

PERCEPTION OF CORPORATE SOCIAL RESPONSIBILITY AND TRUSTING ORGANIZATIONS AFTER PRODUCT RECALLS

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Abstract: In today's corporate world, corporate social responsibility (CSR) clearly plays a significant role. In the context of investigating relationships between CSR initiatives and consumer attitudes towards brands, our research deals with a relationship between perceived CSR and consumer trust: whether a positive consumer perception of CSR for a specific corporation is related to higher brand trust and trust to the corporation. The relevant question is what happens to brand trust when corporations do not act socially responsible, e.g. when they appear in the spotlight of media with negative publicity over product safety issues? In order to test relationships between consumers and brands when consumers were exposed to negative publicity case, an e-mail invitation to on-line questionnaire was sent out to a convenience sample of 100 individuals in two continents (Europe and North America). Their perceptions of CSR of a selected global corporation as well as their brand trust were measured before and after they were exposed to the digital negative publicity message for the selected corporation (one group pre-test-post test experimental design). Consumer trust decreased after the exposure to the message on corporate social negligence.

Key words: corporate social responsibility, product recall, trust, Europe and North America

ZAZNAVA DRUŽBENE ODGOVORNOSTI IN ZAUPANJE PODJETJU PO ODPOKLICU IZDELKOV

Povzetek: Družbena odgovornost (CSR) igra pomembno vlogo v današnjem poslovnem svetu. V okviru raziskave odnosov med aktivnostmi družbene odgovornosti podjetij in stališči porabnikov do blagovnih znamk se lotevamo odnosa med zaznano družbeno odgovornostjo podjetja in zaupanjem porabnikov: ali je pozitivno dojemanje družbene odgovornosti podjetja povezano z višjim zaupanjem v blagovno znamko in zaupanjem podjetju? Pomembno vprašanje je, kaj se zgodi z zaupanjem do blagovne znamke, če podjetje ne deluje družbeno odgovorno, na primer, ko se pojavi v središču pozornosti medijev z negativno publiciteto glede vprašanja varnosti proizvoda? Da bi preverili odnos med porabniki in blagovnimi znamkami, ko so bili porabniki izpostavljeni negativni publiciteti, smo pripravili spletni vprašalnik in poslali povabilo po e-pošti na priložnostni vzorec 100

posameznikov na dveh kontinentih (Evropa in Severna Amerika). Njihovo dožemanje družbene odgovornosti izbranega globalnega podjetja kot tudi zaupanje blagovni znamki je bilo izmerjeno pred in po izpostavitvi negativni publiciteti za izbrano podjetje (eksperiment pred in po, z eno skupino). Zaupanje porabnikov se je po izpostavljenosti sporočilu o družbeni neodgovornosti zmanjšalo.

Ključne besede: družbena odgovornost, odpoklic izdelkov, zaupanje, Evropa in Severna Amerika

1. INTRODUCTION

Corporations recognize the importance of having a good reputation as it relates to accomplishing business objectives and remaining competitive in today's global society (Luo, Bhattacharya, 2009). Even though some strongly oppose any additional accountability of the corporation beyond economic responsibility, corporate social responsibility (CSR) is becoming increasingly important. It is generally believed that if a company acts socially responsibly, CSR will have a positive effect on the organization as a whole (Porter and Kramer, 2006). However, also social performance of a firm (in terms of its overall social strengths as well concerns with respect to their community involvement and environment) can be influenced by firm's financial performance (Scholtens, 2008).

Corporations have economic, legal, ethical and philanthropic obligations towards themselves and for the society at large (Carroll, 1991). CSR has traditionally been conceptualized rather broadly as "the managerial obligation to take action to protect and improve both the welfare of society as a whole and the interest of organizations" (Davis and Blomstrom 1975, p. 6, in Sen and Bhattacharya, 2001). Sen and Bhattacharya (2001) further list many alternative perspectives on the role and place of firms in the social environment, e.g. CSR as maximizing returns to shareholders or a firm's long-term role in a dynamic social system and point out that due to such a broad conceptualization, there are many and diverse domains of a socially responsible behavior of firms.

