

2. Literature Review

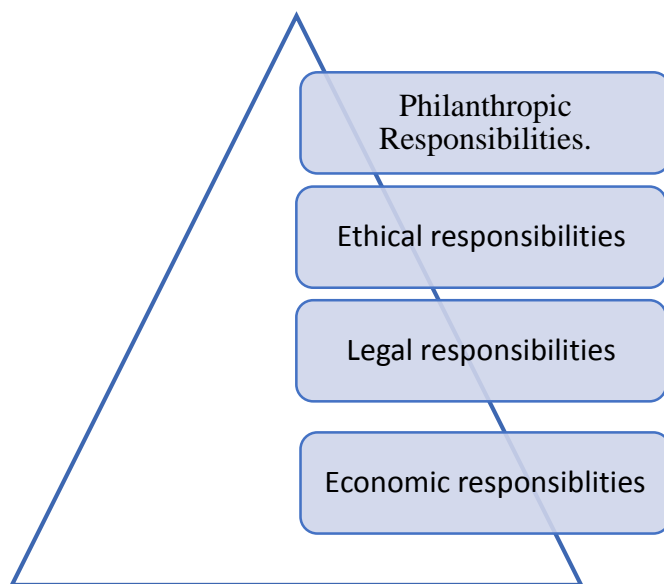
This chapter will discuss the concepts, definition, and components about corporate social responsibility (CSR) and concept about brand image. The relationship between brand image and corporate social responsibility will be given to give a better understanding about each of the concepts. At the last section of this chapter, a conceptual framework will be given to show the factors that drive the research.

2.1. Corporate Social Responsibility Concept:

There are many ways on how to define corporate social responsibility, and there is no consistent definition on describing CSR. Davis (1973, p. 312) described CSR as the responsibility of the corporation to the social and environment issues that exists in the world. Bowen in the 50's elaborate corporate social responsibility as the obligation of businessmen to seek after the policies, to follow the policies, or to take action which is alluring with the desirable in terms of the objectives and value of our general public (Kashyap et al, 2011, pp. 53). But the definition of corporate social responsibility is best outlined by the Commission of European Communities. According to Dahlsrud (2008 p.7), The Commission of European Communities defined the standard definition of CSR as an idea whereby organizations incorporate social and ecological worries in their business operations and their collaboration with their partners on a willful premise.

Each and every people has a different level of concern about the social crisis. According to Gonzálezrodríguez (2016, p.14), Educational background affects the environmental concern of an individual. The higher the educational background of a person, the more concern the individual will be in towards the environment and humanitarian crisis. It means the level of education have an impact towards how they concern about what happened in their surroundings. Carroll's (1991, p.40) corporate social responsibility model mentioned that there are four categories of CSR. Those categories are economic responsibilities, legal responsibilities, ethical responsibilities, and philanthropic responsibilities.

Figure 2.1 Corporate Social Responsibility Model (Carroll, 1991, p.42).



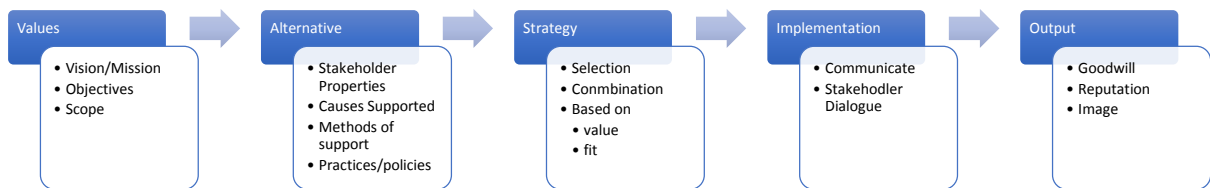
Economic responsibilities are the basic business economic units as businessmen. Businesses are expecting profit from becoming the basic unit of the economic unit as their role is to provide goods that are needed in the society. After economic responsibilities, Legal responsibilities is the next category in the model. Legal responsibilities are the responsibilities that expecting businesses to follow the ground rules and the law that exist in the area where businesses operate.

Ethical responsibilities explain about the process of following what is considered right in the society although the rules are not written or codified into a law. The involvement in ethical responsibilities can be done by upholding the justice and being fair while running business processes. It is the strategy of a manager towards the value of right or wrong while running the business process. Carroll (1991, p. 41) refer the ethical responsibility as the need of a firm to perform in a manner where a company meet the expectation of the society and follow the norms, respect and recognize evolving or new moral adopted by the society and to achieve company's goal by preventing the ethical norms to be compromised.

