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## The Analysis of Corporate Social Responsibility Implementation Effects towards Price Fairness, Trust and Purchase Intention at Oriflame Cosmetics Product in Surabaya

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### Abstract

This research aims to clarify the effect of Corporate Social Responsibility (CSR) on price fairness, trust, and purchase intention to the Oriflame cosmetics brand in Surabaya. This study is causal descriptive, the number of samples are 111 respondents, and the data analysis technique is the structural equation models. The findings in this study are: while the CSR's influence on the price fairness and trust are proven, its effect on the purchase intention is not. The price fairness and trust influence positively the purchase intention so they can mediate the CSR and the purchase intention to the Oriflame brand products.

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*Keywords:* Corporate social responsibility; price fairness; trust; purchase intention

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### 1. Introduction

Corporate Social Responsibility programs are meant to be independent from companies' marketing orientation so that they do not fall into a 'black campaign' of being used for promotional activities. Nevertheless, CSR programs, including by Oriflame, have a positive impact on product marketing. Hoeffler and Keller (2002) call this "social marketing", and described it in detail in their discussion of social marketing capabilities in building brand equity. Social marketing can build brand equity because it can build brand awareness, enhance the brand image,

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build brand credibility, evoke brand feelings, create a sense of brand community, and elicit brand engagement. Bloom, Hoeffler, Keller and Meza (2006) in their study also find that social marketing has positive implications on behavior. This statement is valid because social marketing positions social activities as part of a marketing strategy and is able to draw a positive response. Chattananon, Lawley, Trimetsoontorn, Supparerkchaisaku and Leelayouthayothin (2007) supports this notion by stating: "Societal marketing can allow corporations to differentiate from competitors by themselves creating an emotional bond with consumers." Social-based marketing enables companies to differentiate themselves from their competitors. This difference is positive as it supports marketing activities. Similar opinions are expressed by Chatterton and Maxey (2009): "... use of CSR to manage corporate image," meaning that CSR programs can also help corporate image. Corporate imaging can be constructed from environmental concerns of CSR programs. Although CSR and marketing programs should be separated, both are mutually interconnected. As sales increase, companies have a greater ability to allocate their resources for the benefits of the environment or to finance CSR programs. Yet the opposite is equally true because CSR programs can potentially bring a positive reputation so that consumers receive marketed products better and it ultimately results in increased sales. This study will examine the relationship between CSR implemented by Oriflame and several variables such as price fairness, trust, and purchase intention. A research by Ailawadi, et al. (2011) finds that CSR has a positive influence on price fairness, attitude, and behavior. Similarly, other retailer attributes also have a positive influence on price fairness, attitudinal and behavioral because they attract consumers to buy. CSR programs affect consumer confidence (trust) and that trust has implications on consumer buying behavior (Vlachos et al. 2009). Therefore, in theory there is a link between retailers' CSR programs and trust as well as price fairness, and all of those variables have an influence on purchase intention.

## **2. Literature review and hypothesis**

### *2.1. The relationship between CSR and price*

The relationship between CSR and price is explained by Onlaor and Rotchanakitumnuai (2010) as CSR initiatives affect customer satisfaction and loyalty, customer perception about price fairness, service quality, network quality, and privacy. This statement reveals that the initiatives of CSR influence various issues, including consumers' perception that a price set by a company is a fair one. When a company applies CSR, it shows that it concerns about the environment, including its consumers, so that the consumers see its product price as a reasonable one. Onlaor and Rotchanakitumnuai (2010) states that Economics is the fundamental component responsibilities for profitability to stockholders and business growth through producing quality products and services for customers with reasonable price. Economic aspects of CSR programs can establish price fairness, which means that when a company has a strong commitment to its CSR programs, it will encourage its consumers to accept its product price. Therefore, the research hypothesis 1 is:

H<sub>1</sub>: CSR applied by Oriflame affects price fairness.