CSR clearly plays a role in consumers' brand and product evaluations (Klein and Dawar, 2004). Consumer's expectations in regards to CSR have increased over the past five to ten years (Becker-Olsen et al., 2005). With the advancement of media and technology, information is spreading rapidly; including information about disputable corporate acts. Public anger over such acts can be harsh and can result in lost trust and a tarnished public image (Yoon et al., 2006). Damaged reputation can harm customer loyalty and intimidate a company's financial future (Plummer, 2005), therefore there is an immense pressure on corporations to be socially responsible. In fact, 90 % of today's Fortune 500 companies have clear corporate social responsibility (CSR) initiatives (Luo and Bhattacharya, 2006). CSR is important and firms are not taking the issue lightly.

The question is however, what happens when a corporation does not act in a socially responsible

manner in the eyes of consumers? Recent events over the past few years have bombarded the media with product recalls. Product recalls can be defined as a disclosure of product defects (Rhee and Haunschild, 2006). They can be understood as attempts to avoid or minimize damages to a firm's reputation. Product recalls can bring negative returns (Davidson and Worrell, 1992): the returns are significantly more negative when the purchase price is returned or products are replaced than when the products are checked and repaired. The indirect costs can be even higher than the direct costs since product recalls could also significantly damage a firm's reputation and brand integrity (Cheah et al., 2007).

Research shows that there is a positive relationship between a company's CSR initiatives and consumer attitudes towards the company's products and the company itself (Sen and Bhattacharya, 2001). The issue of this paper is how perceived CSR after a product recall affects brand trust and trust to an organization. By brand trust we understand the willingness of a consumer to rely on the capacity of the brand to perform its declared function (Chaudhuri and Holbrook, 2001). Trust to an organization is defined as a confidence in reliability and integrity of the organization by observing or learning of previous interactions with the organization (Tax et al., 1998). Study by Vlachos et al. (2009) reveals the mediating role of consumer trust in CSR evaluation frameworks. Also, when firms act proactively in their communication of CSR acts, this leads to high levels of perceived hypocrisy and can actually be counterproductive (Wagner et al., 2009). Perceived hypocrisy in turn damages consumers' attitudes toward firms. Recently, there has been a large recall in the news involving on-road vehicles of Toyota (AdAge, 2010). Because of the apparent repercussions, the recall could have a strong impact on the Toyota brand name and on brand trust. In summary,
H1: Trust in a company will worsen after a product recall.

H2: People will be less likely to trust brands that have been recalled.

To take the research a step further, another aspect of demographics should be tested, that being a country of residence. Cheah et al. (2007) found marked differences in the way market participants in the two countries (one North American and one European country) responded to news of product recalls from pharmaceutical companies, while studies such as Welford's (2005) concentrated on differences in corporate

policies. Our research question is whether customers from North America differ in their perception of product recalls from those from Europe. In summary,
H3: North Americans are differently affected by product recalls than Europeans.

2. RESEARCH METHOD

The study is based on the quantitative survey with the purpose to test hypotheses about trust to brands that have been recalled. In order to obtain reliable opinions on CSR dimensions, a specific company and brand had to be chosen (a global brand of toothpaste). The criteria for the selection were the following: a well-known brand of fast-moving-consumer-goods with global presence.

The questionnaire was developed based on relevant literature: questions about consumers' beliefs about the relationship between CSR and a company's ability to make quality products (CSR-CA beliefs) were drawn from Sen and Bhattacharya (2001). Sen and Bhattacharya (2001) built on Brown and Dacin (1997) study that defines two types of corporate associations: corporate ability (CA) associations (associations related to company's expertise in producing and delivering its outputs) and CSR associations (associations related to organization's status and activities with respect to its perceived societal obligations). Scale items for trust to the organization in our study were developed by Tax, Brown, and Chandrashekar (1998). Items for trust in the brand were adopted from Chaudhuri and Holbrook (2001). A section dedicated to product recalls was developed based on study of Sen, Gurhan-Canli and Moritz (2001) on consumer boycotts. Student samples were used in most of the mentioned studies and scales varied between five point and seven point scales. A uniform five-point scale was applied for all beliefs and attitudinal questions in the questionnaire which should be less demanding for respondents (Birks and Malhotra, 2006).

In order to control for variations in the subject's opinions of the company, all respondents were exposed to the company's CSR information that can be found on the company's webpage. This way, all participants would have the same foundation with which to answer the additional questions.

