

CHAPTER I

INTRODUCTION

1.1 Overview of Research Objects

1.1.1. Philips Profile

Koninklijke Philips N.V. (literally Royal Philips, stylized as PHILIPS) is a Dutch multinational conglomerate corporation that was founded in Eindhoven. Since 1997, it has been mostly headquartered in Amsterdam, though the Benelux headquarters is still in Eindhoven. Philips was formerly one of the largest electronics companies in the world, currently focused in the area of health technology, with other divisions being successfully divested.

It was founded in 1891 by Gerard Philips and his father Frederik, with their first products being light bulbs. It currently employs around 74,000 people across 100 countries. The company gained its royal honorary title in 1998 and dropped the "Electronics" in its name in 2013, due to its refocusing from consumer electronics to healthcare technology.

Philips is organized into three main divisions: Personal Health (formerly Philips Consumer Electronics and Philips Domestic Appliances and Personal Care), Connected Care, and Diagnosis & Treatment (formerly Philips Medical Systems). The lighting division was spun off as a separate company, Signify N.V. (formerly Philips Lighting prior to 2018). The company started making electric shavers in 1939 under the Philishave brand, and post-war they developed the Compact Cassette format and co-developed the Compact Disc format with Sony, as well as numerous other technologies. As of 2012, Philips was the largest manufacturer of lighting in the world as measured by applicable revenues.

Philips has a primary listing on the Euronext Amsterdam stock exchange and is a component of the Euro Stoxx 50 stock market index. It has a secondary listing on the New York Stock Exchange. Acquisitions include that of Signetics and Magnavox. They also have had a sports club since 1913 called PSV Eindhoven.

1.1.2. Philips Logo

Following is the Philips logo:



Figure 1. 1 Philips Logo

Source: Philips.co.id, accessed on July 2020

1.1.3. History of Philips

Inspired by the fast-growing electricity industry and the promising results of son Gerard's own experiments to make reliable carbon filaments, in 1891 Frederik Philips financed the purchase of a modest factory in Eindhoven. Their plan? To bring cost-effective, reliable electric incandescent light bulbs to everyone who needed them. Over the years since then, we have continued to improve people's lives with a steady flow of ground-breaking innovations.

1891–1915 From light revolution to product evolution

Philips began by making carbon-filament lamps and quickly became one of the largest producers in Europe. From the outset, Philips was an export-oriented company. Large orders were won in Russia, including one from the Tsar to light up the Winter Palace. In 1912, Philips became a limited company, with publicly traded shares, listed on the Amsterdam Stock Exchange. With developments in new lighting technology fueling a steady program of expansion, Philips established a research laboratory in 1914 – the world-renowned 'NatLab' – to study physical and chemical phenomena and stimulate product innovation.

1915 – 1925 Innovation and diversification: X-rays and radio reception

In 1916, Philips received royal recognition on its 25th anniversary. Two years later it introduced a medical X-ray tube. This marked the point when the company began to diversify its product range and to systematically protect its innovations with patents in areas stretching from X-ray radiation to radio reception. During this period, sales organizations were established all over Europe and in countries like China, Australia and Brazil.

1925 – 1940 The first radios, televisions and electric shavers

In 1927, Philips began producing radios, and within five years it had sold one million sets and become the world's largest manufacturer of radios and radio tubes. A year later, it produced its 100-millionth radio valve. In 1933 the company started production of medical X-ray equipment in the United States. Having been involved in

experiments in television since 1925, Philips showcased its first television at the Annual Fair in Utrecht in 1938. One year later it launched its pioneering rotary electric shaver, the Philishave.

1940 – 1970 A succession of technology breakthroughs

Science and technology underwent tremendous development in the 1940s and 1950s, with Philips Research laying the basis for later ground-breaking work in transistors and integrated circuits. The year 1949 saw the introduction of the Philips Synchrocyclotron, enabling research into the treatment of malignant tumors. The company also continued to make major contributions to the recording, transmission and reproduction of television pictures. And in 1963 it introduced the Compact Audio Cassette, setting the global standard for tape recording.

1970 – 1980 Continued product innovation for images, sound and data

The flow of exciting new products and ideas continued throughout the 1970s. In a decade when energy management was high on the agenda, Philips Research contributed to the new energy-saving lamps. Key breakthroughs were also made in the processing, storage and transmission of images, sound and data. These subsequently led to the invention of optical telecommunication systems, the Laser Vision optical disc, and the highly successful Compact Disc.

