

UNIVERSITY OF LJUBLJANA
FACULTY OF ECONOMICS

MASTER THESIS

***CORPORATE SOCIAL RESPONSIBILITY AND THE
EFFECT OF PRODUCT RECALLS ON BRAND LOYALTY***

***(DRUŽBENA ODGOVORNOST PODJETIJ IN VPLIV ODPOKLICEV
IZDELKOV S TRGA NA ZVESTOBO BLAGOVNI ZNAMKI)***

Ljubljana, February 2008

SABINA SULER

IZJAVA

Študentka Sabina Suler izjavljam, da sem avtorica tega magistrskega dela, ki sem ga napisala pod mentorstvom prof. dr. Žabkar in somentorstvom dr. Pahor in skladno s 1. odstavkom 21. člena Zakona o avtorskih in sorodnih pravicah dovolim objavo magistrskega dela na fakultetnih spletnih straneh.

V Ljubljani, dne _____

Podpis: _____

Table of Contents

1. Introduction.....	1
1.1 Problem Description	1
1.2 Purpose and Hypothesis of the Master Thesis.....	2
1.3 Methods of Analytical Approach.....	3
1.4 Master Thesis Structure.....	4
2. Conceptual Review on Corporate Social Responsibility	4
2.1 Definition of CSR	4
2.2 Components of CSR.....	6
2.3 Drivers of CSR	8
2.4 Social Performance and Effect on Financial Performance.....	9
2.5 Theoretical Models of CSR.....	10
2.6 Developing a CSR Strategy	12
2.7 Arguments for and Against CSR.....	14
2.8 Future of CSR.....	17
2.9 Examples of CSR and Marketing Strategy	18
3. CSR and Brand Loyalty	19
3.1 Definition of Brand Loyalty.....	20
3.2 Components of Brand Loyalty.....	20
3.3 Advantages and Disadvantages of Brand Loyalty.....	21
3.4 CSR and its Effects on Brand Loyalty	22
4. Analysis of Effects of Product Recalls on Brand Loyalty	23
4.1 Research Purpose and Objectives	23
4.2 Qualitative Analysis: Case Studies.....	23
4.3 Quantitative Analysis and Methodology.....	28
4.4 Research Hypotheses.....	29
4.5 Main Findings	31
4.6 Research Limitations and Future Research Direction	46
4.7 Recommendations.....	46
5. Conclusion	48
6. Literature and Sources	51
Appendices	

List of Figures:

Figure 1: The Three-Domain Model of CSR	11
Figure 2: Citizenship and Loyalty Model	22
Figure 3: Mattel's Total Recall of Chinese Made Toys.....	26
Figure 4: Gender.....	31
Figure 5: Country of Residence	32
Figure 6: Brand Position in Slovenia	32
Figure 7: Pyramid of Toothpaste Brands in Slovenia	33
Figure 8: Area of Residence.....	33
Figure 9: Age of Respondents.....	34
Figure 10: Highest Level of Education	35
Figure 11: Corporate Social Responsibility and Company Ability.....	36
Figure 12: Opinions on CSR Dimensions Regarding Colgate.....	37
Figure 13: Brand Loyalty	38
Figure 14: Fabricated Article	39
Figure 15: Product Recalls	40
Figure 16: Trust in Organization Pre-Recall	41
Figure 17: Trust in Organization Post-Recall	42
Figure 18: Trust in the Organization	42
Figure 19: Trust in Brand Pre-Recall	43
Figure 20: Trust in Brand Post-Recall.....	44
Figure 21: Trust in Brand.....	44
Figure 22: Group #1 North Americans	45
Figure 23: Group #2 Europeans	45

List of Tables:

Table 1: Regression-CSR Issues and Brand Loyalty	37
Table 2: Demographics	VII
Table 3: One-Sample Statistics –Testing Ambivalences for Brand Loyalty	VII
Table 4: One-Sample Test.....	VIII
Table 5: One-Sample Statistics-Testing Ambivalences for Product Recalls	VIII
Table 6: One-Sample Test.....	VIII
Table 7: Model Summary.....	IX
Table 8: Anova ^b	IX
Table 9: Coefficients ^a	IX
Table 10: Paired Sample Statistics	IX
Table 11: Paired Samples Correlations	IX
Table 12: Paired Samples Test.....	X
Table 13: Paired Samples Statistics	X
Table 14: Paired Samples Correlations	X
Table 15: Paired Samples Test.....	X
Table 16: Group Statistics.....	XI
Table 17: Independent Samples Test	XI

1. Introduction

To become familiar with the issue, the thesis must first be clearly defined. The purpose and hypothesis will subsequently be stated. A section will be devoted to methods of analytical approach, which reflects a combination of both a qualitative and quantitative approach. Finally, the structure of the master thesis will be presented in order to provide an overall picture.

1.1 Problem Description

Organizations recognize the importance of having a good reputation as it relates to accomplishing business objectives and remaining competitive in today's global society. Business scandals such as WorldCom, Enron, and Martha Stewart Inc. had shocking consequences and as a result have forced businesses to reexamine what they are doing to be more responsible to their various stakeholders. These examples have shown how quickly a damaged reputation can harm customer and employee loyalty and intimidate a company's financial future. With the advancement of media and technology, information is spreading rapidly. Customers are becoming global activists and some are strongly against these large multinationals. Public anger over illegal acts is harsh and can result in lost trust and a tarnished public image. As a result, there is immense pressure on corporations to be socially responsible. In fact, in 2005, 64% of the world's largest 250 multinational corporations actually published corporate social responsibility reports (Porter and Kramer, 2006, pg.81). In addition, 90% of today's Fortune 500 companies now have clear CSR initiatives (Luo and Bhattacharya, 2006, pg.1). This shows that CSR is becoming increasingly important, and corporations are not taking the issue lightly.

Corporate Social Responsibility (CSR) is a broad concept that plays a significant role in today's corporate world, even though it has no clear universal definition. In the past, it has existed as a compilation of similar terms such as corporate responsibility, sustainability, triple bottom line, corporate ethics, and Michael Porter's favorite "corporate philanthropy" (Porter and Kramer, 2006). Even though CSR is found in a variety of enterprises, it exists mainly because of large corporations. Various sources have been reviewed, and supporters of CSR believe that large businesses should take on a more involved role in making the world a better place.

In industry literature, Carroll's (1979, 1991) model is known to be more conventional, as it states that firms have an economic, legal, ethical, and philanthropic obligation to both themselves and to society at large (Garcia de los Salmenes et al., 2005, pg. 370). It is these four elements that make up the concept of **corporate social responsibility**. Study after study has revealed that being a noble corporate citizen truly translates to increased business success in the long-term. In fact, PriceWaterhouseCoopers surveyed more than 1,000 CEOs around the world and found that

69% believed that CSR is vital to the profitability of any company (Argenti and Forman, 2002; in Argenti and Druckenmiller, 2004, pg. 373).

The question is however, what happens when a corporation does not act in a socially responsible manner in the eyes of the consumer? Recent events over the past few years have bombarded the media with product recalls. **Product Recalls** are requests from the manufacturer asking consumers and distributors to return a set or an entire production run of manufactured goods, usually due to the discovery of safety issues. A product recall is an attempt to limit a corporation's responsibility for negligence, as well as to avoid or minimize damages to the company's image (Wikipedia, 2007). Product recalls can prove to be quite costly. The direct costs consist of everything from replacing the recalled products to paying for the damages caused by using the defective product. The indirect costs can be even higher, as they can result in reduced trust in the manufacturer and damage to the brand name.

The issue here, is how product recalls affect brand loyalty. **Brand Loyalty** is a deep dedication felt by consumers to consistently re-buy a preferred product or service, that despite the existence of situational pressures and marketing efforts that have the potential to cause switching behavior, serve to cause repetitive same-brand purchasing, (Oliver, 1999; in Chaudhuri and Holbrook, 2001, pg.82). This loyalty may be established by both trust in the brand and trust in the organization.

1.2 Purpose and Hypothesis of the Master Thesis

The purpose of the master thesis is to show how important corporate social responsibility is, especially in a world of multinational companies and increased competition. As a foundation, it is essential to obtain a general idea of people's views on CSR. Contemporary research implies that there is a positive relationship between a company's CSR initiatives and consumer attitude towards the company's products and the company itself (Brown and Dacin, 1997; in Sen and Bhattacharya, 2001, pg. 225). It would be beneficial for organizations to discover if there is a connection. The following relationship between people's perception of CSR and brand loyalty will be tested:

H1: The more positive a person's perception of CSR, the higher the brand loyalty.

Additional research has shown that negative CSR involvement has a damaging effect on overall product evaluations (Brown and Dacin, 1997; in Sen and Bhattacharya, 2001, pg. 226). Recently, there have been a number of recalls in the news involving products which have been manufactured in China, more specifically by corporations like Mattel and Bausch and Lomb.

Because of the apparent repercussions, the recall is having a strong impact on the brand name. The goal then is to show the negative impact that a product recall has on brand loyalty. In summary,

H2: Trust in a company will worsen after a product recall,

H3: People will be less likely to trust brands that have been recalled.

In an article concerning brand loyalty, one further research suggestion was to analyze the brand loyalty differences that exist between genders (Chaudhuri and Holbrook, 2001, pg. 91). To take it a step further, it would be interesting to test another aspect of demographics, that being country of residence. Are people from North America more affected by product recalls than those from Europe? In summary,

H4: North Americans are differently affected by product recalls than Europeans.

The claim is that if a company acts in a socially responsible manner, then its actions may have a positive effect on brand loyalty. If it does not, then it is possible that the reverse will occur. In summary, the purpose of the thesis is to see what happens to companies when they do not act in a socially responsible manner. How do product recalls affect brand loyalty?

1.3 Methods of Analytical Approach

The research method that will be used in the thesis is a combination of a qualitative and quantitative approach. First is a literature review, after which several case studies will be applied. The first section will discuss the definition and the future of Corporate Social Responsibility. This initial section will be followed by one on CSR and its marketing strategy. The section will highlight companies that are using best practices, explain how each marketing strategy is related to CSR, and discuss the positive effects CSR has for that company.

To provide contrasting views, a case analysis of Mattel, Colgate, and Bausch and Lomb will be introduced. A brief overview of each company will be presented, and the problem that resulted in the recall and the associated consequences will also be discussed.

Additionally, the use of a quantitative approach will require the survey to support the claim that consumers are less loyal to brands that have been recalled and that the company's image has suffered from the recall.

1.4 Master Thesis Structure

Foremost, a conceptual review of Corporate Social Responsibility is presented. CSR's definition and a theoretical review of the CSR model are revealed. This is followed by a critique from various points of view, and final discussion on what is in store for CSR's future.

A section will be devoted to how Corporate Social Responsibility relates to a marketing strategy. Numerous companies have demonstrated in various ways how they were able to reduce waste and increase efficiency while at the same time fostering social responsibility. A case study approach will highlight selected companies using best practices and explain how the marketing strategy is related to CSR. The case study will also present the positive effects it had for the company.

This will lead to the segment on how CSR affects brand image. The qualitative analysis will commence with an analysis of three companies, Mattel, Colgate, and Bausch & Lomb, who are all facing recalls. A brief company overview will be presented, followed by the companies' main problem and consequences.

The quantitative analysis will open with a description of methodology. Information from a questionnaire that was distributed in December 2007 to 130 people through email will be used. The research purpose and objectives are elaborated, and participants have been given defined measures for brand loyalty and preferences. Finally, the main findings, as well as the research limitations will be presented.

2. Conceptual Review on Corporate Social Responsibility

This chapter will focus on the conceptual overview of corporate social responsibility. First, the definition will be presented from various viewpoints, and the components of CSR will be explained. This will be followed by the drivers of CSR and the effect it has on financial performance. Two theoretical models will be explained in depth followed by how one corporation can develop its own CSR strategy. Subsequently, a critique of CSR will explain both the positive and negative aspects of CSR. This in turn leads into what we can expect in terms of CSR's future and how it relates to the marketing strategy.

2.1 Definition of CSR

As mentioned in the introduction, there is no clear universal definition of Corporate Social Responsibility. In the past it has been a compilation of similar terms that have included corporate

responsibility, sustainability, triple bottom line, corporate ethics, and Michael Porter's favorite "corporate philanthropy" (Porter and Kramer, 2006) just to name a few. Though CSR exists in all types of enterprises, it is driven mainly by large corporations. Various sources have been reviewed and generally, supporters of CSR believe that businesses should take on an increased role in making the world a better place.

The term entered people's vocabulary in the early 1970's. American Nobel economist, Milton Friedman (in Robins, 2005, pg.99) had more of a conservative view and stated "the business of business is to maximize profits, to earn a good return on capital invested and to be a good corporate citizen obeying the law-no more and no less".

In 1979, Archie Carroll (in Robins, 2005, pg.97) defined the social responsibility of a business as that which "encompasses the economic, legal, ethical, and philanthropic expectations that society has of organizations at a given point in time". He placed these four elements on a hierarchical pyramid and implied that businesses should not only serve primary but secondary stakeholders as well. The four elements are presented below (Carroll and Buchholtz, 2000, pg. 33).

Some believe that it is odd to think of **economic** responsibility as a form of social responsibility, but it in fact is. Businesses should be institutions whose motive is to provide the goods and services which society wants, at a fair price. These prices should reflect what society perceives to be fair and at the same time allow businesses to earn a profit and continue to grow, prosper and reward their shareholders.

Society has set the rules and laws under which businesses are expected to operate. **Legal responsibilities** mirror an established view of ethics. Businesses are held accountable to society and are expected to obey these laws and regulations. In the event that they do not agree, there are mechanisms and political procedures in place where they can be heard through.

Those activities and practices which are not codified into the law, but are expected or forbidden by society, are called **ethical responsibilities**. These encompass the wide range of standards, expectations, and norms that a majority of stakeholders perceive to be fair. It is believed that ethics are the driving force behind establishing laws and regulations.¹

The fourth responsibility is **philanthropy**. In other words, these are voluntary or optional desires and not necessarily responsibilities. These actions are not obligatory, and are not expected of businesses. They are solely voluntary actions used by business to do well and be involved in

¹ For instance businesses started to take responsibility for the environment which the society clearly felt strongly about. Later on this value translated into legislation and was required by law.

social activities. An example of a philanthropic activity occurs when a business or company provides day care for children of working mothers.

In 1989, Kenneth Andrews (in Robins, 2005, pg.99) offered his outlook of CSR when he defined it as “sensitivity to the social costs of economic activity and to the opportunity to focus on corporate power on objectives that are possible, but sometimes less economically attractive than socially desirable.” His definition sparks a debate because it questions whether business should pursue environmental and social issues when there is no legal or financial rationale for them to do so.

Since CSR is a worldwide concept, it is also important to observe how this definition is described globally. In 2004, the Journal of Corporate Citizenship published a special issue on CSR in Asia. One contributor based in Hong Kong made it a point to mention that best practices of CSR in Asia are not as well developed as they are in Europe, and that it is important to recognize that stakeholder demands and expectations are culturally specific (Robins, 2005, pg.102).

Looking at CSR from Asia’s point of view, it is defined as “a company's commitment to operating in an economically, socially and environmentally sustainable manner whilst balancing the interests of diverse stakeholders” (CSR Asia, 2007).

The European commission (in Silberhorn and Warren, 2007, pg.2), on the other hand has a similar definition “whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.” The only difference is that they tend to specify that it is a voluntary endeavor.

From a North American point of view, Industry Canada (2006) defines CSR as “the way in which firms integrate social, environmental and economic concerns into their values, culture, decision making, strategy and operations in a transparent and accountable manner and thereby establish better practices within the firm, create wealth and improve society.” This definition adds the economic concerns and touches upon values and corporate culture. It is similar to the European commission’s definition, though slightly more detailed. Ultimately the definitions all incorporate stakeholders and share the opinion that CSR is the way in which organizations integrate social and environmental concerns for the betterment of society as a whole.

2.2 Components of CSR

There are two main components of Corporate Social Responsibility: **Cause Related Marketing** and **Institutionalized CSR**. Cause related marketing as a promotional program is intended to

generate short term results such as increased purchase intent, while the latter is designed to enable long term customer relationships (Pirsch et al., 2006, pg.126).

Cause related marketing is defined as “the process of formulating and implementing activities that are characterized by an offer from the firm to contribute a specified amount to a designated cause when customers engage in revenue-providing exchanges that satisfy the individual objectives” (Varadarajan and Menon, 1988; in Nan and Heo, 2007, pg. 63).

Cause related marketing is a marketing tool which depends on consumers purchasing a product from a business. This business then takes a portion of the product's purchase price and donates it to an associated cause (Davidson, 1997; in Polonsky and Wood, 2007, pg. 11). Cause related marketing has come a long way. In 1983 it was virtually unheard of, but by 1997 it had generated approximately \$500 million U.S. (Ptacek and Salazar, 1997; in Polonsky and Wood, 2007, pg. 12). Cause related marketing centers its attention on a variety of causes, from issues such as disease (cancer, HIV) to an array of other worldwide social issues.

Another definition of cause related marketing is that it is a commercial action by which a business with a product, service or image to market creates a relationship with a cause or a number of causes for mutual benefit (Adkins, 1999, pg. 11). The crucial words within the definition are commercial and mutual benefit. This is clearly not philanthropy. The groups involved enter this relationship for the purpose of earning a return on their investment.

Cause related marketing allows companies to contribute to the community while at the same time allowing them to promote their own products. Some believe that it is becoming an increasingly normal part of a company's marketing activity and its marketing program. The reason for this is that the company as a whole recognizes that it needs to be a constructive corporate citizen. In addition, cause related marketing is a highly effective tool used to develop the brand, as well as to strengthen, demonstrate and bring to life the corporate values that make corporate social responsibility visible (Adkins, 1999, pg.24).

On the other hand, Institutionalized CSR programs are defined as “providing a comprehensive approach to CSR, attempting to fulfill a company’s social obligations across all the stakeholder groups, and touching all aspects of the company” (Pirsch et al., 2006, pg.126). According to a study by Pirsch et al., when comparing both components, institutionalized programs were more successful in decreasing consumer skepticism, enhancing attitude toward the corporation and increasing consumer loyalty.