A one group pre-test post-test experimental design was used. A fabricated article about the brand's recall was applied (here the brand name is replaced by "BRAND", see Figure 1). The

Figure 1: Fabricated Article

NEWS & FEATURES

BRAND TOOTHPASTE RECALLED

*Antifreeze chemical found in tubes;
no injuries reported*

By David Riley

The BRAND Company said Thursday that 5-ounce tubes of BRAND 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 BRAND 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 BRAND label can return them to the place of purchase for a refund, MS USA Trading said.

article appeared to be from the on-line version of the respectful periodical and it stated that it was written by their senior correspondent. The intent was to create a professional looking article with a senior editor so that the readers would believe the related content. The affected regions were intentionally selected to be in North America and in Europe in order to hit close to home to the participants. Before the exposure to the article, participants’ perceptions about corporate social responsibility, trust related to the organization and trust in the brand were measured. Following the exposure to the article, opinions about product recalls were measured and the same set of 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. At the end of the questionnaire, it was important to debrief the participants and to highlight that the article was fictitious and that it was made up for the sole purpose of the experiment.

An online questionnaire was used for a variety of reasons. On-line questionnaires can reduce time for gathering information especially in international surveys and give participants the

opportunity to fill them in time suitable for them. They are also more comprehensive, less costly and interviewer’s bias is reduced (Birks and Malhotra, 2006). For pretesting, the questionnaire was emailed to five respondents. Based on their feedback, minor amendments to the questionnaire were made so the questions were clearer to the participants.

The questionnaire was distributed over e-mail to a convenience sample of 150 participants living primarily in Slovenia, Toronto and Florida. These individuals were asked to forward it off to their friends and colleagues. No incentives were provided to the subjects for participating. The analysis is based on 100 filled questionnaires received. The structure of the sample was 49 respondents from Europe and 51 respondents from North America; 46 females and 54 males.

3. KEY FINDINGS

The first set of question in the questionnaire covered respondents’ general beliefs of a company’s ability for corporate social responsibility, including questions related to the company’s policy of social responsibility, how

failure to do so affects product offerings, or if it compensates for inferior products (see Figure 2).

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. Almost half of the respondents clearly disagreed with the statement that firms who devote resources to social responsibility have fewer resources left over for increasing employee effectiveness. 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, respondents 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. Similarly, Sen and Bhattacharya (2001) found that respondents' support for CSR issues was high and their CSR-CA beliefs were skewed toward win-win rather than trade-off.

Based on results it is reasonable to conclude that expectations of respondents in our survey are high and that they 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 they 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.

After the respondents read the article, a set of questions examined how they feel about product recalls (refer to Figure 3). All three statements "how important/unimportant is it to you that firms such as BRAND 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.

To clear up any ambivalences for the above questions, a one-sample t-test was done in order to test whether these means were significantly different than the indifference mean ($\mu=3$). The t-test was statistically significant for all three questions ($p=0.0$). 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.

Regarding trust in the organization, the subjects were asked four sub questions related to the brand before and after they were exposed to the

Figure 2: Beliefs of CSR and Company Ability (n=100)

