

**CAN THE GOOD CORPORATE ETHICS STATEMENTS AND
CORPORATE SOCIAL RESPONSIBILITY CREATE POSITIVE
CONSUMER RESPONSES ON THE COMPANY AND ITS
PRODUCTS? AN EMPIRICAL FINDING IN THE
CASE OF CONTROVERSIAL COMPANY**

Ari Setiyaningrum

Faculty of Economics, Atma Jaya Catholic University, Indonesia, ari.setiyaningrum@yahoo.com

Abstract

This research explores the basic issue about whether the good corporate ethics statements and corporate social responsibility (CSR) can create positive consumer responses on the company and its products. We examined the proposed model that links corporate ethics, CSR, corporate reputation, and perceived risk in the case of controversial products that offers by company, especially on cigarette products. As one of the doers in Indonesian tobacco industry, PT. Djarum implemented many CSR programs including educational initiatives. This research was conducted in the Faculty of Economics and Business Diponegoro University as a recipient of PT. Djarum, that implemented CSR educational initiative through “Bakti Pada Negeri” program. Research was conducted using a survey method through distributing questionnaires to 209 university students of Faculty of Economics and Business Diponegoro University. The sampling method which was used for this research was a non-probability sampling with convenience sampling technique. By using the structural equations model with AMOS software to examine the proposed model, this research indicated that the more well-defined of corporate ethics statements lead to better evaluation of CSR activities; the better evaluation of CSR activities lead to good corporate reputation, but did not lead to lower perceived risk; the good corporate reputation lead to lower perceived risk; and the more well-defined of corporate ethics statements did not lead to lower perceived risk. Based on Sobel test results, this research indicated that perceived CSR has a significant role in enhancing corporate reputation which in turn reducing perceived risk.

Abstrak

Penelitian ini menginvestigasi isu mendasar mengenai apakah pernyataan etika perusahaan yang terumuskan secara baik dan tanggung jawab sosial perusahaan dapat menciptakan respon konsumen yang positif pada perusahaan dan produk yang ditawarkannya. Peneliti menguji model yang mengkaitkan antara etika perusahaan, tanggung jawab sosial perusahaan, reputasi perusahaan, dan resiko yang dirasakan pada konteks produk kontroversial yang ditawarkan oleh perusahaan, khususnya pada konteks produk rokok. Sebagai salah satu pemain di industri rokok di Indonesia, PT. Djarum menerapkan program tanggung jawab sosial perusahaan di berbagai bidang termasuk di bidang pendidikan. Penelitian ini dilakukan di Fakultas Ekonomika dan Bisnis Universitas Diponegoro (FEB UNDIP) yang merupakan salah satu Universitas dimana PT. Djarum menerapkan program tanggung jawab sosial perusahaan di bidang pendidikan melalui program Bakti Pada Negeri. Penelitian dilakukan dengan metode survei melalui pendistribusian kuesioner pada 209 mahasiswa FEB UNDIP. Metode pengambilan sampel yang digunakan dalam penelitian ini adalah non probability sampling dengan teknik convenience sampling. Dengan menggunakan model persamaan struktural dengan program AMOS, penelitian ini menemukan bahwa pernyataan etika perusahaan yang terumuskan secara baik dapat menciptakan evaluasi konsumen mengenai aktivitas tanggung jawab sosial perusahaan

yang lebih baik; evaluasi konsumen mengenai aktivitas tanggung jawab sosial perusahaan yang lebih baik dapat mendorong pada peningkatan reputasi perusahaan, namun tidak mendorong pada penurunan resiko yang dirasakan; reputasi perusahaan yang bagus dapat mendorong penurunan resiko yang dirasakan; dan pernyataan etika perusahaan yang terumuskan secara baik tidak mendorong pada penurunan resiko yang dirasakan. Berdasarkan hasil pengujian Sobel test, penelitian ini menemukan bahwa tanggung jawab sosial perusahaan berperan penting dalam meningkatkan reputasi perusahaan yang pada akhirnya dapat menurunkan resiko yang dirasakan.

Keywords: corporate ethics, corporate social responsibility, corporate reputation, perceived risk.

