Negative CSR Reporting on the "Made- in China Brand" and its impact on Malaysian consumers.

Thinavan a//Periyayya Chong Kae Shiun

Introduction

Corporate Responsibility or Corporate Social Responsibility (CSR) is an important Focus amongst large business organizations in Malaysia and around the world. The heightened level of seriousness of CSR practice in Malaysia in particular is reflected by the establishment of the Institute of Corporate Responsibility (ICR). ICR is mandated to work with corporations and government linked organizations to plan and implement a series of workshops to push the CSR agenda to all businesses in Malaysia.

Government CSR aspirations are embodied in the Ninth Malaysian Plan, the National Integrity Plan, Khazanah National's Silver Book on CSR and several more initiatives are in the pipe-line to push businesses towards greater CSR commitment.

The classical economic view that the free market mechanisms will transform self-interest into societal interest worked well for the production of goods and services. It fared poorly in ensuring business acted fairly and ethically to the various constituents or stakeholders of the business. Mc Kie, quoted in Carrol & Buchholtz (2006) observed that "business community never has adhered with perfect fidelity to an ideologically pure

version of its responsibilities, drawn from the classical conception of the enterprise in the economic society, though businessman have firmly believed the main tenets of the creed"

The need for grater responsibility has redefined the traditional focus of business from shareholders to stakeholders, the environment and society is now a reality rather than a concept.

According to John Zinkin, Ceo Securities Industry Development Corp ,said that Malaysia leads other countries in Asia in the emphasis placed by the government and regulators on CSR (ICR, The Edge, Nov 12,2007 pg 18).

This pilot study will focus on consumers who are an important component of the business stakeholder community. Many research done in Malaysia and around the world provide clear evidence that the stakeholders do reciprocate on CR initiatives, particularly consumers. The consumer response towards CR initiatives are described as Socially Responsible Consumer Behaviour (SRCB) (Lois, 1997). This research will study whether there is corresponding negative response (SRCB) in connection with the recent 'Made-in China Brand" news reports.

The Made-in China brand image and fortune was on a dramatic roller- coaster ride since January 2007 with the appearance of several negative, unethical business/corporate practices in both the local and international press. News articles

declared a wide range of made-in China brands as unsafe and injurious to human life if used or consumed. News stories ranged from carcinogenic dyes in eggs, diethylene glycol in tooth-paste and drugs that caused several deaths in Panama, and recall of pet food and toys made in China and sold in the US.

The agenda-setting function of the press in Malaysia and around the world highlighted Chinese brands as poor quality and unsafe. The focus of the press on this issue reached a higher level of frequency beginning 10th Sept 2008 with the breaking news of the Melamine Milk scare. The press framed and primed this news for a good 20 days and made it the most visible news item.

According to The Sun newspaper, more than 53,000 babies who had consumed melamine enriched milk formula were hospitalized in China. This "Made in China" syndrome from an endemic phenomenon transformed into a pandemic proportions affecting many parts of the world. The "melamine" scandal even woke up the typically conservative Malaysian media which generally takes an unexcited approach towards corporate and trade news. From 16 September 2008 till 23 October 2008, a total of 30 articles were published in Malaysian newspaper on the Melamine case. This melamine scare is not restricted to baby milk formulas but also sweets, animal feed, biscuits, eggs and others.

Media commentary around the world focused on the dangers of made- in China brand on consumers in connection to safety, quality and possible ill consequences to human health. In fact product recalls pertaining to made- in china products began as early as in January 2007 in US and Europe.

Due to the close cultural and ethnic link between Malaysia and China, made- in China products are an inseparable part of the daily lives of Malaysian citizens. These products are perceived as very affordable by most Malaysian consumers.

The focus of the study is on consumer behaviour response(SRCB) to news reports on unethical or irresponsible business practice in the context of unsafe Chinese-made products. This will provide insight into the relevance of CSR philosophy and practice in business organizations in Malaysia and around the world. This study will also examine whether there are business opportunities for businesses who increase responsible procedures and practices to ensure product safety.

This paper is set out as follows: First a review on relevant theories and concepts relating to CSR, SRCB and the role of media in influencing the attitude and behaviour of consumers. Next, the description of the pilot project and outline the results. This is followed by a detailed discussion of findings, the drawing of conclusions, acknowledgement of limitations and suggestions for further research.

