CHAPTER I
INTRODUCTION

A. Research Background

The topic of corporate social responsibility (CSR) has received increasing attention from both researchers and practitioners over the past a few decades, and CSR practices have become mainstream business activities (Romani et al., 2013; Kitzmueller and Shimshack, 2012). In the context of the hospitality industry, CSR activities also play an essential role in determining a company's social and economic performance. Customers may show favorable attitudes and behavior toward socially responsible. This issue is conducted related to the CSR program. The globalization era of each company is not only focused on getting profits, but the companies have CSR program as the primary concern of each company around the world.

CSR is an excellent program for each company to invest long term relationships with the community, environment, and social. Melo et al. (2012) have shown that companies benefit from engaging in CSR programs, not only obtaining favorable consumer awareness, attitude, and a sense of attachment but also building a good reputation in the long run. The companies could promote corporate social responsibility (CSR) programs within officially website pages, social media platforms, and direct message word-of-mouth communication.

The current phenomena of each company in Indonesia is more concern with the CSR program. In Indonesia, there is an essential event that focuses on CSR rewards to the company, which has conducted the program of CSR. Indonesia Corporate Social Responsibility Award (ICSRA), Jakarta II in 2018, is an event focus on the company which conducted a CSR program. The assessment groups such as State-Owned Enterprises are a business entity in which the capital is owned by the government originating
from state assets; Regional Owned Enterprises is a business entity managed by the
regional government, Banks, Regional Development Banks, Property, Construction,
Telecommunications, Beverages, and Pharmacy. The companies winning ICSRA II
2018 following in below the table:

<table>
<thead>
<tr>
<th>NO</th>
<th>The Company</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>PT Multi Bintang Indonesia Tbk</td>
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<tr>
<td>2</td>
<td>PT Bukit Asam (Persero) Tbk,</td>
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<tr>
<td>3</td>
<td>PT Indofood Sukses Makmur,</td>
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<td>4</td>
<td>PT Bank CIMB Niaga Tbk,</td>
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<td>5</td>
<td>PT Modernland Realty Tbk</td>
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<tr>
<td>6</td>
<td>PT Indocement Tunggal Prakarsa Tbk,</td>
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<tr>
<td>7</td>
<td>PT Bank Rakyat Indonesia (Persero) Tbk.</td>
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</tbody>
</table>

Through this award, it is expected that the companies would be encouraged to
improve achievements and its essential role in implementing CSR practices in
Indonesian Companies. There is 80 percent of 500 companies show that already
conduct CSR activities on official websites (Bhattacharya & Sen, 2012).

The Law of Republic Indonesia, number 40 of 2007 article 74 concern to the social
and environmental responsibility, explains, "Companies that carry out business
activities in the field or relating the resources must carry out social and environmental
responsibilities. The companies in Indonesia have the responsibility to be responsible
for the social, environmental, and community. Additionally, the government supposed
the company to allocate the budget to a CSR program.

CSR is emerging as a requirement for many companies in a highly competitive
business environment (Arikan, Kantur, Maden, & Telci, 2016). Customer perception of
CSR is a broad concept that encompasses four dimensions: economic, legal, ethical,
and philanthropic (Choi & La, 2013). The economic indicator refers to the corporation's economic responsibilities in terms of competitiveness, profitability, and operational efficiency (Carroll, 1991; Lee et al., 2012). The legal indicator refers to a corporation's obligation to the regulations in the marketplace. Ethical CSR focuses on justice and integrity in practices grounded in moral principles (Carroll, 2004). Philanthropic CSR mainly focuses on giving back to society without expecting anything in return (Carroll, 2004) and heavily investing in CSR activities (Smith, 2003). According to Williams et al. (2006), CSR could build and maintain a reputation as a form of strategic investment. The company’s engagement in CSR activities enhances corporate reputation as extrinsic motivation. The customer perceptions of CSR activities are positively related to the company’s reputation.

Corporate reputation is an intangible asset for a company (Branco and Rodrigues 2006). According to Melo and Morgado (2012), corporate reputation plays a role as a signal of the company’s key characteristics and as a source of competitive advantage. Thus, consumers rely on corporate reputation to judge the company’s product or service when faced with a lack of information about a product or a company (Schnietz & Epstein, 2005). Corporate reputation protects the company from consumer perceptions of negative information. Corporate reputation defined is a cumulative representation, a firm’s actions that signal the firm’s ability to generate valuable outcomes to multiple stakeholders (Fombrun & Van Riel, 1997). Corporate reputation determined by signals that stakeholders receive regarding behavior in the marketplace (Charles Fombrun & Shanley, 2018). These signals can be product quality, financial performance, media visibility, and CSR (Pavelin & Brammer, 2006). According to Walsh et al. (2009), customers who perceive the company to have a good reputation would expect more
willing to favorable WOM than those customers who do not perceive the company has a good reputation.

