CHAPTER II

THEORETICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

2.1. Definition of Green Marketing

According Zhang and Zhang (1999) green marketing has two definitions. In the narrow sense, "green marketing" refers to the special way of marketing established on the basis of conventional marketing and targeting green products". In the broad sense, "green marketing" includes a whole set of ideas, methods and process in order to achieve marketing goals of enterprises.

The power behind green marketing is the market demand with "green consumption" as its core, and the objective is to spontaneously protect the environment and efficient use of resources by enterprises. These would be achieved by means of designing, fabricating, packing, selling and recycling of "green products".

2.2. The Content and Significance of "Green Marketing"

Considering the importance of green marketing and the increasing of globalization in the economic sector, every enterprise which participates in the international market must pay great attention to the demands of green consumers and try hard to perform green marketing. Green marketing is a part of a complicated process for enterprises. According Zhang and Zhang (1999), the whole process can be divided into the following two phases: The Prior Stage to Enter Green Product into the Market and The Stage after the Entry of “Green Products” into the Market.

2.2.1. The Prior Stage to Enter Green Product into the Market

In this phase, the process is divided into two steps. The first step is collecting relevant information about green products which is related to the current and the future market. The information can be collected from several sources such as newspapers, journals, news media, research institutions, and market surveys. In this phase enterprises should also identify the possible market which is likely to be developed.

The second step is locating and developing green products. In this phase enterprises must have green orientation for the products they are going to market. The enterprises should figure out the segments and the position of their green products. This procedure is very significant in the "green marketing" process, and it is also a part of the manifestation of the enterprises' commitment to protect the environment and to carry out sustainable enterprise development. Green product development includes three aspects: the design, production process and packing of green products. The design of green products needs to embody the 3R's principles:

1) Reduction: from the very beginning of the process, enterprises need to use reasonably less raw materials and energy to reach the goal of production so that they can save more energy and eliminate (or reduce) pollution.

2) Reuse: products and packing need, as long as possible, have the capability of being used repeatedly in their original forms for energy saving and environmental protection.

3) Recycling: after the products have been used, they should be able to be recycled for reuse. The production of green products must use new

technology and techniques in order 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 should be easily decomposed and recycled as well as poison-free. Over-design should also be avoided (Zhang and Zhang, 1999).

2.2.2. The Stage after the Entry of "Green Products" into the Market

In this phase, an enterprise delivers the products into its potential markets. This phase is divided into three steps. The first is to set the green prices. Usually, the prices of green products are higher than the common products of the same category. This happens because enterprises need more capital in carrying out research and development in order to create this kind of products. Meanwhile, since green products give consumers higher value, the premium prices would be considered as acceptable by consumers.

The second steps are establishing "green sales" channels and carrying out the sales promotion of green products. To let green goods easily reach consumers, the marketing channels for green products should also be established. The strategies can be monopolistic selling stores and counters, wholesale markets, international ordering and others. Enterprises can also conduct their sales of green products via Internet. When green products have already entered marketing channels, the promotion of green product sales becomes the key to the green product marketing success in this step.

In order to win over the consumers' willingness to buy and to grow their great interests in green products, enterprises can also adopt various other resources to facilitate promotion such as selling in stores, selling by salespersons, and distributing green product information so as to create a "green image" for themselves and the products they sell and to build up a conducive atmosphere of "green selling".

The last, enterprises dealing with green-commodity marketing should also provide after-sales services. They need to carry out a comprehensive survey to obtain responses from consumers for the future of "green marketing".

Market mechanisms might be the most efficient way of resource allocation that human beings have had so far. It should be noticed that, however, in the conditions of the market economy, for their own interests, enterprises are more concerned about the maximum profits they could have than about the long-term and overall negative impacts of their production and marketing on resources and environment. When enterprises seek exclusively short-term benefits and let society bear the burden of the "external" costs of environmental pollution and over-exploitation of resource, environmental problems emerge. This fact demonstrates that there could be "market failure" when market mechanisms control the environment and resources which are public or quasi- public property (Turner, 1988 in Zhang and Zhang, 1999). This is a very complicated problem having bothered human society for a long time, and it is yet to be solved both practically and theoretically. Today, when the rise of green consumption has been elicited by the provocation of environmental protection consciousness among