2.3 Drivers of CSR

There are seven key drivers that have influenced the development of CSR over the past decade (Kennedy School Insight Harvard, 2006):

1. The first driver is the growth of the private sector. There has been tremendous growth around the world in regards to private enterprise. The number of multinationals has grown from a simple three thousand in 1990 to over 63,000 worldwide (Yale Global Online, 2008). In turn, this has resulted in the emergence of millions of small and medium-sized businesses which operate along those supply chains. This growth has resulted from trends such as privatization, market liberalization, technological innovation and globalization. This new growth has in turn resulted in new rights for businesses and new opportunities. However, an entire collection of risks and expectations for the private sector have emerged as well.
2. Secondly, people's trust in the private sector has been shaken up. This has predominantly been driven by ethical scandals such as those experienced by WorldCom and Enron, and a reduction in an overall trust in institutions. As a result, corporate managers realize the need to continuously react and rebuild that trust.
3. As a third driver, there has been a tremendous increase in the number of activist organizations as well as an increased influence from non-governmental organizations and campaigning groups. These groups have extraordinary communication capabilities through the global media as well as the internet. As a result, they are able to profile and draw attention to corporate misconduct and negligence, which in turn increases public attention.
4. Another key driver, which is related to the previous drivers, is the activism of large institutional shareholders. It is no secret that they are playing an important role in financial markets. In the past, institutional investors had a more passive role. However this has changed and they have now become monitors of corporate management. As a result, this has lead to an increase in shareholder activism.
5. A fifth driver is derived from governance gaps. These gaps occur because of the limitations in the public sector's ability and the limited financial backing it has to be able to deal with complicated issues. This is especially evident in developing countries. There is weak governance and in some situations bad governance and corruption. As a result, the changing environment of the public sector as well as shifting priorities are having a big influence on business and are creating a great sense of pressure for business to fill these governance gaps.
6. A sixth driver is the growth in importance of intangible assets. These intangibles have lead to a rise in the importance of corporate reputation, value, stakeholder relationships and innovation. Since these values have become so significant and essential, corporations cannot allow themselves to be exposed to risks which they might have been exposed to in

the past. They are aware that their reputation is important and need to do whatever it takes to preserve it.

7. Finally, the last driver is the growth of global challenges. Challenges such as climate change do not affect only one sector but the world as a whole. These are issues which no one country can confront by itself. Stakeholders, activists, and governments are expecting the private sector to help and react, since they have the global reach, influence and resources.

2.4 Social Performance and Effect on Financial Performance

One common question that frequently arises in regards to corporate social responsibility is one that relates to the connection between a corporation's CSR and its financial performance. It is important to note that this is extremely difficult to measure since the performance criteria is a subject of debate.

There are three distinct opinions which have dominated research in the past. The first view is that socially responsible firms are more financially profitable. Even though many studies have tried to prove this relationship, the results turned out to be questionable. Regardless of this fact, there have been other studies that have concluded that it pays for firms to be socially responsible. Douglas O'Bannon and Lee Preston in (Carroll and Buchholtz, 2000, pg. 53) have done a study in which they examined 67 large U.S corporations between the years of 1982 and 1992. They came to the conclusion that there is a positive relationship between social and financial performance in large U.S. companies. In addition, Covenant Investment Management, a Chicago investment firm, conducted a study of 200 companies who ranked highest on Covenant's social responsibility scale. They found that these companies had outperformed the Standard & Poor's 500-stock index within the period of 1988 to 1992 (Carroll and Buchholtz, 2000, pg. 54).

A second point of view which has not been studied to such an extent is the opinion that a firm's financial performance is a motivation for its social performance. This outlook believes that when corporations experience positive financial periods, stakeholders witness higher levels of social responsibility. However, when financial times are tough, their level of social responsibility is not as high. Preston and O'Bannon in (Carroll and Buchholtz, 2000, pg. 54) discovered the strongest evidence to support that financial performance paves the way for social performance.

Finally, the third view makes its case by stating that there is an interactive relationship between corporate reputation, financial performance and social performance. The three factors are interrelated and as a result influence each other. It is not clear though, which factor drives the others. In either case, all three views believe that corporate social responsibility plays a significant role in today's world.

2.5 Theoretical Models of CSR

Scrutinizing the models of corporate social responsibility, Carroll's (1991; in Meehan et al., 2006, pg.388) pyramid is one of the earliest and possibly the most well known examples. Graphically presented, it is in the shape of a pyramid with a hierarchy of the economic domain at the base, followed by legal, ethical, and philanthropic responsibilities. Some limitations of this model include its shape and the use of a pyramid in general, because there was some confusion about its interpretation. Carroll intended to conceptualize that the economic and legal domains were the most essential, while the philanthropic being at the top, was less important. The pyramid shape made it impossible to establish this concept. In addition, the model failed to capture the overlapping effects of the four domains. Some critics also believed that it was contradictory to have philanthropy as a separate domain, making it essentially a responsibility, when it in fact was a voluntary action (Schwartz and Carroll, 2003, pg.505).

In order to overcome these limitations, a revised model was created. (Refer to **Figure 1**). The model has three pure domains (Economic, Legal and Ethical) and four that are overlapping.

The **purely economic** section encompasses the actions that have both a direct and indirect economic impact on the organization. These actions can be illegal, passively conform to the law, and are unethical (Schwartz and Carroll, 2003, pg. 513). An example of such a company was Arthur Anderson, which deliberately shredded documents in a cover-up effort. Their motive was purely based on their economic impact.²

Secondly, the **purely legal** domain includes actions taken by corporations that have no direct or indirect economic benefit and are not considered ethical. An example could be some stores that are not open on Sundays because they are following the law, despite the fact that they are faced with an opportunity cost (Schwartz and Carroll, 2003, pg. 515).

The third domain is **purely ethical**. The actions that fall into this category have neither direct nor indirect economic benefit and have no legal consequences. Many companies fall within this category. In 1993, in spite of losing future profits, Levi Strauss withdrew itself out of China in order to protest against the human rights abuse (Schwartz and Carroll, 2003, pg. 515).

Moving onto the overlapping domains, the **economic/ethical** category encompasses all activities initiated by companies that are ethical in nature and at the same time result in economic benefits. This can include for instance, companies which sell environmentally friendly products. This is

² Arthur Anderson was not truthful in regards to its accounting standards in order to please their clients' (WorldCom and Enron) desire to maximize profits, especially in the era of quarterly earnings reports.

based on an economic decision, while at the same time being ethical and environmentally conscious (Schwartz and Carroll, 2003, pg. 516).

The fifth category, **economic/legal**, entails activities that are both legal and economic, but at the same time unethical. Mattel would be an example of such a company. Mattel manufactures their products in China, where they have lower product standards. Some may claim that it is opportunistically taking advantage of the law while still experiencing an economic gain.

The sixth domain is **legal/ethical**. These are activities that are legally required and ethical, but result in no economic benefit. Few activities would fall within this domain because many legal and ethical actions indirectly have economic benefits. Pharmaceutical companies such as Bristol-Myers are selling drugs designed to combat HIV/AIDS in Africa at below cost (Bristol-Myers Squibb, 2007). They are not only acting in an ethical manner, but at the same time are trying to avoid any patent violations that would allow generic manufacturers to produce those same drugs.

The seventh and final domain is **economic/legal/ethical**. This lies in the center of the model and is the ultimate domain which companies should strive for. All three responsibilities, financial, legal and ethical, are fulfilled simultaneously. Wal-Mart demonstrated fulfilling this domain when it made the decision to stop selling cigarettes in its Canadian stores (Schwartz and Carroll, 2003, pg. 518). In terms of its economic responsibility, it was as a result of public relations. Wal-Mart was reacting to the perceived changes in the law, but at the same time it was also making an ethical decision because cigarettes are unhealthy and addictive.

The shape of the Venn diagram eliminated any misconceptions of the previous hierarchical model. The Three-Domain Model of CSR's main downfall is that it fails to supply practical tools for managers in terms of how to apply this theory within their firms (Meehan et al., 2006, pg.397).

Figure 1: The Three-Domain Model of CSR



Source: Schwartz and Carroll, 2003, pg. 509

In order to counter this problem Meehan et al. has developed the 3C-SR (competitive advantage through “social resources”) model. It has three major components (Meehan et al., 2006, pg.392):

- Ethical and social **commitments**;
- **Connections** with partners in the value chain; and
- **Consistency** of behavior over time to build trust.

The first component (ethical and social commitment) embodies the values and social objectives of a company as well as their ethical standards. This section primarily consists of the same elements (economic, legal, ethical) that fall into the center domain of Carols’ Venn model. These values are noticeable in the corporation’s mission statement, corporate culture and strategic plans. Society will be more compelled if it sees that corporations are committed to external frameworks dealing with ethical and social values, such as OECD Principles for MNCs or Global Reporting Initiative (Meehan et al., 2006, pg.393).

The second component deals with the connectivity with the value chain. The objective of value chain concept is to generate a sustainable competitive advantage by developing a chain or network of value adding links that effectively collaborate with each other in order to attain the ultimate goal – to satisfy the customer better than the competitors (Porter, 1985, pg.38). Rather than a limited operational focus, both upstream and downstream partnerships are necessary. In the event that organizations contract out, it is imperative to have a credible relationship with that partner. The reliability of the relationship is only as strong as the commitment of the weakest member (Meehan et al., 2006, pg.394). The organization not only has to be committed to its values, but it has to demonstrate this by setting up their policies and communicating it effectively throughout the organization and their business operations.

The third component is consistency in behavior. This consistency refers to all aspects of an organization's operation over time. In addition, it is imperative to stick to externally recognized standards. Inconsistencies in social performance attract critics. In today’s society, consumers demand credible and consistent long-term behavior from organizations who claim to be sociably responsible (Lafferty et al., 2002; in Meehan et al., 2006, pg.395).

In summary, in order for a corporation to be successful it must hold itself to all three facets of the 3C-SR Model. These factors include commitments, connections, and consistency. If any one factor contains a weakness, it will result in the organization's failure to achieve genuine corporate social responsibility.

2.6 Developing a CSR Strategy

It is imperative that a firm has a CSR strategy in place. This ensures that the company will construct, uphold and continually reinforce its distinctiveness and its market value.

The government of Canada has published an implementation guide for CSR. They have proposed 5 steps for developing a CSR strategy. They do not have to be done in any particular order, it just matters that all steps are fulfilled (Industry Canada, 2006):

1. Building support with senior management and employees
2. Researching what others in the industry are doing
3. Preparing a matrix of proposed CSR actions
4. Developing options for proceeding and the business case for each
5. Deciding on direction, approach and focus areas

The first step is to develop support with senior management. This is imperative because, they will be the ones who will be involved with the implementation of the CSR strategy. Failure to do so increases the chance of failure. In addition, the leadership team needs to build support amongst its employees because it is something that needs full understanding and cooperation from all the employees in order to be effective.

It is possible for an organization to develop its own CSR approach, but it is not necessary for a company to reinvent the wheel. It is much more beneficial if organizations look at what others have encountered and build on their know-how. Firms, industry associations and CSR specialty organizations are useful sources of information (Industry Canada, 2006). For instance a firm can take a closer look at its related sector and see which CSR activities are being highlighted. It is useful to note if there are any similarities or differences, and there should also be an assessment of the benefits and costs of their approaches. Industry associations are familiar with CSR developments at home and overseas. They are useful contacts because they can provide networking opportunities. In addition, CSR specialist organizations such as Social Accountability International are useful sources of information. These associations hold various conferences, conduct research, and hold workshops on CSR issues.

It is advised to create a matrix of projected CSR events. This matrix should have specific columns segregated into economic, environmental, and social sections. It would be beneficial to have each column broken down further into current and proposed CSR activities. The rows should consist of headlines such as processes, product/service, and impacts (Industry Canada, 2006). The leadership team should be involved in this process and make suggestions and recommendations.

From here, there are two options to proceed: either take an incremental move toward CSR or a more thorough change in direction. In either case, the starting point should be to hold a

brainstorming session with employees, senior managers, and perhaps key business partners. All the members involved must understand that whichever CSR approach will be taken, it needs to be aligned with the firm's core business objectives and competencies (Industry Canada, 2006). The CSR leadership team needs to gather all the information from the brainstorming session, research from what others are doing, and develop a business case with the proposals that show the most promise. Michael Porter (2005, in Industry Canada, 2006) said it best when he stated "the goal is to leverage your company's unique capabilities in supporting social causes, and improve your competitive context at the same time."

The company needs to decide on the direction it will take. It needs to decide on the main theme that it will address. In addition, the approach needs to answer the question of how it plans to move forward. Perhaps it entails the firm having to amend its mission or vision statements. Whatever the case, this needs to be clearly identified. The focus areas are immediate priorities which are in line with the firm's business objectives. It may be to capitalize on a new business opportunity or to identify and improve gaps in the firm's current procedures (Industry Canada, 2006).

2.7 Arguments for and Against CSR

Corporate Social Responsibility has a number of benefits. One of them being that it fosters a positive corporate image (Smith and Stodghill, 1994; in Pirsch et al., 2006, pg.125). One of the most dynamic arguments is that CSR has a positive association with a firm's performance (Ruf et al., 2001; in Pirsch et al., 2006, pg.125). Organizations that perform well in terms of CSR can build on their reputation, however those that do not, can damage their company's value. During periods of a market crisis, CSR acts as a cushion and may help a company recover from it (Pirsch et al., 2006, pg. 125).

A second argument for CSR is that it is in the long-term self-interest of a company to be socially responsible. This argument proposes businesses are at fault for the social problems that exist today. According to critics, since they were the cause, they should resolve these problems. In order for a business to survive in the long haul, it is important to stop social conditions from getting any worse (Carroll and Buchholtz, 2000, pg. 40). Businesses must react to society's expectations if they are to survive and prosper in the future.

Some people strongly believe that a company invests in CSR programs because of the stakeholder theory (Argandona, 1998; Harvey and Schaefer, 2001; in Pirsch et al., 2007, pg. 127) which implies that in order for an organization to be successful it must satisfy its economic and non-economic objectives while meeting the needs of its various stakeholders. In essence, by

investing in various programs, companies are meeting the requirements or desires of their stakeholders.

Another argument in favor of CSR is that being proactive is much better than reacting to a problem. It is less costly and more sensible to be proactive as opposed to react to problems once they have already advanced. A good example is pollution. It is much better to prevent it from happening from the very beginning, as opposed to cleaning up lakes, rivers and streams that have been polluted for years (Carroll and Buchholtz, 2000, pg. 41).

CSR improves competitiveness and serves as a way of differentiation. In fact, consumers appear to present greater support for companies that are environmentally and socially responsible, and have negative responses to those that are not (Creyer and Ross, 1997; Barrett, 1996; in Pirsch et al., 2007, pg.126). In 1994, a Walker Information survey (Stodder, 1998 in Joyner and Payne, 2002, pg. 298) revealed that out of the consumers surveyed, 70% responded that they would not do business with a firm that was not socially responsible, irrespective of price.

In terms of human resources, it is helpful in recruiting and retaining quality employees. According to a CSR survey done by GlobeScan in 2003, 70 percent of the students surveyed said they would not submit their application for a job at a company believed to be socially irresponsible (Fox, 2007, pg.43). A Walker information survey had done a study using employees. Slightly more than 86% of them felt that their company's ethics were positive. Those employees were strongly committed to the organization. The remaining 14% of the respondents did not view that their firm had good ethics (Joyner and Payne, 2002, pg. 298). This shows that there is a strong relationship between the firm and its employees. If employees feel that their firm is ethical, they will be committed, whereas if employees don't believe their firm is acting socially responsible, they will not be as dedicated.

Other benefits of implementing CSR include access to capital and improved relations with regulators (Industry Canada, 2006). Financial establishments are gradually incorporating more environmental and social criteria into assessment of their projects. In addition, governments have accelerated the approval processes for firms that have embarked on social and environmental activities beyond those mandated by law.

A practical reason in favor of CSR is that once a business has proven to be socially responsible, it protects itself from future government regulation and intervention. These days it is known that governments infringe with complicated and sometimes expensive regulations to fill a gap that should have been acted on earlier by businesses. As a result, if businesses take it upon themselves to be socially responsible and set up their own regulations and standards, then governments will not have to intervene (Carroll and Buchholtz, 2000, pg. 40).

In addition, according to Porter, CSR can be a source of opportunity, innovation and competitive advantage (Porter and Kramer, 2006, pg.80). Each company can identify the specific set of societal problems that it is best equipped to solve and from which it can gain the greatest competitive benefit.³

On the other hand, there are opposing views that tend to be skeptical towards CSR. It is believed that some companies are motivated by their self interests and tend to invest in social initiatives in order to reap additional rewards.⁴

A second major objection to CSR is that corporations are not equipped to handle social actions. Some believe that managers are oriented towards operations and finance and do not possess the essential social skills to make social decisions. An argument closely related is that if managers would pursue corporate social responsibility enthusiastically, then it would result in a deterioration of the primary purpose of the business (Carroll and Buchholtz, 2000, pg. 39).

In addition, other citizens believe that CSR is merely a cosmetic response to stakeholders who are holding companies accountable for social issues. They believe it is necessary to showpiece results in a glossy CSR report. As mentioned before in 2005, out of the 250 largest multinational corporations, 64% published CSR reports (Porter, Kramer, 2006, pg.81).

A fifth argument against CSR is that businesses already have enough supremacy in terms of economic, environmental and technological power. Why should people give these large conglomerates additional power? Some feel that as it is already, the influence of business saturates society, and that giving them additional opportunities to make choices in the social area, will result in irritating the balance-of-control that already exists in today's society (Carroll and Buchholtz, 2000, pg. 39).

Another rational argument against CSR is that if society forces business to undertake social responsible activities, it will result in higher prices. Most fear that this will have a ripple effect. Corporations would need to absorb the costs of such things as dirty air and unsafe products that were previously passed on to society. By absorbing these costs, they would increase their prices,

³ For instance, Toyota tried to respond to automobile emissions by producing the Toyota Prius, a hybrid electric/gasoline vehicle. The engines emitted as little as 10% of the harmful pollution (Porter and Kramer, 2006, pg.88) and it resulted in Toyotas innovations benefiting the society and their own competitiveness.