The last category that located on the top of the pyramid is philanthropic responsibilities. Philanthropic responsibilities are created to help the society, building a

new and better environment for a better and improved live experience. Philanthropic responsibilities are discretionary part of the business (IDEMUDIA, 2010, p.19). It means it is a voluntary action of a business. The actions that taken by engaging the philanthropic responsibilities are the actions to help the society to improve social welfare. This action will show that a company can help the society as they become what people expected a business to become which is to become a good corporate citizen. Philanthropic corporate social responsibility is different than profit initiative CSR as Profit initiative CSR works by empowering the area where the company is located and allow the surroundings to sell and promote the product that the company introduced to the market. The engagement of corporate social responsibility has to undergo several processes before it can be implemented. The following figure below will explain the process of the corporate social responsibility.

Figure 2.2 CSR Process. Source: O’Riordan and Fairbrass (2014, p.126)



Engagement in corporate social responsibility also gives something in return to the business from the market. Matten and Moon (2008, p. 405) believed that CSR also provides benefit to the firm as it will improve the performance and social reputation. Based on figure 2.2, the result that expected by a company is goodwill, reputation, and image. As The company helping people by doing CSR program, it leads to the enhancement of Starbucks as market appreciate and positively esteems most the aspects of CSR (Gregory et al, 2014, p.654). Some companies contribute to the society without any desire of getting publicity thus they expected to get a positive brand image in the market. Counthoy and Kazi (2016 p.80) support the theory about CSR that gives brand image to the company as they stated that brand image of a company could increase by building a strong relationship with the community that a group exists in which is by undertaking social responsibilities in the process of pursuing corporate objectives.

Firms in the same industry compete to win good reputation in the market. the intention of earning more reputation and image is to attract the customer to use their service.

2.2. About Starbucks Indonesia and Its CSR Implementation in Indonesia.

Starbucks is one of the world's most ethical companies (Smith, 2012). According to Starbucks' website, the company was found in 1971 in the United States of America. Starbucks' mission is to inspire and nurture the human spirit. Starbucks slogan on their mission is one person, one cup, and one neighborhood at a time. Starbucks is known for its coffee but it is not only coffee that Starbucks offer to the market. They also offer teas and pastries. Starbucks is one of the companies that care about the community and environment. Their vision is to elevate their customers, suppliers, and partners to create a positive change. There are plenty of corporate social responsibility program that the company has implemented in the market from ethical responsibilities to philanthropic responsibilities.

The first Starbucks store in Indonesia was opened on the 17th of May 2002. It was located in Jakarta and another flagship of Starbucks was also built in 2002 located in Plaza Senayan, South Jakarta. As of 10th of April 2013, Starbucks Indonesia has built 147 stores in 12 major cities in Indonesia. Starbucks is known for the use of coffee beans that produced in Sumatra. According to an interview with the director of Starbucks Indonesia, Anthony Cottan, with Tempo (Prasetyo, 2013), Starbucks has grown 10 to 20 percent within 3 years in Indonesia. Indonesia is the only country in Asia where Starbucks has grown up to 2 digits of growth within 3 straight years. Starbucks in Indonesia is ranked in the 5th place among commercial brands in Indonesia (Dholakia, 2012, p. 197). There was also an increase by 30 percent of sales due to the newly opened stores around Indonesia. A research conducted by Susanty and Kenny (2015) has shown a result that Starbucks and people of Indonesia are matched due to the lifestyle of the people in Indonesia. It says that the company reflects and supports the lifestyle of Indonesians. Although the price of coffee that Starbucks offer is considered as expensive compared to its competitor (Nuswantoro, 2014).

Starbucks company has implemented corporate social responsibility in Indonesia both in supporting social welfare and green environment. one of the ethical responsibilities that the company has implemented towards their supplier in Indonesia is

that they purchase the coffee beans in an ethical transaction with coffee farmers. Based on Starbucks' corporate social responsibility report (2016), Starbucks is using 99% ethically supplied coffee beans. Starbucks has invested more than fifty million dollars in order to help the farmer to let them renovate their farms. Starbucks ensures the prosperity of the farmers. the company believes that by ensuring the welfare of the farmers to ensure the long-term supply of high-quality coffee beans. Not only to the suppliers, Starbucks also treats their employee fairly. The company refers its employee by calling them partners. Starbucks valued diversity in their guiding principles. The firm's partners are diverse not only in gender, disability, and age but also in cultural backgrounds and life experiences (Starbucks, 2017).