Theoretical Foundation

There are several theories that impinge on CSR; among them are Stakeholder Theories, Legitimacy Theory and the often CSR associated Social Contract Theory. Davis Iron Law of responsibility states that 'those who do not take responsibility for their power ultimately shall lose (Philip, 2002). This implies that business success will only be sustained if there is a supportive operating environment. Companies who understand and are understood by the surrounding communities gain what is precisely termed as 'license to operate'.

The CEO of BP Malaysia Datuk Peter Wenworth in his article described license to operate as cooperation with others (ACCA 2006). This license to operate according to him is not a threat but an opportunity to build mutually beneficial relationships through programmes that fit with the communities values(shared value creation). For example GE Malysia volunteers work with Orang Asli in Perak to increase the level level of health awareness, teaching village children dental hygiene, same time providing free medical services to villagers.

Defining Corporate Social Responsibility (CSR)

Davis & Blomstrom (1975) defined CSR as social responsibility as the obligation of decision makers to take action which protect and improve the welfare of society as a whole along with their own interests. The essence of this definition is encapsulated by the words *protection* and *improving*. The first refers to avoidance of harmful business outcomes and the latter refer to contributions to the welfare of the society, though the word contributions, seems to vague.

McGuire, quoted in Carroll & Buchholtz (2006) defined CSR as the idea of social responsibility supposes that the corporation has not only economic and legal responsibilities to society which extend beyond these obligations. This definition suggests three dimensions of responsibility i.e. economic, legal and social.

The above definitions of CSR and several others did not capture what exactly the social responsibilities referred to. Carroll's (1998) four part definition of CSR provides a clear conception of four main responsibilities in CSR. According to Carroll the social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of organizations at a given point in time. Carroll's CSR implied that while economic responsibilities form the bedrock of CSR, non-economic responsibilities which includes legal, ethical and philanthropic are also vital in the long term survival of the organization.

In Malaysia CSR research studies have been conducted on CSR involvement, social reporting and social performance(Teoh and Gregory Thong 1986). Abdul Rashid and Abdullah (1991) examined status of CSR in Malaysia by examining the attitudes of managers in Malaysian companies. And following a ten year gap Mohd Zabid Abdul Rashid and Saaidatul Ibrahim (2002) re-constructed a similar study on executive and management attitudes towards CSR in Malaysia.

Teoh and Gregory Thong (1986) concluded that top management and legislation are primary factors contributing to corporate social awareness. Both Malaysian owned and and British owned organization expressed the same view. In terms of CSR involvement human resources activities (71%) appeared to be the major area, followed by product/ service to consumer (70%), community activities scored 39% and environment scored the lowest at 37%.

Studies done in Malaysia and Singapore Foo and Tan (1988) on public-listed companies showed emphasis on human resource activity similar to Teoh and Gregory Thong (1986).

Mohd Zahid & Saadiatul's (2002 study on Executive Attitude Towards CSR showed that 69.2% agreed with the statement that involvement by business in improving its community's quality of life will also improve long-run profitability and 65% agreed that favaourable public image is attainable if organization can prove that it is socially responsible. It also showed that 91.8% of those responsible felt their company

was involved in human resources(employee welfare), 82.9% in response to customer complaints, 76.7% in maintaining product/service quality,62.3% product safety, 60.3% donations to welfare organization and 35.6% contributions to sports and games.

Compared to research undertaken by Abdul Rashid & Abdullah (1991) percentages were higher for sports and games 71% and donations and welfare at 80%. As for the most recent research of Mohd Zabid and Saadiatul (2002) showed activities leaning more towards human resource and marketing, similar to that of Teoh and Gregory Thong (1986).

Local research clearly showed that there was a positive attitude towards CSR activities amongst top and middle management and there was a tendency to focus CSR activities in HR development and this falls under Carroll's ethical responsibilities.

There is clear evidence of the existence of corporate will towards CSR and many companies listed on the Malaysia Stock Market have CSR programmes and provide regular disclosures of their CSR activities. Most of their CSR activities are connected to human resource development and consumer satisfaction.

Defining Socially Responsible Consumer Behaviour (SRCB)

SRCB refers to a person basing his or her acquisition, usage, and disposition of products on a desire to minimize or eliminate any harmful effects and maximizes the the long-run beneficial impact on society (MOHR, Lois, 2001). The SRCB concept implies that such consumers will include CSR initiatives as a criteria when making purchase decisions .A socially responsible consumer would therefore avoid buying products from companies that harm society and actively seek out products from companies that help society.