JEL Classification: M14

1. Research Background

Recently, consumers are not only considering the traditional or economic buying criteria such as product quality, price, or other convenience factors, but also considering the non economic criteria in making a purchase decision. Singhapakdi and Karande (2001) proposed that corporate ethics statements and Corporate Social Responsibility (CSR) has become the non economic criteria that influence consumer's purchase decision making, and therefore both of them should be considered by organizations. Companies that implemented many philanthropic activities and ethical businesspractices usually were perceived to be goodcorporate citizens by consumers (Cacioppe *et al.*, 2008).The company can differentiate themselves from their competitors and increase consumer loyalty by actively involved in philanthropic activities and conducting an ethical business practice.

Previous research regarding the role of corporate ethics and CSR on consumer purchase behavior indicated that generally consumers perceived good corporate ethics is good business practice (Joyner and Payne, 2002; Beurden and Gossling, 2008) and therefore they may use ethical and CSR considerations as the non economic criteria in making a purchase decisions (Creyer and Ross, 1997; Singhapakdi and Karande, 2001; Mohr and Webb, 2005). Regarding ethical corporate behavior, Creyer and Ross (1997) found that consumers stated that the ethicality of a firm's behavior is an important consideration duringthe purchase decision and they will reward ethical behavior by a willingness to pay higher pricesfor that firm's product as well as they want to do so atlower prices when they buy from an unethical firm as a punishment for the unethical act conducted by firms. Earlier research also indicated that CSR have a positive influence towards consumer evaluation about the company and the intention to buy (Brown and Dacin, 1997; Ellen *et al.*, 2006; Lichtensteinet *al.*, 2004; Mohr and Webb, 2005; Sen and Bhattacharya, 2001). However, research conducted by Webb and Mohr (1998) in the retail context have found that consumer conviction towards the usefulness of CSR is not always consistent with the consumer purchasing behavior. They found that consumers prefer to shopp at the retailer who sells products with good quality, low price, and offering convenience than the retailer that supports social issues as a part of CSR activity. In the more general product context, Mohr *et al.* (2001) also confirmed that only few consumers who had stated that CSR was the main factor that influences their regular purchase decision. Although in the retail companies context, previous study found that CSR did not influence consumer purchasing behavior (Webb and Mohr, 1998), this study directed to confirm whether CSR have similar effect in the other context, especially in the context of controversial company.

Based on the research gap, this research attempts to explore the basic issue about whether good corporate ethics and CSR can create positive consumer responses on the company and its products. This research specially examines the relationships between corporate ethics, CSR, corporate reputation, and perceived risk. This study used tobacco company as a representation of controversial company to be investigated whether corporate ethics and CSR influenced consumer responses on company and its products. Similar to other companies in other industries, the controversial companies have a legitimate right to develop and engage in CSR activities because CSR itself is one important means to improve corporate reputation and potentially influence the consumers purchase behavior. CSR activities conducted by company generally can be distinguished into corporate philanthropy, Cause-Related Marketing (CRM), and sponsorship (Polonsky and Speed, 2001). However, research concerning the effect of corporate ethics and CSR on consumer purchase behavior in controversial industry are still rare, especially in Indonesian context. Therefore, we used the controversial product, namely cigarette product that produced by PT. Djarum in examining the proposed model. We used PT. Djarum, as one of the doers of tobacco industrial company in Indonesia, because PT. Djarum implemented more numerous and varied CSR programs than the other tobacco companies. The CSR programs of PT. Djarum include community contribution initiatives, which are ready to assist the community of humanitarian relief in the case of major environmental disasters, sport initiatives by actively supporting badminton events, environment initiatives by planting more than one million trees throughout Indonesia, education initiatives by providing scholarships as well as providing educational facilities in many universities, and cultural initiatives by supporting many cultural shows and performances.

1.1. Corporate Ethics and CSR

Company should actually communicate ethical behavior and social responsibility to the stakeholders. One method to communicate the company's commitment towards ethical behavior and social responsibility is via the corporate ethics statement (Stanaland *et al.*, 2011). Most company has been promoting the ethics statement through many ways as a form of the company's commitment to respect ethics in all operational and social activities conducted by the company (Murphy, 2005). Ethics statement is one of the formal structures used by the company to institutionalize ethics (Lantos, 1999).