⁴ For instance Nike had invested in an after school program to deal with racism and school bullying. The program was intended to benefit young people, and the community (Becker-Olsen, Cudmore, Hill, 2005, 47). Some people would perceive this action from Nike to be yet again an additional promotional opportunity to advertise their name brand.

and therefore be less competitive in the international arena. This line of reasoning is not as powerful, because social responsibility is becoming an international concern (Carroll and Buchholtz, 2000, pg. 40).

It is quite difficult to rate CSR performance. Currently there are various rankings, which come with their own criteria. Even if some criteria tends to be the same, such as corporate citizenship, the weights associated with it are different. In addition, the task of evaluating if the criteria have been met is an even bigger task (Porter and Kramer, 2006, 81). In order to evaluate a company's commitment to CSR, one corporate decision may positively affect one stakeholder group, but negatively affect another stakeholder community (Maignan and Ferrel, 2004, pg. 8).

2.8 Future of CSR

There is plenty of room to deliberate the topic of CSR. There are contrasting views on how to encourage it, how it should be evaluated, and whether it should be compulsory or voluntary. These remain interesting issues today, but will be even more so in the future.

There are three advancements that are taking place today that will also be relevant to CSR's future. The first is that large companies are growing into global corporations. Second, it is evident that the business world is becoming rich with information, and third, corporate leaders are receiving bonuses that help them recognize that their share price is positively correlated to ethical high ground. (Robins, 2005, pg.113)

Large companies are developing into national and global corporations. The top 500 multinational corporations account for nearly 70 percent of the worldwide trade; this percentage has steadily increased over the past twenty years. In addition, multinationals account for roughly two thirds of world trade (World Trade Organization, 2007). These multinationals are faced with different local standards and have become socially responsible for raising standards in poorer countries. Some underlying motivations have been a desire to avoid public disapproval in their home countries.

To elaborate on the second advancement, the business world has become much more integrated and full of information. Recent scandals such as Enron and WorldCom have contributed to the changing environment and this in turn has forced business to reexamine what they are doing, and how they are doing it, because they feel responsibility to their stakeholders. Active shareholders are putting pressure on businesses in order to have a positive impact on their corporate reputation.

Corporate managers are receiving significant bonuses. Senior management realizes that share price is positively correlated with being ethical (Robins, 2005, 113). This is a large incentive for

them to meet community expectations. Essentially it is a cycle where corporate managers act in an ethical fashion, and as a result the community will be happy. The community will continue to support the business, which will continue to make profits, which in turn will have a positive effect on corporate bonus schemes.

In short, the future of CSR will be an even more pressing issue. Given the three advancements, it will contribute to greater pressure on future governance, such as in the area of national legislation, where companies are required to obey labor, law, and environmental standards, as well as voluntary standards (Robins, 2005, pg.112).

2.9 Examples of CSR and Marketing Strategy

Product-Coors Brewing Company

Coors Brewing Company has demonstrated how its attempt to become more socially responsible has resulted in them creating a new product. Part of Coors' corporate culture was to support creativity, technology, and eliminate waste before it was generated (Coors, 2007).

Coors executed four tools to improve not only their economic but environmental performance. The first was a “zero-based resource budgeting” principle, where the underlying opinion was that waste could be forced down to zero. Second, in order to improve efficiency, they implemented environmental audits, in order to segregate waste and identify alternatives on how to eliminate it. In addition, Coors established two environmental accounting methods which tracked the acquisition, use and waste of materials. At the same time it allocated costs to the responsible profit center, which motivated reductions. Lastly, Coors brewery had decentralized management systems, giving every division as well as every employee the power to decrease waste under their control (The Future 500, 2007).

These actions had extraordinary results. From 1987 to 1992, non-hazardous wastes sent to landfills were reduced by 50%. However, what was even more remarkable is the fact that spin-off operations and new ideas for the waste had been developed. For instance, brewery waste is developed into fertilizer and feed, wood waste into compost, and a less toxic cleaner, a citrus-based cleaning product, was developed (The Future 500, 2007). Coors Brewing Company's intent was to do something good for the environment by being socially responsible. Indirectly, it had generated great ideas that led to the development of new products.

Price-Nestlé

Nestlé wanted to enter the Indian market. In 1962, it received permission from the government to build a dairy in the northern district of Moga. This region was extremely poor. A typical farmer owned less than five acres of poorly irrigated and unproductive soil. Sixty percent of cows died as newborns, and farmers lacked refrigeration (Porter and Kramer, 2006, pg. 90). Nestlé's initial motive was to build a business and not necessarily to increase social responsibility.

Since Nestlé's value chain was dependent on developing local sources of milk from a large different base of small farmers, it needed to finance and technically assist the local farmers. Nestlé built collection points, trained farmers, sent out veterinarians, nutritionists and introduced better technology in Moga. This had significant results. The death rate of calves dropped by 75%, and milk production grew 50 times. Since the quality of milk improved, Nestlé has been able to pay higher prices to farmers than those set by the government (Porter and Kramer, 2006, pg. 90).

Nestlé primary goal was to do business, however more it allowed a region that was once poverty-stricken to become an industry cluster. Nestlé had indirectly improved Moga's standard of living. At the same time, it has increased the price that farmers are paid for their milk. Many would view this as a positive outcome of corporate social responsibility, even though it was not intentional.

Distribution- BAI

Banca di America e di Italia's (BAI) CEO wanted to advance the bank's strategic position in the late 1980's. Based on just-in-time manufacturing principles, the CEO wanted to form a paperless bank. This redesign process was implemented using a team who analyzed existing processes and redesigned them. Transactions were sectioned off into various segments such as deposits and withdrawals. The flow of each process was evaluated, which the team then revamped and presented to the IT department. The information technology team designed programs for these new processes (Hall et al., 1993).

Before the redesign, each check-deposit transaction required 64 activities, 9 forms, and 14 accounts. After redesign, it required only 25 activities, 2 forms, and 2 accounts. Not only was paper use reduced, but revenue at BAI doubled from the year 1987 to 1992, with 24% of the increase attributed directly to the redesign (The Future 500, 2007).

Banca di America e di Italia has demonstrated how it initially wanted to improve its strategic position, and subsequently helped the environment. It became more efficient, and also increased its distribution by adding 50 new branches without any increase in personnel (The Future 500, 2007). This allowed them to be closer to their customers.

3. CSR and Brand Loyalty

This chapter will begin with brand loyalty's definition and its components. The benefits as well as potential consequences of weakened brand loyalty will be presented. In addition, the relationship of CSR and its effects on brand loyalty will be explained.

3.1 Definition of Brand Loyalty

Brands develop credibility through repetition and persistency. **Brand Loyalty** is a deep dedication that consumers feel to consistently re-buy a preferred product or service. Despite situational pressures and marketing efforts that have the potential to cause switching behavior, there exists a need for repetitive same-brand purchasing, (Oliver, 1999; in Chaudhuri and Holbrook, 2001, pg.82).

3.2 Components of Brand Loyalty

The decision for a customer to remain loyal to a brand depends on the following components: value, image, convenience, service, guarantee, and satisfaction (Marconi, 1993, pg. 56). In terms of value, long-term use of the brand in one respect suggests loyalty. It is important to note that a decrease in quality and standards will dissatisfy even the most faithful customers, as well as result in an unjustified price increase.

The second component is image. Just like there is a relationship between awareness and market share, there is also a correlation between brand image and market share. Products that are clearly known to be "green" tend to build powerful brand loyalty among a growing segment (Marconi, 1993, pg. 57). In addition, social attributes such as "environmentally friendly" can serve as a signal of product quality (Kang and James, 2006, pg.303). It is true that price and quality are factors that contribute to why the brand is preferred, but in most cases, it is preferred because of its image, and what it represents in the mind of the consumer.

The third factor is convenience and availability. The company or brand that acquires the business is the one that offers products that can be easily purchased, picked up, paid for, delivered within a reasonable time, and easily returned.

The fourth component is service. Customers demand service no matter what business you are in. Companies should only promise what they can deliver, or they will have dissatisfied customers. In addition, guarantees should be offered. Even though many people do not take advantage of them, the simple fact that it is offered presents a peace of mind to the customer. When a customer does take advantage of guarantees, it results in increased brand loyalty (Marconi, 1993, pg. 60).

The final component is satisfaction, which is the final result of all the factors combined. Increased satisfaction results in increased brand loyalty.

3.3 Advantages and Disadvantages of Brand Loyalty

There are many benefits associated with brand loyalty. The value of a brand comes from its ability to gain an exclusive, positive meaning in the minds of a large number of consumers (Kapferer, 2003, pg. 25).

First, brand loyalty has a cognitive component. Consumers are willing to pay more for a brand. Consumers identify some sort of distinct value in using that brand which cannot be derived by using a substitute (Jacoby and Chestnut, 1978; in Chaudhuri and Holbrook, 2001, pg.81). The reputation of the brand is a source of demand and long-term attractiveness. The image of superior quality and added value validates a premium price (Kapferer, 2003, pg. 25). Therefore if a brand is strong, it benefits from a high degree of loyalty and also the future stability of sales. Secondly, market share is increased. Loyal consumers purchase products repeatedly regardless of situational limitations (Assael, 1998; in Chaudhuri and Holbrook, 2001, pg.81). In addition, marketing costs are reduced. In fact, loyal clients are up to five times less costly to contact than non-clients (Kapferer, 2003, pg. 164). Brand loyalty also increases positive word of mouth (Selnes, 1993; in Garcia de los Salmones, 2005, pg. 373), and is less likely to persuade consumers to try a competing brand.

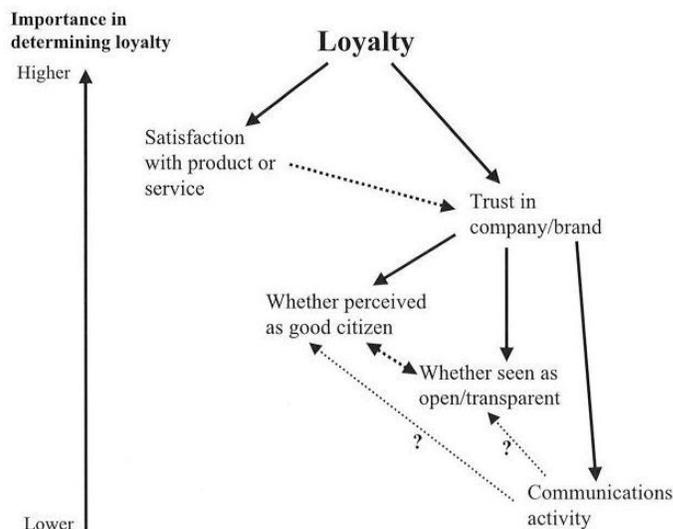
On the other hand there are also some disadvantages of brand loyalty. It is created by respecting the brand characteristics that initially intrigued the buyers. If the products show a lack of investment or weaken, then the companies need to meet them again. In order to build brand loyalty and benefit from it, brands must stay true to themselves. This is quite costly and time consuming. Secondly, it is also important to look at the negative impact of a reduction in brand loyalty (Kapferer, 2003, pg. 53). It is difficult to retain profitable customers. Canal Plus, a pay TV channel had six million clients and an exceptional loyalty rate of 97 percent. Their yearly subscription had cost 2,028 francs. If their loyalty would drop by as little as one percent, it would result in a reduction of 75 million less francs in annual revenues (Kapferer, 2003, pg. 164). It is quite evident that loyalty has a related factor, that of client satisfaction. The final disadvantage is the service and support factor. It is often the missing link to brand loyalty. In order to uphold client satisfaction, the front line representatives need to be well trained, have access to a broad information base, and access to customer history (Bailor, 2006, pg.13). This can be quite costly and difficult to control because it depends on a variety of human factors.

3.4 CSR and its Effects on Brand Loyalty

When a firm is behaving socially responsibly, it helps build itself a good reputation and trust. This essentially has two effects. The first is the increased perception in the quality of the company's service or products. Secondly, it creates a sense of support towards the company, and a feeling where customers are more inclined or feel favorably towards the company, even to the point where consumers may overlook rare slip-ups (Willmott, 2003, pg. 367). (Refer to **Figure 2**).

Looking at the model, there is a relationship between a corporation acting socially responsibly and trust and loyalty. Loyalty has two factors, one being satisfaction with the product or service and the other being trust in the company and brand. This second factor is dependant on whether consumers perceive the company as being socially responsible, whether it is open and transparent, and if it communicates actively. If consumers feel that the corporation is acting in a socially responsible manner, this will increase their trust in the company and therefore increase their loyalty towards it. This relationship is significant because if consumers trust a corporation, they are less prone to look elsewhere. Also, if a mistake is made, they are also more willing to forgive (Willmott, 2003, pg. 367).

Figure 2: Citizenship and Loyalty Model



Source: Willmott, 2003, pg.367

It is interesting to note how loyalty is affected by the two components of CSR: Cause Related Marketing and Institutionalized CSR. It is evident that Cause Related Marketing strengthens brand loyalty and adds credibility. A benchmark survey conducted by Cone and Roper in 2006 found that 78% of the respondents said that they were most likely to purchase a product that is

associated with a cause they are concerned about. In addition, 54% said they would pay extra for it (Upton, 2007, pg.40).

Even though cause related marketing has a significant impact on loyalty, institutionalized CSR programs have an even greater effect. Pirsch et al. (2006, pg. 132) conducted research and compared two types of organizations with different CSR programs. One had institutional CSR programs, where the company attempted to fulfill its social obligations across all the stakeholder groups, and touched all aspects of the company. The second focused on promotional CSR programs such as cause related marketing. The results concluded that consumers felt more loyal toward the institutional firm.

4. Analysis of Effects of Product Recalls on Brand Loyalty

This chapter will begin with the research purpose and objective. It will continue with the qualitative and quantitative analysis. The qualitative analysis will begin with the importance of safety and quality and the regulations that have developed as a result. It will also consist of case studies based on Mattel, Colgate, and Bausch & Lomb and their product recalls. Each company as well as their problem will be briefly presented followed by the consequences they faced as a result. The quantitative analysis will consist of the methodology, main findings, research limitations and future research direction as well as recommendations.

4.1 Research Purpose and Objectives

As stated in the introduction, the purpose of the master thesis is to show how important corporate social responsibility is, especially in a world of multinational companies and increased competition. If a company acts socially responsibly, then it will have a positive effect on brand loyalty. If it does not, the reverse will occur. The purpose of the thesis is to see what happens to companies when they are not acting socially responsible. When consumers hear of product recalls it signals to them that the product is not safe. This in turn indicates that the corporation had potentially done something wrong or overlooked key issues that lead to their products being potentially harmful to consumers' safety, therefore making the company socially irresponsible. More specifically, how do product recalls affect brand loyalty, consumer trust in brands, and their trust in organizations?

4.2 Qualitative Analysis: Case Studies

In the past, information about products has been a central issue between businesses and consumers. More recently however, issues such as safety and quality are becoming the focal

point. It is not to say that product information has become less important, but rather safety and quality have increased in importance.

In recent years the motivating force behind safety issues has been the threat of huge product liability lawsuits. In terms of product quality, the driving force was the international competitiveness of businesses. Foreign manufacturers were increasingly producing better products and as a result American firms were forced to differentiate themselves by emphasizing quality. In addition, consumers have been demanding better quality and this in turn added to the natural evolution of societal advancement (Carroll and Buchholtz, 2000, pg. 308). Even though this is from an American point of view, it had a ripple effect and had a similar impact around the globe.

It is quite clear that business has a responsibility to consumers to sell them **safe products**. The meaning of safety is to be “free from harm or risk” or “secure from threat of danger, harm, or loss” (Carroll and Buchholtz, 2000, pg. 311). In actuality, virtually no product is risk-free. Almost every product has some level of risk that the consumer might be harmed through use of the product. However, it is the responsibility of corporations to ensure product safety, or at least minimize that risk as much as possible.

Businesses have become considerably responsible for product safety. The public is being concerned about a variety of hazards and as a result their level of paranoia has heightened. Management is now being faced with the challenge of producing safe products while at the same time making them reasonably priced and useful to consumers.

Manufactured products create hazards because the product design is unsafe and also because consumers are not given enough information regarding the dangers associated with using the products. Liability claims tend to be charged with four common allegations. Firstly, the product was inadequately manufactured. It is evident that the manufacturer failed to implement due diligence and it resulted in injury. Secondly, even though the product may have been manufactured correctly, its design could have been defective. A third common liability claim is that the manufacturer fails to produce adequate instructions and warnings and it is believed that if they were provided the injury could have been avoided. The last charge is that manufacturers fail to anticipate a reasonable misuse of the product and warn against this misuse (Carroll and Buchholtz, 2000, pg. 312).

There are two main reasons for people’s obsession with **product quality**. Firstly, the average household income has encountered a rise in family income and as a result is more demanding. Since more and more households are faced with both adults working, people have less leisure

time and as a result they demand products that work as they say they would, to be durable, and easily repaired.

The second reason is the global competitiveness issue. Throughout the 1980's and 1990's, firms were feeling the pressure to match the quality that was coming from other countries within Europe, Japan and other competitors. Corporations realized that they needed to improve their quality in order to be competitive in the global market (Carroll and Buchholtz, 2000, pg. 309).

In order to combat the issues of poor product quality and unsafe products, the Consumer Product Safety Commission (CPSC) and the Food and Drug Administration were developed. The CPSC is an independent regulatory agency which was created because roughly 20 million Americans were injured annually by consumer products. In 1997, the CPSC negotiated 362 recalls which involved 76 million consumer products that were considered risky to the public (Carroll and Buchholtz, 2000, pg. 309). The FDA on the other hand is a federal agency which is responsible for ensuring that food, drugs, biological products, medical devices, cosmetics and electronic products are safe and accurately presented to the public (Food and Drug Administration, 2008).