The 1999 Core/Roper Cause Related Trends Report (Core Comm press Release 1999) indicated that each year since 1993 at least 80% of those surveyed reported having a more positive image of a firm if it offers support to a cause they care about.

Furthermore two-thirds or more of the sample indicated switching brands or retailers to those involved in cause-related activities.

Ross (1991) and his researchers conducted two surveys on consumer response on cause related activities. A total of 225 respondents survyed, 49% stated that a firms support of a cause had been a primary reason for them to purchase a product, and 54% said that they are likely to be influenced to buy a new brand in the future as a result of a cause related promotion. In a national telephone survey, Smith & Allan (1991) found that 46% reported that they switched brands to support companies that made donations to nonprofit organizations, and nearly a third or 30% stated that they sometimes buy products simply because the manufacturer supports charitable causes.

In several experimental research on the impact of CSR by manipulating level of philanthropy and community involvement showed that a high CSR led to a higher evaluation of the company and corporate evaluation was positively related to product evaluation (Brown & Dacin 1997). Other research done such as Murrray & Vogel (1997); Creyen & Ross (1996) and Folks & Kamis (1999) showed similar results.

MOHR, Lois (2001) interviewed 48 respondents to study their attitude toward business in general and toward socially responsible companies. The research showed that at least some of the motivation for a company being socially responsible is to help others, But they recognize that companies see CSR as being their own self-interest as well. Most respondents do not regularly use CSR as a purchasing criterion, they based it on Self-interest manifested in buying based on the traditional criteria of price, quality and convenience. Many respondents stated that they would like to have a systematic information on companies social responsibility records. The interview also revealed That the assumption that consumers purchase decision was entirely self-interest motivated was not accurate as they were a group of consumers who actively practice SRCB.

Study Rationale & Design

This pilot study intends to answer the following questions:

- 1. Given recent news on product recalls in China how likely are consumers to buy made- in China brands?
- 2. Based on recent news reports on product safety how confident are the consumers towards food and beverage, toys, electronics and clothing?
- 3. Is there reduction in the purchase of Chinese products?
- 4. Are consumers willing to pay more and how much more for assurance of product safety and quality?
- 5. Whose responsibility is it to ensure product safety?

The study used the survey questionnaire tested by CSR Asia and the Centre for Urban Planning and Environmental Management, University Hong Kong who had conducted a survey in September 2007 to investigate the influence of recent media reports on Chinese- made products in Hong Kong.

Questionnaire Design

The questionnaire contained, 13 questions spread over 2 parts, part A consisted of six demographic questions while part B consisted of seven questions directly related to CSRB. The demographic data race was used to draw gender and ethnic comparisons of behaviour in response to made-in china products.

In section B, respondents were expected to respond to questions on a five-point response scale shown Table 1 below:

Score:	Degree of Purchase:	Degree of Confidence
1	Much less likely	Much less confident
2	Less likely	Less confident
3	No change	No change
4	More likely	More confident
5	Much more likely	Much more confident

Sampling

A total of 250 respondents were selected using non-random, convenience sampling method by intercepting respondents at high human traffic areas in Petaling Jaya. This included eateries, LRT stations, and shopping malls. Research team screened respondents to ensure they were fully employed and had purchased china-made brands/products in the last twelve months. Selection of respondents also adhered to the ethnic composition of the Malaysian society.

Findings and Discussion

The research team collected a total of 250 completed questionnaires in total. Figure 1 provides a breakdown of respondents by gender and figure 2 is on ethnic composition of the respondents.

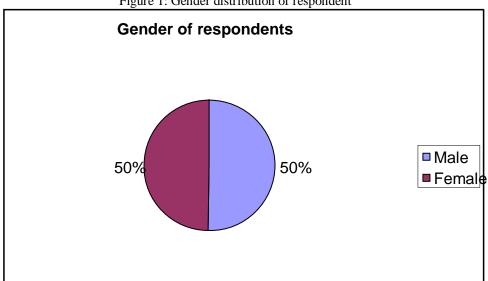


Figure 1: Gender distribution of respondent

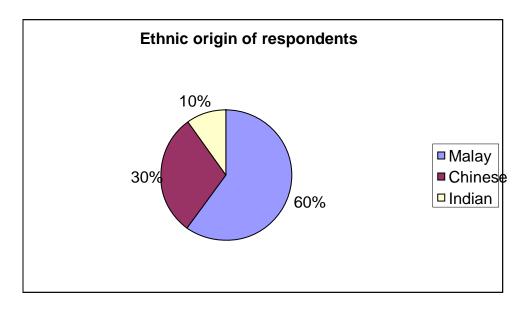


Figure 2: Races allocation of respondents

Purchase of Chinese-made Products

The survey found that a large proportion of respondents (77 %) had reduced their purchase of Chinese-made products. Only 23% did not reduce purchase of Chinese made products. There was negligible difference in gender response to this question, please refer Fig 3