### *2.2. The relationship between CSR and trust*

The relationship between CSR and consumer trust is explained by Carroll and Shabana (2010): "Legitimacy and reputation arguments hold CSR activities that may help a firm strengthen its legitimacy and reputation by demonstrating that it can meet the competing needs of its stakeholders". This statement shows that CSR can strengthen a company's legitimacy and reputation and demonstrate its ability to meet stakeholders' expectation. The reputation built by CSR can strengthen consumer confidence in the company. It is also supported by the opinion of Filho, et al. (2010): "Social Responsibility strategies are associated with competitive advantages, such as attracting valuable employees as well as enhancing the company image and reputation". CSR will provide a competitive advantage because it can give attractiveness to employees and will able to improve companies' image and reputation, and the same things happen with their consumers. In line with that, the research hypothesis 2 is:

H<sub>2</sub>: CSR applied by Oriflame affects consumers' trust.

### 2.3. *The relationship between CSR and purchase intention*

Carroll and Shabana (2010) stated that competitive advantage arguments contend that, by adopting certain CSR activities, a firm may be able to build strong relationships with its stakeholders and garner their support in the form of lower levels of employee turnover, and customer loyalty. CSR activities undertaken by a company can build a strong relationship with stakeholders and can draw supports as shown by low turnover and customer loyalty. This means that when a company applies a CSR, customers' repurchase will continue and can even increase. CSR is reported to affect, either directly or indirectly, consumer product responses (Lavorata, 2011). This statement explains that CSR has a direct or indirect impact on consumers' response to a product. When a company applies CSR, consumers will better accept its products. Related to that, the research hypothesis 3 is:

H<sub>3</sub>: CSR applied by Oriflame affects purchase intention.

### 2.4. *The relationship between price and purchase intention*

The link between price and purchase intention is expressed by Ahmad, et al. (2011) as customer perceptions and judgments of price unfairness will however lead to a negative emotional response like no action, self - protection, and revenge. This statement reveals that when consumers consider a price unfair, they tend to have a negative response to the product, protect themselves from buying the product, and do a revenge to the product. Ahmad, et al. (2011) also expresses a similar opinion as perception of price fairness is significantly related with emotions. The perception of a fair price would be able to influence emotions, and they influence buying intentions. The caused unfair price named three customers' response behaviors roommates are exit, voice, and unloyalty. The assessment of unfair prices could trigger consumers' three responses: leaving the company's products, making complaints, and being unloyal to the products. The research hypothesis 4 is therefore:

H<sub>4</sub>: Price affects purchase intention.

### 2.5. *The Relationship between trust and purchase intention*

The trust has also been found to be a significant factor affecting the customer's intention to purchase or repurchase from the same online vendor (Valvi & West, 2013). The research was done online but the point is the same that trust has a significant effect on the purchase and re-purchase intention of the customers. This point is reinforced by Akbar and Parvez (2009) as where the direct paths from customers' perceived service quality and trust to customer loyalty, meaning that there is a direct relationship between the quality of service and the confidence in the loyalty of customers. When customers are loyal, there is a chance that they will make a purchase in the future and the intention to buy is high. For that, the research hypothesis 5 is:

H<sub>5</sub>: Trust affects consumer purchase intention to Oriflame products.

## 3. **Research methodology**

The design of this study is a causal descriptive research because it tests the relationship between the variables being researched. The variables used in this study include the application of CSR to retail, price, trust, and behavior to purchase. These variables are classified into CSR application to retail as latent exogenous, price and trust as mediating variables, and behavior to purchase as endogenous latent. The indicator of all the variables in this research is measured by likert scale 1 to 5. 1 indicates strongly disagree while 5 indicates strongly agree.

