International Academy of Science,
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BAN ON MAGGI NOODLES IN INDIA: CONSUMER PERCEPTIONS
TOWARDS THE QUALITY OF CORPORATE GOVERNANCE

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ABSTRACT

Corporate social responsibility (CSR) is one of the most important notions in the corporate. In spite of the emerging research work conducted in the field of CSR it is really difficult to operationalize the construct and provide a reliable and valid measure to capture various dimensions of CSR. The aims of this study are very specific. First, it contributes to understanding the business case for CSR in developing countries by focusing on the consumer sentiments toward marketing concepts followed by the domestic as well as multinational firms. The second objective of the study is to develop a scale by conducting a comprehensive review of literature to generate pools of items to measure the recent ban on Maggi noodles in India. Nestle's star brand Maggi is facing the heat of ban in India since June, 2015. It was due to an episode that took place in the State of Uttar Pradesh where a few samples of Maggi instant nobles were found to contain lead and monosodium glutamate beyond the permissible limit. Tests were conducted in Government as well as in private laboratories, but the outcome of the test results revealed contradictory findings. In this paper an attempt has been made to construct a scale encompassing three main construct to measure the CSR practice of Nestle India. These are: advertising communication made by Nestle India mostly by celebrities having no idea about the ingredients present in the stuff which is basically targeted towards the kids and young adults, secondly, whether the common CSR norms were adhered to and lastly to investigate whether concern for consumers were given due respect. To capture these constructs a small scale was developed to examine the perception of the consumers who are mostly in the lower age category. The findings of the study reveal that Nestlé could be more responsive to the needs of the people and could control the desired quality norms since it has got nearly eighty percent market share in India. Various parametric and non-parametric tests have been employed to establish the validity and reliability of the scale. The results of factor analyses revealed the construct validity of the scale and the alpha values are also within the acceptable limit. The factor score regression reveals that the consumer will not spread positive word of mouth unless the product conforms to all safety norms. The impact of recent ban has also been found to affect the brand loyalty behavior of consumers. Managerial implication and scope for further studies has also been discussed for researchers working in this field.

KEYWORDS: CSR, Nestle, Maggi, Brand Loyalty, Marketing Concept

INTRODUCTION

It is quite interesting to recognize that the function and responsibility of business organizations towards the society have been a hot topic of discussion in the recent past. The mounting demands of businesses on the society at large

and the fragile environment are attracting considerable the attention of environmentalists, consumers and the government in different parts of the glove. It can hardly be denied that different stakeholders are now more concerned about the role of businesses and demand that business organizations should function in a more socially responsible manner without causing damage to the people at large and the environment. Corporate Social Responsibility (CSR) is expected to provide a direction to the business community to apply the corporate power in a socially responsible manner and improve their social, CSR by adopting the marketing concept philosophy to avoid confrontation with the various stakeholders in the macro environment. The growing interest of researchers in this field provides rich and diverse views on the concept of CSR; though it is really difficult to provide a universally accepted definition of the construct.

CSR is a notion which is normally used to describe the responsive social acceptable behavior of business firms to comply with the environmental and social impacts which are not detrimental to the community. The CSR is now considered to be a pivotal issue in business and industry, as the stakeholders feel that the growth of an organization is largely depend on the social and environmental well-being activities undertaken by organizations. CSR is an important issue for organizations those prosper in the long run and, no doubt, long term sustainability of corporations depends on the practice of an effective CSR. There is growing demand on corporations to make a constructive contribution to society. Governments all over the glove are trying to regulate the activities by enforcing stringent laws to adhere to CSR norms, especially in regards to the conservation of the fragile ecological environment.