1980 – 1990 Technological landmark: the Compact Disc

The 1982/83 market launch of the Compact Disc – developed together with Sony – represented another technological landmark for Philips. This new digital format delivered pure sound without background noise. Key to CD's success was the companies' decision to grant manufacturing rights to other producers, immediately establishing CD as a new global standard. Other milestones from this period include the production of Philips' 100-millionth TV set in 1984 and the founding of Philips China Ltd in 1985.

1990 – 2000 Far-reaching changes and new successes

The 1990s was a decade of significant change for Philips, as the company simplified its structure and reduced the number of areas in which it operated. In healthcare, Philips adopted a new, people-centric approach to product design, the aim being to make medical systems easier for clinicians to use, and more comfortable for patients. Building on the success of its Compact Disc technology, Philips again

partnered with Sony to introduce the DVD in 1997. This ground-breaking innovation went on to become the fastest-growing home electronics product in history.

21st century Enduring commitment to innovation

Moving into a new century, Philips remained fully committed to innovation. Reflecting its focus on health and well-being, the company introduced the Ambient Experience in 2002. This innovative solution improves hospitals' workflow and patient care by integrating architecture, design, dynamic lighting and sound. Other milestones include, in 2006, the first commercial launch of a 3D scanner, providing unprecedented image quality for CT scans. In 2012, Philips introduced the Allura Clarity interventional X-ray system, which offers excellent visibility at low X-ray dose levels. Recent innovations include the development of the Philips Smart Air Purifier and Philips Azurion, the next-generation image-guided therapy platform that enables clinicians to perform a wide range of routine and complex procedures, helping them to optimize interventional lab performance and provide superior care.

1.1.4. Vision and Mission of Philips

The following is the Vision and Mission of Philips:

a. Vision:

“Improving people’s lives through meaningful innovation”.

b. Mission:

At Philips, we strive to make the world healthier and more sustainable through innovation. Our goal is to improve the lives of 3 billion people a year by 2030. We will be the best place to work for people who share our passion. Together we will deliver superior value for our customers and shareholders.

1.1.5. Philips Goals

Royal Philips (NYSE: PHG, AEX: PHIA) is a leading health technology company focused on improving people's health and enabling better outcomes across the health continuum from healthy living and prevention, to diagnosis, treatment and home care. (<https://www.philips.co.id/a-w/about-philips/company-profile.html>)

1.1.6. Philips Strategy

All around the world, resource constraints are driving a shift to value-based healthcare – a system that aims to increase access to care and improve patient outcomes while also raising cost productivity. At the same time, aging populations and the rise

of chronic diseases like heart disease and respiratory conditions are driving up demand for healthcare.

In parallel, a growing focus on healthy living and prevention means more and more people are looking for new ways to proactively monitor and manage their health, also in home and community settings. And the digitalization of healthcare has reached the point where value is shifting from stand-alone products to solutions combining systems, smart devices, software and services, which deliver greater benefits to customers.

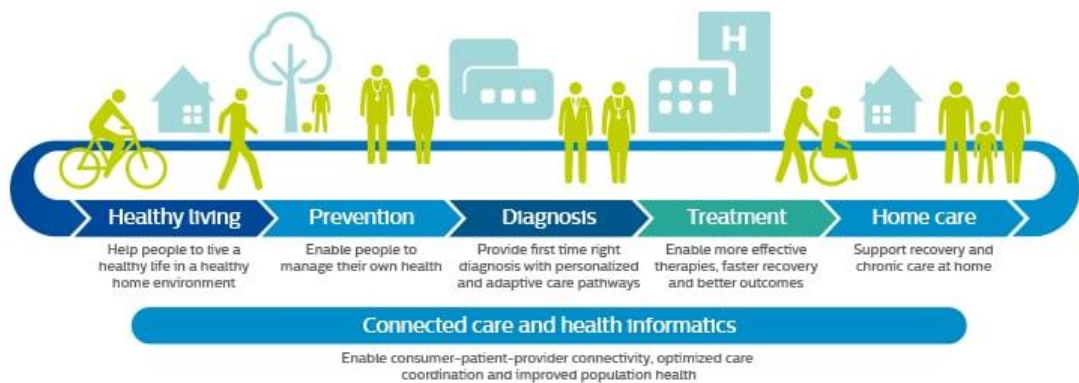


Figure 1. 2 Strategic Focus of Philips

Source: Philips.co.id, accessed on July 2020

By addressing healthcare as a ‘connected whole’ in this way, Philips can unlock gains and efficiencies and drive innovations that help deliver on the ‘quadruple aim’: enhancing the patient experience, improving health outcomes, lowering the cost of care, and improving the work life of care providers.