The research samples are 111 respondents and the sampling techniques use snowball sampling. The samples are all Oriflame customers in Surabaya. To give a comprehensive picture of the effect of independent variables on the dependent variables, the technique being used is structural equation modeling (SEM) using Lisrel program. Structural Equation Modeling (SEM) is a statistical tool used to resolve simultaneous multilevel models that cannot be solved by a linear regression equation. SEM can also be considered as a combination of regression analysis and factor analysis. SEM can be used to solve the model equations with more than one dependent variable and the reciprocal influences (recursive). SEM is based on the analysis of the matrix covarians thus providing more accurate than the linear regression analysis (Ghozali & Fuad, 2005).

**4. Data Analysis and Interpretation**

*4.1. Structural Equation*

There are three equations in our model, each structural equation is:

$$\text{Price Fairness} = 0.78 \text{ CSR}, R^2 = 0.61 \tag{1}$$

Based on the above equation, it can be seen that CSR contributes positively to the variable of price fairness. The statistical contribution of CSR variable is 0.78. This means that the more positive the perception on the Oriflame CSR, the more positive the perception of the prices. This finding reveals that there is a real contribution from the CSR to the price acceptance. The respondents' assessment to the CSR Oriflame has a 61% influence on the acceptance of the price. This means that the change in the perception of the price by 61% can be explained from the change in the Oriflame CSR program.

$$\text{Trust} = 0.87 \text{ CSR}, R^2 = 0.76 \tag{2}$$

Based on the above equation, it can be seen that CSR contributes positively to the trust variable. Statistically, the contribution of the CSR variable is 0.87. This means that the more positive the assessment of the Oriflame CSR is, the higher the confidence to the Oriflame products. This finding reveals that there is a real contribution from the CSR to the trust in the Oriflame products. The respondents' assessment to the CSR Oriflame has a 76% influence on the respondents' belief in Oriflame products. This means that the change in consumer confidence in Oriflame products at 76% can be explained from the change in the Oriflame CSR program.

$$\text{Behavior} = 0.30 \text{ Price} + 0.56 \text{ Trust} + 0.18 \text{ CSR}, R^2 = 0.93 \tag{3}$$

Based on the above equation, it can also be stated that the price fairness variable gives a contribution of 0.30 to the behavioral intention. This means that the respondents' assessment on the competitiveness of prices affects the consumer buying behavior in Oriflame products. So is it with trust. This variable contributes 0.56 to the purchase intention. This means that the level of confidence of the respondents to Oriflame influences buying behavior to the brand. But it turns out that the CSR variable contributes a relatively little impact to purchase intention, which is 0.18. It can thus be said that the respondents' assessment to the Oriflame CSR program is not yet able to influence the buying behavior. Although the CSR variable do not significantly affect the consumer behavior, but the three variables can influence the buying behavior change by 93 %.

*4.2. Testing the research model*

A testing was carried out to ascertain whether the model described in the study was deemed fit. The model testing was based on several measurements, namely: chi-square and probability, the goodness of Fit Indices (GFI), Adjusted Goodness of Fit Index (AGFI), the root Mean Square Error of Approximation (RMSEA), expected Cross-Validation Index (ECVI), the model AIC and CAIC model, and the fit index.

Table 1. Fit model assessment

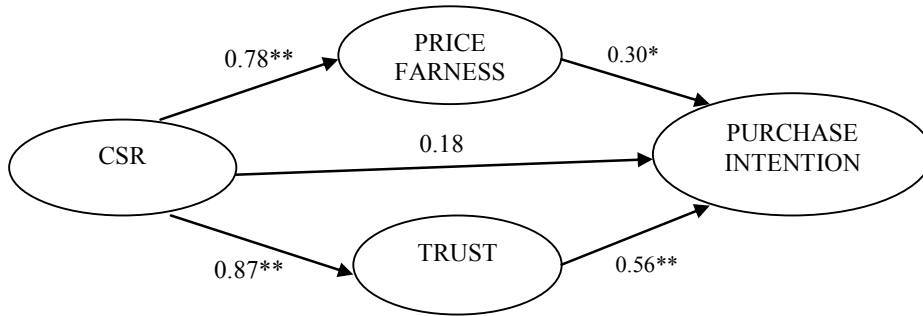
Criteria Fit Model	Grade	Provision	Explanation
<i>chi-square</i> and probability	(P = 0,03)	P > 0,05	Model not <i>fit</i>
<i>adjusted Goodness of Fit Index</i> (AGFI)	0,83	between 0 - 1	Model <i>fit</i>
<i>Goodness of Fit Indices</i> (GFI)	0,87	between 0 - 1	Model <i>fit</i>
Fit Index	NFI	> 0,80	Model <i>fit</i>
	CFI	> 0,80	Model <i>fit</i>
	NNFI	> 0,80	Model <i>fit</i>
	IFI	> 0,80	Model <i>fit</i>