consumers all over the world, it is hopeful that this problem can be readily solved with the application of "green marketing". Under the circumstances of the surge of enthusiasm in "green consumption", the formation of a considerable part of the value added to green products can be attributed to the urge of consumers' "green" demand preference. With the help of the market mechanism, "green marketing" can persuade consumers to purchase green products beneficial to the environment on an entirely voluntary basis. This would likely result in the "internalization" of environmental management and protection costs. Thus, the enforcement of "green marketing" would drive enterprises to keep in mind the long-term and overall benefits with regard to the environment, while maintaining their own competitiveness in market places and pursuing the "maximization" of their benefits. This embodies the invaluable "incentive compatibility" in the interest mechanisms. The most paramount significance of "green marketing" lies in the fact that it realizes the organic combination of the consumer needs, enterprise competitiveness and the purpose of environmental protection. Under circumstances as such, "green" international trade is sustainable and vigorous (Zhang and Zhang, 1999).

2.3. Segmentation and Positioning within Green Market

The green movement is often related to the consumer’s choice to search for products which are not harmful to the environmental. The diversity and unity of consumers become an important factor in green thinking in terms of creating a social and political unity, while maintaining biological and cultural diversity. In

the segmentation, enterprises usually try to classify people by reinforcing economic and social borders, while also attempting to enforce uniformity within certain groups (Peattie, 1995).

Fashion can be viewed as a persuasion to enforce cultural norms within segments by marketers. Although, marketers would probably argue that fashion is coming from the consumers who express their individuality in the green concerns. Fashion marketing has changed from years to years, and consumers always try to follow the fashion. That is why fashion has become a determining factor in marketing especially in segmenting (Peattie, 1995).

It is not only green philosophers who have communicated about the use of marketing segmentation. Even for marketing practitioners they also face difficulties when trying to apply its principles. The difficulties are to understand the differences between a market and a segment, to create their own segments, to integrate segments with existing marketing tables and financial plans, and to obtain information to define meaningful segments. Even though they find difficulties, enterprises keep on trying to figure out about the green market and on attempting to identify, define and understand the green consumers.

2.4. Defining Green Market Segment

2.4.1. Demographic Segmentation

Many discussions on the environment and green consumption have been related to socio-economic and other demographic divisions. However, several studies have found that there is no significant relation between socio-demographic characteristics and environmental concerns.

2.4.1.1. Socio-economic Grouping

In many of the industrialized world there has been a continuing belief that concern for the environmental is primarily a ‘middle-class’ attitude. Cotgrove (1982) in Peattie (1995) revealed it to be strongly skewed towards students, the self-employed and those in service, welfare, or creative professions. Such studies have been used to justify the labeling of green consumers as ‘middle class’. However, there are dangers inherent in using environmental group membership as a proxy measure for environmental concern. There is a marked tendency among the middle classes to form and support voluntary organizations in general which is the case of pressure groups may reflect more widespread concern (Peattie,1995).

2.4.1.2. Demographic Factors

One of the reasons why the efforts to segmented consumers on demographic bases have not been more successful might relate to the fact that different types of people relate to different parts of environmental programs. The 1986 UK Department of the Environment (DoE) Survey on attitudes towards the environment examines concern on sixteen different issues, and breaks the results down by age, sex, social class, and area of residence. The survey produces the most surprising results in relation to social classes: it was unskilled workers who were the most deeply concerned on half of the environmental threats mentioned in the survey (Peattie, 1995).

2.4.1.3. Age

Peattie (1995) finds out that the 1986 Department of the Environment (DoE) survey shows that the 18 to 24 age group to be less concerned about most green

issues than adults aged 25 to 64, except on the issue of loss of wildlife. By early 1990, young adults' concern on green issues had broadened. A 2000 research finds out that young adults (aged 16 to 24) are most concerned about environmental issues which have been a global concern to the future of the planet, such as ozone depletion, global warming, deforestation, nuclear power and chemical waste. On the other hand, older consumers aged over 60 are more concerned with local and current environmental problems such as littering, air pollution, traffic jam and noise (Peattie, 1995).

