# CROSS EXAMINATION OF INFLUENCING FACTORS ON CONSUMER PURCHASE INTENTION OF ORGANIC FOOD AND ENERGY-EFFICIENT APPLIANCES IN U.S.A AND MALAYSIA

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FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTANCY UNIVERSITI MALAYSIA SABAH 2015

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#### **DECLARATION**

I hereby acknowledge that I have stated the source of each extraction, summary and reference in this study.

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#### **ABSTRACT**

Green market is relatively new and still at its infancy stage. More and more businesses are entering the green market in an attempt to increase their share while being environment friendly. For sustainable and more profitable business, it is essential for sellers to understand consumers' purchasing intention and behavior. However, insufficient research has been conducted in this green market. Many of the available researches treat green products as a single line of products and tend to generalize their findings to other areas and countries aside from the ones their study was conducted in. The purpose of the study in hand was to investigate the factors influencing consumers' purchasing intention of organic food and energyefficient appliances in Malaysia and the U.S, while examining the differences in consumers' purchasing intentions from one country to another; and then to develop conclusions using the findings to predict consumer purchasing intention of the mentioned products. To accomplish the objectives of this study, Theory of Planned Behavior was used as a guiding theory. A research instrument was developed to examine the direct influence of consumer's religiosity, environmentalism, cultural dimensions -individualism-collectivism, and third party influence on their purchasing intention of organic food and on that of energyefficient appliances. Some moderators were also tested, including economical benefits, income, price, brand, Ecolabel, and availability. Data for this study were obtained from 384 participants from each country. It was found that while the purchasing of the two green products varies between the two product categories amongst consumers from each country, and also varies across countries; only Environmentalism had a direct influence on the purchasing intention of either product. The moderating factors had different effects varying between the products, and between countries.

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#### **ABSTRAK**

#### KAJIAN SILANG MENGENAI FAKTOR-FAKTOR PENGARUH NIAT PEMBELIAN PENGGUNA DI MALAYSIA DAN AMERIKA SYARIKAT TERHADAP MAKANAN ORGANIK DAN PERALATAN ELEKTRIK CEKAP TENAGA

Pasaran hijau adalah agak baru dan masih di peringkat awal. Semakin banyak peniaga yang memasuki pasaran hijau dalam usaha untuk meningkatkan bahagian pasaran mereka sekaligus menjadi mesra alam. Bagi perniagaan yang mampan dan lebih menguntungkan, ia adalah penting bagi penjual untuk memahami niat pembelian dan tingkah laku pengguna. Walau bagaimanapun, penyelidikan yang telah dijalankan mengenai pasaran hijau tidak mencukupi, Kebanyakan daripada kajian didapati meletakan produk hijau sebagai satu baris produk dan cenderung untuk umumkan penemuan mereka ke kawasan lain dan negara-negara selain daripada yang kajian mereka telah dijalankan. Tujuan kajian ini adalah untuk mengkaji faktor yang mempengaruhi niat membeli pengguna terhadap makanan organik dan peralatan elektronik yang cekap tenaga di Malaysia dan Amerika Syarikat, manakala memeriksa perbezaan dalam niat pembelian pengguna dari satu negara ke negara lain; dan kemudian untuk membuat kesimpulan menggunakan penemuan untuk meramalkan niat membeli pengguna produk yang dinyatakan. Untuk mencapai objektif kajian ini, Teori Tingkah laku yang dirancang telah digunakan sebagai satu teori pembimbing. Instrumen kajian telah dibangunkan untuk mengkaji pengaruh langsung keagamaan, persekitaran hidup, dimensi budaya individualism-kolektivisme pengguna, dan pengaruh pihak ketiga mengenai hasrat mereka untuk membeli makanan organik dan yang peralatan cekap tenaga. Beberapa moderator juga diuji, antaranya ialah manfaat ekonomi, pendapatan, harga, jenama, Ekolabel, dan ketersediaan. Data untuk kajian ini diperolehi dari<mark>pada 384</mark> orang peserta dari setiap negara. Dapatan kajian telah mendapati bahawa walaupun pembelian kedua-dua produk hijau berbeza antara kedua-dua kategori produk di kalangan pengguna dari setiap negara, dan juga berbeza di seluruh negara; hanya faktor environmentalism mempunyai pengaruh langsung ke atas niat beli produk sama ada. Faktor-faktor moderator pula mempunyai kesan yang berbeza-beza di antara produk dan juga di antara keduadua negara.