WOM communication involves the spoken word, face-to-face situation sharing products, and services information with another (Bickart & Schindler, 2001). WOM communication could be individuals exchange information, but not limited to, phone conversations, face-to-face encounters, and the Internet (Souki, Oliveira, Isabella, & Silva, 2018). WOM reflects the interpersonal influence between a sender and a receiver and has recognized as an essential predictor of consumer decision making (Su, Swanson, & Chen, 2015). WOM is a form of social influence that may positively or negatively change the receiver’s attitude and behavior (Su et al., 2015).

Customer trust is a fundamental constituent in building and maintaining a long term relationship between customers and the company (Morgan & Hunt, 1994). The integrity of customer trust is a consumer believes that a company demonstrates consistency between their values and behavior, and adheres to the moral principle of fairness (Mayer et al., 1995; McKnight et al., 2002). The company must pursue management functions: planning, organizing, actuating, and controlling. Hence, proper planning and followed by a monitoring process of all that has planned would create maximum goods and services, customers would give a positive response to the company.

PT Indofood has progressively transformed into a total food solutions company with operations for each stage of food manufacturing, the production of raw materials, and processing to consumer products in the market. Moreover, this company renowned as a well-established company and a leading player in each business category in which it operates. The business operations, Indofood capitalizes on economies of scale, and a
resilient business model with four complementary strategic business groups included consumer branded product, *bogasari*, Agriculture, and distribution.

PT Indofood has an essential program which sustainable and consistent to give a proper impact of each province in Indonesia. CSR program is crucial for this company due to the customer will give argue or opinion to PT Indofood. This company provided research funding to each student from 33 state universities and 12 private universities through the Indofood Nagraha Research (IRN) program for the 2019-2020 period. This program is crucial for each student in Indonesia due to can help the funding during the study in undergraduate.

The CSR Program of PT Indofood launched the “Green Warmindo Program.” This CSR Program emphasized education and packaging waste from Indomie Stalls (Warmindo) to be collected and recycled as one of our efforts to build the Circular Economy from packaging waste. The launching event was attended by Indofood’s Management, Bintari Foundation as Indofood’s partner, Warmindo Entrepreneurs, Semarang’s Environment Agency, Sub-district Administrative, Village Administrative, and local communities in 2019. Community participation and support from the local government are crucial for the continuity of the CSR program.

The preliminary study is an initial exploration of issues related to a proposed quality review or evaluation. This study is in the form of research activities to determine the setting and subject. The author has chosen PT Indofood Sukses Makmur as the setting of this study. Universitas Muhammadiyah Yogyakarta students as the respondents of this study. The initial information gathered from the responses provided by the ten major from each faculty in Universitas Muhammadiyah Yogyakarta. The data collection of a preliminary study carried out in UMY Campus were 40 students. The respondent could understand CSR programs such as environmental concern, social
concern to the employees, and delivering responsibility products in PT Indofood CBP Sukses Makmur. The pattern of respondents concluded that the designed questionnaire has the potential to generate insights into the respondent's concern to society, environment, and community. In the preliminary study, the instrument is adequate to collect data that can be used to research about CSR program in PT Indofood CBP Sukses Makmur.

PT Indofood CBP Sukses Makmur received awarded from International, and national institutions such as Indofood as Top 3 Most Powerful Food/Drink Brand in Indonesia by Markplus Inc & Nikkei BP Consulting, Inc 2017. PT Indofood Sukses Makmur Tbk is the top Companies in 2017 by Forbes Indonesia Magazine. PT Indofood CBP Sukses Makmur Tbk is best at Corporate Social Responsibility (Ranked seventh) and Best at Investor Relations (Ranked nineth) by Finance Asia Magazine, and etcetera.