A case analysis of Mattel, Colgate, and Bausch and Lomb will be introduced. Each company will have a brief overview, including a presentation of problem that resulted in the recall and the related consequences. The purpose for these cases is to show the detrimental impact that product recalls have. It has a negative impact on the bottom line as well as the fact that it has a negative impact in the minds of the consumer.

Mattel

Company and Problem Overview

Mattel is a worldwide leader in manufacturing, design, and marketing of toys and family products. According to John Taylor, a toy analyst from Arcadia Investment Corp., he described Fisher-Price and Barbie as two of the world's most trusted brands (Casey, 2007, pg. A3). Some believe that Mattel has a supply chain problem and a China problem (Casey, 2007, pg. D1). The company is dependent on cheap Chinese production. In fact Mattel gets 65% of its products from China (Casey et al., 2007, pg. A1).

The root of the problem is that Western corporations are operating in a largely ungoverned environment. Some foreign analysts state that the product recalls are emphasizing China's enduring quality control problems. The country has economically expanded at an increasing rate, and has transferred much of its manufacturing base to small local producers throughout the country. This growth has in turn resulted in negligent supervision (Guerrero, 2007, pg.37). In addition, not enough diligence and attention is being paid in the entire supply chain in China. The supply chain is so immense in size that once you pass the primary supplier, it takes many loops

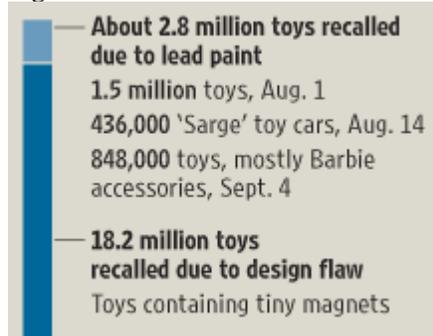
and twirls. In Mattel's case, sub contractors used lead paint instead of the paint approved by Mattel (Nowlan, 2007, pg. 13) on certain products.

On the other hand, Chinese firms claim that they are heavily pressured by foreign purchasing managers to cut costs. This has been especially apparent with Mattel's suppliers using lead paint as a substitute. This pressure leads to counterfeiting and corruption. Unfortunately, this is quite a common problem within China. A former manager of the SFDA, Zheng Xiaoyu was executed in July 2007 for accepting \$850,000 for high speed approval of their medicines (Guerrero, 2007, pg.37). This also relates to Mattel because this former boss of the SFDA had taken bribes to claim that the paint used by Mattel's suppliers was lead-free (The Economist, 2007, pg. 78).

Consequences

Over the last year, Mattel recalled over 21 million toys (see **Figure 3**). About 18.2 million have been recalled due to flaws in the toys' design, such as loose fitting magnets, while 2.8 million were recalled due to the fact they contained lead paint (Casey, 2007, A1). If paint contains more than 0.06 percent concentration of lead it is considered illegal because when ingested, it can lead to nerve damage, reproductive damage, and irreversible brain damage. The toys recalled by the Mattel Corporation contained as high as 11%, or 180 times, the legal limit (Sustainable Business.com, 2007) of lead. For parents, lead paint is a premier factor in their minds, especially when it is associated with an emotional factor like their children.

Figure 3: Mattel's Total Recall of Chinese Made Toys



Source: Wall Street Journal, 2007, pg.A1

From a financial perspective, Mattel's stock has fallen roughly 7% since the first recalls were announced. On September 4th, 2007, during after hours trading, the shares fell 1.6% to \$21.63, which is more than 27% from the 52-week high of \$29.71 in April according to the Wall Street Journal (Casey, 2007, pg.A3).

Thomas Debrowski, Mattel's executive Vice President of worldwide operations has admitted that the company's reputation, as well as China's as a country, has been tainted (Smith, 2007, pg.26). On August 11th 2007, Zhang Shuhong, the boss of Lida Toys, one of Mattel's suppliers,

committed suicide at his factory warehouse in Guangdong province of China (Casey et al., 2007, A1). The toy industry's reputation has also been damaged. According to a YouGov survey commissioned by Marketing Week, almost 40% of British consumers are less likely to buy Chinese-made toys because of Mattel's crisis (Smith, 2007, pg.3). It is believed that consumers will pay closer attention to where the toys are produced and have a preference over toys which are produced in Europe.

Colgate

Company and Problem Overview

Colgate-Palmolive is a leading global consumer products company, concentrating on Personal Care, Oral Care, Fabric Care, Household Surface Care, and Pet Nutrition. Colgate sells its products in countries all around the world (Colgate, 2007).

On June 14th 2007, the FDA issued a press release stating that counterfeit 5 ounce tubes of toothpaste incorrectly packaged as "Colgate" has been found in several dollar-type discount stores in four states in the U.S.A.: New Jersey, New York, Maryland, and Pennsylvania. These products were manufactured in China and contained a poisonous chemical called Diethylene Glycol, and had misspelled "SOUTH AFRLCA" on the package (FDA U.S Food and Drug Administration, 2007).

Consequences

It is interesting to note that Colgate-Palmolive clearly had nothing to do with this product; however it still triggered a sense of caution in consumers' minds. In fact on the day of the press release, Colgate shares fell 0.9 per cent to \$66.85 (Birchall, 2007, pg.1). This in addition, paints a poor picture for consumers, because when they hear negative press about Colgate, not knowing the full details, it affects their perception and it affects their thoughts the next time they are in front of the shelves to purchase a tube of toothpaste. Unfortunately, more specific quantitative results were not found.

Bausch & Lomb

Company and Problem Overview

Bausch & Lomb has three product categories: Pharmaceuticals, Vision Care, and Surgical. It has approximately 14,000 employees worldwide, and their products are available in more than 100 countries (Bausch and Lomb, 2007).

On May 15, 2006 the FDA issued a statement that distinct characteristics of the ReNu formula used in combination with Moisture Loc product could increase the risk of *Fusarium* a rare but potentially blinding cornea infection (FDA U.S Food and Drug Administration, 2007). As a result, Bausch and Lomb decided to remove ReNu with Moisture Loc products worldwide.

What escalated the problem was the time lag. It took B&L three days from the time it suspended shipments of the product to the time it actually withdrew it, which compelled retailers such as Wal-Mart to pull ReNu Moisture Loc from the shelves themselves (Thomaselli, 2006, pg. 3).

Consequences

Bausch and Lomb received a warning from the FDA. It was later revealed in a detrimental Food and Drug Administration report that the company waited a full 35 days before telling U.S. regulators the brand had been withdrawn from two key Asian markets (Kowsmann, 2006, pg. 3).

The world-wide contact lens solution recall proved to be costly for Bausch & Lomb. Their 2006 earnings were rough due to accounting problems and the recall. They were expected to report that their sales fell 3% from a year earlier (Kamp, 2007). As of July 30, 2007 it faced about 486 lawsuits tied to the recall, up from 431 suits as of June 15, 2007 (Kamp, 2007). The soaring expenses signaled B&L's plan to be acquired by Warburg Pincus for \$3.7 billion (Kamp, 2007).

4.3 Quantitative Analysis and Methodology

The purpose of the quantitative analysis was to supplement the qualitative analysis. In addition, the goals were to be objective, to efficiently test the hypotheses, and use the statistical models to explain what was observed.

The questionnaire was developed based on literature focused on key issues found in the Marketing Scales Handbook. Initially, questions about CSR in general were posed which were drawn from articles by Sankar and Bhattacharya (2001). Furthermore, the objective was to obtain people's opinions regarding CSR dimensions concerning a specific company. As a result, Colgate toothpaste was chosen. The reason was that this product can be found worldwide and since the subjects lived in various countries, it was a company that the respondents were quite aware of. In order to control for variations in the subject's opinions of the company, they were exposed to a section related to the company's CSR information that can be found on Colgate's webpage. This way, all participants would have the same foundation with which to answer the additional questions.

The third set of questions related to brand loyalty derived from Sankar, Gurhan-Canli, Morwitz, (2001). These were followed by questions on trust related to the organization by Tax, Brown, and Chandrashekar (1998) and trust in the brand by Chaudhuri and Holbrook (2001). After this, an article about Colgate's recall was fabricated. The participants could not tell that this article was made-up, it appeared to be from Business Week and it stated that it was written by their senior correspondent. The affected regions were intentionally selected to be Toronto and Eastern Europe in order to hit close to home to the participants.

A one group pre-test post-test experimental design was used. Following the article, a section was dedicated to product recalls taken from Gurhan-Canli and Moritz (2001) and the same questions on trust in an organization and trust in brand were repeated. The intent was to detect any significant effects before and after the hypothetical recall. In the end, it was important to highlight that the article was fictitious and that it was made up for the sole purpose of the questionnaire.

An online questionnaire was used for a variety of reasons. On-line questionnaires are an effective way of reaching a large percentage of people. They give participants the opportunity to fill them out during their leisure time. They are also more comprehensive, provide speedy responses, and are less costly and environmentally friendly. Once the questionnaire was completed, it was emailed to five respondents in order to receive their feedback. As a result, amendments were made to change all the scales to a five-point Likert scale instead of a seven-point Likert scale, and minor amendments to the questions were made so the questions were clearer to the participants.

The questionnaire was then distributed to a convenience sample over e-mail to 130 participants living primarily in Slovenia, Toronto and Florida. These individuals were also asked to forward it off to their friends and colleagues. The subjects were volunteers and randomly selected. No incentives were provided to the subjects for participating. The quantitative analysis was based on 100 internet questionnaires sent in December 2007. A follow up email was sent in January 2008. The total waiting period was three weeks.

Additional software that was used was Omniview, a soft data browser, created by CATI - Marketing, Media, Social Research and Consulting d.o.o. Additionally, an SPSS (Statistical Package for Social Sciences) tool was used to analyze the results of the questionnaire.

4.4 Research Hypotheses

A great deal of research exists regarding corporate social responsibility especially with the emergence and growth of global corporations. In recent years, the media has reported both positive and negative facts related to international corporations. It would be beneficial to examine consumers' opinions of CSR in general, but more specifically how their opinion about a company or brand changes when they are faced with product recalls.

Contemporary research implies that there is a positive relationship between a company's CSR initiatives and consumer attitudes towards the company's products and the company itself (Brown and Dacin, 1997; in Sen and Bhattacharya, 2001, pg. 225). It would be beneficial to test

and see if there is a relationship between people's perception of CSR and brand loyalty. In summary:

H1: The more positive a person's perception of CSR, the higher is the brand loyalty.

For this hypothesis two scales were used. One appeared in Sen, Gurhan-Canli and Morwitz (2001). It had a Cronbach's alpha of 0.91. The Cronbach's alpha is the most common estimate of internal consistency of items in a scale. The widely-accepted social science cut-off is that alpha should be .70 or higher (Scales and Standard Measures, 2008). It consists of three statements used to assess a person's tendency over time to purchase a specified brand within a specified product category. This scale was used to create the dependant variable called brand loyalty. This scale consisted of several items, including items that asked how much would you say you dislike or like Colgate toothpaste, when do you buy toothpaste, to what extent do you buy Colgate, and to what extent are you loyal to Colgate.

The second scale known as Corporate Social Responsibility Dimensions, has its origins with Sen and Bhattacharya (2001) with a Cronbach's alpha of 0.98. The scale is composed of six items, and assesses the favorability of the beliefs a person has about a company's involvement with a range of social issues.

Additional research has shown that negative CSR involvement has a damaging effect on overall product evaluations (Brown and Darcin, 1997; in Sen and Bhattacharya, 2001, pg. 226). Recently, there have been a number of stories in the news dealing with the recall of products that have been manufactured in China, more specifically product from Mattel and Bausch & Lomb. This is having a strong impact on the brand name. The goal is to show the negative impact that the recall has on brand loyalty. In summary:

H2: Trust in a company will worsen after a recall,

H3: People will be less likely to trust brands that have been recalled.

For the second hypothesis, the scale originates from Tax, Brown and Chandrashekara (1998) who borrowed and modified some items from Crosby, Evans, and Cowles (1990). Four, five-point Likert type items compose this scale. It had a Cronbach's alpha of .96 and measures the degree to which a customer believes than an organization is honest and can be counted on.

For the third hypothesis, the scale's origin is from Chaudhuri and Holbrook (2001). Four items compose this scale and it has a Cronbach's alpha of .96. It measures the degree of confidence a consumer has in a brand and their opinion related to whether or not it can be counted on.

In an article concerning brand loyalty, one of the further research suggestions was to analyze the brand loyalty differences between genders (Chaudhuri and Holbrook, 2001, pg. 91). To take it a step further, it would be interesting to test another aspect of demographics, that of country of

residence. Who is most affected by recalls, people from North America or Europeans? In summary:

H4: North Americans are differently affected by product recalls than Europeans.

Sen, Gurhan-Canli and Morwitz (2001) created this scale. It is reliable and has a Cronbach's alpha of .91. The scale has been modified from a seven-point response scale to a five-point response scale. It was used to assess a person's concern about the activities that a company is engaged in, which form the basis for boycott issues, and in this case product recalls.

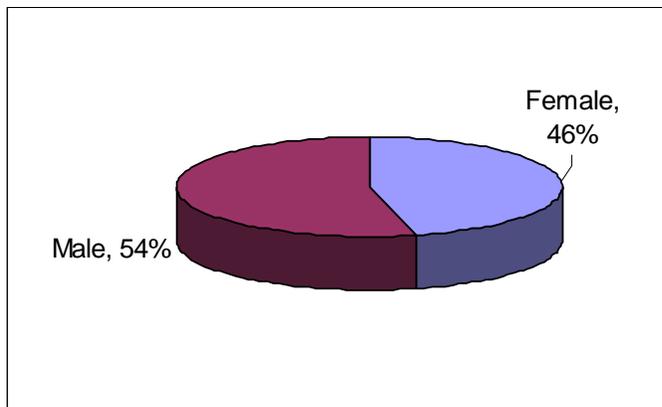
4.5 Main Findings

The main findings will begin with the demographic features of the respondents. Subsequently, an analysis of key findings which were derived from the questionnaire will be analyzed. The statistical results of the hypothesis will also be presented.

Demographic Features

The gender composition was as follows (refer to **Figure 4**): 46 percent were female respondents and 54 percent were male respondents.

Figure 4: Gender

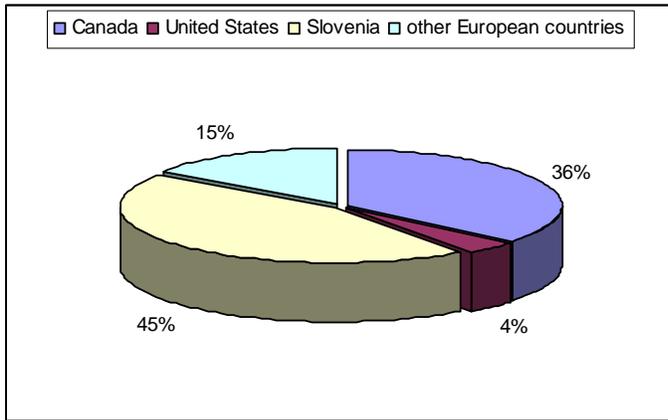


n=100

Source: Colgate Questionnaire, 2008

The highest percentage of the respondents was from Slovenia, which was almost half of the sample, followed by Canadians who comprised just above one third of the sample (refer to **Figure 5**). Other European countries made up 15 percent of the sample, and the smallest number was from the United States, which came in with four percent.

Figure 5: Country of Residence



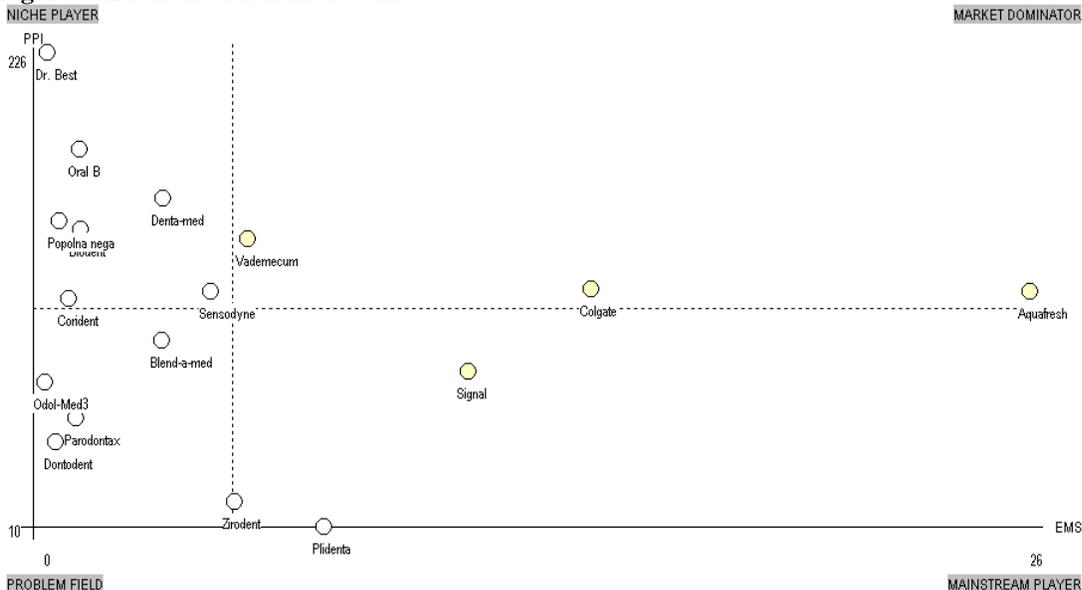
n=100

Source: Colgate Questionnaire, 2008

It is well known that Colgate is a well-established brand of toothpaste in North America. However, there was concern about the brand position of Colgate within the Slovenian market. Therefore, interviews with two Slovenian dentists (Ferlez and Cizmek, 2008) were conducted. The results from the interviews indicate that over the past few years, the Colgate brand has made a great effort to promote itself within Slovenia. They have been involved with sponsoring the hygienists association, and also have sent trial samples to these dentists to pass along to their patients. They concluded that Colgate is one of the top three brands of toothpaste.