Some previous researches explored the relationship between corporate ethics and CSR. Corporate ethics, generally, was identified as the antecedents of CSR. Tuan (2012) found that corporate ethics, namely ethics of care and ethics of justice influenced ethical CSR, legal CSR, and economic CSR. Jin and Drozdenko (2010) indicated that managers who worked in an organic organizational environment were perceived to be more social responsible because they acted more ethical than managers who worked in a mechanistic organization. They concluded that ethical acts that are conducted by the managers based on the corporate ethics statement in which this statement in general, has become the guideline for the managers and employees in conducting their tasks. Study conducted by Stanaland *et al.* (2011) indicated that corporate ethics that were manifested in the form of the ethics statement positively influenced on consumers' perception regarding how large company's commitment to corporate social responsibility. Therefore, company that are able to formulate a good ethics statement should be perceived as the one that has strong commitment to corporate social responsibility by consumers.

Based on previous research, this study proposed the following hypotheses:

H1 : The more well-defined of corporate ethics statements will lead to better evaluation of CSR activities.

1.2. CSR and Corporate Reputation

Corporate social responsibility become the foundation for the company's competitiveness and is part of the operation business's strategy (Porter and Kramer, 2006). Scholars suggested that one of the factors that enable CSR activities to increase business competitiveness is its impact on intangible asset like brand equity and corporate reputation (Dawkins and Lewis, 2003; Gatti *et al.*, 2012). Company can build some competitive advantages by implementing corporate social responsibility activities. Branco and Rodrigues (2006) proposed that based on resource-based perspective, corporate social responsibility is considered to have internal benefits like promoting resources and new capabilities as well as external benefit like increasing corporate reputation. Therefore, corporate reputation become an intangible asset and it can be build or diminish because of the consequence of company's decision to or not to conduct corporate social responsibility activities.

By implementing CSR, organization got the broaden access to capture resources as well as increased corporate and brand reputation that ultimately lead to increased customer loyalty and obtain the qualified employees (Cacioppe *et al.*, 2008). Turban and Greening (1997) confirmed that firms' positive corporate social performance may lead to potential competitive advantage and they found that firms higher in corporate social performance have more positive reputations and were more attractive employers than firms lower in corporate social performance. Findings from some previous research regarding the effect of CSR on corporate reputation also indicated that CSR initiatives has a positive impact on corporate reputation (Drumwright, 1994; Brown and Dacin, 1997; Meyer, 1999; Fombrun, 2005; Lai *et al.*, 2010; Stanaland *et al.*, 2011; Gatti *et al.*, 2012).

Therefore, this study proposed the following hypotheses:

H2 : The better evaluation of CSR activities will lead to good corporate reputation.

1.3. CSR and Perceived Risk

The relationship between CSR and perceived risk can be explored by social identity theory. Social identity refers to the perception of belonging to a group with the result that a person identifies with that group and organizational identification is a specific form of social identification in which the person defines him or her self in terms of membership on a particular organization (Bhattacharya *et al.*, 1995). Social identity theory postulate that consumers tend to identify their self with the organization involved in optional citizenship (Bhattacharya *et al.*, 1995; Sen and Bhattacharya, 2001). Corporate philanthropy and cause related marketing as the part of CSR activities can enhance consumer' identification with organization and an ultimate results of high brand loyalty, positive word of mouth, and increase consumer trust to the company.

The identification between consumers and company potentially lead to consumers' positive evaluation regarding corporate social responsibility conducted by company and consequently, it can enhance consumer trust and reduce perceived risk for all products offered by company. In the other words, perceived risk can potentially become less together with the consumers' positive evaluation on the company which has conducted social responsibility activities and its products. Perceived risk include performance risk that refers to the possibility that the product will not function as expected and financial risk that refers to monetary loss that could be incurred by product failure are potentially impacted by CSR activities (Stanaland *et al.*, 2011).

Therefore, this study proposed the following hypotheses:

H3 : The better evaluation of CSR activities will lead to lessen the perceived risk.

1.4. Corporate Reputation and Perceived Risk

In general, a respected reputation should enhance the wellbeing of any firm (Ewing *et al.*, 1999). The better of company's reputation, the more likely the purchasing public will

assume that the products and services that offered by the company are better, have the higher quality and worth more in actual price (Dowling, 1994). The better of company's reputation, the more likely negative elements or negative stories about the company will be edited or filtered out of the customer's consciousness (Howard, 1998).

Marketing literature states that reputation is a valuable asset that requires a long-term investment of resources, effort, and attention to customer relationship and a good reputation indicates past tolerance from opportunism (Jarvenpaa *et al.*, 2000). Chiles and McMackin (1996) argued that generally firms with a good reputation are perceived by consumer to be reluctant to jeopardize their reputation by acting opportunistically such as failing to fulfill their promises and obligations. Therefore, good corporate reputation lead to enhance consumer trust and reduce the consumer's perception of risk associated with opportunistic action and behavior conducted by company (Ganesan, 1994).