Starbucks also applied for voluntary programs in Indonesia. According to one of the new channel in Indonesia, Medan news (2015), Starbucks has built Aqua towers in Indonesia. There are six aqua towers in Indonesia that Starbucks built, 2 towers in Bali, 1 in Gebang Bekasi, Banten, Lau Bekari village, South Sumatra, and the latest Aqua tower that Starbucks built is located in Medan. Starbucks earns the money by gathering money from the purchase of mineral water. Starbucks donated one thousand rupiah from each of the mineral water that the consumer purchased from its stores. The firm built the towers in order to help the people who have difficulties to find clean water in Indonesia. Starbucks also support green environment in its every store in Indonesia. They support to reduce and recycling of waste. Starbucks gives the customers on a specific date that every consumer who owned a Starbucks tumbler will have a half price discount for the drink that they order. This helps to reduce the use of packaging and cups for every drink the customers purchased. Starbucks also implement green environment program in interiors in every store.

2.3. Brand Image

Brands, as described by Kotler and Amstron (2008, p.340), can be defined as the representation of the customers' perception concerning its performance and product. An image is the knowledge of the market on how the consumer feel, think and understand towards the brand (Gherghina, 2014, p.84). It is also the market perception on positioning the brand product. Keller (1993, p.3) described brand image as "perceptions about a brand as reflected by the brand associations held in consumer memory.". Aaker (1996) stated that the image of a brand is the way that consumer as a

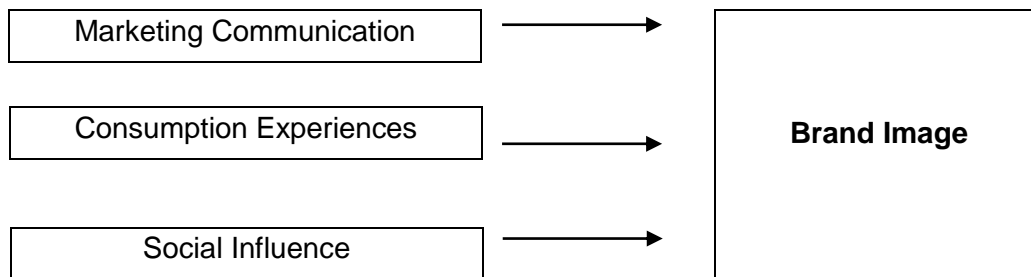
target audience sees the brand. What is perceived by the market is important as it is going to affect the decision of the customer to choose the service or product that offered by the company.

According to Ronsegren et al (2010), there is an example that shows how a strong brand image can affect the decision making of the market brought forward by Melin. The test is regarding the customer preferences of Pepsi-Cola and Coca-Cola. The result of the blind testing test is that customers prefer Pepsi Cola to Coca-Cola. But before proceeding to the test customers were asked which cola brand do consumers prefer to buy in the market, the customers prefer Coca-Cola the test shows that the brand image has a substantial impact on the consumer buying behavior.

According to Srivastava and Sharma (2013, p. 278), Corporate image does not just give the company new customers but also keep the customers to stay and use the service in the future time that will boost the income of the enterprise. Lee and Ganesh (1999, p.38) stated that brand image also contributes to the creation of brand loyalty. Brand loyalty is the term where customers would buy the product or use a service that offered by a company again in the future. The increase in the brand image means there is also an increase in brand awareness. Tanveer and Lodhi (2016, p.41) believed that the increase in brand awareness would affect to the increase in the brand equity. Brand equity is another term of brand value. it can be concluded that based on the theory, the increase of brand image would also help the company to increase in their brand value.

Firms have to make a good image for their brand in order to attract the consumer to buy their product. According to Dolich (1969), brand image is important because it determines customer's decision making in order to buy a product as well as it also influences the consumer's buying behavior. Riezebos (2013) explained about how brand image formed by three processes of inductive inference, which are, marketing communication, consumption experiences as well as social influence. It explained about the processes that are affecting to the consumer's view of an image of a brand. Figure 2.3. shows the process of inductive inference on brand image.

Figure 2.3. The Process of Inductive Inference on Brand Image (Riezebos, 2003, p. 66)



The first process of inductive inference on brand image is marketing communication. Marketing communication is explained when a company exposes their brand identity by using advertising. There is a possibility that company can create consumers brand image and shows their brand identity by using advertising. According to Riezebos (2003), advertising is done in order to make brand identity and brand image to be as similar as possible. Riezebos (2003) also stated that the marketing communication of a brand have to shaped in a way that relates the image of a brand that created by consumers with the identity of brand itself that a company wants to communicate.