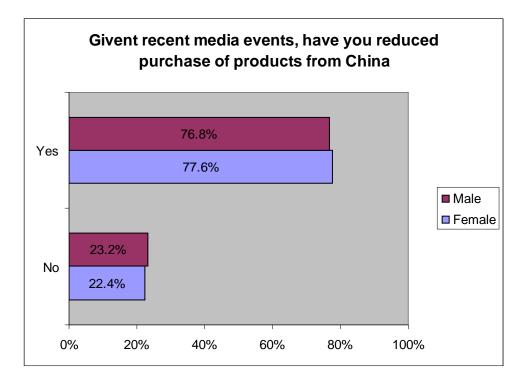


Figure 3: Male and female response on the purchase of products from China

However there was significant ethnic difference. The Malaysian Chinese had reduced their purchase by 93.3% compared to 67.3% Malays and 88% Indians. This is shown in Fig 4

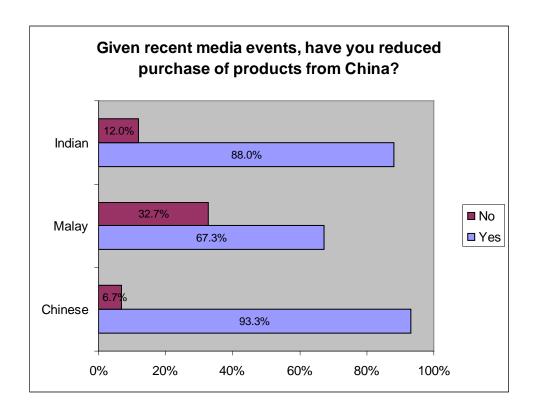


Figure 4: Ethnic response on the purchase of China made products

Likelihood of Purchase of Chinese-made Products

Research data revealed that 82% of respondents were *less likely* and *much less likely* to buy Chinese-made products after recent news stories on defective and unsafe Chinese-made products. A minority (17%) indicated no change in their purchase of Chinese-made products. Refer to fig 5 below.

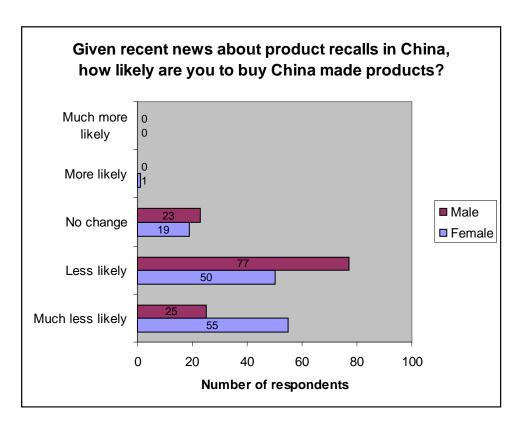


Figure 5: Gender likelihood of purchase of Chinese- made product

will you buy Chi	ina made products?
Gender	Mean Score
All respondents	1.9
Male	2.0
Female	1.7
Difference	0.3

Table 2: Mean score on likelihood of purchase by gender

Mean score on gender difference showed that there was significant difference between male and female. Female. Respondents were more affected than males. Please refer table 2. Generally for all respondents the mean score was below 2.0 which implied that

predominantly the respondents were much less likely to purchase Chinese-made products.

Ethnic comparison n Fig 6 showed that most ethnic groups became less likely and much less likely to purchase Chinese-made products. In the less likely category Malays(63.3%) were the dominant group followed by Indians(48%) and Chinese the least dominant((18.7%). In contrast the Chinese(81.3%) dominated in the much less likely category followed by Malays(8%) and Indians (28%).