Reputation was identified become a strong predictor of perceived risk (Purohit and Srivastava, 2001). They found that consumers perceive less risk in purchasing from retailers who possess a reputation for providing good service and quality products than from unknown retailers. Regarding the role of corporate reputation in reducing perceived risk on the professional consulting services context, Ewing *et al.* (1999) found that clients prefer to use a consulting firm with an excellent reputation because it is helpful for enhancing the marketability of their projects. Based on Mehrabian and Russell's Stimulus-Organism-Response model to include both external (i.e. reputation) and internal source of information (i.e. website quality) as stimuli which affect consumers' response systems, Kim and Lennon (2013) indicated that reputation had a significant positive effect on consumers' emotion and significant negative effect on perceived risk.

Therefore, this study proposed the following hypotheses:

H4 : The good corporate reputation will lead to lessen the perceived risk.

1.5. Corporate Ethics and Perceived Risk

Corporate ethics statements must not only exist but also be communicated both inside and outside the organization (Murphy, 1995; Weaver, 1993). Company can use several forms tools to communicate and promote corporate ethics statements both internally and externally such as website, booklets, posters, cards, or video. Murphy (2005) indicated that mostly companies used website as the tools to communicate their corporate ethics statements to their stakeholders.

The types of corporate ethics statements includes values statement, corporate credo, and code of ethics (Murphy, 1995, 2005). Values statements are aimed to set out the guiding principles of a company. Values statement often identify corporate qualities like integrity, trust, teamwork and fairness. Most values statements contain one or more that are considered primarily moral or ethical and not only limited to economic. Corporate credo commonly describe a company's beliefs and/or responsibilities to its stakeholders. Company should communicate and evaluate a credo to work because the credo often acts as a benchmark document for companies desiring a cohesive corporate culture. Codes of ethics are more detailed treatment of a firm's ethical policies. Codes of ethics is what guidance they communicate to employees about acceptable and unacceptable behavior. Corporate codes should assist employees in making ethical decisions in their day to day activities by spelling out areas of specific concern for the company. Study conducted by Adams *et al.* (2001) indicated that the presence of a code of ethics have a positive impact on perceptions of ethical behavior. Codes of ethics generally address issues such as conflict of interest, gift giving and receiving, relationships with dealers, increasing workforce diversity, human rights and competitive intelligence, advertising, and product safety.

Regarding the role corporate ethics to reduce perceived risk, Murphy (2005) found that product safety become the important issue in ethics statements because product safety

is viewed as more of a legal than ethical issue. Moreover, companies that market the products such as toys, autos, alcohol, cigarette, and other safety-sensitive products likely should offer an ethical position on this area too in order to reduce consumers' perceived risk concerning product safety.

Therefore, this study proposed the following hypotheses:

H5 : The more well-defined of corporate ethics statements will lead to lessen the perceived risk.

1.6. Corporate Reputation as mediator for CSR and Perceived Risk

CSR is often used as a key criterion in gauging corporate reputation (Ellen *et al.*, 2006). Company's decision to implement corporate social responsibility activities can lead to the better corporate reputation that ultimately reduce perceived risk. The rationality is that the better company's reputation indicate the better and higher quality of the products and services that offered by the company and therefore reduce perceived risk associated the products purchasing (Dowling, 1994).

Based on social identity theory, consumers tend to identify their self with the organization involved in optional citizenship (Bhattacharya *et al.*, 1995). The identification between consumer and company is stonger together with consumer's positive evaluation regarding corporate social responsibility conducted by company as well as corporate reputation regarding higher quality of products and services that offered by the company and consequently reduce the consumer's perception of risk associated with the opportunistic action conducted by company as well as the products purchasing. Therefore consumer's positive evaluation regarding corporate social responsibility conducted by company has a significant role in enhancing corporate reputation which in turn reducing perceived risk.

Therefore, this study proposed the following hypotheses:

H6 : Corporate reputation is mediator for perceived CSR and perceived risk.

Based on literature review and hypotheses development, the research framework that proposed in this research presented in Figure 1.

