

# Corporate Ethics and Corporate Social Responsibility in Reinforcing Consumers Bonding: An Empirical Study in Controversial Industry

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## ABSTRACT

Corporate ethics (CE) and corporate social responsibility (CSR) have been considered as the main determinants of companies' success as well as sustainability for company's viability. Both of them potentially affects on consumer buying behavior. This study aims at exploring the basic issue on CE and CSR. In addition, this study examines whether good corporate ethics and CSR engagement of companies always lead to positive consumer response in the context of controversial tobacco's company. Data collected by distributing questionnaires to the 318 respondents. By means of structural equation modeling (SEM) to examine the proposed model, it indicated that the more well-defined of corporate ethics lead to the better evaluation of CSR activities, the more well-defined of corporate ethics and the better evaluation of CSR activities lead to the good corporate reputation. In addition, the good corporate reputation leads to the higher corporate trust, and the higher corporate trust lead to the stronger consumers bonding.

## KEYWORDS

Consumers Bonding, Corporate Ethics, Corporate Reputation, Corporate Social Responsibility, Corporate Trust, Tobacco Company

## INTRODUCTION

Corporate ethics as well as Corporate Social Responsibility (CSR) have been considered as the drivers of companies' success and sustainability in the long run. Couple of previous studies indicated that behavioral ethics and CSR are powerful to improve companies' performance (Beurden & Gossling, 2008; Buciuniene & Kazlauskaitė, 2012; Joyner & Payne, 2002; Orlitzky, Schmidt, & Rynes, 2003). In consumer perspectives, corporate ethics and CSR have potential significant capability to influence consumer buying behavior (Laczniak & Murphy, 1993; Singhapakdi & Karande, 2001). Basically, consumers considered both economic and non-economic criteria when they make purchase decision for a product. Corporate ethics and CSR have been recognized as non-economic factors. When consumers faced numerous varieties of products, similar quality and price, they considered non-economic factors of a product (Elizabeth H. Creyer & Ross, 1997; Drumwright, 1994; Lois A. Mohr & Webb, 2005). Contended that Companies implemented business ethics practice as well as actively involved on CSR activities commonly perceived as the good corporate citizens by consumers

and this recognition allowed the companies to differentiate themselves from the competitors and to attract customer loyalty (Cacioppe, Forster, & Fox, 2008).

Earlier studies concerning the effect of corporate ethics, CSR and company's products indicated that basically, consumer has positive responses and appreciations to the responsible company. Consumer's positive responses to the company and its products offered, can be demonstrated through consumer willingness to pay higher for the products. Ethical and social responsible company generates consumer appreciations to buy the products. Otherwise, the unethical and unsocial behavior of company lead to boycott the products and require the lower price for the products offered by unethical and unsocial responsibility company (Brown & Dacin, 1997; Elizabeth H. Creyer & Ross, 1996; Elizabeth H. Creyer & Ross, 1997; Dutta & Singh, 2013; Ellen, Webb, & Mohr, 2006; Sen & Bhattacharya, 2001; Smith & Alcorn, 1991). In the context of consumer goods, Stanaland, Lwin, and Murphy (2011) indicated that corporate ethics and CSR positively affect on corporate reputation and corporate trust and ultimately lead to the lower perceived risk and the higher consumer loyalty. On the other hand, L. A. Mohr, Webb, and Harris (2001) found that even though consumer positively responses on the ethical and social responsibility company, consumers were not regularly use this consideration when they made a purchase decision. In the retailer context, Webb and Mohr (1998) confirmed that consumer conviction on ethics behavior and CSR was not always consistent with consumer buying behavior. Webb and Mohr (1998) revealed that corporate reputation as the ethical and social responsibility company was not considered as the main determinant in consumer purchase decision since as a matter of fact, consumers prefer to shop in the retailer offered the higher quality products and lower price than retailer which has actively involved in social responsibility activities.

However, previous studies on corporate ethics and CSR put emphasis on uncontroversial company's context. Study on corporate ethics and CSR in the context of controversial companies is an interesting topic to investigate, but unfortunately, it has not yet conducted by earlier researchers, especially in developing countries like the Asia region countries. Controversial companies in this study cover all of companies which characterized by the existence of social bans, moral debates, and political pressures associated with the products. (Cai, Jo, & Pan, 2012). The companies that include in controversial companies are cigarette or tobacco companies, alcohol companies, weapons companies, and other companies which their products considered contradictory with either the moral, social, environmental, and ethical issues.

In principle, controversial companies like tobacco companies also attempt to situate themselves as the good corporate citizen by behaving ethically and actively involved in CSR implementation. In spite of evoking controversy, however, tobacco companies basically have legitimacy right to develop and actively involved in CSR activities because some deliberation for instance, CSR is an important means to improve corporate reputation and to become better organizations. Tobacco companies are human organizations and human are simply imperfect, and top management is free to select whatever strategy to perform their own business (Cai et al., 2012)

The tobacco industry has a different characteristic with other industries regarding the products they sell (Palazzo & Richter, 2005). According to Indonesian tobacco industries data, they play important role to drive the national economy related with its significant contribution to national revenue through tax, duty or excise as well as the large amount of employments workforce. (Wibowo, 2003). Data from [www.tobaccoatlas.org](http://www.tobaccoatlas.org) reported that the revenue which obtained from six largest tobacco companies in the world in 2013 was USD 342 billion or equal to 38% of Gross National Income of Indonesia and 43% of the retail price of the product was excise tax ([www.tobaccoatlas.org](http://www.tobaccoatlas.org)). However, people judge that tobacco products will impair their health and causing fatalities. Various strategies undertaken by tobacco companies to improve their credibility by denying health risk to behave ethically and actively involved in various CSR activities.

In line with increasingly of internet user, more companies rely on internet technology as a means to show and expose their involvement in CSR activities as well as to communicate their corporate ethics statements to include company's vision, mission, and business philosophy to the public.

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