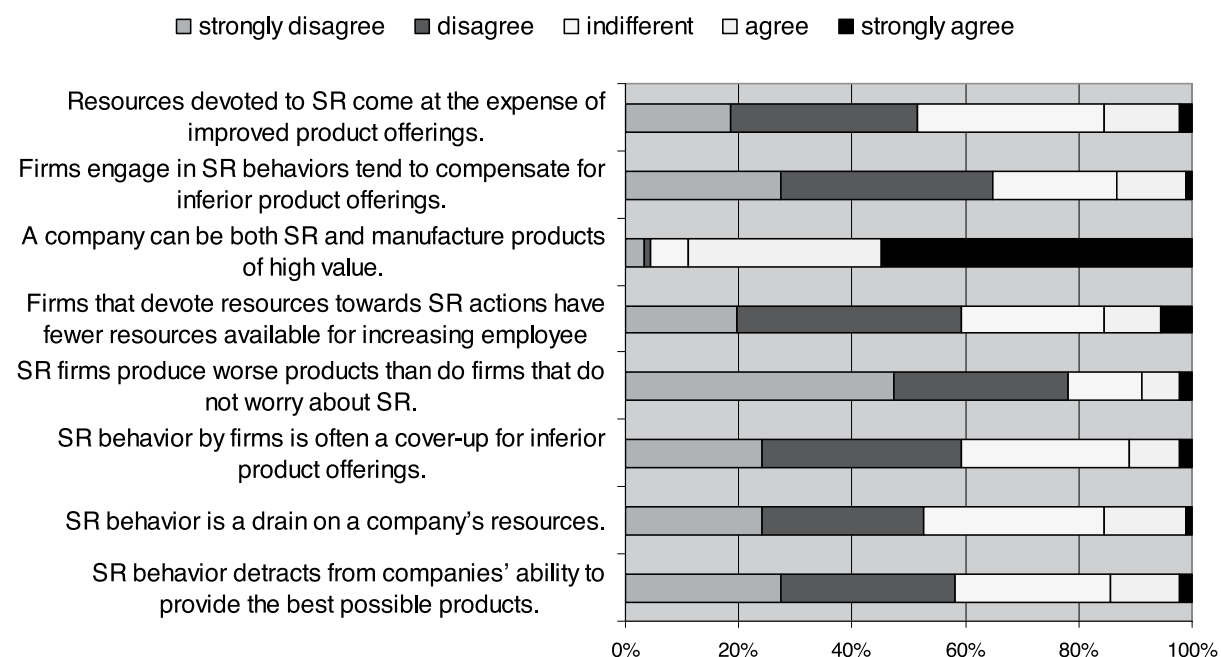


Figure 3: Product Recalls (n=100)

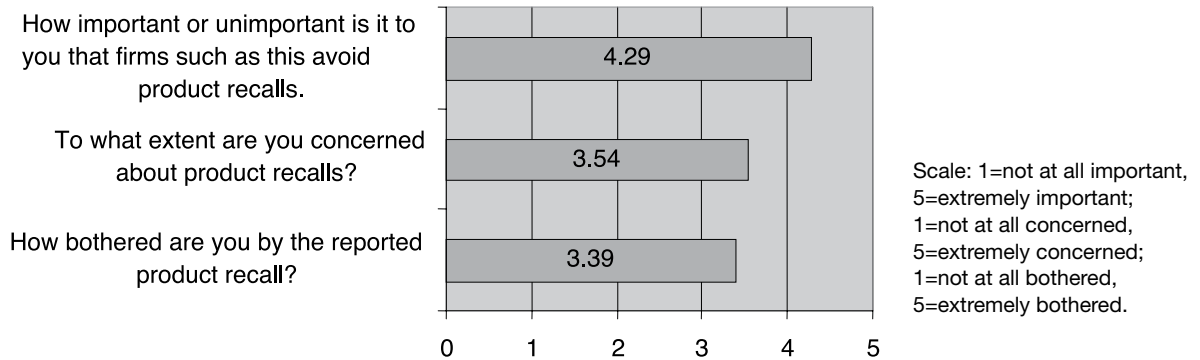


Figure 4: Trust in Organization Pre-Recall (n=100)