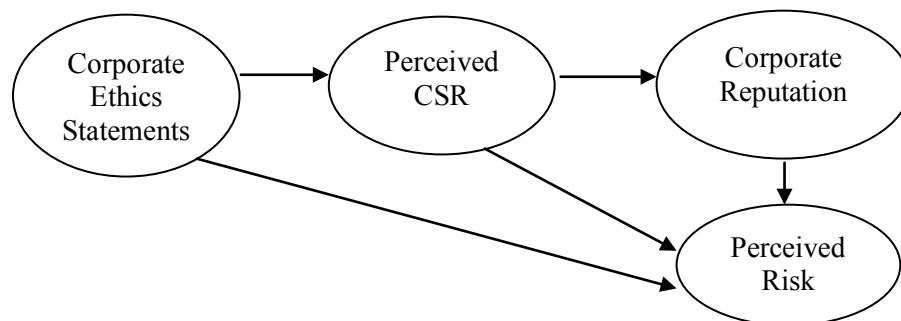


Figure 1. Research Framework

2. Research Design

2.1. Population and Sample

This research was conducted in the Faculty of Economics and Business Diponegoro University as a recipient of PT. Djarum that implemented CSR educational initiative through “Bakti Pada Negeri” program. Research conducted by survey method through distributing questionnaires to the 209 university students in Faculty of Economics and Business Diponegoro University. The sampling method which used for this research was nonprobability sampling with convenience sampling technique. At the convenience sampling, the respondents are taken randomly and there is not one criteria which has to be fulfilled by the respondent to become a sample (Cooper and Emory, 1995). The sample

taken in this research are the FEB UNDIP students who were at the campus at the time during the research conducted. The quantity of the sample taken in this research were 209 respondents and this amount fulfills the minimal sample size for a study that uses the SEM analytical tool (Hair *et al.*, 2010).

2.2. Research Procedures

The research was conducted using the survey method by distributing questioners to 209 students of FEB UNDIP. The period of data collection was June to July 2013. The researcher had conducted a pilot test with 30 students of the program for Doctor of Economy of UNDIP to catch question items and to identify confusing questions at the questionnaire before the questionnaire were distributed to the respondents. In the beginning, the survey participants were referred to the statement of ethics of PT. Djarum obtained by the researcher from the company's website (<http://www.djarum.com/index.php/en>) and then the participants were asked to answer all items presented at the questionnaire.

2.3. Research Instruments and Measurement

The questionnaire items, used in this research were adapted from the previous research and developed by the researcher. Ten-point Likert type scales range from 1= strongly disagree to 10= strongly agree were used in all measures of this research.

Validity and reliability testing which involved 30 respondents conducted in this research to test the research instruments. Validity shows how exact and accurate a certain measurement device is in doing its measurement function. The validity test in this research used the construct validity with Confirmatory Factor Analysis (CFA) with the SPSS 16.0 software for Windows. Before the analysis factor test, the Keyser Meyer Olkin (KMO) test and Barlett's test were conducted to test whether there is a correlation or not between the variables. The higher the value of KMO, the more valid a questioner item and the more homogeneous the variables measured. The limit of validity measurement is the KMO-MSA value which must be more than 0.5 with a significant <0.05 so that the variable can be predicted and further analyzed (Hair *et al.*, 2010). In this research the result of the validity test, the validity test showed a value of KMO-MSA 0.684 with a significant level of 0.000. Therefore, all variables used can be further analyzed, because it has fulfilled all criteria. Besides, the validity of this research instrument is also decided by the loading factor value. According to Hair *et al.*, (2010), the rule of thumb for the acceptance of the loading factor is ≥ 0.40 and is not part/or other factors. Based on the validity test, all research instruments used at this research have a loading factor value above 0.40.

The reliability test was used to calculate the reliability and consistency of the research instruments. The reliability in this research is measured using the Cronbach Alpha coefficient of 0.60 up to 0.80 indicates the reliability level that can be accepted (Sekaran, 2003). Hair *et al.* (2010) added that value of the rule of thumb which will be used for Cronbach's alpha must be 0.7 although the 0.6 value can still be accepted. Based on the reliability test, all research instruments used in this research have shown a Cronbach's alpha value above 0.7. Table 1 presented the validity and reliability testing results of all the item were used in this research.