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#### **CHAPTER 1**

#### **INTRODUCTION**

#### 1.1 Research Background

In response to the calls of environmental organizations along with our governments' leaders; companies and consumers alike have fastened up their belts, and started a long and hard journey in claiming to be all green or at least to try their best to be so. Calls need to be followed by actions, and actions need to be preceded by carefully researched proposals, and such proposals are usually put forth and examined by professionals, and researchers in the field. One of the main and hot topics one can think of when environment is mentioned is green products.

Governments and companies alike are sending messages to consumers explaining that most non-green Products carry more harmful chemicals (Kirsner, 2003). According to Kirsner, in many cases these chemicals do not only harm earth but also humans; some of these products are both made out of harmful chemicals and release chemicals and gases that are very dangerous; also some other kinds of non-green products are made from raw materials very essential to earth, and the removal of such materials makes the climate change even worse. Such messages are followed by attempts to find ways to convince consumers to have a shift towards green products; however when it comes to financing their calls governments and companies are very careful, and cautious with the funding and expenses associated with green products, thus they always turn to statistics in the field of consumer behavior and green products (Graeme, 2009).

For 1993, the market for green products hit USD \$121.5 billion, for a 10.4 percent increase over 1992's USD \$110.1 billion (Norman, 1993). Looking ahead to

1997, the market climbed to USD154 billion, for a 26.7 percent gain over the 1993 figure. The natural-food industry grew by 18% to 20% per year. U.S. sales of organic products have risen at double-digit rates since 1990, with an estimated 2% of all food sold in the United States has the organic designation. Currently, organic farming is practiced in more than 130 countries worldwide, (Organic Trade Association, 2008) and in 2007, the global sales of organic food topped USD46 billion dollars (Organic Monitor, 2008).

In its 2004 issue, the international trade forum magazine states that in the year 2004, environmental products, services and technologies made up a USD 475 billion market. And in 2010, it was estimated to be USD 640 billion, with a share of over 15% for developing and transition economies. Developing economies have a competitive edge, with rich natural resources and their own clean technology solutions that have emerged in response to local demand, and which are likely to be of interest to other developing countries. Wal-Mart has even entered the organic market and expects to invest USD500 million in sustainability projects (Tanneeru, 2006).

Royal Philips Electronics has seen a 33 percent increase in sales of green products in 2007, as published in the company's 10th annual Sustainability Report. All three Philips sectors – Healthcare, Lighting and Consumer Lifestyle – showed an increase in sales of green products in 2007, resulting in total Green Product sales of EUR 5.3 billion in 2007, compared with EUR 4 billion in 2006. In September 2007, Philips announced its EcoVision4 program aiming to double sales of green products to 30 percent of total revenues within five years (Philips Sustainability Report, 2007).

In regard to consumer purchasing intention, Czarnowski (2009) explained that previous studies showed very surprising commitment by consumers in both China and Korea; both countries having 81% of their citizens claiming to be willing to pay a premium to buy green, followed by Singapore with 70% of its population having the same claim, and the U.K was satisfied with only 45% of its population with the same commitment (Czarnowski, 2009). The U.S however yields a very interesting results which bring all consumers claims to question. A survey by Wall

Street and NBC 80% of the Consumers in the U.S showed their willingness to stir their purchasing focus towards green products (Bahn, and Wright 2001); however Centaur communications Ltd broke the products into categories to show a different result for each one. For example in the beauty products only 30% of the consumers adopted the green claim; while in the auto industry only 46% of consumers showed the will to walk the green path towards their car purchase (Czarnowski, 2009). Data still shows more confusing and contradicting numbers. In the same survey green cars enjoyed no more than 1.6% of the market; such number shows the nonconsistence between general claims for all products and for those specific ones, and the lack of consistency between the claims and actions of consumers.