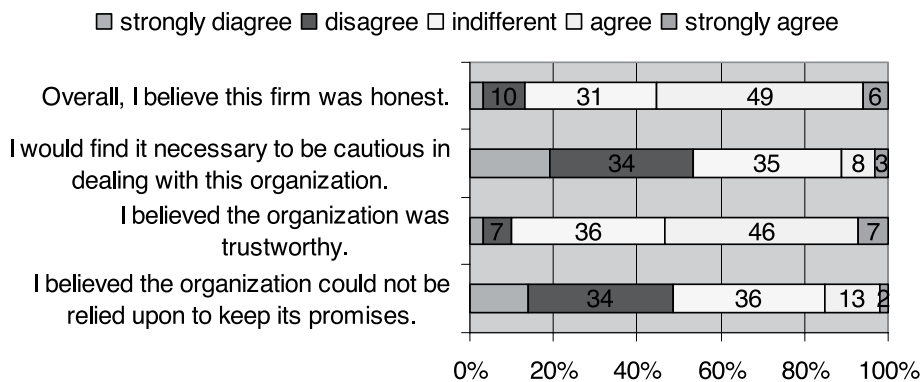
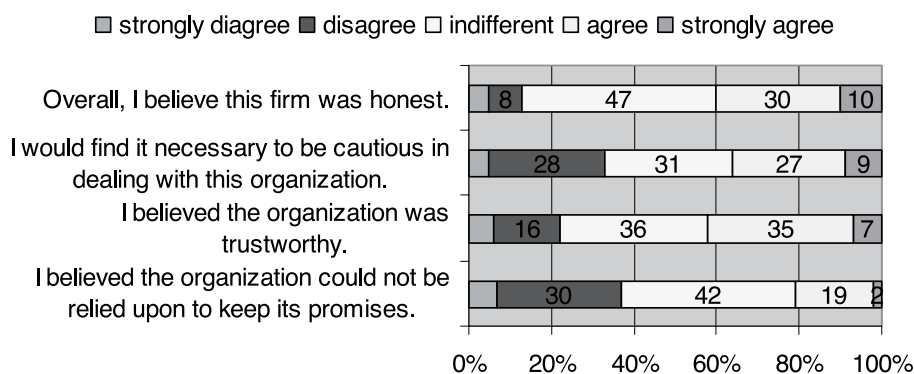


Figure 5: Trust in Organization Post-Recall (n=100)



fabricated article (see both Figure 4 and 5). Before the exposure to the brand'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 the organization'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.

A paired sample t-test was done in order to compare people's responses before and after the recall (refer to Figure 6). It was significant ($p=0.0$) that people believed the organization was more trustworthy before the recall as opposed to after, therefore hypothesis H1 can be confirmed.

The set of question relating to trust in the brand was composed of four sub questions related to the brand. The subjects were asked these sets of questions before and after being exposed to the product recall (refer to Figure 7 and 8).

Roughly half of the respondents agreed that the 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.