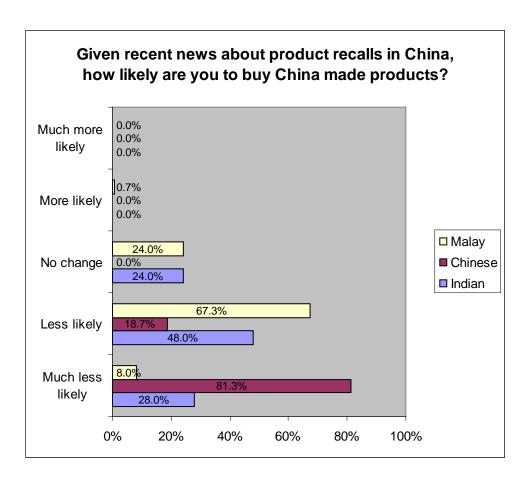


Figure 6: Likelihood of purchase of Chinese-made products by ethnic origin

Table 3: Mean score of respondents based on ethnicity and likelihood of purchase of Chinese-made products

Given recent news about product recalls in China, how likely are you to buy China made products?

Race	Mean Score
All respondents	1.9
Malay	2.2
Chinese	1.2
Indian	2.0

Based on the mean score analysis, for all respondents the score was 1.9. The mean score for Malay respondents was 2.2. Chinese scored 1.2 scored and Indians scored 2.0. The mean scores implied that the Chinese respondents were much less likely to purchase Chinese-made products

Confidence in Chinese-made Products

Positive CSR disclosures is strongly encouraged by CSR advocates who view disclosures as motivation for other businesses who have yet to position CSR as an important organizational goal. The media which espouses fair reporting has but to disclose information pertaining to irresponsible or unethical corporate behaviour (negative CSR).

The survey revealed that the public became less confident in all four product categories tested where the mean score was less than 3 (food& beverage= 1.5; toys =2.6; electronics=2.9 and clothing=2.9). The mean scores indicated that degree of damage to public confidence in Chinese-made products due to recent media coverage is not extremely severe except for food and beverages category (refer Table 4). Gender comparison showed that although the female group's mean scores were lower but it was not significantly lower than the male group's score.

Respondent Product	All	Male	Female	Differences (Male & Female)
Food & Beverage	1.5	1.6	1.4	0.2
Toys	2.6	2.7	2.5	0.2
Electronics	2.9	3.0	2.8	0.2
Clothing	2.9	2.8	3.0	0.2

Table:4 Given recent media events linked to product safety, how has your confidence changed in relation to Food & Beverage, Toys, Electronics, and Clothing?

Percentage of respondents who became much less confident was significant in the food and beverages category 51.6%. The other are: toys 10.4%, electronics 6.8% and clothing 7.6%. (refer figure 7).

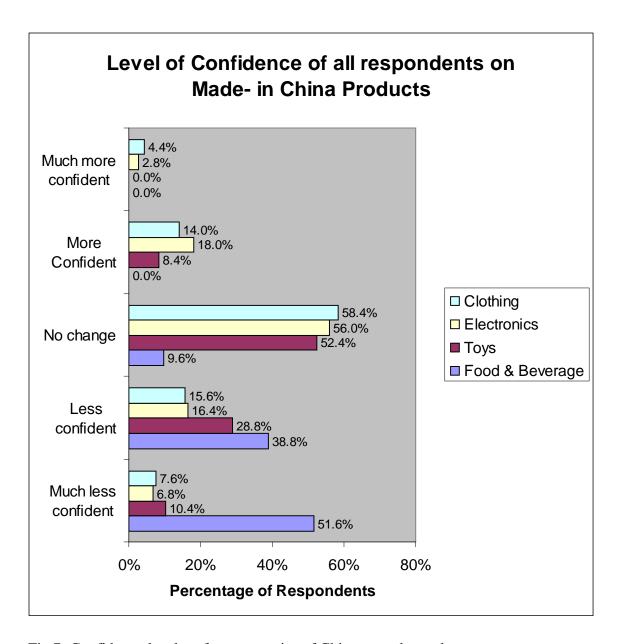


Fig 7: Confidence level on four categories of Chinese-made product

Respondents who became less confident and much less confident was significant for food and beverages category (90.4%). For other product categories it was 39.2% for toys,23.2%, electronics and 23.2% for clothing(refer figure 8). This can be attributed to the more frequent media reports on unsafe food and beverages products from China or due to higher perceived health risk in consumable products compared to non-consumable products.