In addition, the results in **Figure 6** from Omniview have been extracted. It is evident that Aquafresh is dominating the Slovenian market, followed by Colgate then by Signal. It is evident that it is a mainstream player and that it falls in the category of top three.

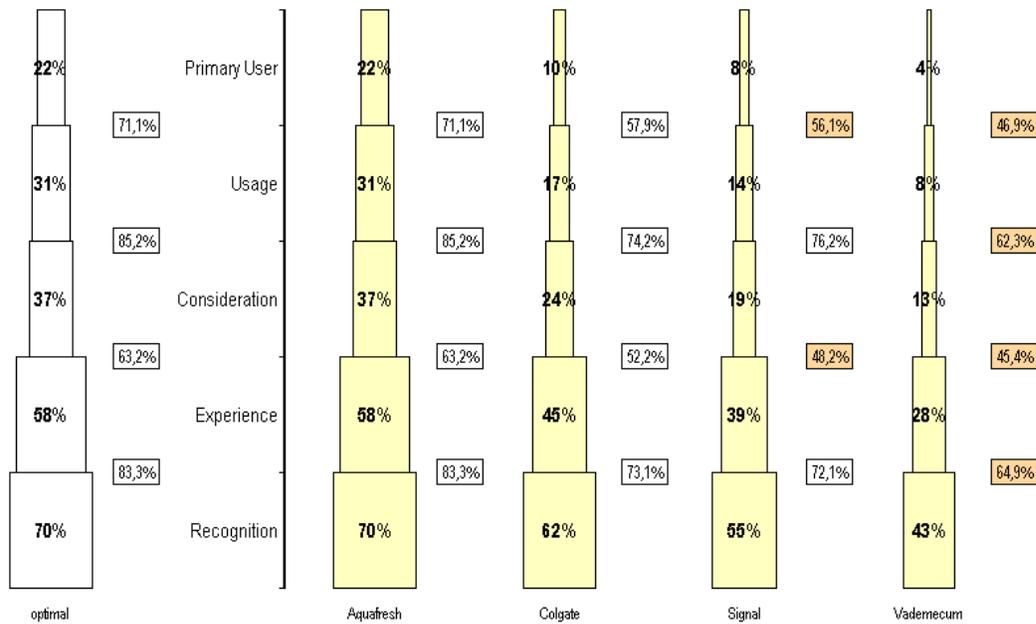
Figure 6: Brand Position in Slovenia



Source: Valicon, 2007

More specifically, by observing the pyramids in **Figure 7**, it is evident that Colgate is in second place, and 62 percent of Slovenians recognize the Colgate brand. The conversion rate is quite high at 73.1 percent. This means that out of the population that recognizes it, 73.1 percent use the product as well. Since it is colored in white, it means that it is just slightly lower than the optimal pyramid. As a result, it can be concluded that Colgate is a well-known brand in North America as well as in Slovenia, and it should not hinder the statistical results.

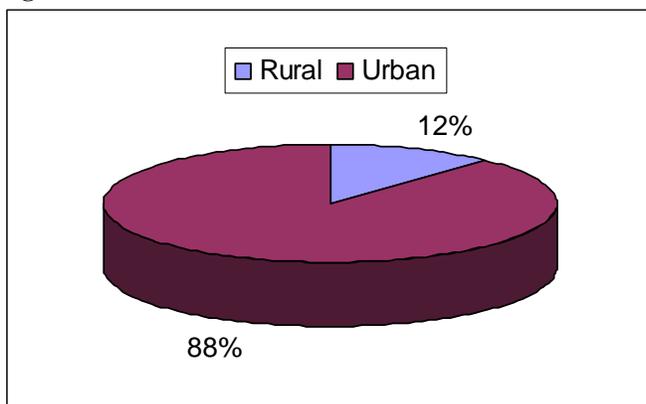
Figure 7: Pyramid of Toothpaste Brands in Slovenia



Source: Valicon, 2007

Nine out of ten respondents live in urban areas, notwithstanding that 12 percent live in rural areas (see **Figure 8**). This is perhaps due to the fact that a lot of the respondents were university and MBA students, and they primarily live in cities.

Figure 8: Area of Residence

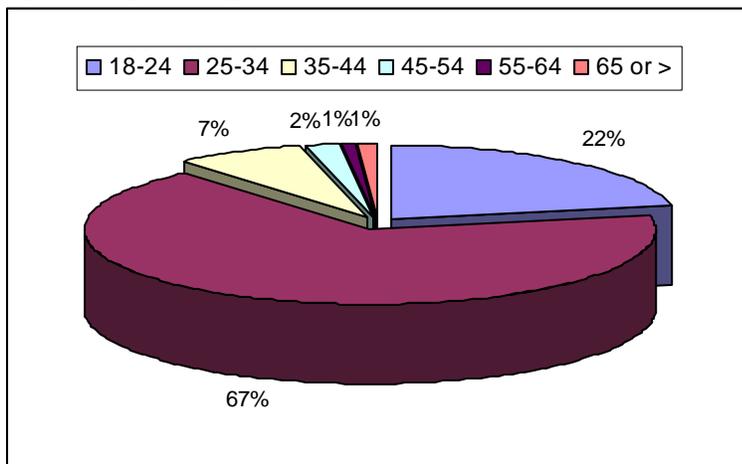


n=100

Source: Colgate Questionnaire, 2008

According to a study on the Internet, it was noted that home Internet penetration is close to 80 percent for people aged 18-54 (Pirsch et al. 2006, pg.131). Interestingly, it is this age group that most responded to this questionnaire (see **Figure 9**). Two thirds of the respondents are between 25 and 34 years of age, 22 percent are between 18 and 24 years old, seven percent are amid 35 to 44, two percent are among 45 and 54, one percent between 54 and 64, and one percent above 65 years of age. There were no respondents under the age of 18.

Figure 9: Age of Respondents



n=100

Source: Colgate Questionnaire, 2008

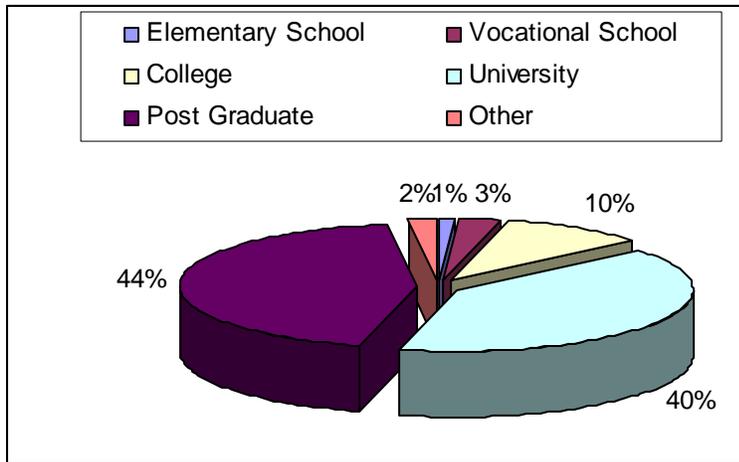
According to the education structure of the sample, observing **Figure 10**, it is clear that the majority of the respondents are educated. Post graduate education was highest at 44 percent, followed closely with the university level at 40 percent. College placed third at 10 percent, followed by vocational school with three percent, and elementary school with one percent.

It is recognized that this sample is not representative of the general population. It is evident that the sample is quite educated. It is felt that corporate social responsibility has become a buzz word in recent years and these subjects are more knowledgeable about the subject matter than the general population. They also use the Internet more and have access to company web sites. It is apparent that web sites make corporate information available before specific product information (Sen and Bhattacharya, 2001, pg. 238).

However, the general population is increasing their shopping on the internet and as a result is learning a lot more about corporate information like CSR. It is believed that the general population reads the newspapers and is influenced by the media. There is managerial and empirical substantiation that corporations with poor CSR records encounter significant negative consequences such as reduction in brand image, large scale consumer boycotts, and temporary

drops in sales once their negative records become public (Sen and Bhattacharya, 2001; in Becker-Olsen et al., 2006, pg. 52).

Figure 10: Highest Level of Education



n=100

Source: Colgate Questionnaire, 2008

Analysis of Key Findings

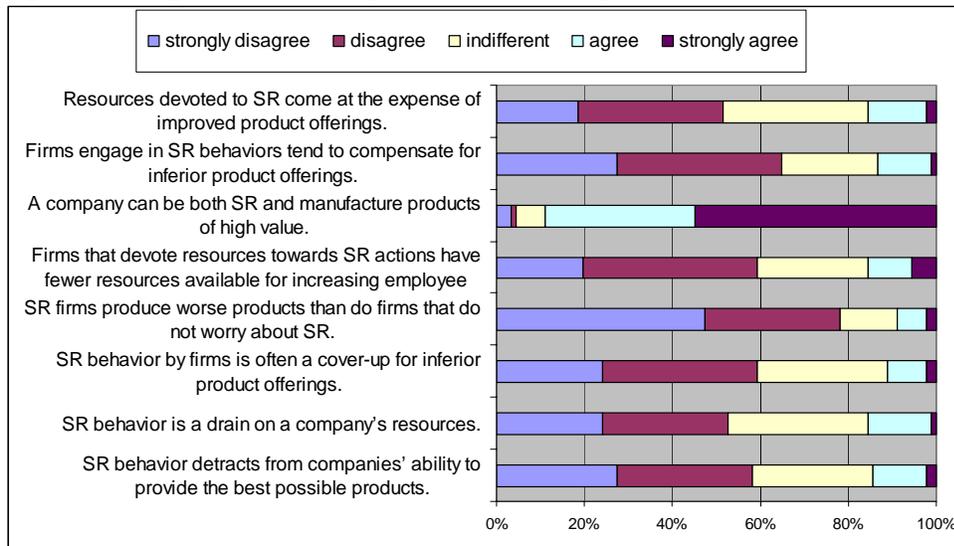
The first question was more of an overview of Corporate Social Responsibility. It covered people's general overview of a company's ability for CSR (see **Figure 11**). Its purpose was to extract people's various opinions about a company, including questions related to the company's policy of social responsibility, and how failure to do so affects product offerings, or if it compensates for inferior products.

It is evident that more than half of the respondents strongly agree that a company can be both socially responsible and at the same time manufacture products of high value. In addition, its intent was to identify whether people believed that firms who devote resources to social responsibility have fewer resources left over for increasing employee effectiveness. Almost half of the respondents clearly disagreed with this statement.

Moreover, half of the respondents strongly disagreed that socially responsible firms produce lesser-quality products than firms who do not worry about social responsibility. The last three opinions wavered on the same point. Out of the available options, people most commonly disagreed with the fact that socially responsible behavior is a cover-up for inferior product offerings and that it detracts from a company's ability to provide the best possible products.

Consumer's expectations in regards to corporate social responsibility have increased over the past five to ten years (Becker-Olsen et al., 2005, pg. 52). It is reasonable to conclude that consumers' expectations are high and the respondents feel that CSR is important. It is evident that they see a positive correlation between socially responsible firms and their production of quality products. These results prove that consumers do not see CSR in a negative sense. In other words, they do not see it as a tactic that companies use in order to conceal their shortcomings.

Figure 11: Corporate Social Responsibility and Company Ability



n=100

Source: Colgate Questionnaire, 2008

The second question focused on people's opinion of Colgate in relation to the following Corporate Social Responsibility dimensions. In order to control for variations in the subject's opinions of the company, they were exposed to a section related to the company's CSR information, which can be found on Colgate's webpage (see **Figure 12**).

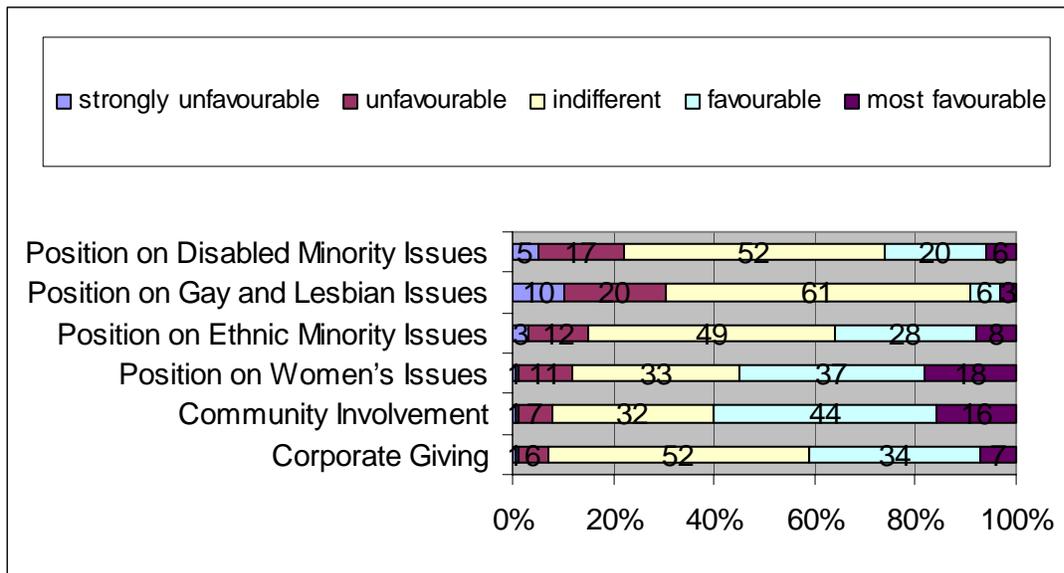
It is evident that the majority of the respondents felt quite indifferent in regards to Colgate's CSR dimensions. More than half were quite indifferent in regards to Colgate's position on disabled and minority issues. Almost two thirds were also indifferent to Colgate's position on gay and lesbian issues. Just under half felt mediocre about their ethnic minority issues. The corporate giving dimension painted a similar picture. On the other hand, roughly 40 percent of the respondents felt that Colgate's position on women's issues, as well as community involvement, was favorable.

Consumers' company evaluations are more sensitive to damaging CSR information than positive CSR information (Sen and Bhattacharya, 2001, pg.238). This sample was exposed to Colgate's CSR information which was found on their website, and in general, contained positive facts. It is

safe to conclude that people felt indifferent about Colgate’s CSR dimensions since they are not as sensitive to positive CSR information.

More specifically, only those most supportive of the CSR issues react positively to CSR information (Sen and Bhattacharya, 2001, pg.238). The results have shown that most people were supportive of women’s issues and community involvement and as such had reacted in a positive way. We can conclude that there are similarities between people's own characteristics and those of companies. It is a source of self definition.

Figure 12: Opinions on CSR Dimensions Regarding Colgate



n=100

Source: Colgate Questionnaire, 2008

A multiple regression was performed. It had an R squared of 0.093 and it found that the more positive the CSR, the less effect there is on brand loyalty. There was however, one interesting discovery. Looking at **Table 1**, it was significant that the people who thought that Colgate had a positive position on women’s issues were also loyal to the brand. There are many opportunities open for further research, where this question can be more comprehensively analyzed.

Table 1: Regression-CSR Issues and Brand Loyalty

CSR Issues	Value	(t)	Sig.
Position on Disabled Minority Issues	-0.015	-1.52	
Position on Gay and Lesbian Issues	-0.091	-0.975	
Position on Ethnic Minority Issues	-0.114	-1.23	
Position on Women’s Issues	0.318	4.085	***
Community Involvement	0.063	0.65	
Corporate Giving	-0.032	-0.333	

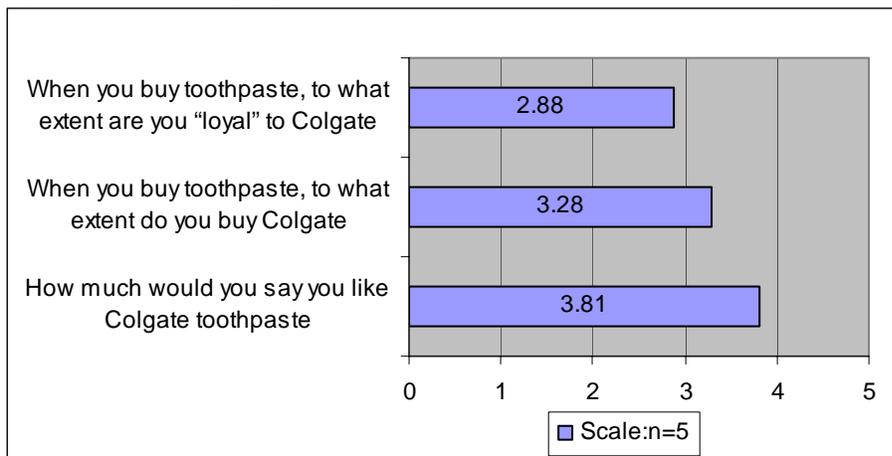
R Square=.093

*** Sig. at 0.01%

Source: Source: Colgate Questionnaire, 2008

The third question was composed of three sub questions to examine the brand loyalty of Colgate toothpaste (refer to **Figure 13**). The first statement “when you buy toothpaste, to what extent are you loyal to Colgate” received a slightly lower grade than the middle value of three on the five-point Likert scale, which means that most respondents slightly disagreed with this statement. The two last statements, “when you buy toothpaste, to what extent do you buy Colgate toothpaste” and “how much would you say that you like Colgate toothpaste” received a higher than middle value of three, which indicates that most respondents agreed with the two statements.

Figure 13: Brand Loyalty



n=100

Source: Colgate Questionnaire, 2008

In addition, and to clear up any ambivalences, a one-sample T-test (**Appendix 2, Table 3**) was done in order to test whether these means are significantly different than the indifference mean ($\mu=3$). It was statistically significant ($p=0.0$) that the sample mean ($\mu=3.28$ and $\mu=3.81$ respectively) is greater than the mean of indifference for the last two questions. This means that there is a significant difference between the two groups. Respondents like Colgate toothpaste; they definitely like the brand as opposed to just feeling indifferent about it. In addition, when the respondents buy toothpaste, they buy Colgate more than other toothpastes on the market.

In order to gain a better understanding, it is important to read the “fabricated” article from Business Week regarding the “Colgate recall” (see **Figure 14**). The intent was to create a professional looking article with a senior editor so that the readers would believe the related content.