Figure 6: Trust in the Organization

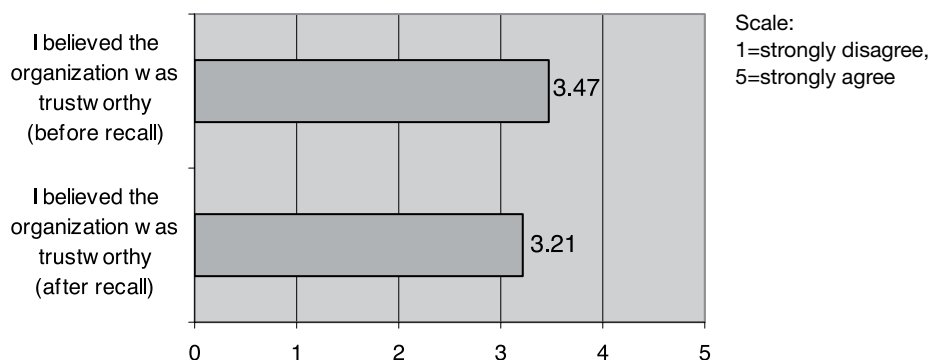


Figure 7: Trust in Brand Pre-Recall

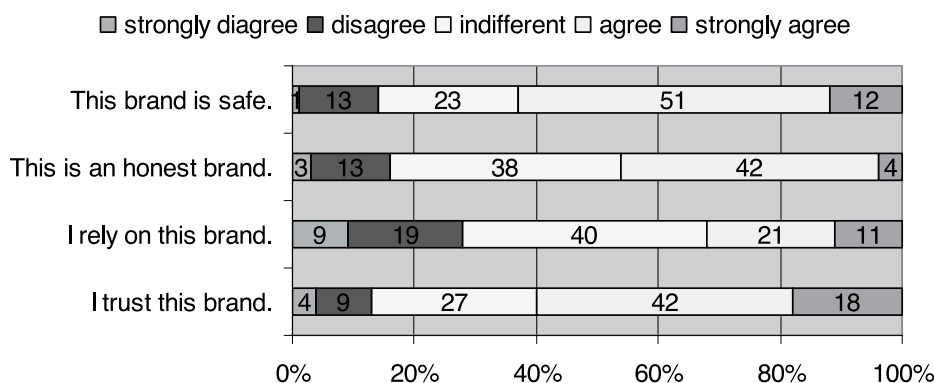


Figure 8: Trust in Brand Post-Recall

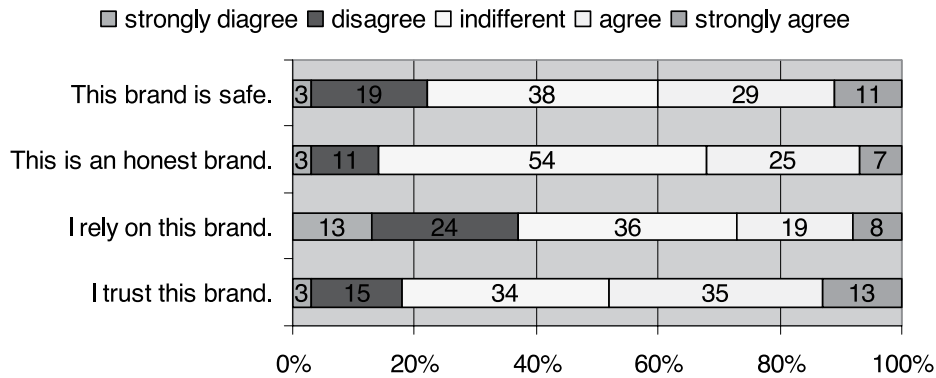


Figure 9: Trust in Brand

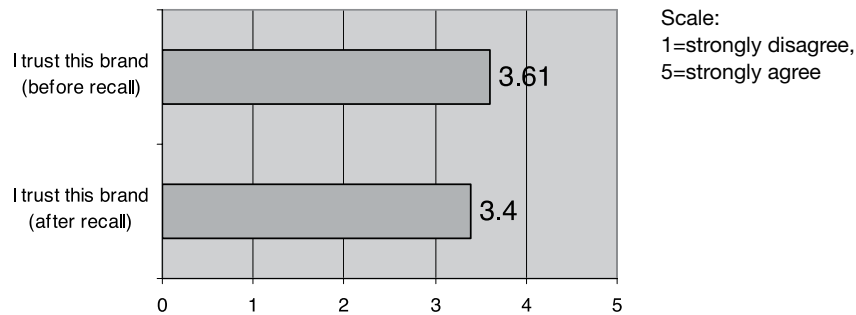


Figure 10: Group #1 North Americans

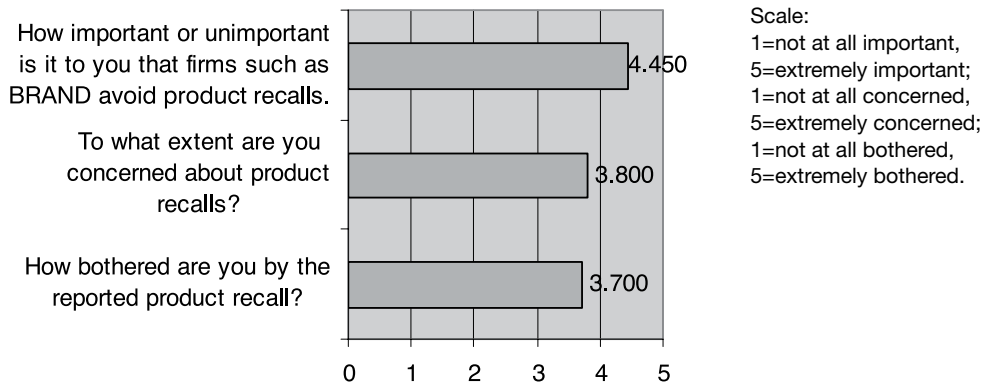
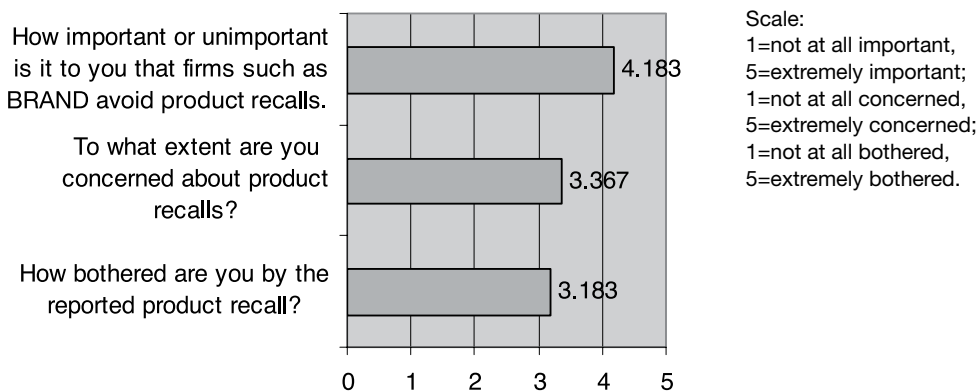