The second process of inductive inference on brand image is consumption experience. Marketing communication has a positive effect on the consumers in creating brand image. On the other hand, consumption experiences still important in order for consumers creating brand image. Riezebos (2003) explained that marketing communication and consumption experiences should not dispute each other for consumer to have a brand's cellar image since the message, which communicates to the consumption experience would have a vast effect on the consumer. This relationship between marketing communicating and consumption experience can conduct a perfect match in order for consumers in creating a brand image. On the other hand, marketing communication has to be replaced in order to minimize a gap between marketing as well as the experience itself of a consumer.

The last process of inductive inference on brand image is social influence. One of a tool that affects to the consumer is the word of mouth. Getz (2007) explained that the process of social influence can include word of mouth as the communication tool. According to Blythe (2006), Word of mouth has a great influence in a discussion between

two people or more which each people can express their opinions and word of mouth also having more confidence comparison to the other communication tool. All of the opinions that have been expressed by each people might be affected to the consumer and can be an impact to the brand image.

2.4. Consumer Behavior – Value Driven Consumer Buying Behavior

Companies communicate and express their value with customers by using brands (Smith, 2010, p.625). According to Valenzuela and Villegas (2016, p.16), sales of a product introduced by a company might fall in a highly competitive environment if a company did not value the brand as it risks depreciating its value. It means there is a relation between value and sales. Customer tends to buy a product from a company that has good brand and stakeholder value. Starbucks' CSR plan on helping to solve the social problem gives good image to the company that creates values to Starbucks.

As it gives values to Starbucks, there is a possibility that there would be an increase in the potential market because of the consumer behavior in the market. It means there is also a possibility that Starbucks' future profit might increase in the future. A research by Harris and Murawski (2010) shows that the value of the brand influences the decision that will be taken by a customer. This shows that creating brand value is important to attract customers. Creating value is also important to compete against another competitor in an industry. The better the value that a company can create and share with the customers, the stronger the company will become in the industry and the more customers will come and choose to use the service offered by the company.

Figure 2.4 Purchasing Decision Process (Kaze, 2010, p.133)

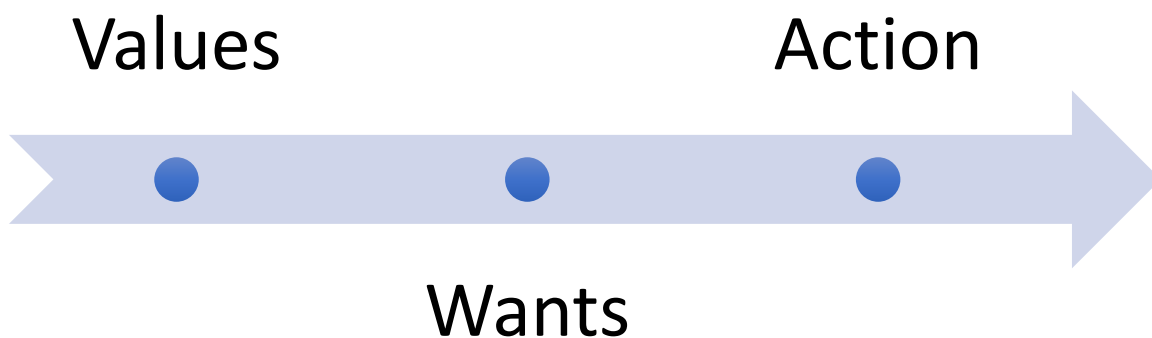


Figure 2.4 explains the process of decision making that customers do before they buy a product that businesses offer. The first factor that starts the process is valuable. After creating value in the market, it will lead to the creation of wants or demand in the market. The creation of demand in the market is what companies are trying to build in the market because when there is demand, the customers will use the service that the company offer. The more customers that go use the service, the more profit that the provider of the service earn money and get profit.

Value triggers demand in the market. People are willing to pay an extra cost to get what the value that offered by the company. For example, a person is willing to go to use a service because of the good reputation and image of the company although the cost of the service is higher than others. The image of the company gives more attention to the customer to use the service with extra cost which can be used as a differentiation with the other competitor. It adds credibility to the company itself. According to Srivastava and Sharma (2013, p.278), corporate image does not just give the company new customers but also keep the customers to stay and use the service in the future time that will boost the income of the company. So, the people will consider brand value as an additional benefit that the customer get from using the service as people will pay more money to use a serviced provider with a good reputation.