2.4.1.4. Gender

In the DoE study in Peattie (1995), the differences between men and women are relatively slight. In terms of environmentally responsible behavior, Hines *et al.* (1987) in Peattie (1995), commenting on the four surveys, find that environmentally responsible behavior has no relation with gender. This is in marked contrast to other studies. Schann and Holzer's (1990) in Peattie (1995) study on German consumers and find out that although women know less about environmental problems, but in terms of concern and behavioral response they are significantly ahead of men.

2.4.2. Lifestage Segmentation

Although age is a popular basis to segment markets, it is not necessarily a reliable choice for the environmental marketers, Hines *et al.* (1987) in Peattie (1995), analyzing ten different studies, find only a tenuous relationship between age and environmentally related behavior. There is an argument that age is not an influence on people's consumption behavior as much as an indication of the

'lifestage' that people have reached. It does not matter, therefore, if people are 25, 35, or 45, if they are parents of young children they are likely to buy a whole range of products for the first time; and, only after that, they may begin to worry about the consequences of their purchase decisions on the environment in the future (Peattie, 1995).

2.4.3. Psychographic Segmentation

2.4.3.1. Level of Education

Some researchers believe that environmental concern is directly related to a consumer's level of education. Balderjahn (1988) in Peattie (1995) finds that household energy-saving behavior is strongly influenced by educational level. Samdahl and Robertson (1989) in Peattie (1995) also find the reverse to be true and in a study of over 2000 residents of Illinois. The study finds a negative correlation between educational level and perceptions of environmental problems and support for environmental regulations Perhaps this reflect that, until recently, outside of the environmental sciences, relatively little education was given over to an appreciation or understanding of the environment. Typically environmental issues are most prevalent in the schooling of young children, which all consumers share, but this declines drastically as the educational system progresses. Farmers who might leave school at the age of 16 are likely to have a much deeper understanding of the environment than a marketing director holding an MBA degree, working in an agrochemicals company. New initiatives to integrate the environment into education, such as the report by Toyne in the UK (Toyne 1993 in Peattie, 1995), may bring a stronger correlation between education and

environmental concerns in the future. A higher level of education also typically brings the economic power to protect individual from many of the effects of environment degradation, in the short term at least. While well educated managers might live in the suburbs, therefore, less educated people within city centers or rural districts may have greater experience of environmental degradation in their daily lives (Peattie, 1995).

2.5. Profile of Green Consumers: A Literature Review

Following a comprehensive review on the relevant literature, several factors that may influences consumers' willingness to pay more for environment-friendly products have been recognized. These factors can be classified into five categories; demographics, knowledge, values, attitude, and behavior. Figure 1 proposes a theoretical framework for these factors. A review of the literature supporting the relationship posited in Figure 1 is as follows (Laroche *et al*., 2001).