With our global reach, deep insights and leading innovations, we are uniquely positioned in ‘the last yard’ to consumers and care providers, delivering:

- Connected products and services supporting the health and well-being of people
- Integrated modalities and clinical informatics to deliver definitive diagnosis
- Real-time guidance and smart devices for minimally invasive interventions
- Connected therapeutic products and services for chronic care patients.
- Underpinning these solutions, and spanning the health continuum, our connected care and health informatics solutions enable us to:

- Connect patients and providers for more effective, coordinated, personalized care
- Manage population health, leveraging real-time patient data and clinical analytics.

Philips focusing on end-to-end pathways – at present primarily cardiology, oncology, respiratory care, and pregnancy and parenting – where we believe our integral approach can add even greater value for our customers.

More and more, Philips teaming up with hospital and health systems to understand their needs, provide integrated solutions, and engage in multi-year cooperation to drive improvements in terms of patient outcomes, quality of care delivery and cost productivity.

In this context, we are pioneering new business models that fit our customers' needs better. These include Technology Managed Services, as well as Software as a Service and Product as a Service models. We have also started to take co-accountability for our customers' patient outcomes and productivity.

Going forward, we aim to expand our strong positions across the health continuum, extend our solutions capability to address our customers' unmet needs, and sodeliver the full benefits of data-enabled connected care.

1.2. Background of the Problem

The electric light was invented by Thomas Alpha Edison on October 21, 1879 in the Edison-Menlo Park laboratory, America. One of the very rapid technological developments is lamps. Lights are artificial light sources that start from using lamps to emit fire and then produce light. Therefore, business actors create innovative products to meet customer needs. With the advent of LED technology nowadays, these lamps provide a consistent quality of light over time and are long-lasting. This product is known for its energy-efficient lighting so that it has a good impact on the environment. Philips is one of the lamps with the quality of lighting the lamp has been guaranteed for this lamp, because Philips lamps are in great demand by the people of Indonesia. This is because LED lamps can provide twice as many bright shades as conventional lamps with the same wattage. Philips LED lamps can last for approximately a decade or 10 years or more. When compared to ordinary lamps that are tried by customers, an

average of only 2 years last. Philips also offers soft light which makes the atmosphere in the room feel more comfortable (Via, 2019).

Today's technological developments are increasing along with the increase in Natural Resources and Human Resources quality. Where the human resources are people who can process the available natural resources to create good results. Competition in the global electronics industry is getting tougher along with the emergence of new low-priced producers such as China and others. This forces suppliers to think about ways to maintain sales, especially in Indonesia. Philips continues to innovate ahead of the competition. Philips will make sure that it can do many things in the future. The sales contribution from Indonesia for global Philips is still single digit. Countries held by the United States, Japan, China and other developed countries. Philips starts by understanding the business challenges, sustainability goals and knowing what makes customer facilities different. With extensive healthcare experience and access to the latest innovations, Philips can identify the most appropriate lighting solution for its customer needs. Innovation creates real change in the world. By creating new technologies, Philips is working to create a healthier and more sustainable world. To optimize the new lighting, Philips uses its expertise and experience to look at every aspect of the project life cycle (M. Abdi Amna, 2015).

In order to influence Corporate Social Responsibility on Customer Loyalty as a company engaged in electronics. Therefore, Philips created an innovative initiative by holding a Corporate Social Responsibility Program with the theme "The Light Village to Save Energy," replacing the use of kerosene lamps and candles with Philips' solar-based LED lighting systems. The program, founded in 2015, aims to provide lighting for residents whose areas have not been touched by electricity. Philips Lighting Indonesia's country leader, Rami Hajjar, created a solar-based lighting system for residents by installing light points for housing, public facilities, and village roads. "Through this Energy Efficient Bright Village program, we bridge the lighting gap between cities and rural areas,"

The program began with an inventory of "pitch black" areas because there was no electricity. As a result, some villages need to receive the "Bright Village Save Electricity" program, including towns in South Sulawesi, North Sumatra, East Bali, Central Kalimantan, and Maluku. Then, each village selected in the program will receive an innovative Philips solar LED lighting package, consisting of a Solar Indoor

Lighting System complete with solar panels, a Philips Life Light, which is ten times brighter than kerosene lamps, and a Solar LED Road Light to illuminate the road. - walk in the village at night.