Starbucks implements green brand image which means Starbucks wanted to be a firm that cares about the community and environment (Farida & Ardyan, 2015). On the research conducted by Fardia and Ardyan (2015) about the green image implemented by Starbucks, the investment in green image has created a result which is customer has a positive impact towards green brand trust and repeat purchase intention. The data that supported by Bali Climate Change Conference, (Solihin, 2009) that mentioned 86% of the adults who live in big cities in Indonesia, including Jakarta, never got the knowledge about corporate social responsibilities. Starbucks has been educating its customers on how to be caring towards the environment but still can produce and deliver high-quality coffee for customers to enjoy. Farida N and Ardyan (2015) believe that there will be people who concern about the environmental and social implications that will rise over the time. Those customers are considered as people who will purchase the Starbucks based on the green value that the firm implemented. This kind of people needs their own reason to buy a product based on the behavior of the person.

2.5. CSR in Emerging Market

A firm or company cannot stand-alone by themselves without the help of the society. They are expected not to be self-centered so the firm or company conducts CSR or Corporate Social Responsibility in order to give back to the society. Raynard and Forstater stated that firms and companies begin to recognize that to achieve their main goal and to keep their existence in the market, they should not only focus on gaining profit but also make sure to put concern for their surroundings and maintain business etiquettes (Krishnan & Balachandran, 2004). Through observation based on CSR, developed countries such as the United States and the United Kingdom and European countries already have strong perception towards CSR (Crane & Matten, 2007 as cited in Tilakasiri et al., 2011).

Tilikasiri et al. (2011) also mentioned that those countries have established CSR frameworks, standards, policies, etc and implemented it on firm's CSR program both locally and internationally. However, it has been argued that the standards of corporate social responsibility that are implemented in those countries are more likely biased towards U.S perspective in which it could be hard to be implemented in other countries, and it is also said that CSR practice between countries can be different (Lindgreen et al., 2009; Tilikasiri et al., 2011). It has been observed that countries have differences in commitment towards how they want others to perceive them as socially responsible in which a reason behind it may because of the nonexistence of universal standard of CSR (Williams & Aguilera, 2006; Forte, 2013).

U.S. firms recognize of their social and ethical obligation. U.S also recognize that firms should not only endure economy but also legal, ethical and discretionary obligation, in which discretionary obligation could be interpreted as firm could willingly give back to the society (Forte, 2013). Most firms in the U.S. focus on fighting hunger, in which the U.S. Sentencing Commission's Guidelines for Organizations in the U.S. supports firms to achieve the goals of fight against hunger (Forte, 2013). Not only developed countries that have already develop CSR, but emerging countries also started to give their concern towards CSR. Based on the research, the trends of CSR in emerging countries have been growing (Rosenthal, 2014).

GIZ or Deutsche Gesellschaft für Internationale Zusammenarbeit (2011) also said that due to the social and governance issue, many big firms in the emerging countries have already improved their environmental and social governance in compare to the developed countries. They also highlighted that firms that are leading in the issues can make use of their condition in order to have a bigger effect in the place where it is most needed and utilize economic related opportunities, and also related to this condition, there are few of international strategies in order to encourage CSR inside SMEs, firms in emerging market and firms that are included in Business to Business (B2B) sector, in which that kind of strategies are essential because they encourage firms that are considered as the stimulus towards the emerging market (GIZ, 2011; Rozenhal, 2014).

According to Rozenhal (2014), CSR is more likely to grow and develop continuously, and it will be challenging to establish respectable firms in which through the “doing well by doing good” in emerging markets, especially among SMEs. According to Chambers et al., (2003), the penetration of CSR towards seven Asian countries which includes India, Indonesia, Malaysia, Philippines, Singapore, South Korea, and Thailand have the mean score of 41% which really different compared to the penetration score of developed country, United Kingdom with the score of 98%, but apart from the total mean of the seven Asian countries, the score of India itself are higher than Indonesia with India 72% and Indonesia 24%, they conclude that the perceptions of CSR towards developed and emerging countries are different (Chambers et al., 2013; Krishnan and Balachandran, 2004).