Table 1. Validity and Reliability Testing Results

Variable	Indicators	Factor Loading	Cronbach's alpha
Corporate Ethics	- The company's business philosophy statement	0.796	0.862
	- The company's vision statement	0.851	
	- The company's mission statement	0.921	
	- The company's code of ethics statement	0.720	
Perceived Corporate Social Responsibility	- Company's orientation on societal concern	0.881	0.887
	- Company's involvement in corporate giving	0.739	
	- Company's commitment on implementation of CSR activities	0.886	
	- Company's initiatives to implement CSR activities continuously	0.835	
Corporate Reputation	- Reputation for being honest	0.835	0.923
	- Reputation for being reliable	0.935	
	- Reputation for being trustworthy	0.795	
Perceived Risk	- Physical risk	0.891	0.923
	- Social risk	0.915	
	- Psychological risk	0.920	

3. Resultand Discussion

3.1. Respondents Profile

A total 209 respondents were obtained in this research, consisting of 87 male respondents (41.6%) and 122 (58.4%) female respondents. In the terms of age, 52 respondents (24.9%) were 18 years old; 100 respondents (47.9%) were between 19-20 years old; and 57 (27.3%) respondents were more than 21 years old. Regarding to the study program, 80 respondents (38.3%) followed the management study program; 103 respondents (49.3%) had taken the accounting study program, and 26 respondents (12.4%) took the development economics program.

Structural equation model used in this research to analyze the data. One of the requirement of the structural equation model is data must have a normal distribution. Data normality determine by critical ratio (CR) value that range from -2.58 until +2.58 (Ferdinand, 2013). Based on normality testing, data were used in this research did not have a normal distribution. In order to solve this problem, the formula of New $X = 1/1 - (X * X)$, New $X = \lg_{10}(X)$, and New $X = 1/X$ were used to normalized the data.

3.2. Data Analysis Results

The data of this research was analyzed by *Structural Equation Model* (SEM) with the AMOS 21 software. The result of the structural equation model analysis show at Figure 2.

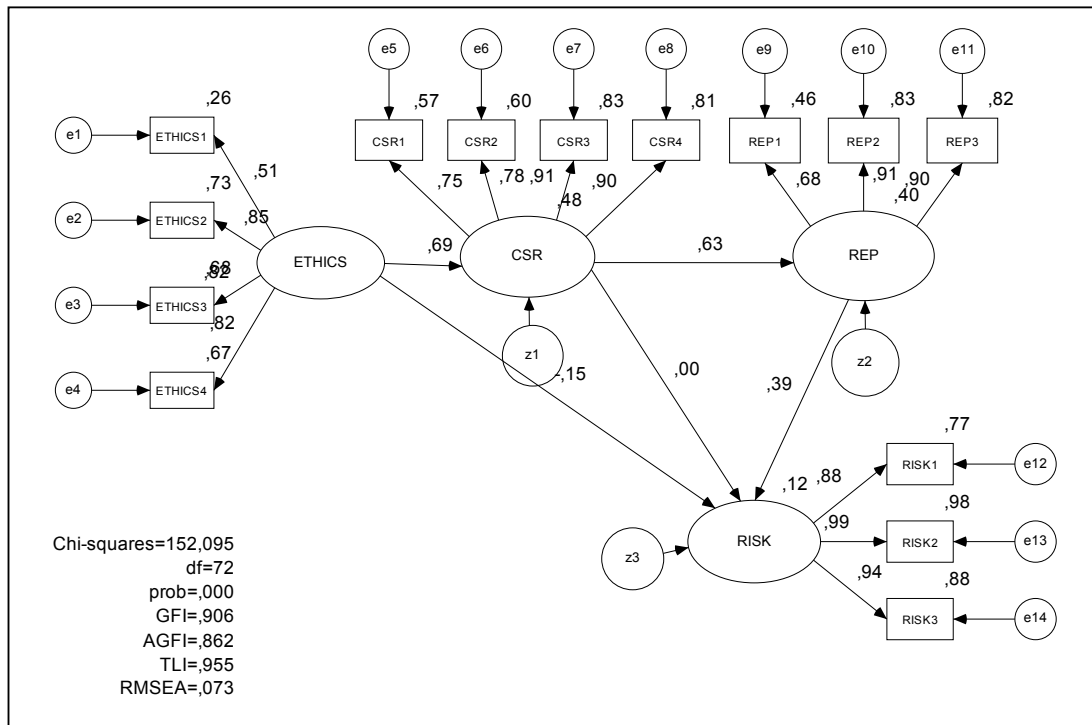


Figure 2. Data Analysis Results by SEM

This research used several fit indices to evaluation the overall model fit. Goodness of fit of model analysis was confirmed by the GFI index (GFI) = 0.906; the adjusted GFI Index (AGFI) = 0.862; Tucker-Lewis Index (TLI) = 0.955; and root mean square error of approximation (RMSEA) = 0.073. These fit index indicated a good fit of the confirmatory measurement model. Therefore, it can be concluded that the structural equation model is a fit.