For example, in South Sulawesi, program execution was able to create more than 300 new light points for more than 11,800 residents. The program partners with the non-governmental organization (NGO) Kopernik, engaged in technology to empower residents in remote villages. The program's further progress is to illuminate more than 1,600 residents in Deli Serdang and Langkat Regencies, North Sumatra, by building 447 new light points for housing, public facilities, village roads, and lighting up the lives of around 1,600 people in Deli Serdang and Langkat Regencies. In the North Sumatra region, the program reached 11 hamlets in 6 villages, including Sukadame, Naga Timbul, Ketangkuhen, and Rumah Sumbul in Deli Serdang Regency, and benefited thousands of residents. Using Philips LED lighting systems based on solar power, residents are now no longer exposed to the risk of eye damage and respiratory problems caused by using kerosene lamps.

Philips said that the "Kampung Terang Hemat Energi" program has succeeded in replacing kerosene lamps and candles with Philips' solar-based LED lighting systems. Now, villagers have access to sustainable lighting sources that allow them to carry on activities into the night. The lighting system stores solar power during the day. The system efficiently discharges electricity to power low-power LED lights at night, both for indoor and outdoor use (Setiawan W. , 2018).

According to a survey conducted by the Top Brand Award, there are several companies that produce energy-efficient lamps, namely lamps with Light Emitting Diode (LED) technology. Some of them are Philips, Hannochs, Osram, Shinyoku, Chiyoda, and Panasonic.

TABLE 1. 1
ENERGY SAVING LAMPS CATEGORY

	2015	2016	2017	2018	2019
Philips	83.20%	83.20%	79.80%	74.80%	59.80%
Hannochs	4.30%	5.20%	4.50%	7.70%	8.00%

(continue)

(continuance)

Osram	3.00%	4.10%	3.40%		
Shinyoku	2.30%	1.90%	2.90%	1.60%	1.10%
Chiyoda	2.20%	1.50%	2.00%	5.70%	8.30%
Panasonic				3.40%	2.20%

Sources: Processed data by author, https://www.topbrand-award.com/top-brand-index/?tbi_find=philips

Table 1.1 above explains the percentage of data on 6 LED lamp brands from 2015 to 2019. The following is an explanation of each LED lamp brand:

1. Philips LED lamps in 2015 obtained a percentage of 83.20%, in 2016 they obtained a percentage of 83.20%, in 2017 they obtained a percentage of 79.80%, in 2018 they received a percentage of 74.80%, and in 2019 they obtained the percentage of 59.80%. It can be seen that after 2016 it experienced a decline in 2017, 2018, 2019. Although from 2017 it has decreased, Philips has always received awards from the Top Brand Award for 5 consecutive years. Because the marketing strategy carried out by Philips is very helpful for customer trust in the company.
2. LED Hannochs lamps in 2015 obtained a percentage of 4.30%, in 2016 the percentage was 5.20%, in 2017 the percentage was 4.50%, in 2018 the percentage was 7.70%, and in 2019 it was obtained percentage 8.00%. . It can be seen that in 2016 there was a significant increase after 2015 and decreased in 2017. In 2018 it increased by 3.20% with a percentage of 7.70% and in 2019 it increased by 8.00%. Because Hannochs doesn't do enough advertising on its products, people still have more confidence in using LED lamps from Philips.
3. The Osram LED lamp obtained a percentage of 3.00% in 2015, in 2016 it obtained a percentage of 4.10%, and in 2017 the percentage was 3.40%. Percentage data from 2015 to 2017 shows that Osram's LED lamps have increased and decreased every year. Osram is said to be a competitor of Philips because it provides a one year warranty from the initial purchase of the LED lighting product, but this does not make Philips waver because it is evident from the data above that Philips is above its competitors.
4. Shinyoku LED lights obtained a percentage of 2.30% in 2015, in 2016 the percentage was 1.90%, in 2017 the percentage was 2.90%, in 2018 the

percentage was 1.60%, and in 2019 the percentage was 1.10 %. Percentage data from 2015 to 2019 shows that Shinyoku LED is increasing and decreasing every year. Where Shinyoku has not done total marketing of its products.