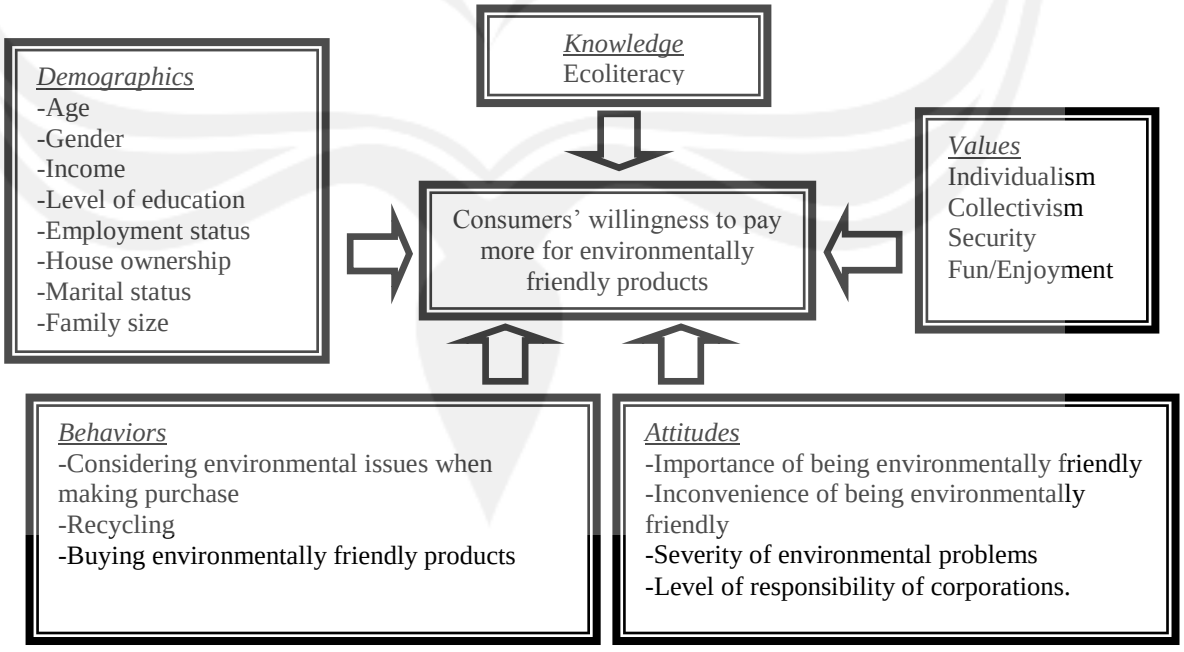

Figure 1.Conceptual Framework
Source : Laroche *et al.* (2001)

2.5.1. Consumers' Demographics Characteristics

Efforts to identify environment-friendly consumers can be traced back to early 1970s. Berkowitz and Lutterman (1968), as well as Anderson and Cunningham (1972) in Laroche *et al.* (2001), are pioneers in studying the profile of socially responsible consumers. Overall, their combined results portray a highly socially conscious person as female, pre-middle aged, with a high level of education (a high school graduate) and above average socioeconomic status.

In the past two decades, the result of Berkowitz and Lutterman (1968) and Anderson and Cunnigham (1972) in Laroche *et al.* (2001) have sometimes been supported, but often not. For example, other studies find that females tend to be more ecologically conscious than men (McIntyre et al., 1993; Banerjee and McKeage, 1994 in Laroche *et al.*, 2001).

Following Berkowitz and Lutterman's (1968) study, Henion (1972) in Laroche *et al.* (2001) also thinks that consumers with medium or high incomes would be more likely to act in an ecologically compatible manner due to their higher levels of education and therefore to their increased sensitivity to social problems. However, the results do not support his hypothesis; environment-friendly behavior is found consistent across both income groups. Moreover, Sandahl and Robertson (1989) in Laroche *et al.* (2001) find that the environment-conscious consumers are usually less educated and earn lower income than average Americans. This brought them to conclude that income and education are not good predictors for environmental concerns or purchase behaviors.

Early research identified green consumers as being younger than average (Berkowitz and Lutterman, 1968; Anderson and Cunnigham, 1972; Van Liere and Dunlap, 1981 in Laroche *et al.*, 2001). Surprisingly, this trend has been reversed in the last decade and several recent studies have identified green consumers as being older than average (Sandahl and Robertson, 1989; Vining and Ebreo, 1990; Roberts, 1996 in Laroche *et al.*, 2001).

Most findings on the impacts of consumers' demographic characteristics on their environmentally conscious behavior are contradictory (Robert, 1996 in Laroche *et al.*, 2001). It is clear that they exert a significant influence. However, most authors agree that demographics are less important than knowledge, values and or attitudes in explaining ecologically friendly behavior (Laroche *et al.*, 2001).

Even though most findings agree that demographics are less important than knowledge, Laroche *et al.* (2001) indicates that females are more environmentally concerned than males. And as expected, individuals who are married and have children living at home are more willing to pay a higher price for green products. This could be a strong motivation for married couples to behave in an environmentally friendly fashion.

Laroche *et al.* (2001) also find that the other variables used to define the consumers' demographic profile do not differentiate consumers who are willing to spend more for green product from their unwilling counterpart. In other words, the age of respondents, the level of education, the household income, the fact that (s)he is a home owner or not, and his/her work status do not influence the

consumers' willingness to pay a higher price for green products in a statistically significant way.

