

CHAPTER I

INTRODUCTION

1.1. Background

Over the last few decades, environmental issues have attracted increasing attention from the world. Al Gore, who won Nobel Prize for Inconvenient Truth in 2007, already has opened our mind that we are facing an inconvenient truth about our environment that is called global warming.

Nowadays, people have become more aware of their environment. They try to slow down the process of global warming in many different ways. One of the efforts to slow down the process of global warming is that now people try to create, produce, and market the environmental-friendly products or, also known as, green products. People who pay attention to green products are called green consumers. According to Rodriguez and Ibeas (2006), "Green consumers" are those who care about the environmental attributes, and are willing to pay a premium for products manufactured in environmental-friendly production processes. As a result, *green* movement has become trend of consumer behavior. This movement creates the green marketing actions in the business world.

Zhang and Zhang (1999) state 2 definitions of green marketing, the first is in the narrow sense and the other in the broad sense. "Green marketing" in the narrow sense means the special way of marketing established on the basis of conventional marketing and targeting on "green goods". And in the broad sense, "green marketing" means a whole set of ideas, methods and process to realize

marketing goals of enterprises. Zhang and Zhang (1999) also state that the driving force behind the green marketing is the market demand of "green consumption" as its core, and the objectives are to spontaneously protect the environment and to promote efficient use of by enterprises. These would be achieved by means of designing, fabricating, packing, selling and recycling "green products".

For many years, global warming as one of ecological problems has become a global problem threatening the survival of human beings and limiting economic development. People are required to reconsider their behaviors and search for better development models with regard to the relationship between economic development and environmental protection. According to Paco & Raposo (2008), this idea opens up the possibility of marketing specialists to provide a more active response to social and environmental issues, changing social values and the emergence of a new consumer movement.

In fact, the new consumer movement has already started many years ago. This can be traced from the findings as follow. According Coddington (1990), in 1989, 76 percent of Americans stated that they were willing to pay 5-10 percent more for ecologically compatible products. In 1991 Suchard and Polonsky (1991) in Laroche *et al.* (2001) found that environmentally conscious individuals were willing to pay between 15-20 percent more for green products. In 1993, Myburgh-Louw and O'Shaughnessy, (1994) in Laroche *et al.* (2001) also conducted a mail survey on female consumers in the UK to examine their perceptions of environmental claims on the packaging of laundry detergent. They found that 79 percent of their sample agreed to pay up to 40 percent more for a product which

was identical in every respect to their own brand and which had been proven to be green. In 2008, Bonini and Oppenheim (2008) also found that 33 % of consumers in their research said they were willing to pay a premium for green products, and another 54 % care about the environment and they wanted to help tackle climate change.

Considering the importance of green marketing and its issues, this study tries to find out the profile of green consumers that are willing to pay more for green product in Indonesia. The previous study of Laroche *et al.* (2001) identified several factors that may influence consumers' willingness to pay more for environmental-friendly products. The factors that may influence consumers' willingness to pay a higher price for environmental-friendly products are: demography, knowledge, values, attitudes, and behavior. This research focuses on two factors of the five categories, i.e. consumer's demographics factors and values (individualism or collectivism and security or fun/enjoyment).

In the previous study, Schwartz (1994) in Laroche *et al.* (2001) defines human values as desirable goals, varying in importance, that serve as guiding principles in people's live. McCarty and Shrum (1994) in Laroche *et al.* (2001) believe that it makes intuitive sense that the values one holds would influence behaviors that work for a common or societal good. McCarty and Shrum (1994) in Laroche *et al.* (2001) also investigate the impact of two other relevant values on consumers' environmentally conscious behavior: fun/enjoyment and security. It is found that the fun/enjoyment value is positively related to attitudes about the importance of recycling and to the recycling behavior. This relationship makes

sense if one considers that those who value fun and enjoyment in life may see a fulfillment of this end-state through interaction with the environment. The security value factor is not significantly related to either the importance of recycling or the recycling behavior.

After reviewing the previous studies, it can be derived that green marketing is still developing and it is interesting to conduct research in this area. In Indonesia, green movement can be considered as a new trend. This fact invites the author's curiosity on this topic and it also invites the author to identify the problem in green marketing. The main idea of this research is then to identify which consumers are willing to pay more for green products based on demographics factors and values (individualism or collectivism and security or fun/enjoyment).

1.2. Problem Identification

In order to examine the consumer willingness to pay more for green products, this study focuses on two main factors i.e. demographics factors and consumer's values. And the problems of this study are:

1. Are consumer demographics factors related to the consumers' willingness to pay more for green products?
2. Do consumers' values (individualism or collectivism and security or fun/enjoyment) influence the consumers' willingness to pay more for green products?