5. Chiyoda LED lamps received a percentage of 2.20% in 2015, in 2016 the percentage was 1.50%, in 2017 the percentage was 2.00%, in 2018 the percentage was 5.70%, and in 2019 it was obtained percentage of 8.30%. Percentage data from 2015 to 2019 show that Chiyoda's LED lamps experienced a decline in 2016. In 2017 Chiyoda's LED lights have improved every year, but when compared to Philips, it's still a long way off if you want to achieve a percentage value like Philips.
6. Panasonic LED lamps earned a percentage of 3.40% in 2018, and in 2019 it earned a percentage of 2.20%. Percentage data from 2018 and 2019 show that Panasonic LED lamps have declined in 2019. In 2015 to 2017, Panasonic closed its lighting products for now.

Philips has a good brand image because it is included in the "TOP BRAND" category with energy-saving lamps that compete with other competing lamps. From the data above, it can be concluded that Philips won the "TOP BRAND" category, because from 2015-2019 the percentage of the "TOP BRAND" category decreased. Philips remains in the first position as the Energy Saving Lamps Category compared to other competitors whose differences are very high compared to other competitors. This means that Philips LED lights are often used by the people of Indonesia. Because of the customer's trust in Philips, which uses the slogan of energy-saving lamps, customers can be called Philips customer loyalty.

Apart from the Corporate Social Responsibility Program, the thing that is not inferior in the competition to win over today's customers is the brand image. "According to Kotler and Keller (2016: 330), "The brand image tries to meet the psychological and social needs of customers". Brand image is so necessary and makes many companies compete to find a positive brand image from the public and its customers. According to Tjiptono (2015: 49) Brand image is a description of association and consumer trust in certain brands. According to Che, Min, Li, and Kuo (2015) that consumers will tend to be happy to pay for or buy service products that already have well-known brands.

Che et al. (2015) states that consumers tend to be happy to pay or buy products and services that already have a well-known brand. This is one of the advantages for the company to prove a positive brand image and loyalty from the eyes of consumers. One of the important things that every company needs to do and pay attention to is retaining existing customers. Besides that, the company must also continue to make innovations and new potential not to leave the company and become customers of other companies. In other words, the company must be able to maintain customer loyalty. Loyalty can be interpreted as a deep commitment to repurchase products or services that become their preferences consistently in the future by repurchasing the brand of the same company's products despite marketing efforts that can cause consumers to be inconsistent in purchasing products. Customer loyalty to the company's products is a very important concept, especially in conditions of very tight competition with low growth. Customer loyalty to the company's products is a very important concept, especially in very tight competition with low growth. In the face of competition, companies must compete with each other to create unique products to be liked by consumers. Intense competition between companies requires every company to innovate on products continuously to continue to survive consistently, be superior among other companies, and reach the top position.

In the midst of fierce competition, customer loyalty is very important to Philips. According to Jill Griffin, 2019 for customer loyalty two interconnected events have dramatically developed the means by which companies gain customer loyalty. First, the widespread use of the internet has changed how customers expect relationship-building to work. Now companies must also give customers the opportunity to get the marketing information they want, whenever they want it, and complete the buying process based on their terms. Second, technological breakthroughs, particularly in the area of "knowledge management", now the company's ability to advance depends on its ability to capture customer data right from customer contact points: website click flow, e-mail, telephone, fax, telephone call center, kiosk or stores, resellers, or direct sales people. These two related advances created a new type of customer, with one characteristic that stood out: they wanted to buy the way they wanted. (Griff, 2019).

According to Jill Griffin (2019) two important conditions related to loyalty are consumers retention and total consumers share. The buying behavior of loyal consumers reflects both of these conditions. The notion of market share can erode a

company's profitability and shift the company's focus away from its most profitable customers. Loyalty is the result of paying attention to what needs to be done to retain customers and then continuing to do so. Increased customer loyalty leads to higher profitability, higher employee retention, and a more stable financial base. (Griff, 2019) The author distributed the pre-survey to 31 respondents who bought Philips LED lamps regularly, and the results can be seen on the chart below.



Figure 1. 3 Pre-survey Consumers Loyalty of Philips

Sources: Data proceed by author

Based on the pre-survey from the author that obtained through google form questionnaire with 31 respondents, 30 respondents said that they are satisfied with Philips lamps while 1 respondents are not satisfied with Philips lamps.