2.5.2. 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. McCarty and Shrom (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. Recycling, for instance, is a behavior that someone "ought" to do, even though the immediate individual rewards for engaging in it are usually scarce. Therefore, if an individual engages in recycling, it would be expected that (s)he is motivated by strong values. Hence, we may gain a much clearer understanding of the motivational determinants of environmentally friendly behavior by considering the impact of values.

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 depending 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

related to the individual. Being a collectivist means that one may forego individual motivations for that which is good for the group. The work of Triandis (1993) and McCarty and Shrum (1994) in Laroche *et al.* (2001) suggests 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) investigate the impacts 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 towards 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 was not significantly related to either the importance of recycling or the recycling behavior.

Laroche *et al.* (2001) study also reports that collectivism and security are important principles guiding their lives. This result is in line with the profile of environmentally friendly individual (McCarty and Shrum, 1994 in Laroche *et al.*, 2001). These consumers care about their relationship with others, which translates into a certain concern for the welfare of others. Such caring personalities indicate a certain tendency to be environmentally friendly or green consumers.

2.6. Hypotheses Development

Hypotheses in this research are developed from the research objectives. Hypothesis can be defined as a logical conjectures relationship between two or more variables expressed in the type of a testable statement (Sekaran, 2003). From the previous findings that have already been found, some hypotheses are made to be tested in the research. And the hypotheses are divided into 3 main parts:

Part 1. Hypotheses related to Demographic Factors

H1. Consumers' gender is related to the consumers' willingness to pay more for green products.

H2. Consumers' age is related to the consumers' willingness to pay more for green products.

H3. Consumers' level of education is related to the consumers' willingness to pay more for green products.

H4. Consumers' income is related the consumers' willingness to pay more for green products

H5. Consumers' employment status is related to the consumers' willingness to pay more for green products.

H6. Consumers' house ownership is related to the consumers' willingness to pay more for green products.

H7. Consumers' marital status is related to the consumers' willingness to pay more for green products.

H8. Consumers' family size is related to the consumers' willingness to pay more for green products.

Part 2. Hypotheses relates to the Consumers' Values

H9. Consumers' Values significantly (individualism or collectivism and security or fun/enjoyment) influence the consumers' willingness to pay more for green products.

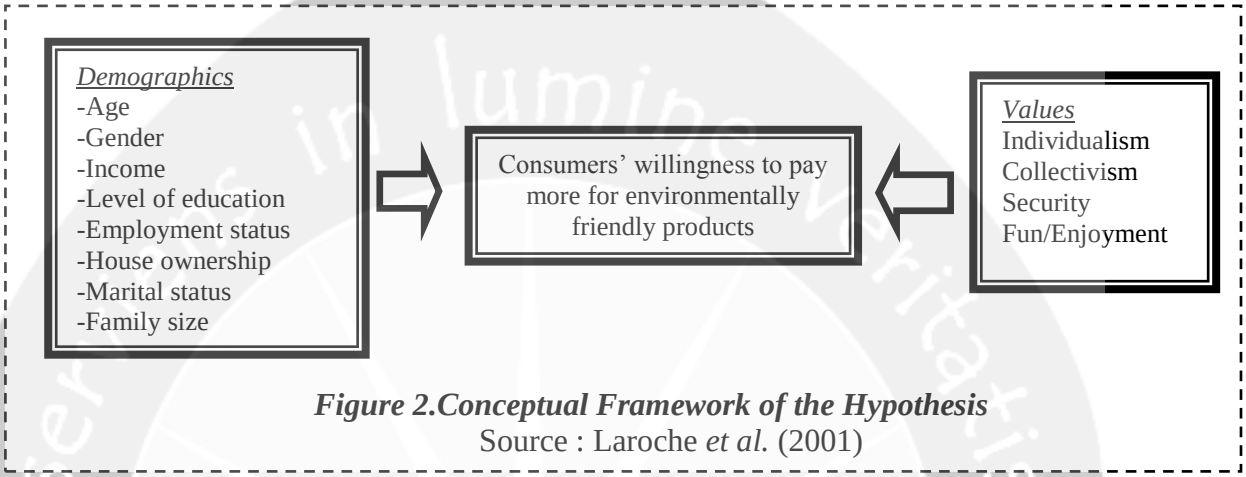

Figure 2.Conceptual Framework of the Hypothesis
Source : Laroche *et al.* (2001)