Based on the results of the fit model testing, only chi-square probability did not meet the qualification of the fit

model testing. Nonetheless, of the 11 test items, there were 10 test results indicating that the model was fit. Therefore, in general, it can be said that the model is fit because most of the testing criteria declare so.

4.3. Research hypothesis testing

In this study, there are two groups of hypothesis such as direct effect hypothesis testing of each variable. The results of the test are based on the evaluation of basic model value of t-value assessment and shown in Figure 1.



\*sig  $\alpha = 0.05$   
 \*\*sig  $\alpha = 0.01$

Figure 1. Direct influence of independent variables on the dependent variable

Based on the path diagram above, the results of the hypothesis testing are as follows:

Table 2. Research hypotheses testing

Research Hypothesis	Exogen Latent	Endogen Lateng	Coeff.	Error variance	t <sub>value</sub>	Explanation
Hipt 1		Price	0,78	0,096	8,10	Proven
Hipt 2	CSR	Trust	0,87	0,11	7,58	Proven
Hipt 3	CSR	Purchase intention	0,18	0,21	0,86	Not Proven
Hipt 4	Harga		0,30	0,11	2,71	Proven
Hipt 5	Trust		0,56	0,18	3,08	Proven

The results of the research hypothesis testing above indicate that hypothesis 1, which states that the CSR affects the price, is proven. This means that the respondents' assessment to CSR has a real influence on the respondents' acceptance of the product price. Similarly, the second hypothesis, which states that the CSR affects the trust, is also proven. The results of the third hypothesis testing show that the CSR's effect on purchase intention is not proven. This finding shows that the consumer buying behavior toward the Oriflame products is not affected by the evaluation to the CSR. The fourth and fifth hypothesis testing show that there is a real effect of price fairness and trust variables on the purchase intention.

5. Conclusion

The consumer evaluation to the Oriflame CSR programs has been identified as having a real influence on the consumer perceptions of the price. This means that the consumers are likely to accept the price set by Oriflame when consumers appreciate the CSR programs. The application of CSR by Oriflame is seen as a concern for the environment so that the consumers could accept the set price of the Oriflame cosmetics. The CSR also gives a positive perception to the consumers regarding the good intention of Oriflame to be environmentally responsible. This has implications on the consumer confidence in the Oriflame product that the product has a commitment to

provide only the best for the consumer. The positive perception on the application of CSR is followed by the increasing consumer confidence in Oriflame products. However, the finding shows that the CSR has no direct implications on behavior. This means that the positive perception on the CSR is limitedly on the price and trust but not yet on the purchase behavior. Price has a direct influence on purchase behavior intention and is an important consideration in product purchase. When the consumers accept the price set by Oriflame, the purchase behavior intention turn stronger. There is a real effect of the price on the purchase intention variable so that the assessment of the price influences the consumers' buying behavior to the brand products. There is a real effect of the trust to the purchase intention variable so that the assessment of the trust affects the consumers' purchase behavior toward the brand products. Trust and price fairness could mediate the effect of CSR to purchase intention. This means that the existence of the trust and price fairness could strengthen the influence of CSR on purchase intention, as the CSR does not directly affect the purchase intention.

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