Figure 14: Fabricated Article



News & Features December 6, 2007, 2:46PM

Colgate toothpaste recalled

Antifreeze chemical found in tubes; no injuries reported

By David Riley

The Colgate-Palmolive Company said Thursday that 5-ounce tubes of Colgate toothpaste sold in discount stores are being recalled because they may contain a poisonous chemical.

A Food and Drug Administration official, Doug Arbesfeld, said Wednesday that testing had found the chemical in the Colgate product.

MS USA Trading, Inc. of North Bergen, N.J., the importer involved in the initial recall announcement, said the toothpaste may contain diethylene glycol, a chemical found in antifreeze.

The company said the toothpaste, imported from China, was sold in discount stores in New Jersey, New York, Toronto and Eastern Europe.

"Made in China" is printed on the box and includes Regular, Gel, Triple and Herbal versions.

Source: Own, 2008

The trading company said the problem was discovered in routine testing by the Food and Drug Administration. It said no illnesses have been reported to date.

Consumers who have purchased 5-ounce toothpaste under the Colgate label can return them to the place of purchase for a refund, MS USA Trading said.

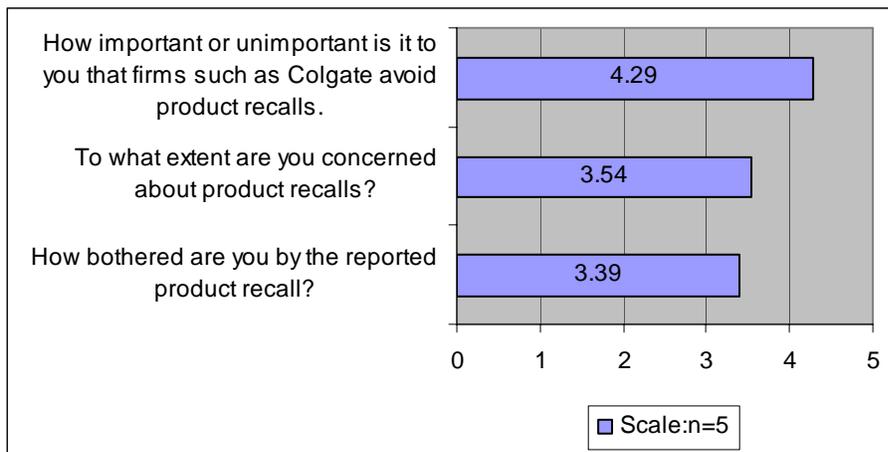
Riley is a senior correspondent in *BusinessWeek's* Detroit bureau.



The following questions were posed after the respondents read the article from “Business Week” (refer to **Figure 15**). The following three questions tried to examine how people feel about product recalls.

All three statements “how important/unimportant is it to you that firms such as Colgate avoid product recall”, “how bothered are you by the reported recall” and “to what extent are you concerned about the product recalls” received ratings above three on the five-point Likert scale. This indicates that the respondents mostly agreed with the statements. The general feeling is that companies should avoid product recalls. This idea received the highest rating.

Figure 15: Product Recalls



n=100

Source: Colgate Questionnaire, 2008

To clear up any ambivalences for the above questions, a one-sample T-test was done (**Appendix 2, Table 5**) in order to test whether these means were significantly different than the indifference mean ($\mu=3$). It was statistically significant ($p=0.0$) that our sample mean ($\mu=4.29$, $\mu=3.54$ and $\mu=3.39$ respectively) is greater than the mean of indifference for all three questions. The respondents strongly believe that it is important for firms to avoid product recalls; they were bothered by the reported recall, and are concerned about product recalls as opposed to feeling indifferent about these issues.

The following question related to trust in the organization. It was composed of four sub questions related to Colgate. The subjects were asked these sets of questions before and after they were exposed to the article from Business Week. The purpose was to capture any variations (see both **Figure 16** and **17**).

It is quite obvious that before the exposure to Colgate’s recall, about half of the respondents agreed overall that the firm was honest. The aftermath showed that nearly the same amount of respondents felt indifferent about Colgate’s honesty. It is interesting to note however, that there

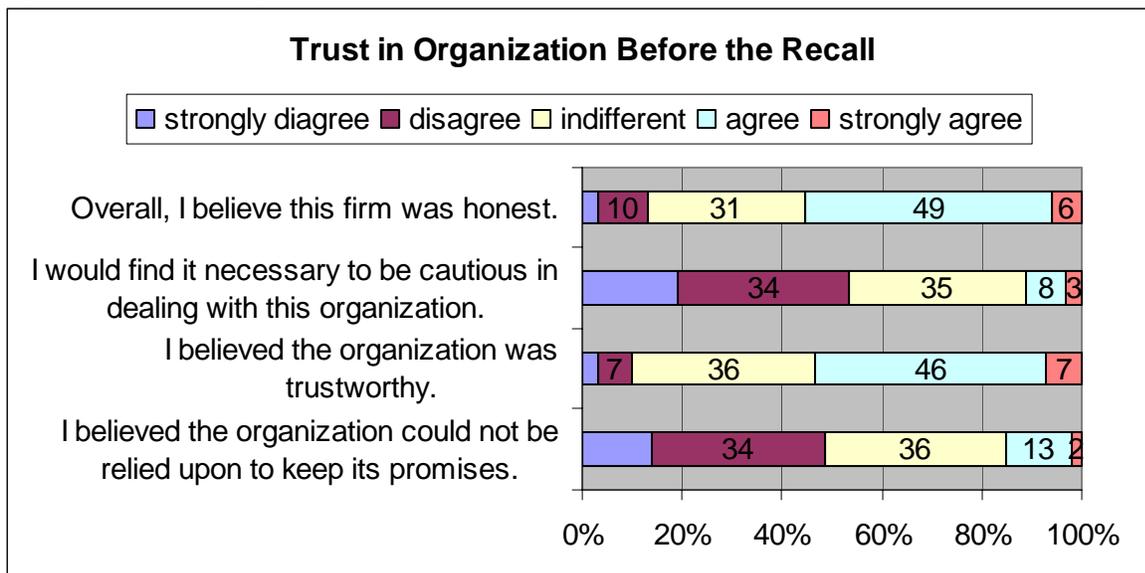
was a slight increase in the number of respondents who strongly agreed that the firm was honest. According to the five-point Likert scale, the average response before the recall was 3.42. It decreased slightly to 3.32 after the recall.

Before the recall, about 34 percent disagreed and felt that it was not necessary to be cautious in dealing with this organization. The average before was 2.39, whereas after it increased to 3.07. After the recall, roughly the same proportion, 31 percent, felt indifferent about the same statement.

Prior to the recall, almost half of the sample agreed that the organization was trustworthy, yet this opinion changed after the recall. It in fact declined and only about one third agreed with the same statement. The average response had decreased from 3.44 to 3.21.

Prior to the recall, nearly one third of the respondents disagreed with the statement that they felt that the organization could not be relied upon to keep its promise. Afterwards, this sample had decreased, even though it was by a small amount. In addition, if the averages are observed, it had increased from 2.52 to 2.79, clearly indicating that the respondents had been shaken up and on average had changed their opinion from disagreeing to almost feeling unsure about the organization being relied upon to keep its word.

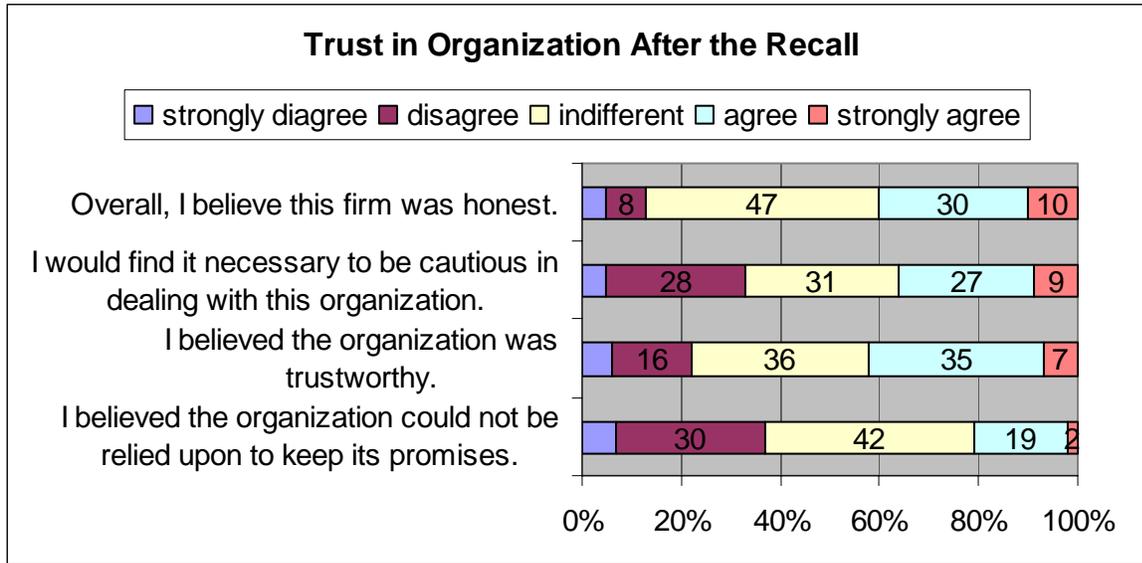
Figure 16: Trust in Organization Pre-Recall



n=100

Source: Colgate Questionnaire, 2008

Figure 17: Trust in Organization Post-Recall

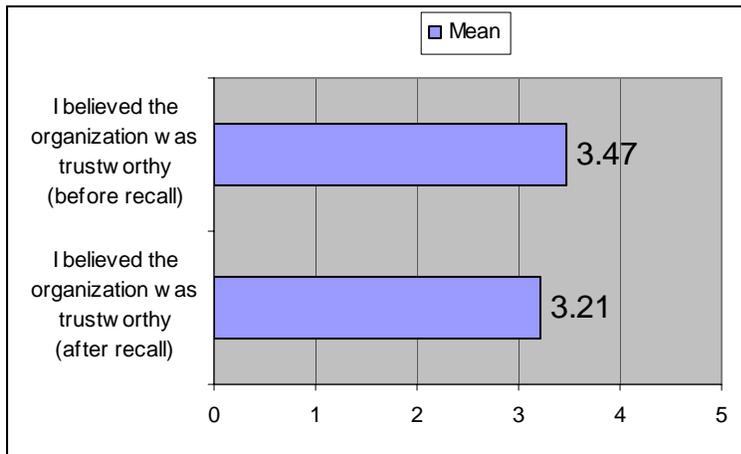


n=100

Source: Colgate Questionnaire, 2008

A Paired Sample T-Test was done in order to compare people's responses before and after the recall (refer to **Figure 18**). It was significant ($p=0.0$) that people believed the organization was more trustworthy ($\mu=3.47$) before the recall as opposed to after ($\mu=3.21$), therefore hypothesis number two can be confirmed.

Figure 18: Trust in the Organization



n=100

Source: Colgate Questionnaire, 2008

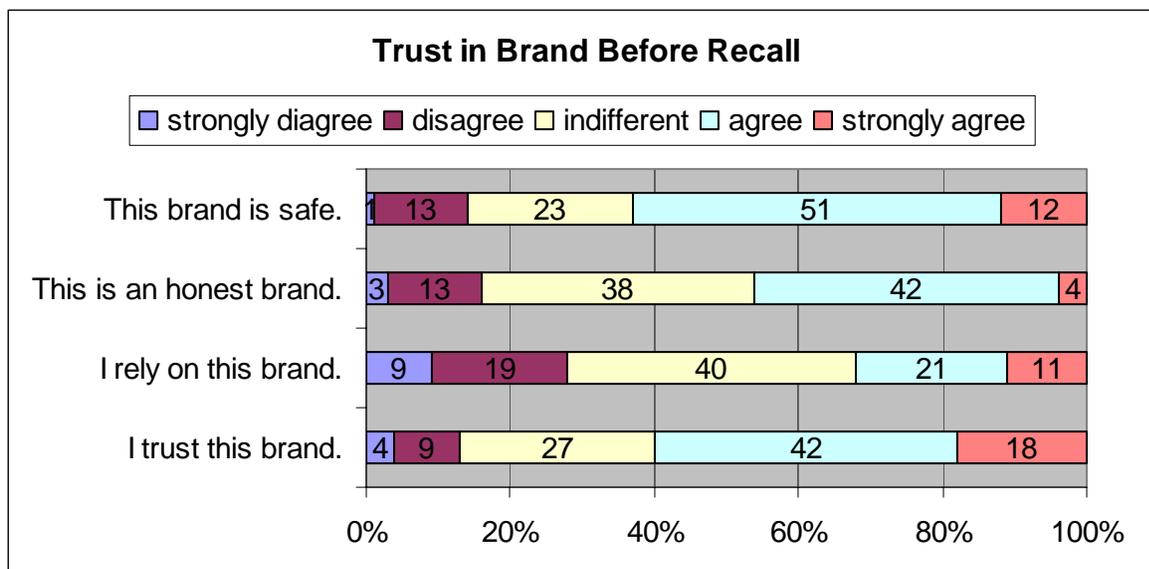
The following question relates to trust in the brand. It was composed of four sub questions related to the Colgate brand. The subjects were asked these sets of questions before and after being exposed to the product recall (refer to **Figure 19** and **20**).

It is quite evident that roughly half of the respondents agreed that the Colgate brand was safe prior to the recall. The results had changed afterwards. Slightly less than one third of the respondents felt the same way. Observing the change in the average response, it had decreased from 3.6 to 3.26, from almost agreeing to feeling indifferent about the brand being safe.

Before the recall, about 40 percent of the sample felt that Colgate was an honest brand. It is apparent that the reported recall in Business Week had an impact. Only one quarter of the respondents felt that this brand was still an honest brand. Moreover, the average response had decreased from 3.31 to 3.22.

Prior to the recall, almost one quarter agreed that they relied on this brand. This sample had decreased, even though it was by a small amount, from 3.06 to 2.85. In addition, trust in the brand had also worsened from 3.61 to 3.4. Approximately 40 percent of the respondents trusted the brand prior to the exposure, while only about one third felt the same way afterwards.

Figure 19: Trust in Brand Pre-Recall

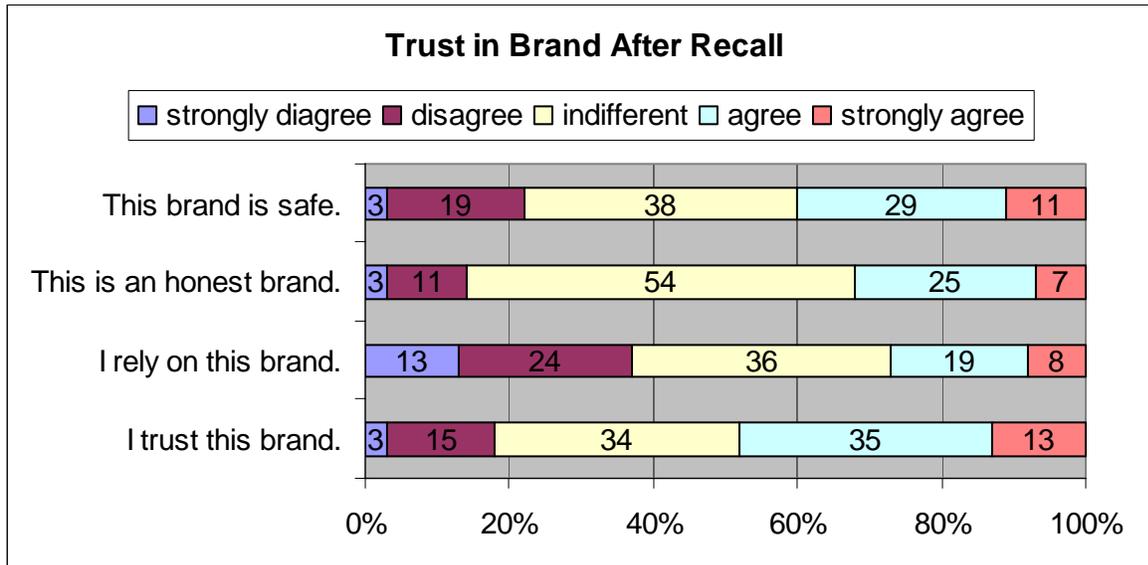


n=100

Source: Colgate Questionnaire, 2008

It is interesting to see the results after testing the third hypothesis statistically. What happens to people's trust in a brand once it is recalled?

Figure 20: Trust in Brand Post-Recall

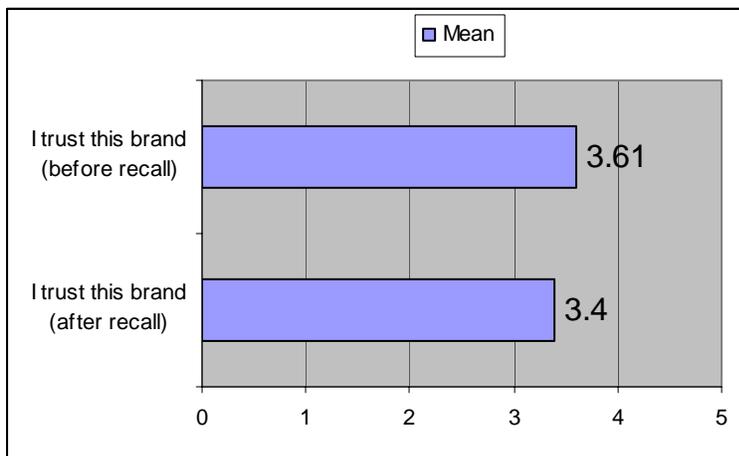


n=100

Source: Colgate Questionnaire, 2008

A Paired Sample T-Test was done in order to compare people’s responses before and after the recall (refer to **Figure 21**). It was statistically significant ($p=0.0$) that people trusted Colgate more ($\mu=3.61$) before the recall as opposed to after ($\mu=3.40$). Trust had decreased even though it was by a small amount, therefore the third hypothesis can be confirmed that people are less likely to trust brands that have been recalled.