Building consumer trust has been done by the Philips lighting company since it was founded. This is evidenced by the recognition of Philips lamps as energy saving lamps for consumers. In addition, Philips is known as an update to improving product quality so as to produce new products in its class category. This is also done to maintain the quality of consumers who are loyal to the products issued by Philips. Maria as Marketing Manager of PT Philips Indonesia said that the biggest challenge for Philips as a company that continues to innovate is to face competitors from local products that become followers. And the product is provided at a lower price. Therefore, Philips strives to ensure that even though the price of Philips products is slightly higher, the product quality is much better. With the evidence that Philips managed to rank first in sales in Indonesia. (Septania, 2015)

According to (Chandler, 2016) builds from the previous publications to encompass five major components instead of the four proposed in previous editions: first, the complete incorporation of the CSR perspective into the company's strategic planning process and their corporate culture; second, the understanding that all the company's actions are directly related to the core operations; third, the belief that companies seek to understand and be responsive to their stakeholders' needs, which means that the incorporation of a stakeholder perspective is a strategic necessity; fourth, the company passes from a short term perspective to a mid and long term planning and management process of the firm's resources which is inclusive of its key stakeholders, and; fifth (the new component), firms aim to optimize the value created. (Agudelo, 2019).

It can be concluded that consumers' trust means that consumers are satisfied with the brand so that consumers will become loyal to the brand. Therefore, with the Corporate Social Responsibility Program, Philips wanted to see if the innovations created by Philips had succeeded and attracted people's attention to remain loyal to using Philips brand lamps. Customer loyalty can't just be achieved, but it requires a process to convince consumers that Philips is a lamp with the best product.

Based on the literature review that the authors have done, a study of Corporate Social Responsibility Program and its relationship with brand image and customer loyalty already much done. There is, however, research regarding the influence of Corporate Social Responsibility Program on brand image and Philips lighting customer loyalty is still low. Therefore, the writer wants to know "The Effect of the Corporate Social Responsibility Program Implementation on Philips Lighting Customer Loyalty through Brand Image as an Intervening Variable."

1.3 Problem Formulation

Based on this background, the problems that can be formulated are as follows:

1. Overview of the Corporate Social Responsibility Program
2. Overview of the Brand Image
3. Overview of Customer Loyalty
4. The effect of the Corporate Social Responsibility Program on the Brand Image
5. The effect of the Brand Image on Customer Loyalty
6. The effect of the Corporate Social Responsibility Program on Customer Loyalty through Brand Image

1.4 Research Objectives

The research objectives of the researchers in this study were as follows:

1. To find out the overview of the Corporate Social Responsibility Program
2. To find out the overview of the Brand Image
3. To find out the overview of Customer Loyalty
4. To find out the effect of the Corporate Social Responsibility Program on the Brand Image
5. To find out the effect of the Brand Image on Customer Loyalty
6. To find out the effect of the Corporate Social Responsibility Program and Brand Image on Customer Loyalty

1.5 Study Significance

1.5.1 Theoretically

The results of this study are expected to increase knowledge in the field of marketing strategies, especially those related to the effect of Corporate Social Responsibility Program implementation on lamp customer loyalty through Brand Image as Intervening Variable.

1.5.2 Practically

Practically, the results of this study can be used as input for readers who do not know the Corporate Social Responsibility of PT. Philips Indonesia. This research is expected to be an input for PT. Philips Indonesia is related to what Corporate Social Responsibility Program implementation programs the company does and how customer loyalty reacts to the company.

1.6 Systematic Writing Research

To facilitate the direction and description of the material contained in the writing of this study, the authors compile a research report system as follows:

CHAPTER I INTRODUCTION

This chapter describes an overview of the object of research, background, research questions, research objectives, research significance, research writing.

CHAPTER II LITERATURE REVIEW

This chapter describes a review of the research literature, previous research, conceptual frameworks, research hypotheses, and scope of research.

CHAPTER III RESEARCH METHODS

This chapter describes the types of research and data sources, data collection and analysis methods.

CHAPTER IV RESULTS AND RESEARCH DISCUSSION

In this chapter, it describes the results of processing data. Where the results will be analyzed by researchers to find conclusions from this study.

CHAPTER V CONCLUSIONS AND SUGGESTIONS

In this chapter, explain the overall conclusions of the chapter and suggestions from the research that has been done.