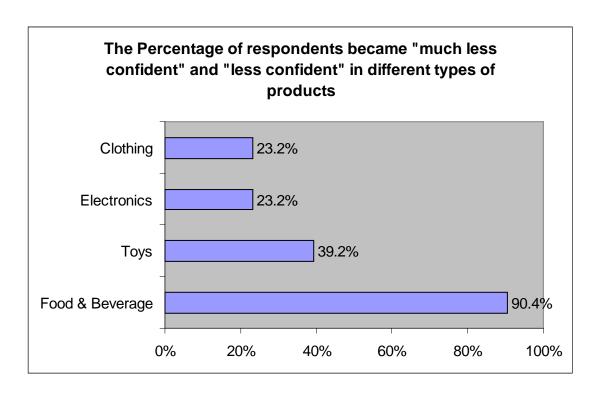


Fig 8: Proportion of respondents who became less confident and much less confident in the four product categories

Ethnic comparisons of mean scores indicated that the Chinese respondents scored much lower than the other two ethnic groups, particularly significant were the scores for food and beverage(1.4) and toys(2.0). The Malay ethnic group score 3.0 and above mean score for electronics and clothing. Refer Table .5

Table 5: Mean score of Ethnic groups confidence level towards Chinese- made products

Given recent media events linked to product safety, how has your confidence changed in relation to Food & Beverage, Toys, Electronics, and Clothing?

Respondent	All	Malay	Chinese	Indian
Product				
Food & Beverage	1.6	1.6	1.4	2.0
Toys	2.6	2.9	2.0	2.8
Electronics	2.9	3.1	2.7	2.9
Clothing	2.9	3.0	2.7	2.9

Buying Chinese-made products and willingness to pay more for safer goods

Most Malaysians (81%) thought that it was not possible to completely stop buying Chinese made products. Only 18% thought they can completely stop. There was no significant gender difference on this question. Refer Fig 9.

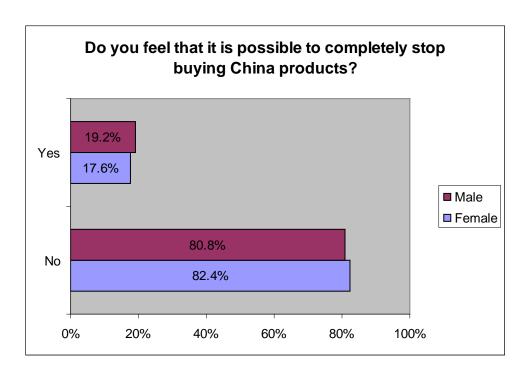


Figure 9: Male and female respondents' view of the possibility of stopping buying Chinese-made products

Ethnic comparisons showed that more Chinese respondents were more resolved to completely stop buying(41.3%) Chinese-made products compared to Indians(12%) and Malays(8%). Refer to Fig: 10.

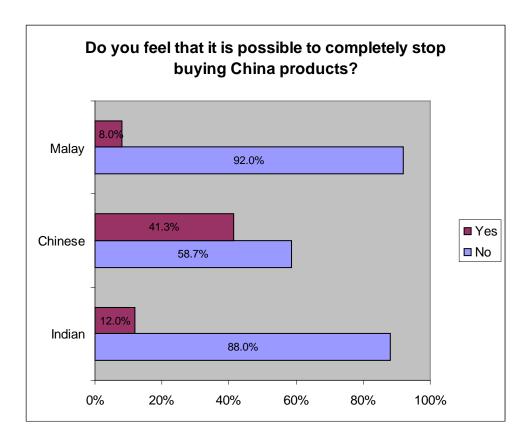


Figure 10: Ethnic view of the possibility of stop buying Chinese-made products

Willingness to pay more for safety

Research showed that most Malaysians (74%)were willing to pay more for assurance of safety in products. No significant difference was found in this issue.

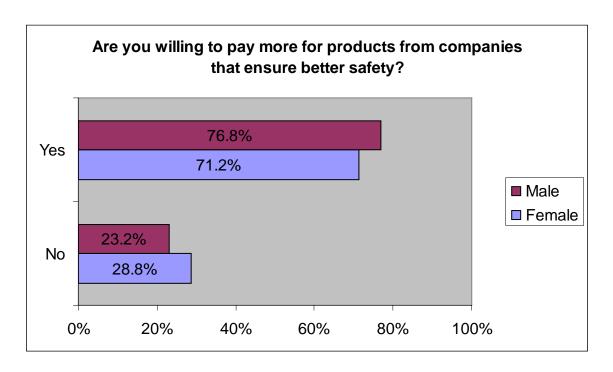


Figure 11: Male and female respondents' view on willingness to pay more for ensuring safer products

In terms of the extra quantum they would pay showed that the male group were inclined to pay 10% more. In comparison, the female group were more inclined to pay between a range of 10% -15% more for assurance of safety. Please refer fig 11.