Figure 21: Trust in Brand



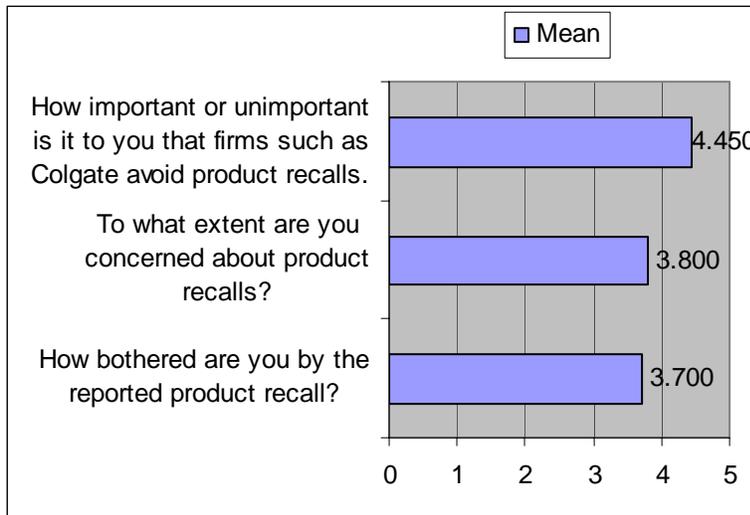
n=100

Source: Colgate Questionnaire, 2008

In regards to the last hypothesis, it was interesting to distinguish if there was a difference between North Americans and Europeans in terms of how they are affected by product recalls (refer to **Figure 22** and **Figure 23**). From doing an Independent Sample T-Test, it is significant

that North Americans feel that it is more important ($\mu=4.45$, 1=not at all important, 5=extremely important, $p=.012$) for firms such as Colgate to avoid product recalls than Europeans do ($\mu=4.183$). In addition, Canadians and Americans are more concerned ($\mu=3.8$, 1=not at all concerned, 5=extremely concerned, $p=.001$) about product recalls than Slovenians and other Europeans ($\mu=3.367$). Furthermore, this same group is more bothered ($\mu=3.7$, 1=not at all bothered, 5=extremely bothered, $p=.000$) by the reported recall than group two ($\mu=3.183$).

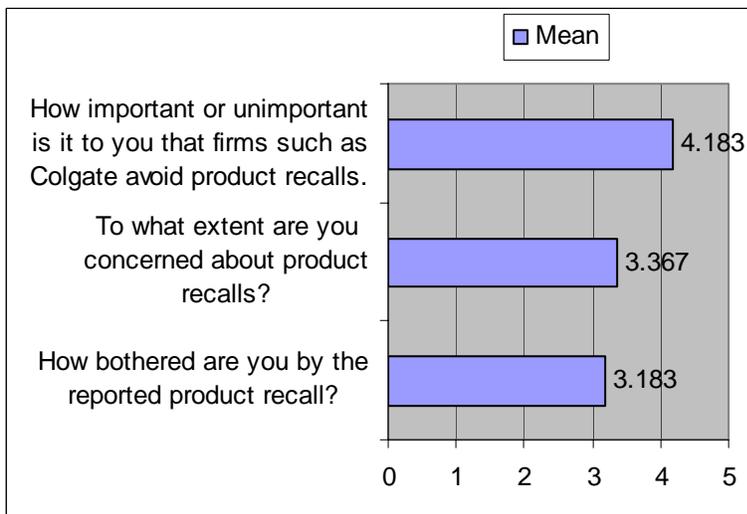
Figure 22: Group #1 North Americans



n=100

Source: Colgate Questionnaire, 2008

Figure 23: Group #2 Europeans



n=100

Source: Colgate Questionnaire, 2008

4.6 Research Limitations and Future Research Direction

One of the limitations is that a convenient, non-random sample was used. It was distributed to three main cities, Slovenia, Toronto, and Florida, over the Internet. The majority of the sample was young, between 25 and 34 years of age. In addition, this was also an educated sample, as most had a university degree or held an MBA.

Another limitation is that the sample size (n=100) is quite small. The questionnaire was sent towards the end of December 2007, and as a result, three weeks went by before results were received. People were preoccupied with the holidays and were not inclined to respond to questionnaires.

The product that was selected for the hypothetical recall was Colgate toothpaste. It was selected primarily because of its global exposure and the sense that the product is used orally. If there were an associated recall, it would affect consumers on a larger scale. More research would need to be done, but it is perceived that more North Americans would be inclined to use this brand than Europeans.

Future research should use multiple products on a larger, more random sample. Also, a two-group pre-test post-test experimental design could be used, making it possible to have an experimental group and a control group. In addition, other sorts of media such as television and other forms of print should be used to make the observers aware of the product recall.

4.7 Recommendations

Even though some strongly oppose any additional accountability of the corporation beyond economic responsibility, CSR is becoming increasingly important and corporations should not take the issue lightly. It is believed that if a company acts socially responsibly, then it will have a positive effect on the organization as a whole. After reviewing the qualitative and quantitative results, a few recommendations for the global corporation have been developed.

First, business leaders need to possess responsible business practices. If they do, this will create a ripple effect that will be reflected in corporate culture and the behavior of individual firms. Even though there are firms who not participate in voluntary practices, it is an important mechanism that drives good practices. In addition, these business leaders need to properly implement their CSR strategy. Just because a corporation may have chosen a CSR strategy in its home country, does not mean that it translates into an “international” program (Galbreath, 2006, pg.185). As a

result, corporations need to **foster CSR within their corporate culture** to touch all aspects of their global operations.

For many companies, most of the ethical problems that arise in the international arena are the same that arise in their domestic environments. These exist in all functional areas of business such as: marketing, management, finance and production. These matters concern the fair treatment of all stakeholders. Even though ethical problems appear to be somewhat fewer in developed countries, they exist there as well. They seem to be a lot worse in underdeveloped countries. There is a temptation to adhere to lower standards or in some cases to conduct business under zero standards, therefore exploiting local circumstances. When there is doubt, the corporations should choose the course of action that noticeably reflects ethical leadership. A general rule of thumb should be to adhere to **higher rather than lower standards** (Carroll and Buchholtz, 2000, pg. 196).

Lessons need to be learned in reference to Mattel. This brand had put profit ahead of public trust. Corporations need to **put public trust at the top of their order of priorities** (Smith, 2007, pg.21). Corporations that are manufacturing products internationally need to have better supervision and tighter control mechanisms in place. A recommendation for such corporations is to spread its manufacturing commitments more widely, even though the operating margin may not be as attractive, since in the long run, it will prove more beneficial for organizations.

With the increase of globalization and the speed of communication, business strategies have an impact and can be seen or heard about literally at the click of a button. Activities that take place in the utmost remote locations in the world have an impact on corporate reputation and brand loyalty in both a positive and negative manner. The mission is to ensure a **consistency of practices** and provide clear communication to ensure that the benefits are passed along to the stakeholders (Adkins, 1999, pg. 30).

As a fourth point, since the importance of corporate reputation is ever increasing, the **media** needs to continue to shine the spotlight on both good and bad business practices. Stakeholder groups are quite powerful and they need to continue to be aware of what is occurring in today's world. With available information, consumers are able to make choices and purchase products which are responsibly produced and boycott others that are not (Kennedy School Insight Harvard, 2006).

Given the fact that most companies' **websites** provide corporate information before specific product information, the general population is becoming more and more aware of socially responsible behavior (Sen and Bhattacharya, 2001, pg. 238). This is especially true since the number of purchases online are increasing. It would be beneficial for corporations who do not

have this CSR information available to do so and for those that do, to provide additional non-electronic forms of communication to their consumers.

Finally, **government** is important in helping foster corporate social responsibility. Many people believe that CSR is a voluntary action. This is accurate, but it needs to materialize within the context of government and governance. Not only does government need to control regulation, but implement their fiscal policies such as disclosure requirements, fiscal incentives, and procurement requirements (Kennedy School Insight Harvard, 2006). In terms of the international arena, governments need to implement environmental, social and ethical criteria into contracts. Since governments are a key driving force in responsible business practices, they need to carry on and continue to do so (Kennedy School Insight Harvard, 2006).

Corporations should note that **consumers' company evaluations are more sensitive to damaging CSR information** than positive CSR information (Sen and Bhattacharya, 2001, pg.238). It is safe to conclude that people felt indifferent about Colgate's CSR dimensions since they were not as sensitive to positive CSR information. However, if they were exposed to negative facts, they then would have been more responsive. This just proves that consumers have high expectations, and expect companies to act in a positive way.

In summary, it is evident that corporate social responsibility is crucial in today's global environment. Consumers have high expectations of corporations. From research, it is evident that if consumers feel that the corporation is acting socially responsible, then this will increase their trust in the company and therefore increase their loyalty towards it. This relationship is significant because if consumers trust a corporation, they are less prone to look elsewhere. In addition, if a mistake is made these consumers are also more willing to forgive.

5. Conclusion

The purpose of the master thesis was to show how important corporate social responsibility is especially in a world of multinational companies and increased competition. Recent product recalls in the news have shown how quickly a damaged reputation can harm customer and employee loyalty and hurt a company's financial future. This is having a strong impact on the brand name. The goal was to show what happens to companies when they are not socially responsible, looking more specifically at the negative impacts a recall has on brand loyalty.

To begin with, a conceptual overview of Corporate Social Responsibility was performed. This consisted of CSR and its evolved definition. The two main components: Cause Related Marketing and Institutionalized CSR were defined. Two theoretical models were examined: The Three-Domain Model of CSR by Schwartz and Carroll and the 3C-SR model by Meehan. Subsequently, how an organization develops its CSR strategy was described. This was followed by a critique

on Corporate Social Responsibility. This led to what is projected for CSR's future. A section was also devoted to how Corporate Social Responsibility relates to a company's marketing strategy. In addition, a case study approach highlighted selected companies using best practices and explained how the marketing strategy is related to CSR. This led to the segment on how CSR affects brand image.

A section was devoted to CSR and its effects on brand loyalty. Firstly, brand loyalty was defined. The benefits as well as potential consequences of weakened brand loyalty were presented. The Citizenship and Loyalty model by Willmott was analyzed and a relationship was discovered. It was between a corporation acting socially responsible and consumer trust and their loyalty. If consumers feel that the corporation is acting socially responsibly, then this will increase their trust in the company and therefore increase their loyalty towards it. This relationship is significant because if consumers trust a corporation, they are less prone to look elsewhere. In addition, if a mistake is made these consumers are also more willing to forgive.

The method of systematic review of available literature was used and both qualitative and quantitative research was analyzed. The qualitative analysis scrutinized three companies facing recalls: Mattel, Colgate, and Bausch & Lomb. A brief company overview was presented, followed by their main problem and the consequences of their related recall. The quantitative research consisted of analyzing 100 questionnaires that were distributed over the Internet. Four hypotheses were developed, which led to the analysis and directed further research. The following hypotheses were presented:

H1: The more positive a person's perception of CSR, the higher is the brand loyalty.

H2: Trust in a company will worsen after a recall.

H3: People will be less likely to trust brands that have been recalled.

H4: North Americans are differently affected by product recalls than Europeans.

It is reasonable to conclude that consumers' expectations are high and they feel that CSR is important. They see a positive correlation between socially responsible firms and their production of quality products. Results prove that consumers do not see CSR in a negative sense, and that it is not a tactic that companies use in order to conceal their shortcomings.

Overall, the results indicate that the more positive a person's perception of CSR, it had little effect on brand loyalty. There was however, one interesting discovery. People who thought that Colgate had a positive position on women's issues were also loyal to the brand. Based on prior research in this field, we can conclude that there are similarities between people's own characteristics and those of companies. It is a source of self definition.

The second hypothesis compared people's responses before and after the recall. The outcome was that people trusted Colgate more before the recall as opposed to after. Trust had decreased by a small amount. The respondents felt the organization wasn't as honest; they felt that they should be more cautious in dealing with this firm in the future, that its trustworthiness had decreased, and that they could not be relied upon to keep their promises.

For the third hypothesis, it was confirmed that people are less likely to trust brands that have been recalled. It was significant that people believed the organization was more trustworthy before the recall as opposed to after. In addition, people felt that the brand was not as safe or as honest as it once was. In addition, they would no longer rely on the brand since their trust in the brand has decreased.

It was interesting to note that there was a difference in people's reactions to product recalls depending on their country of residence. Canadians and Americans as a group were clearly more concerned about product recalls than the European group. In addition, Canadians and Americans were more bothered by the reported recall, and felt that it was more important for firms to avoid product recalls than Europeans.

In terms of recommendations, business leaders need to foster CSR within their corporate culture and in the global arena. Higher rather than lower standards should be adopted. Corporations need to put public trust ahead of profit and ensure consistency in terms of their practices. The media should continue its function of creating awareness to all stakeholders, and corporations need to provide CSR information online as well as through non-electronic forms of communication. Government needs to foster good corporate social responsibility. Corporations need to be aware that consumers' company evaluations are more sensitive to damaging CSR information and that in the long run, it pays to be socially responsible.

The goal was to show what happens to companies when they are not acting in a socially responsible manner, more specifically, the negative impacts it has on brand loyalty. The thesis revealed some interesting bits of information. Not only did it demonstrate that corporate social responsibility is essential, but it reiterated and confirmed past research. If people think that the organization is behaving socially irresponsible, for instance by encountering a product recall, their brand loyalty and trust will decrease for that organization and brand. This just reemphasizes the fact that corporate concern cannot be overlooked and that it is essential to the firm's overall strategy. If it is managed well, it has been proven that socially responsible behavior makes perfect business sense. In conclusion, by implementing the given recommendations it is believed that it will defend the organization's image as well as brand loyalty, especially for those companies facing product recalls.

6. Literature and Sources

1. Adkins Sue: Cause Related Marketing: Who Cares Wins. Oxford: Butterworth-Heinemann, 1999. 307 pgs.
2. Argenti A. Paul, Druckenmiller Bob: Reputation and the Corporate Brand. *Corporate Reputation Review*, 6(2004), 4, pg. 368-374.
3. Bailor Coreen: Service Sells. *Customer Relationship Management*, 10(2006), 10, pg.10.
4. Becker-Olsen, K. L., B. A. Cudmore, et al.: The impact of perceived corporate social responsibility on consumer behavior. *Journal of Business Research*, 59(2006), 1, pg. 46-53.
5. Birchall Jonathan: Colgate warns on counterfeit toothpaste. *Financial Times*, (2007), pg. 1.
6. Bruner Gordon C., Paul J. Hensel: *Marketing Scales Handbook*. Chicago: American Marketing Association, 1992.
7. Carroll B. Archie, Buchholtz K. Ann: *Business & Society : Ethics and Stakeholder Management*. 4th ed., Cincinnati (Ohio): South-Western College, 2000. 750 pgs.
8. Casey Nicholas, Zamiska Nicholas, Pasztor Andy: Mattel Seeks to Placate China With Apology. *Wall Street Journal*, (2007), pg.A1.
9. Casey Nicholas: Mattel Issues Third Major Recall. *Wall Street Journal*, (2007), pg. A3.
10. Casey Nicholas: Parents Fret Over Magnets in Toys. *Wall Street Journal*, (2007), pg. D1.
11. Chaudhuri Arjun, Morris Holbrook: The Chain of Effects from Brand Trust and Brand Affect to Brand Performance: The Role of Brand Loyalty. *Journal of Marketing*, 65 (2001), 2, pg. 81-93.
12. Fox Adrienne: Corporate Social Responsibility Pays Off. *HR Magazine*, 52(2007), 8, pg. 43-47.
13. Galbreath Jeremy: Corporate social responsibility strategy: strategic options, global considerations. *Corporate Governance*, 6(2006), 2, pg.175-187.
14. Garcia de los Salmenes, M. D. G., A. H. Crespo, et al.: Influence of corporate social responsibility on loyalty and valuation of services. *Journal of Business Ethics*, 61(2005), 4, pg. 369-385.
15. Guerro Antonio: Growth Pains. *Global Finance*, 21(2007), 10, pg. 36-38.
16. Hall Gene, Rosenthal Jim, Wade Judy: How to make reengineering really work. *Harvard Business Review*, 71(1993), 6, pg. 119-132.
17. Joyner E. Brenda, Payne Dinah: Evolution and implementation: A study of values, business ethics and corporate social responsibility. *Journal of Business Ethics*, 41(2002), 4, pg. 297-311.
18. Kamp John: Bausch & Lomb Recalls Contact-Lens Solution. *Wall Street Journal*, (2007).
19. Kamp John: Bausch & Lomb's Earnings Still Reflect Impact of Recall. *Wall Street Journal*, (2007), pg. A.8.

20. Kang, G. D. and J. James: Revisiting the concept of a societal orientation: Conceptualization and delineation. *Journal of Business Ethics*, 73(2007), 3, pg.301-318.
21. Kapferer Jean-Noel: *Strategic Brand Management: Creating and Sustaining Brand Equity Long Term*. London: Kogan, 2003,443 pgs.
22. Knowsmann Patricia: Bausch & Lomb Is Warned by FDA. *Wall Street Journal*, (2006), pg. D.3.
23. Luo, X. M. and C. B. Bhattacharya: Corporate social responsibility, customer satisfaction, and market value. *Journal of Marketing*, 70(2006), 4, pg. 1-18.
24. Maignan, I. and O. C. Ferrell: Corporate social responsibility and marketing: An integrative framework. *Journal of the Academy of Marketing Science*, 32(2004), 1, pg. 3-19.
25. Marconi Joe: *Beyond Branding : How Savvy Marketers Build Brand Equity to Create Products and Open New Markets*. Chicago(Cambridge) : Probus Publishing Company, 1993. 213 pgs.
26. Meehan John, Meehan Karon, Richards Adam: Corporate Social Responsibility: the 3C-SR model. *International Journal of Social Economics*, 33(2006), 5/6, pg. 386-397.
27. Nan, X. L. and K. J. Heo: Consumer responses to corporate social responsibility (CSR) initiatives - Examining the role of brand-cause fit in cause- related marketing. *Journal of Advertising*, 36(2007), 2, pg. 63-74.
28. Nowlan Joe: Distributors eye Mattel recalls. *Industrial Distribution*, 96(2007), 10, pg. 13-17.
29. Pirsch, J., S. Gupta, et al.: A framework for understanding Corporate Social Responsibility programs as a continuum: An exploratory study. *Journal of Business Ethics*, 70(2007),2, pg.125-140.
30. Polonsky, M. J. and G. Wood: Can the Over commercialization of Cause-Related Marketing Harm Society? *Journal of Macro marketing*, 21(2001), 1, pg. 8-22.
31. Porter E. Michael, Kramer R. Mark: *Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility*. Harvard Business Review. 2006, pg. 78-92.
32. Porter Michael: *Competitive advantage, Creating and sustaining Superior Performance*, pp.33-70, 1985.
33. Robins Fred: *The Future of Corporate Social Responsibility*. *Asian Business & Management*, 4(2005), 2, pg. 95-115.
34. Schwartz S. Mark, Carroll B. Archie: *Corporate Social Responsibility: A Three-Domain Approach*. *Business Ethics Quarterly*, 13(2003), 4, pg. 503-530.
35. Sen Sankar, C.B Bhattacharya.: *Does Doing Good Always Lead to Doing Better? Consumers Reactions to Corporate Social Responsibility*. *Journal of Marketing Research*, 38(2001), pg. 225-243.