Figure 11: Group #2 Europeans



Before the recall, about 40 percent of the sample felt that the brand was an honest brand. It is apparent that the reported product recall in the fabricated article 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.

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

A paired sample t-test was done in order to compare responses before and after the recall (refer to Figure 9). It was statistically significant ($p=0.0$) that people trusted the brand more before the recall as opposed to after. Trust had decreased even though it was by a small amount, therefore the hypothesis H2 can be confirmed that people are less likely to trust brands that have been recalled.

In regards to the hypothesis H3, a difference between North Americans and Europeans in terms of how they are affected by product recalls was tested (refer to Figure 10 and Figure 11). From an independent sample t-test, it is significant that North Americans feel that it is more important for firms to avoid product recalls than Europeans do ($p=.012$). In addition, Canadians and Americans are more concerned about product recalls than Europeans ($p=.001$). Furthermore, this same group is more bothered by the reported recall than group two ($p=.000$).

4. CONCLUSIONS AND RECOMMENDATIONS

The purpose of the paper was to look at the relationship between perceived CSR and consumer trust. The method of systematic review of available literature was used and quantitative research was conducted. It is reasonable to conclude that respondents' 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. They do not see CSR in a negative sense, as a tactic that

companies would use in order to conceal their shortcomings. The outcome of comparing responses before and after the recall was that respondents trusted the organization 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 respondents were less likely to trust brands that have been recalled. It was significant that they believed the organization was more trustworthy before the recall as opposed to after. In addition, they 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 respondents' reactions to product recalls depending on their country of residence. North Americans were clearly more concerned about product recalls than the European group. In addition, North 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 general recommendations, based on the survey, there is a need to foster CSR within corporate culture and in the global arena. This shall create a ripple effect that will be reflected in corporate culture and the behavior of individual firms. Even though there are firms who do not participate in voluntary practices, it is an important mechanism that drives good practices. In addition, just because a corporation may have chosen a CSR strategy in its home country, it does not mean that it translates into an "international" program (Galbreath, 2006). As a result, corporations need to foster CSR within their corporate culture to touch all aspects of their global operations.

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).

Corporations should note that consumers' company evaluations are more sensitive to damaging CSR information than positive CSR information (Sen and Bhattacharya, 2001). It is safe to conclude that respondents felt indifferent about the corporation's CSR dimensions since they were not as sensitive to positive CSR information. However, when exposed to negative facts, they were more responsive.

In summary, corporate social responsibility is important in today's global environment. 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. In addition, if a mistake is made these consumers are also more willing to forgive.

5. LIMITATIONS AND FUTURE RESEARCH DIRECTION

One of the limitations of our study is that a convenient, non-random sample was used. The majority of the sample was 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. Future research should use a representative sample based on probability sampling in order to make it possible to generalize findings and draw stronger conclusions. Also, a two-group pre-test post-test experimental design could be used, making it possible to test both an experimental group and a control group.

An interesting extension of research on CSR and consumer trust is suggested by Castaldo et al. (2009) who point to Fair Trade products and show that the link between CSR and trust only exists when under the conditions that the products comply with ethical and social requirements and the company has an acknowledged commitment to protect consumer rights and interests. Further tests about these dimensions of product and company characteristics should be included in the survey.

Furthermore, de Matos and Rossi (2006) point out to differences in how consumers' product judgments and behavioral intentions are affected differently by CSR, opening another possible future direction for the study, including consumers' involvement with the message, perceived danger, product judgment and behavioral intentions.

To summarize, the goal of this paper was to show what happens to companies when they are not acting in a socially responsible manner, more specifically, the negative impacts a product recall

can have on brand trust and loyalty. The analysis revealed some interesting bits of information. 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. 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.

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