3.3. Hypotheses Testing Results

The structural equation model used in this research to testing the hypotheses. Table 2 shows the result of all hypotheses results.

Table 2. Hypotheses Testing Results

Hypotheses	Estimate	S.E.	Critical Ratio	P value (≤ 0.05)	Results
H1: The more well-defined of corporate ethics statements will lead to better evaluation of CSR activities.	0.861	0.101	8.566	0.000	Supported
H2: The better evaluation of CSR activities will lead to good corporate reputation.	0.586	0.080	7.299	0.000	Supported
H3: The better evaluation of CSR activities will lead to lower perceived risk.	0.008	0.200	0.040	0.968	Not supported
H4: The good corporate reputation will lead to lower perceived risk.	0.700	0.184	3.797	0.000	Supported
H5: The more well-defined of corporate ethics statements will lead to lower perceived risk	-0.315	0.223	-1.416	0.157	Not supported

3.4. Test of Mediating Effect by Sobel Test

This study proposed corporate reputation as a bridge to link the relationship between perceived CSR and perceived risk. Sobel test calculator available online was used in this research to examine the mediating variable corporate reputation on the relationship between perceived CSR and perceived risk. The Sobel test statistic formula is:

$$z = \frac{ab}{\sqrt{(b^2 SE_a^2) + (a^2 SE_b^2)}}$$

where a is the regression coefficient for the relationship between independent variable and mediator variable, b is the regression coefficient for the relationship between mediator variable and dependent variable, SE_a is the standard error of the relationship between independent variable and mediator variable, and SE_b is the standard error of the relationship between mediator variable and dependent variable (Soper, 2014). The mediating test resulting z value = 3.3762 with significance level 0.017. This result indicated that our data confirmed that perceived CSR has a significant role in enhancing corporate reputation which in turn reducing perceived risk.

3.5. Discussion

Based on data analysis, this research results some interesting findings. H1 proposed that the more well-defined of corporate ethics statements will lead to better evaluation of CSR activities. Therefore H1 are supported in this research. This research confirmed that company that able to formulate a good ethics statement will be appreciated by consumer as the social responsible company regarding the company's commitment to CSR initiative reflected on its ethics statement. The results supported previous studies which found that corporate ethics that are manifested in the form of the ethics statement positively influenced on consumers' perception regarding how large company's commitment to corporate social responsibility (Stanaland *et al.*, 2011; Tuan, 2012).

H2 proposed that the better evaluation of CSR activities will lead to good corporate reputation. Therefore H2 are supported in this research. This research confirmed that company can build and enhance corporate reputation through CSR initiatives. Based on resource-based perspective, corporate reputation become an intangible asset and it can be built or diminished because of the consequence received from the company's decision to or not to conduct corporate social responsibility activities (Branco and Rodrigues, 2006). The results supported the previous studies which found that CSR initiatives has a positive impact on corporate reputation (Drumwright, 1994; Brown and Dacin, 1997; Meyer, 1999; Fombrun, 2005; Lai *et al.*, 2010, Stanaland *et al.*, 2011; Gatti *et al.*, 2012). Moreover, Palazzo and Richter (2005) found that all tobacco company can achieve is a reputation for transactional integrity. Transactionally integrity can be implemented by company through complies with the legal and moral rules of their societal context, conduct transactions that transparent and its behavior is fair, and keeps promises and acts with consistency.

H3 proposed that the better evaluation of CSR activities will lead to lessen the perceived risk. Therefore H3 are rejected in this research. This research found that in the case of controversial products, the consumer's positive evaluation on the company which has conducted social responsibility activities cannot reduce perceived risk for all products offered by company. The results are contradictory with previous study which found that perceived risk are potentially impacted by CSR activities (Stanaland *et al.*, 2011). In the case of sinful and controversial industries like tobacco, related to the products that company sells, there is no doubt that smoking is both addictive and lethal so that it cannot reduce perceived risk although the company achieve the status of good corporate citizens by conducting many CSR activities. Palazzo and Richter (2005) argue that although tobacco companies have started to position themselves as good social citizens, the CSR of

the tobacco industry may be a smoke curtain or, at best, a strategic approach to hide what they really do in their business that hurts billions of people every year. They also further suggest that the deep distrust toward tobacco companies is related to the lethal character of their products.