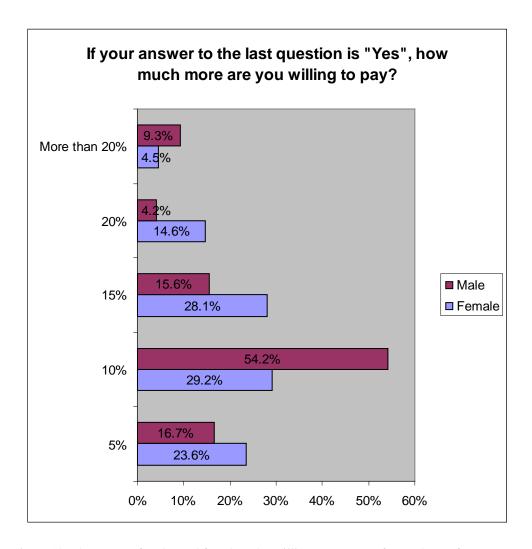


Figure 12: The extent of males and females who willing to pay extra for product safety

Who should be responsible for product safety?

There was a general consensus amongst respondents, both gender and race that the organizations themselves must be responsible for product safety (63%) and 25% of them felt that the government should also be involved. Please refer Fig:12.

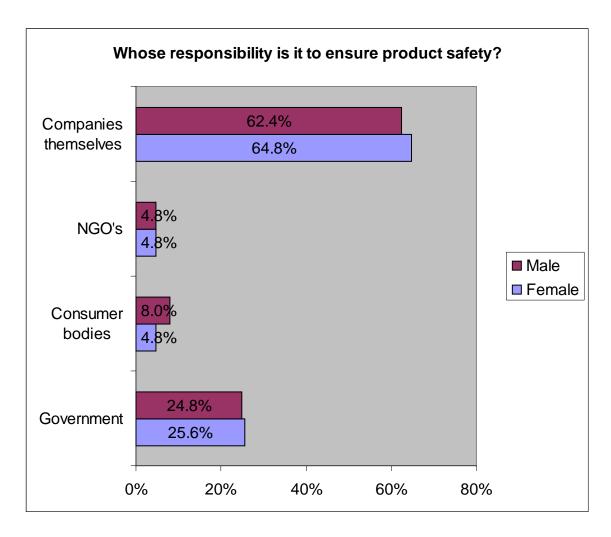


Figure 12: Male and female respondents' view on the responsible parties to ensure product safety

Discussion and Conclusion

Research findings indicated that more than three-quarter of the respondents had reduced or were intending to reduce their purchase of Chinese-made products following the media blitz on defective Chinese- made brands.

Consumer confidence was significantly eroded in all four categories of products tested, particularly food and beverage and the same was reflected in the gender and ethnic analysis. Mean score analysis indicated that the Chinese, female group were most affected by news report compared to the others. Despite the loss of confidence in Chinese-made products, most of the respondents were of the view that they could not completely stop buying Chinese-made products.

Respondents were willing to pay more for assurance of product safety. A total of 42% of the respondents were willing to pay 10% more on the retail price while another 37% were willing to pay 15% and more.

The survey confirmed that the majority of the public expect companies to be responsible to ensure product safety while a smaller percentage expected the government to actively protect them from irresponsible corporate behavior.

It can be concluded that there is corresponding negative consumer behaviour response (SRCB) to irresponsible corporate behaviour of firms (negative CSR). Media agenda setting function on the form of creating awareness of the issue followed by active framing and priming of the Melamine news, greatly influenced Malaysian consumers to respond in tandem with the corporate behaviour. This also proves that while negative behaviour is responded to by consumers than the reverse should be true as well and this emphatically provides justification for businesses to pursue their corporate responsibilities ethically and honestly. Michael Rke, KPMG's International Chairman clearly said in his speech at the World Economic Forum in Davos in 2004, "The business case for CSR is very strong, all things being equal, the price and quality of your products are on par with competitors ,consumers are increasingly showing that they will buy form companies they deem as having a responsible attitude towards its community" (The Edge, ACCA 2006)

Limitations

In addition to the standard limitations associated with non-random sampling approach, perhaps the two other limitations were the relatively constricted area of source of respondents and a few open-ended questions could have been included to obtain reasons on the respondents views or responses.