According to Bahn and Wright (2001) there is clear contradiction in consumers' claims and their actions. In a good number of surveyed countries, consumers don't seem to walk their talks; for them being green remains no more than a claim regardless of the consumer's intention (Bahn, and Wright 2001). Such claim encouraged scholars to dig deeper, and look for the reasons behind such contradiction between the claim and the actual action by consumers. Some scholars claimed that it is merely a matter of lack of knowledge, and the absence of educating programs that may bring the consumers to the face of the issue of climate change, and to realize the importance of their actions helping protect our home earth (Firat, 2009).

In attempt to connect between the consumers' claims and their actions; Oliver (2007) in his study concluded that the problem facing green products is not the consumers' claims rather it is its actual share in the market. Oliver argued that the share of green products is very low compared to what was expected. In the U.S for instance green products hold a share of less than 20 percent of the U.S market. One should note that unlike other new products green products are not enjoying a good portion of the market share, yet they are still holding their place which makes them very unique unlike any other new products in the market. The diversity of the green products could be one of the many reasons for such unique position held by the green products, but at the end one cannot deny the fact that consumers are the final deciders for the fate of any product in any market.

Oliver (2007) in his research found that people who have high knowledge and realization of the matter (Climate change) along with high commitment to the environment tend to follow their claim actively both by making green purchases and encouraging others to do the same; while those with the least knowledge and least commitment to the environment tend to care less and make no effort to buy a green product nor do they believe that their action will have a negative impact (Oliver, 2007). The results are very strong indicators to consumer's purchasing intention of the green product; however they do not include other factors that may yield different results.

In a more general approach, and in disregard to the green product itself; some other researches like Brown and Wahlers (1998) went to the extent in claiming that it is the demographic factors that are influencing the consumer behavior and purchasing intention. They suggested that firms should identify their potential consumers based on such factors (Brown and Wahlers, 1998); the latter's suggestions however are challenged by some well published findings by Firat (2009) indicating that it is the psycho graphic factors that hold the stronger hand in influencing consumer purchasing intention. Not totally eliminating the demographic factors the researchers argued that the main and essential key factors are the psychographic factors (Firat, 2009). Such contradiction in findings makes the matter more complicated; when one looks at Clare's and her colleagues' research where the participants who showed different demographic criteria yielded the same results; one can argue that such finding does not only weaken the demographic influence on consumer purchasing intention of green product it eliminates it for once and for all at least in Claire's study (Clare, et el, 2007).

Some other researchers like Adrian and Dupre (1994) argued that the more general approach is not representative of the case, and should not be assumed as the main explanation to the consumer purchasing intention of green product. In accordance to the researchers, price and quality are the main factors in controlling the consumer purchasing intention. Adrian and Dupre (1994) supported their claims by data results showing the increase of consumer's willingness to purchase a green product as long as it does not cost more, and offers a competitive quality to the

non-green products. This same study has its rivals who claim that consumers are willing to pay the premium to go green (Oliver, 2007).

When contradiction in findings and bugs were obviously pointed out by critiques to the different researches available in the field of consumer behavior, and green product (also known as environment friendly products); In their study Eco-Labeling Perspectives amongst Consumers in Malaysia; Rashid et al (2009) argued that one of the factors that play a good role in influencing the consumer purchasing intention is the green packaging; in which the product makers can clearly identify the green in their product in comparison to other products on the shelf; by doing so the company makes its product clear to consumers, and help influence their purchasing behavior including future purchasing intentions where the product has already drawn a vivid image in the consumer's mind (Rashid et al., 2009). Rashid and his colleagues did not skip criticism where critiques argued that a good number of consumers believe or at least think that such claims are just for the purpose of marketing, thus it is normal for one to assume that some firms are just simply not honest in their claim, and their packaging may be green on the outside but as smoky as other products on the inside (Kusz, 1997).