H4 proposed that the good corporate reputation will lead to lessen the perceived risk. Therefore H4 are supported in this research. This research confirmed that good corporate reputation can reduce the consumer's perception of risk associated with opportunistic action and behavior conducted by company. Moreover, consumers generally make the inference about the product or service quality from corporate reputation and the good corporate reputation indicated the good quality of products and therefore it can reduce perceived risk regarding the products purchasing. The results supported previous studies which found that corporate reputation had a significant negative effect on perceived risk (Purohit and Srivastava, 2001; Ewing *et al.*, 1999; Kim and Lennon, 2013).

H5 proposed that the more well-defined of corporate ethics statements will lead to lessen the perceived risk. Therefore H5 are rejected in this research. This research found that in the case of controversial products, good corporate ethics statements will not lead to lower perceived risk. Corporate ethics statements that reflect corporate values and guide employees behavior in tobacco industry may be perceived by consumers as a strategic approach to cover the managers and employees behavior who have lost credibility due to their strategy of denying risks and manipulating information. This result did not support the previous study which indicated that companies that market products such as toys, autos, alcohol, cigarette, and other safety-sensitive products likely should offer an ethical position on this area too in order to reduce consumers' perceived risk concerning product safety (Murphy, 2005).

H6 proposed that corporate reputation is mediator for perceived CSR and perceived risk. Therefore H6 are supported in this research. This research confirmed that consumer's positive evaluation regarding corporate social responsibility conducted by company has a significant role in enhancing corporate reputation which in turn reducing perceived risk. Consumer's positive evaluation regarding corporate social responsibility conducted by company as well as corporate reputation regarding higher quality of products and services that offered by the company lead to the strong identification between consumer and company and this identification can reduce the consumer's perception of risk associated with the opportunistic action conducted by company as well as the products purchasing.

4. Conclusion, Managerial Implications, and Suggestions for future research

The main objective of this research is to explore whether the good corporate ethics statements and corporate social responsibility (CSR) can create positive consumer responses on the company and its products. The results of this research showed that the more well-defined of corporate ethics statements lead to better evaluation of CSR activities; the better evaluation of CSR activities lead to good corporate reputation, but did not lead to lessen the perceived risk; the good corporate reputation lead to lessen perceived risk; and the more well-defined of corporate ethics statements did not lead to lessen the perceived risk. Based on Sobel test results, this research indicated that perceived CSR has a significant role in enhancing corporate reputation which in turn reducing perceived risk. The results of this research provide empirical evidence and completed the existing empirical research regarding the role of corporate ethics and CSR in enhancing corporate reputation and reducing perceived risk on the controversial product context.

The managerial implications of this research finding entails the following. First, tobacco companies have started to position themselves as good corporate citizens with comply with the minimum CSR criterion to achieve the status of good citizenship and

social responsibility. Regarding CSR engagement of companies in controversial industries like tobacco companies, similar to other companies in other industries, the controversial companies have legitimate right to develop and engage in CSR activities because CSR is one crucial means to improve corporate reputation and to become better organizations, the controversial firms are human organizations and humans are simply imperfect, and top management is free to choose whatever strategy to conduct their own business. Cai *et al.* (2012) found that CSR engagement is positively associated with firm value in sinful and controversial industries such as tobacco, gambling, and alcohol, as well as industries involved with emerging environmental, social, or ethical issues, i.e., weapon, oil, cement, and biotech. Therefore, the top management of companies in controversial industries, especially tobacco companies should manage their companies morally or strategically and could be socially responsible, although their products might be detrimental to environment, human being, and society. Second, a good corporate citizen in the tobacco industry has to develop and communicate a clear vision statement that leads beyond the established business practices. Corporate transformation, from a marketing to a research-driven company (safe cigarettes as main target), might be an element of such a vision statement that potentially reduce consumers' perceived risk.

This research has some limitations. First, this research has only used the cigarette product as one of the controversial products as the study object. The future research should be use the other controversial product categories to explore the effect of the corporate ethics and corporate social responsibility on consumers' response to the company and its product for each category product. Second, this study only investigated the corporate social responsibility initiatives in the educational field conducted by PT. Djarum at FEB UNDIP. The future research should investigate other fields of corporate social responsibility program implemented by PT. Djarum, such as sport, culture, society, or environment filed as well as involves the other tobacco companies so that the results of the study can be more generalized.

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