Further Research

A longitudinal research can be carried out to measure for how long the adverse consumer response will be sustained or in other words to study the possibility of a reversal of negative SRCB to neutral or positive response to Chinese-made products as news focus on this issue begins to wear off.

REFERENCES

- Abdul Rashid MZ & Abdullah (1991). Manager's attitudes towards corporate social responsibility. *Proceedings of Pan Pacific Conference. KL*.
- APCO Worldwide Inc, Global CSR Study. (2004). Communicating CSR: Talking to people who listen. Retrieved July 10, 2006 from http://www.apcoworldwide.com/content/PDFs/Global CSR Study.pdf
- Baran, Stanley J. & Davis, Dennis K. (2006). *Mass communication theory: foundations, ferment, and future*. Belmont: Thomson Wadsworth.
- Brown, T. J. & Peter A. D. (1997). The company and the product: corporate associations and consumer product responses. *Journal of Marketing* Vol 11.No 5.
- Black, L. & Hartel, C. E. J. (2003). The five capabilities of socially responsible. companies. *Journal of Public Affairs*, 4(2), 125-144
- Carrol Archie B.,(1991). Corporate social responsibility: toward the moral management Organizational stakeholders. *Business Horizons*,39-48

Carrol Archie B.,(19981). The four faces of corporate citizenship. *Business & Society**Review,1-7

Connolly, M.,(2005). What is CSR?, CSRwire, LLC. Retrieved April 4, 2006 from http://www.csrwire.com/page.cgi/intro.html

Cone Communications Press Release 1999. March 8, Boston MA.

Creyer, E. & William T., Ross J. (1996). The Impact Corporate Behaviour on Perceived Product Value. *Marketing Letters*, Vol. 7: 2.

Dearing, J. W., & Rogers, E. (1966). Agenda setting. Thousand Oaks CA: Sage.

DeFleur, Melvin L. & Ball-Rokeach, Sandra J. (1989). *Theories of mass communication*.

New York: Longman

Foo, SL & Tan MS (1988). A comparative study of social responsibility reporting in Malaysia & Singapore . Singapore Accountant Aug. 1988

Folkes, V. A., & Michael A. K. (1999). Effects of information about firm's ethical and unethical actions on consumer's attitude. *Journal of Psychology* Vol 8.

Hill, R.P., & Becker-Olsen, K.L., (2005). *The Impact of Perceived Corporate Social Responsibility on Consumer Behavior*. Retrieved Oct. 20, 2006 from http://repositories.cdlib.org/cgi/viewcontent.cgi?article=1028&context=crb

Insch, A. (2008). Online communication of corporate environmental citizenship: A study of New Zealand's electricity and gas retailers. *Journal of Marketing Communications*, 14(2), 155-169.

Mc Combs, M.E., & Shaw, D.E. (1972) The agenda setting function of the mass media.

*Public Opinion Quarterly, 36, 176-187.

Mc Quail, D. (2005) Mc Quail's mass communication theory. Oaks, CA: Sage.

Moir, L.A., Webb, D.J., & Harris, K. (2001). Do consumers expect companies to be socially responsible? The impact of corporate social responsible on buying behaviour. The Journal of Consumer Affairs, 35(1), 45-72. Retrieved May 3, 2006, from ProQuest database.

Mohd Zabid Abdul Rashid and Saadiatul Ibrahim (2002). Executive and management attitude towards CSR in Malaysia. *Corporate Governance* Vol 2.No 4

Philip, J.K. (2002). Public Relations: Principles and Practice. New York: Thomson.

Severin, Werner J. & Tankard, James W. (2001). *Communication theories: origins, methods, and uses in the mass media*. New Jersey: Addison Wesley Longman

Smith, S. M. and David S. A. (1991) Cause marketing. a new direction in the marketing of corporate social responsibility. *Journal of Consumer Marketing* Vol 8.

Somerville, I. (2001). Business ethics, public relations and corporate social.

responsibility. NY: Routledge

The Edge and The Association of Chartered Certified Accountants of Malaysia(ACCCA) (2006) *Doing business with a conscience* . Malaysia.

Wimmer, R.D., & Dominick, J.R., (2003). Mass media research: an introduction (7th ed.) Belmont: Wadsworth/Thomson Learning