reach £8.6 billion this year.

The market of ethical business is expanding. According to Nielsen (2019), by 2021 it is expected that sustainable-minded shoppers will spend about \$150 billion on sustainable products. The industry is widely involved from resource management to product packaging. 81% of the global respondents said that it is very important for companies to implement programs that improve the environment. Wincanton, a logistic company in UK stated that retailer customers are shifting to 'green' alternatives for its deliveries. From fuel-powered vehicles to electric-powered vehicles. 26% of UK customers are 'likely to buy from a retailer which uses electric vehicles' and 32% of UK customers are considering to buy from more environmentally-friendly retailers in the future. Aside from that, millennials age 18-34 are more likely to buy from retailers who offer sustainable delivery options (Wincanton, 2019).

In a similar vein, some of Indonesia's enterprises are committed on their implementations of CSR. Ranging in variety, each enterprise has their own focus in their CSR activities. From the food industry, McDonald's Indonesia has created a non-profit organization as part of their CSR activities. This CSR invites

McDonald's consumers to be a part of it through donation boxes as well as volunteering in RMHC's activities. Also known as Yayasan Ronald McDonald House Charities, RMHC concentrate in improving children's health in rural areas of Indonesia (McDonald's Indonesia, 2020). Within the banking industry, BCA as one of Indonesia's leading bank has contributed around Rp 105 billion for their CSR activities, dividing them upon environmental as well as social and community development (BCA, 2020). Some enterprise chose to adopt CSR activities that are closely related to the industry as well as its core values. An example would be Martha Tilaar Group, an enterprise well-known for their cosmetics and beauty-related products for women, chose to empower women as part of their CSR activities. Providing training and education for women from low economic families to be more independent as well as providing them with an alternative income stream for them and their families (Martha Tilaar Group, 2018). These activities could have a 'mirror' effect on consumers, that by purchasing these brands products, they help in contributing upon those CSR activities.

According to Forbes, there are several reasons for businesses to implement CSR. Unilever Global VP for HR, Marketing, Communications and Sustainability, Geoff McDonald, he described that the 'lens of sustainability' led Unilever to product innovation. He described that due to the sustainability lens, Unilever was able to create a hair conditioner that uses less water (Reeves-Epstein, 2012). General mills reported a 20% reduction of energy usage (General Mills, 2011). According to Werther and Chandler, brand-driven companies have no choice but to integrate CSR within their future operation strategy. Global brands companies could not afford to wait for criticisms before integrating CSR as reactions are often presumed too late and the brand already would suffer great damages (Werther & Chandler, 2005). By engaging in sustainability, general mills were able to cut costs. According to TIME magazine, Visa built partnerships with local governments and non-profits focusing on financial inclusion which as the Gates Foundation research shows that these services help poor people to improve personal finances management and lead them into wider economy (Knowledge@Wharton, 2012).

The research adopts this topic being inspired by the theory of the triple bottom line. The researcher believes that sustainability according to the triple bottom line could be achieved through CSR activities.

The triple bottom line states that a company's responsibility lies on three features which are profit, people and planet. The idea is to achieve sustainability through economic, social and environmental responsibility. First introduced in the 1987 in the Brundtland Commission, John Elkington officially named the triple bottom line in 1994. After the introduction of triple bottom line, the developments of CSR grows even more, several CSR theories have admitted that the triple bottom line is the foundation of their ideas (Fischbach & Książka, 2017). This could indicate that triple bottom line and CSR theories supports each other and could be use in a hand in hand manner.

According to Statista, the global market value of cosmetics and personal care products will keeps on increasing until at least the year of 2025, with the predicted value of \$758.4 billion (Shahbandeh, 2019). This indicates that the global cosmetic industry has a lot of potential for businesses as well as consumer's needs. According to Switzerland Global Enterprise (2018), Indonesia has the largest market in Southeast Asia which indicates more opportunities and larger market compared to other Asian countries. The research is conducted in Jakarta assuming that the capital city of the country has the largest economy within the country.

Cosmetic products are not necessarily a need compared to food but at the same time majority of the women and men uses these products daily. These indicates high consumption upon cosmetic products which includes make up as well as skincare products. As more potential there is in the market to profit, the more competitive the market gets. This competition inspired a lot of different product variations and innovations, ranging from unique design, ingredients, etc. According to Wolfe (2019), cosmetic consumers are much more thorough in choosing their cosmetic products, an example would be "clean" products that do not contain any undesirable ingredients or to have sustainability claims such as biodegradable packaging. This indicates that customers want are in line with certain responsibilities that cosmetic companies could adopt and uses it as an additional value in the eyes of consumers.

As more and more cosmetic customers are being cautious and more educated in what goes in and out of their cosmetic products, being a responsible organization is the right thing to do. Within this study, the researcher wanted to investigate whether Indonesian customer follows similar trends of how there is value upon cosmetic companies who are managed in a responsible manner by finding a correlation between Corporate Social Responsibility activities that cosmetic companies could adopt towards Jakarta's cosmetic consumers' behavioral intention.



I.2. Research Problem

This research is conducted to find out the degree of relationship from the implementation of CSR upon consumer behavioral intention in Indonesia. Specifically, there are 5 research questions:

1. To what extent does corporate social responsibility carry out in Indonesia correlates to the consumers' behavioral intention?
2. To what extent does corporate social responsibility carry out in Indonesia correlates to the consumers' purchase intention?
3. To what extent does corporate social responsibility carry out in Indonesia correlates to the consumers' word of mouth?
4. To what extent does corporate social responsibility carry out in Indonesia correlates to the consumers' willingness to pay?
5. To what extent does corporate social responsibility carry out in Indonesia correlates to the consumers' loyalty intention?

I.3. Research Objectives

1. To identify the correlation of corporate social responsibility to consumers purchase intention.
2. To identify the correlation of corporate social responsibility to consumers' word of mouth.
3. To identify the correlation of corporate social responsibility to consumers' willingness to pay.
4. To identify the correlation of corporate social responsibility to consumers' loyalty intention.

I.4. Significance of the studies

1. The study contributes more information about Indonesian consumers' behavioral intention exposed to CSR.
2. The study provides an additional point of view for decision makers that CSR are not viewed as cost but more of an investment.

3. The study addresses positive behavioral intention from customers due to the implementation of CSR.
4. The study provides more information for (decision makers in) enterprises on the implementation of corporate social enterprises affecting its customers.
5. The study of CSR correlating to consumers' behavioral intention has not been done within Indonesia's cosmetic industry. This study is done in Indonesia upon its capital city, Jakarta.