1.3. Problem Areas

This study focuses to examine the relation between demographics factors with the consumers' willingness to pay more for green products and the influence of values (individualism or collectivism and security or fun/enjoyment) on the consumers' willingness to pay more for green products. The respondents of this research are people from any demographics background living in Daerah Istimewa Yogyakarta and who are willing to fill in the questionnaires. And the research questionnaires are distributed only in Daerah Istimewa Yogyakarta.

1.4. Operational Definition

1.4.1. Green Products

According to Zhang and Zhang (1999), *Green product* development includes three aspects: the design, production and packing of green products. The design of green products should embody the principles of the 3R's :

- a) Reduction: from very beginning, enterprises should use relatively less raw material and energy to reach the goal of production so that it will save energy and eliminate (or reduce) pollution.
- b) Reuse: as long as possible, products and packing material should be able to be use repeatedly their original types for energy saving and environmental protection.
- c) Recycling: after the products have been out of use, they should be recycled to reuse. The production of green goods must be in a clean process, it means enterprises should use new technology and techniques to save energy, maintain safety, and cause zero pollution, so that the products will not do any harm to the environment and people's health. The packing of green products requires that the packing material be easily decomposed, and recycled and it should be poison free. Over-design should also be avoided.

1.4.2. Consumers demographic characteristics

In this study, there are eight demographic variables studied, they are: age gender, income, level of education, employment status, home ownership, marital status, and family size.

1.4.3. Consumers' Values

Schwartz (1994) in Laroche *et al.* (2001) defines human values as desirable goals, varying in importance, that serve as guiding principles in people's lives. According to Triandis (1993) in Laroche *et al.* (2001), two major values that influence consumer behavior are individualism and collectivism. On one hand, individualism represents how much a person focuses on his/her independent self (i.e. how he/she depends only on himself or herself). Individualist people engage in voluntary associations and they make sure that they remain distinct individuals, even when they belong to groups. They also compete with others for status, which depends on their accomplishments much more than on their group memberships (Triandis, 1993 in Laroche *et al.*, 2001). We suspect that this type of individual is not very conducive to environmental friendliness. On the other hand, collectivism implies cooperation, helpfulness, and consideration of the goals of the group relative to the individual. Being a collectivist means that one may forego individual motivations for that which is beneficial for the group. The work of Triandis (1993) and McCarty and Shrum (1994) in Laroche *et al.* (2001) suggest that collectivist people tend to be friendlier to the environment, while individualistic people tend to be more unfriendly.

In addition, McCarty and Shrum (1994) in Laroche *et al.* (2001) investigated the impact of two other relevant values on consumers' environmentally conscious behavior: fun/enjoyment and security. It is found out that the fun/enjoyment value is positively related to attitudes about the importance of recycling and to the recycling behavior. This relationship makes sense if one

considers that those who value fun and enjoyment in life may see a fulfillment of this end-state through interaction with the environment. The security value factor is not significantly related to either the importance of recycling or the recycling behavior.

1.5. Research Objectives

The purposes of the research are:

1. To know whether the consumer demographics factors related to the consumers' willingness to pay more for green products or not.
2. To know whether there is any influence of consumers' values (individualism or collectivism and security or fun/enjoyment) on the consumers' willingness to pay more for green products or not.

1.6. Benefits of the Study

1. For the author: Give better understanding about the influence of demographics factors and values on the consumers' willingness to pay more for green products and to fulfill the authors desires to know more about the existence of green consumers in Indonesia.
2. For company: As an input in the extension marketing strategy decision specifically for a company that interested in developing green marketing.
3. For readers: Give information and framework for the readers regarding the demographic factors and values toward the consumers' willingness to pay more for green products.

1.7. Writing Structure

This thesis divided into 5 chapters:

CHAPTER I: INTRODUCTION

This chapter describes the background of the research, problem identification, problem areas, operational definition, research objective, benefits of the study, and writing structure.

CHAPTER II: THEORITICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

This part describes relevant theories that provide solid ground for this research and hypothesis development.

CHAPTER III: RESEARCH METHODOLOGY

This chapter defines the statistical method used in analyzing data collected for the research. It explains how the sample for the research is taken, how the data are collected, the method used to test the instrument, the translation of the instrument, and also the method used to analyze data.

CHAPTER IV: ANALYSIS AND DISCUSSION

This chapter describes the results of data analysis by using the chosen analysis tools, discusses the results of data processing and a hypothesis test data analysis.

CHAPTER V: CONCLUSIONS, LIMITATION, AND MANAGERIAL IMPLICATIONS

This chapter covers conclusion, research limitation, managerial implications, and some directions for the future research.