36. Sen Sankar, Zeynep Gurhan-Canli, and Morwitz Vicki: Withholding Consumption: A Social Dilemma Perspective on Consumer Boycotts. *Journal of Consumer Research*, 28(2001), 3, pg. 399-417.
37. Silberhorn Daniel, Warren C. Richard: Defining corporate social responsibility: A view from big companies in Germany and the UK. *European business review*. 19, 5(2007), pg. 352-372.
38. Smith Stewart: Viewpoint: Mattel has exposed the cracks in China. *Marketing Week*, London, (2007), pg.21.
39. Smith Stuart: Chinese Products Face UK Backlash after Mattel Crisis. *Marketing Week*, (2007), pg.3.
40. Smith Stuart: Product Recalls: Toying with public trust. *Marketing Week*, London, (2007), pg.26.
41. Tax Stephen S., Stephen W. Brown, Murali Chandrashekar: Customer Evaluations of Service Complaints Experiences: Implications for Relationship Marketing. *Journal of Marketing*, 62(1998), pg.60-76.
42. The Economist: Plenty of Blame to go around; Chinese Manufacturing. *The Economist*, London, 384(2007), 8548, pg.78.
43. Thomaselli Rich: Bausch & Lomb Shortsighted in Crisis. *Advertising Age*, 77(2006), 21, pg. 13-15.
44. Upton Corrinne: What Gives With Cause Marketing? Strengthen Your Business, Enhance Your Image, and Give Back. *Public Relations Quarterly*, 51(2007), 4, pg. 40-41.
45. Willmott Michael: Citizen Brands: Corporate Citizenship, Trust and Branding. *Journal of Brand Management*, 10(2003), 4/5, pg. 362-369.

Sources

1. Bausch and Lomb.
[URL:http://www.bausch.com/en_CA/corporate/corpcomm/general/about_bauschandlomb.aspx], 14.12.2007.
2. Bristol-Myers Squibb. [URL:<http://www.bms.com/sr/data/index.html>], 5.1.2008.
3. Colgate.[URL:<http://www.colgate.ca>], 15.12.2007.
4. Coors. [URL:<http://www.coorsbrewers.com/aboutus/ourvalues.html>], 22.12.2007.
5. CSR Asia.[URL:<http://www.csr-asia.com/index.php?linksid=1>], 26.12.2007.
6. Ferlez Aleksandra, Cizmek Gordana, Dentists, In-Depth Interview, January 2008.
7. Food and Drug Administration. [URL:
http://www.fda.gov/oc/po/firmrecalls/colgate06_07.html], 14.12.2007.
8. Industry Canada. Corporate Social Responsibility: An implementation guide for Canadian business [URL:[http://www.ic.gc.ca/epic/site/csr-rse.nsf/vwapj/CSR_mar2006.pdf/\\$FILE/CSR_mar2006.pdf](http://www.ic.gc.ca/epic/site/csr-rse.nsf/vwapj/CSR_mar2006.pdf/$FILE/CSR_mar2006.pdf)], 26.12.2007.

9. Kennedy School Insight Harvard.
[URL:University<http://www.ksg.harvard.edu/ksgnews/KSGInsight/nelson.htm>],
28.01.2008.
10. Scales and Standard Measures.
[<http://www2.chass.ncsu.edu/garson/PA765/standard.htm>], 24.01.2008.
11. Sustainable Business .Com. [URL:
<http://www.sustainablebusiness.com/index.cfm/go/news.feature/id/1508>], 14.12.2007.
12. The Future 500. [URL: http://www.future500.org/case_05.php], 12.12.2007.
13. Valicon. PGM Database. 2007.
14. Wikipedia. [URL:http://en.wikipedia.org/wiki/Product_recall], 26.12.2007
15. World Trade Organization. [URL: http://www.gatt.org/trastat_e.html], 12. 12. 2007.
16. Yale Global Online. [URL:<http://yaleglobal.yale.edu/about/globalinc.jsp>, 2003],
28.01.2008.

Appendices

Table of Appendices

Appendix 1: Questionnaire.....I
Appendix 2: Statistical Results.....VII

Appendix 1: Questionnaire

Hello,

My name is Sabina Suler, and I am inviting you to participate in research that I am doing for my master thesis. There will be a series of questions in a survey format.

Please be advised that there will be FULL CONFIDENTIALITY with respect to the data; your personal information and the information that you will share.

Your support and goodwill in filling out the questionnaire is genuinely appreciated.

Thank you in advance,

Sabina Suler

Please select only one answer in each row and type it in the grey shaded column.

1. What extent do you agree or disagree with the following statements, using the scale from (1) strongly disagree to (5) strongly agree. (Sankar and Bhattacharya, 2001)

A	Socially responsible behavior detracts from companies' ability to provide the best possible products.	1	2	3	4	5	
B	Socially responsible behavior is a drain on a company's resources.	1	2	3	4	5	
C	Socially responsible behavior by firms is often a cover-up for inferior product offerings.	1	2	3	4	5	
D	Socially responsible firms produce worse products than do firms that do not worry about social responsibility.	1	2	3	4	5	
E	Firms that devote resources towards socially responsible actions have fewer resources available for increasing employee effectiveness.	1	2	3	4	5	
F	A company can be both socially responsible and manufacture products of high value.	1	2	3	4	5	
G	Firms engage in socially responsible behaviors to compensate for inferior product offerings.	1	2	3	4	5	
H	Resources devoted to social responsibility come at the expense of improved product offerings.	1	2	3	4	5	

Please familiarize yourselves with Colgate's Awards and Programs, which can be found on their corporate website.

50 Best Companies for Diversity-Diversity Inc.com

2001, 2004-2006

Best Companies for Minorities-Fortune Magazine

2000-2004

Give Kids a Smile- Colgate-Palmolive is delighted to partner with the American Dental Association to provide education along with preventative and restorative care to low-income children who do not have access to dental care.

Colgate Women's games- provide athletic competition as an important ingredient in helping girls and young women develop a sense of personal destiny and self-worth, instill the importance of educational achievement and provide a training ground for those who might not otherwise participate in an organized sport.

2. What is your opinion regarding Colgate on each of the following dimensions using the scale from (1) unfavorable to (5) most favorable? (Sankar and Bhattacharya, 2001)

A	corporate giving	1	2	3	4	5	
B	community involvement	1	2	3	4	5	
C	position on women's issues	1	2	3	4	5	
D	position on ethnic minority issues	1	2	3	4	5	
E	position on gay and lesbian issues	1	2	3	4	5	
F	position on disabled minority issues	1	2	3	4	5	

(Sankar, Gurhan-Canli, Morwitz, 2001)

3.A	How much would you say you like or dislike Colgate toothpaste using the scale from (1) <i>Dislike very much</i> / (5) <i>like very much</i> ?	1	2	3	4	5	
B	When you buy toothpaste, to what extent do you buy Colgate using the scale from (1) <i>Never buy</i> / (5) <i>always buy</i> ?	1	2	3	4	5	
C	When you buy toothpaste, to what extent are you "loyal" to Colgate using the scale from (1) <i>Never buy</i> / (5) <i>always buy</i> ?	1	2	3	4	5	

4. Please answer the following questions using the scale from (1) strongly disagree to (5) strongly agree in terms of Colgate? (Tax, Brown, and Chandrashekar, 1998)

A	I believed the organization could not be relied upon to keep its promises.	1	2	3	4	5	
B	I believed the organization was trustworthy.	1	2	3	4	5	
C	I would find it necessary to be cautious in dealing with this organization.	1	2	3	4	5	
D	Overall, I believe this firm was honest.	1	2	3	4	5	

5. Please answer the following questions using the scale from (1) strongly disagree to (5) strongly agree in terms of Colgate? (Chaudhuri and Holbrook, 2001)

A	I trust this brand.	1	2	3	4	5	
B	I rely on this brand.	1	2	3	4	5	
C	This is an honest brand.	1	2	3	4	5	
D	This brand is safe.	1	2	3	4	5	

News & Features December 6, 2007, 2:46PM

Colgate toothpaste recalled

Antifreeze chemical found in tubes; no injuries reported

By David Riley

The Colgate-Palmolive Company said Thursday that 5-ounce tubes of Colgate toothpaste sold in discount stores are being recalled because they may contain a poisonous chemical.

A Food and Drug Administration official, Doug Arbesfeld, said Wednesday that testing had found the chemical in the Colgate product.

MS USA Trading, Inc. of North Bergen, N.J., the importer involved in the initial recall announcement, said the toothpaste may contain diethylene glycol, a chemical found in antifreeze.

The company said the toothpaste, imported from China, was sold in discount stores in New Jersey, New York, Toronto and Eastern Europe.

"Made in China" is printed on the box and includes Regular, Gel, Triple and Herbal versions.

The trading company said the problem was discovered in routine testing by the Food and Drug Administration. It said no illnesses have been reported to date.

Consumers who have purchased 5-ounce toothpaste under the Colgate label can return them to the place of purchase for a refund, MS USA Trading said.

Riley is a senior correspondent in *Business Week's* Detroit bureau.



After reading the above article from Business Week, please answer questions #6-8.

(Gurhan-Canli, and Morwitz, 2001)

6.A	To what extent are you concerned about product recalls? <i>(1)Not at all concerned/(5)extremely concerned</i>	1	2	3	4	5	
B	How bothered are you by the reported product recall? <i>(1)Not at all bothered/ (5)extremely bothered</i>	1	2	3	4	5	
C	How important or unimportant is it to you that firms such as Colgate avoid product recalls. <i>(1)Not at all important/(5)extremely important</i>	1	2	3	4	5	

7. Please answer the following questions using the scale from (1) strongly disagree to (5) strongly agree in terms of Colgate?

(Tax, Brown, and Chandrashekan, 1998)

A	I believed the organization could not be relied upon to keep its promises.	1	2	3	4	5	
B	I believed the organization was trustworthy.	1	2	3	4	5	
C	I would find it necessary to be cautious in dealing with this organization.	1	2	3	4	5	
D	Overall, I believe this firm was honest.	1	2	3	4	5	

8. Please answer the following questions using the scale from (1) strongly disagree to (5) strongly agree in terms of Colgate?

(Chaudhuri and Holbrook, 2001)

A	I trust this brand.	1	2	3	4	5	
B	I rely on this brand.	1	2	3	4	5	
C	This is an honest brand.	1	2	3	4	5	
D	This brand is safe.	1	2	3	4	5	

Finally, could you give a few bits of information about yourself by **highlighting** your answer so that I can use your other replies in greater context?

9. Age

- Under 18
- 18-24
- 25-34
- 35-44
- 45-54
- 55-64
- 65 or older

10. Gender

- Female
- Male

11. Education

- Elementary school
- Vocational School
- College
- University
- Post graduate
- Other

12. Which area do you live in?

- Rural area
- Urban area

13. Which country do you live in?

- Canada
- United States
- Slovenia
- Other

.....

Please note that the article **from Business Week is fictitious and was made up for the sole purpose of this survey**. Colgate did not recall its product.

Thank you for participating in the survey and have a nice day!

Appendix 2: Statistical Results

Table 2: Demographics

Variable		Percentage
Gender	Female	46%
	Male	54%
Age	18-24	22%
	25-34	67%
	35-44	7%
	45-54	2%
	55-64	1%
	65 or >	1%
Education	Elementary School	1%
	Vocational School	3%
	College	10%
	University	40%
	Post Graduate	44%
	Other	2%
Country of Residence	Canada	36%
	United States	4%
	Slovenia	45%
	other European countries	15%
Rural/Urban	Rural	12%
	Urban	88%

n=100

Source: Colgate Questionnaire, 2008

Table 3: One-Sample Statistics –Testing Ambivalences for Brand Loyalty

	N	Mean	Std. Deviation	Std. Error Mean
How much would you say you like or dislike Colgate toothpaste	100	3.81	.870	.050
When you buy toothpaste, to what extent do you buy Colgate	100	3.28	1.116	.064
When you buy toothpaste, to what extent are you "loyal" to Colgate	100	2.88	1.153	.067

Source: Colgate Questionnaire, 2008

Table 4: One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
How much would you say you like or dislike Colgate toothpaste	16.131	100	.000	.810	.71	.91
When you buy toothpaste, to what extent do you buy Colgate	4.345	100	.000	.280	.15	.41
When you buy toothpaste, to what extent are you "loyal" to Colgate	-1.802	100	.073	-.120	-.25	.01

Source: Colgate Questionnaire, 2008

Table 5: One-Sample Statistics-Testing Ambivalences for Product Recalls

	N	Mean	Std. Deviation	Std. Error Mean
To what extent are you concerned about product recalls?	100	3.54	1.137	.066
How bothered are you by the reported product recall?	100	3.39	1.218	.070
How important or unimportant is it to you that firms such as Colgate avoid product recalls.	100	4.29	.899	.052

Source: Colgate Questionnaire, 2008

Table 6: One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
To what extent are you concerned about product recalls?	8.226	100	.000	.540	.41	.67
How bothered are you by the reported product recall?	5.547	100	.000	.390	.25	.53
How important or unimportant is it to you that firms such as Colgate avoid product recalls.	24.848	100	.000	1.290	1.19	1.39

Source: Colgate Questionnaire, 2008

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.305(a)	.093	.073	.90103

a Predictors: (Constant), position on disabled minority issues, corporate giving, position on women's issues, position on gay and lesbian issues, position on ethnic minority issues, community involvement

Source: Colgate Questionnaire, 2008

Table 8: Anova^b

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	7.408	2.000	3.704	4.562	0.000 ^a
Residual	71.984	89.000	0.812		
Total	79.392	91.000			

a. Predictors: (Constant), position on disabled minority issues, corporate giving, position on women's issues, position on gay and lesbian issues, position on ethnic minority issues, community involvement

b. Dependent Variable: brand loyal

Source: Colgate Questionnaire, 2008

Table 9: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.775	0.306		9.081	0.000
corporate giving	-0.032	0.095	-0.026	-0.333	0.739
community involvement	0.063	0.096	0.058	0.650	0.516
position on women's issues	0.318	0.078	0.316	4.085	0.000
position on ethnic minority issues	-0.114	0.092	-0.108	-1.230	0.220
position on gay and lesbian issues	-0.091	0.093	-0.082	-0.975	0.331
position on disabled minority issues	-0.015	0.101	-0.015	-1.52	0.879

a. Dependent Variable: brand loyal

Source: Colgate Questionnaire, 2008

Table 10: Paired Sample Statistics

	Mean	N	Std. Deviation	Std. Error Mean
Pair 1 I trust this brand (before).	3.61	100	1.011	.058
I trust this brand (after).	3.40	100	.992	.057

Source: Colgate Questionnaire, 2008

Table 11: Paired Samples Correlations

	N	Correlation	Sig.
Pair 1 I trust this brand (before). & I trust this brand (after).	100	.707	.000

Source: Colgate Questionnaire, 2008

Table 12: Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	I trust this brand (before). - I trust this brand (after).	.210	.767	.044	.123	.297	4.744	299	.000

Source: Colgate Questionnaire, 2008

Table 13: Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	I believed the organization was trustworthy (before).	3.47	99	.846	.049
	I believed the organization was trustworthy (after).	3.21	99	.999	.058

Source: Colgate Questionnaire, 2008

Table 14: Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	I believed the organization was trustworthy (before). & I believed the organization was trustworthy (after).	99	.492	.000

Source: Colgate Questionnaire, 2008

Table 15: Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	I believed the organization was trustworthy (before). - I believed the organization was trustworthy (after).	.263	.940	.055	.155	.370	4.815	296	.000

Source: Colgate Questionnaire, 2008

Table 16: Group Statistics

	Country Group	N	Mean	Std. Deviation	Std. Error Mean
To what extent are you concerned about product recalls?	1	40	3.80	1.149	0.105
	2	60	3.37	1.098	0.082
How bothered are you by the reported product recall?	1	40	3.70	1.192	0.109
	2	60	3.18	1.193	0.089
How important or unimportant is it to you that firms such as Colgate avoid product recalls.	1	40	4.45	0.977	0.089
	2	60	4.18	0.829	0.062

Source: Colgate Questionnaire, 2008

Table 17: Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
To what extent are you concerned about product recalls?	Equal variances assumed	1.498	.222	3.287	99	.001	.433	.132	.174	.693
	Equal variances not assumed			3.257	82.352	.001	.433	.133	.171	.695
How bothered are you by the reported product recall?	Equal variances assumed	.145	.704	3.675	99	.000	.517	.141	.240	.793
	Equal variances not assumed			3.675	82.352	.000	.517	.141	.240	.794
How important or unimportant is it to you that firms such as Colgate avoid product recalls.	Equal variances assumed	3.294	.071	2.539	99	.012	.267	.105	.060	.473
	Equal variances not assumed			2.457	82.352	.015	.267	.109	.053	.481

Source: Colgate Questionnaire, 2008