Due to the high score of CSR penetration in India, this condition is related to the new rules implemented in the country. The businesses that have revenues of more than 10 billion rupees per year should give 2% of their profit to the charity (Balch, 2016). The new India's Companies Act 2013 announce new requirements for Indian corporate business, in which CSR is included in the new Companies Act, every prospective company are expected to spend 2% of their profit addressed to the three years program of CSR activities, and this new rule is active starting from 1 April 2014 (Hiraral & Company, 2015). According to Balch (2016), the charity spends by the Indian companies had increased from 33,67 billion rupees in 2013 to 250 billion rupees after the activated of the new rules. However, not all the company in India could obligate to the new rules, a survey by KPMG's accountant found that more 52 of 100 companies in India have

failed to impose the rules of 2% spending on charity, in which based on Economic Times, they have been cheating through still giving donations to charity foundations but then return back the money reduced by Commission (Balch, 2016).

In Asian environment, violation towards workers' rights is still a big issue, therefore CSR is being established in order to counteract and minimize mistreatment of labor condition but also to minimize the damage to the environment caused by the industrial manufacture, because of this, Indonesia has also implemented a specific mandatory approach towards CSR, the new law is implemented in 2007, law no. 40 on Limited Liability Companies, Article 74, in which said that the company that is having their business in the natural resources sector and related sector are required to involve in social and environmental responsibility (Gentile, 2014).

2.6. Conceptual Framework

To complete this research, it required the support of theories as foundation of this study. It is essential to look at the previous theories regarding this topic and researchers that have the same context with this thesis in order to create a hypothesis that will be used in this research and to get relevant information regarding this topic.

Table 2.1. Hypothesis Construction

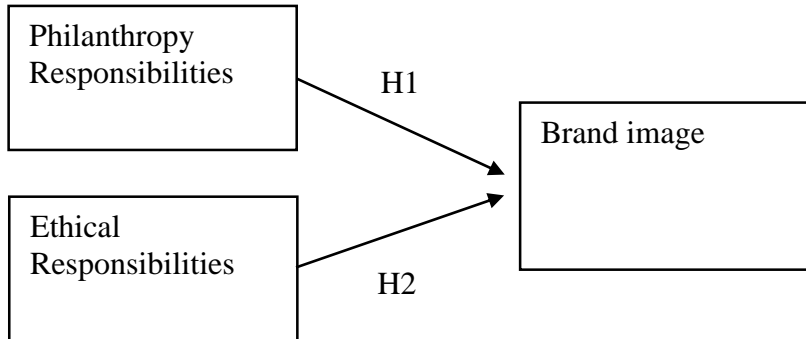
Research title	Research author	Publication year
The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders.	Carroll, A. B	1991
Ethical and philanthropic responsibilities in practice	Grigore, G	2010
Building strong brands	Aaker, D.A	1996
Corporate Social Responsibility for Takaful	Ahmad, M. F., Melatusami, S. Z., Rasit, R. M., Yunus, N., &	2016

Industry's Branding Image	Rafidah, N.	
---------------------------	-------------	--

Source: Researcher of the study.

This research is using corporate social responsibilities concept by highlighting 2 categories which are the Ethical responsibilities and Philanthropic responsibilities. Carroll explains that these responsibilities are beyond legal and economic responsibility that owned by a company. These categories are different than other categories because legal and economic responsibilities are required by the society while ethical responsibilities are desired by the society and philanthropic responsibilities are demanded by the society. Therefore, this study is going to use these two dimensions beyond legal and economic responsibilities to know the impact of abiding these responsibilities to the brand image of Starbucks.

Figure 2.1. Conceptual Framework of the Research



Source: Researcher of the study.

The hypotheses of the study are shown below

H1: The involvement of philanthropic responsibilities has positive impact on brand image.

H2: The involvement of ethical responsibilities has positive impact on brand image.

Researchers have conducted this type of model before. The research that conducted by Rahman (2013) was analyzing this model of framework in Bangladesh focusing on electronic industry. Ahmad et al (2016) also conducted this research in

Malaysia focusing on finance industry. and Gudjonsdottir & Jusubova (2015) focusing on hospitality industry that conducted the research in Sweden. All of the findings say that there is a direct relation between philanthropic and ethical responsibilities on brand image. Although the each of the previous studies is conducted in different industries, it is interesting to see the result of this research as this research is conducted in Emerging Market and using Starbucks, one of the famous brands in Indonesia, to be analyzed and compared to the previous studies. The result of this thesis will determine whether this analysis in coffee industry in Indonesia will have the same result as the result of the previous findings (including in developed country) knowing that the level of awareness of corporate social responsibility in big cities in Indonesia is low.