Contradicting findings kept merging in all areas to include religiosity. One can find a very clear statement by Witkowski and Reddy of California state university (2010) arguing that, while other researchers claim that religiosity has a significant influence, it in fact has very weak influence on the consumer's purchasing intention including that of the green products.

#### 1.2 Problem Statement

Environmentally active groups and organizations, along with some governments and businesses share the same view of the United Nations (U.N). A view stating that the key role that business can play in addressing environmental degradation is very essential, while suggesting that firms' actions are also instrumental in ensuring that the planet's inhabitants maintain an acceptable standard of living (Elkington 1994; Lertzman and Vredenburg 2005). This mindset acknowledges that firms can and should seek profits as they operate in an environmentally friendly manner

(Kilbourne and Carlson 2008). However, as mentioned earlier under the background study section, in their pursuit of profiting under environmentally friendly environment, businesses focused so much on consumer claims (purchasing intention) and found themselves faced with generalized findings, and findings that treat purchase intention of green products in general as an indicator of the purchase intention of a specific product and in some cases they rely on findings in certain countries and apply them to their own country.

The arguments and contradicting researches in the field of marketing and consumer behavior resemble the egg and chicken puzzle. Is it the green customers or the green product? the contradiction is due to the fact that the majority of researchers and firms have failed to look at the green products as a whole market rather than one type of products; thus having failed to win the green products a share higher than 20 percent (Oliver, 2001). Also most studies are conducted in similar cultures (Chen, 2013), thus limitation is put on the usage of the published researches. A cross-cultural study including different cultures is more representative.

For this study, it is useful to mention Hofstede's (1997) definition of culture as "the collective programming of the mind which distinguishes the members of one group or category of people from one another" (p. 5). In this significant work, Hofstede originally postulated that viewed collectively, a nation's culture may differ from that of another in the five different values he termed power distance (PDI), long-term versus short-term orientation (LTO), individualism vs. collectivism (IDV), uncertainty avoidance (UAI), and masculinity versus feminism (MAS). He has since included a sixth dimension he calls indulgence versus restraint (IND).

Many studies have investigated how these dimensions can be used to understand how consumers think and behave (Jarvenpaa & Tractinsky, 1999; Keh & Sun, 2008; Radford, Mann, Ohta, & Nakane, 1993; Steenkamp, Ter Hofstede, & Wedel, 1998). Samiee (2001) even went so far as to say that culture is "the single most important factor that influences international marketing"(p. 297).

Consumers in Malaysia and those in the U.S.A come from two different countries, Malaysia being a culture of collectivism with a low score of 26 and the U.S known as a culture of Individualism scoring 91 (geert-hofstede, 2015). Unfortunately in other studies, when differences in locations and cultures are considered as factors, other independent factors, like environmentalism (environmental knowledge, attitude, and behavior), third party influence and religiosity, Income, Product's price and brand along with its economic benefits are mostly overlooked; this makes the findings unrealistic and unrepresentative of the whole. Focusing on one single product is another weakness of prior researches, the unique features of a one single product makes it unique thus unrepresentative of other products in within the same line; therefore not allowing for the generalization of the findings of the study.

In this research the goal is to examine and compare the influences of different internal and external factors income, religiosity, third party influence, and environmentalism (environmental knowledge, environmental attitude, and environmental behavior), and product's price, economic benefits and brand on the purchase intention of consumers in Malaysia and those in the U.S.A under different green product categories; namely: organic food, and energy saving appliances. The research also seeks to examine the moderating effect of consumer's age and gender and also the product's availability and eco-label.

The decision to choose Organic food and energy-efficient appliances as the two green products comes at no coincidence. The fact that the two products are available in Malaysia and the U.S.A, also the fact that they are so different from each other in many ways including their life time, the cost, the purchase frequency, and their impact on the consumer in many ways including the health and the financial state of the consumer.

The fact that nowadays, everyone talks about energy and energy use. The fact that almost all our actions require energy is becoming a threat not only to world resources but also to countries that need to assure energy for their population to use, either by producing it or buying it from other countries (Antunes, Gaspar, & Lino, 2014). At a consumer level, for firms and governments, appliances