PT Indofood CBP Sukses Makmur has a CSR program which concerned to education for each student, who has to achieve a scholarship provided by Indofood. Karya Salemba Empat Foundation, which supports high achieving students through university education. Indofood Research Nugraha is Indofood research grant for undergraduate students working on food research. The advancement of food research by encouraging research in food security. Smart Home Indofood is a community development initiative run Agribusiness Group since 2013 to provide non-formal education for local communities in the five provinces of North Sumatra, South Sumatra, Riau, East Kalimantan, and South Sulawesi. PT Indofood provided research funding to each student from 33 state universities and 12 private universities through the Indofood Nugraha Research (IRN) program for the 2019-2020 period.

PT Indofood has a program to develop the small and medium enterprises, support several aspects included upstream business activities through partnerships with
farmers, palm oil smallholder farmers, and cow breeders producers to downstream business activities through Indomie. Entrepreneurs Partnership (Warmindo), Bogasari Mitra Card (BMC), and Pojok Selera. Indofood has established the synergetic partnerships with thousands of local farmers of potato, chili, cassava, and coconut sugar to generate long-term economic values. The Agribusiness Group provides regular training, including best practices on agronomy, sustainable farming practices, and smallholder management, for its palm oil smallholder farmers.

The Waste Bank is a concept of collecting dry and sorted waste and having management like banks, but this Bank does not save money expect for spams. The aims of Waste Bank to raise consumer awareness on the management of package waste and to engage the public, local government, and Non-Government Organizations to jointly address the packaging waste issue (indofood.com). This program is an excellent idea to decrease spams, such as plastic bottles, papers, and etcetera. The customer would be more concern about environmental, societies, and community.

This study is a replication of the study of Jalilvand, Vosta, Mahyari, and Pool (2017). This research has chosen to investigate PT Indofood CBP Sukses Makmur Tbk as the setting due to this company actively promoting CSR programs in various media both in official website pages. PT Indofood CBP Sukses Makmur Tbk is a big company in Indonesia that has conducted a CSR program which sustainability and contributed to help SMEs with development education by using digital technology. This study is expected to explain the marketing phenomena that occurred within the implementation of CSR to customer trust, corporate reputation, and word-of-mouth could be analyzed more specific research objects, PT Indofood CBP Sukses Makmur Tbk.

B. Research Problem

According to the explanation in the research background, this research forwards research problem to following in below:
1. Does CSR affect the corporate reputation of PT Indofood CBP Sukses Makmur Tbk?

2. Does CSR affect WOM of PT Indofood CBP Sukses Makmur Tbk?

3. Does corporate reputation affect customer WOM of PT Indofood CBP Sukses Makmur Tbk?

4. Does corporate reputation affect customer trust of PT Indofood CBP Sukses Makmur Tbk?

5. Does customer WOM affect customer trust of PT Indofood CBP Sukses Makmur Tbk?

6. Does CSR affect customer trust of PT Indofood CBP Sukses Makmur Tbk?

7. Does corporate reputation mediate influence CSR on customer trust of PT Indofood CBP Sukses Makmur Tbk?

8. Does WOM mediate influence CSR on customer trust of PT Indofood CBP Sukses Makmur Tbk?

C. Research Objectives

The objective research has guidelines to carry out their research, based on research background and research problem set out above this study aims to:

1. Analyzed the influence CSR affects the corporate reputation of PT Indofood CBP Sukses Makmur Tbk.

2. Analyzed the factors CSR affect customer WOM of PT Indofood CBP Sukses Makmur Tbk.

3. Analysed the influence CSR affect customer trust of PT Indofood CBP Sukses Makmur Tbk.

4. Analysed the influence of corporate reputation affect customer trust of PT Indofood CBP Sukses Makmur Tbk.

5. Analysed the influence WOM affects customer trust of PT Indofood CBP Sukses Makmur Tbk.
6. Analysed the correlations between CSR affect customer trust of PT Indofood CBP Sukses Makmur Tbk.

7. Analysed the impact of CSR mediate influence corporate reputation on customer trust of PT Indofood CBP Sukses Tbk.

8. Analysed the impact of CSR mediates influence WOM on customer trust in PT Indofood CBP Sukses Tbk.

D. Research Benefit

The research conducted is expected to provide several benefits and sustainability:

1. Business field

   This research could be a source of information and referrals regarding the influence of CSR, corporate reputation, word of mouth, and customer trust. It could use as a reference for the business field in strategic decision making to increase awareness in the society, environment, education, and etcetera.

2. The Future Research

   The results of this study expected to increase the insight of the author about the theory used and things that occur in the field related to CSR, corporate reputation, word-of-mouth, and customer trust in Indonesia, especially for PT. Indofood CBP Sukses Makmur and other companies in Indonesia.