The Indian parliament passed the CSR Bill on August 2013 in the Rajya Sabha, the upper house of the parliament endorsing the CSR activity compulsory for certain firms. The same bill was passed in the Lok Sabha, the lower house of the parliament in December 2012. In Section 135 Schedule VII of the Indian Companies Act 2013 the CSR rules have been specified. Business organizations which are registering a net profit of at least ₹ 5 cores or having a turnover of at least ₹ 1000 crores are under the obligation to expend a minimum amount of 2 per cent of their annual net profits (average of the last three years net profits) on CSR related activities from the year 2015. It needs to be pointed out here that India is the first nation to make it mandatory to spend two percent of their net profit for food as well as for non-food producing firms and the statute is applicable However, India is now the first country in the world to have mandated in its statute a minimum CSR spending of at least 2 per cent of net profit by certain firms. The mandatory CSR norms would apply, of course, both to food and non-food firms.

LITERATURE REVIEW

CSR is a topic of growing academic and management interest (Maon et al, 2010; Peloza and Shang, 2011), particularly regarding its impact on consumer behavior variables. This is because consumers tend to employ a company's CSR image in the purchase and consumption decision making (Du et al, 2011; Choi and Ng, 2011; Trudel and Cotte, 2009; Vlachos et al, 2009). Although this statement does not hold for all types of products or in all segments (Auger et al, 2010; Peloza and Shang, 2011), some internationally recognized companies, like General Motors, Unilever, Ikea and Avon, seek to position themselves as socially responsible brands by becoming strategically linked to a variety of social causes including among others sustainable development, the fight against the climate change and cancer. Magazines such as Business Week or Fortune report on firms' CSR activities or publish surveys, including Fortune's ''America's Most Admired Corporations'', which include some CSR-related items (Luo and Bhattacharya, 2006).

One of the main limitations of studies on the impact of CSR on consumer behavior is the way the construct is measured. The lack of a unified scale for measuring CSR makes it difficult to compare findings between studies, and the vagueness of the concept often leads to contradictory results (Coles et al, 2013). Thus, reliable instruments are needed to measure consumer perceptions of a firm's CSR (Auger et al, 2010; Green and Peloza, 2011; Vlachos et al, 2009). There have been valuable efforts to develop CSR scales focused on managers (Aupperle, 1984), stakeholders (Pe´rez et al, 2013) and consumers (O¨ berseder et al, 2013). These have primarily used the most successful theoretical approaches to the CSR construct from consumer behavior researchers: (i) Carroll's Pyramid model (1979, 1991), which includes economic, legal, ethical and discretional dimensions and (ii) the corporate associations notion suggested by Brown and Dacin (1997), which discriminates between economic and noneconomic aspects, associating the latter with CSR in a one-dimensional manner.

After more than sixty years of CSR debate and discussion in many contexts, no single widely accepted definition of this concept exists (Freeman et al, 2010). Over thirty-five definitions of CSR are proposed in the literature (Dahlsrud, 2008; Matten and Moon, 2008). A review of the CSR literature shows a growing emphasis on qualitative research in addressing the interface of CSR and consumer behavior (Brunk, 2010a; Eckhardt et al, 2010; Öberseder et al, 2011). Moreover consumers' perceptions of CSR are still unclear to executives and researchers (Phole and Hittner, 2008). Based on the findings from the qualitative data, consumers' perceptions of CSR (CPCSR) can be defined in the following manner: A socially responsible company integrates social and environmental topics in its core business activities and acts responsibly towards its employees, its customers, the environment, its suppliers, the local community, its shareholders and society at large.

There is much work from the United States (US) that focuses on food fraud and food adulteration (Everstine et al, 2013; Spink and Moyer, 2013, 2011; Moore et al, 2012). A 2012 report on food fraud in US restaurants and retail outlets (Warner et al, 2012) concluded that 58% of the eighty-one retail outlets sampled, sold mislabeled fish with small markets having a higher incidence of fraud (40%) than national chain grocery stores (12%). In India look-alike substances were substituted in items like incidents of brick powder in red chillies, lead chromate in turmeric and vegetable oil contamination with milk fat (Shukla et al, 2014). A 2011 survey in India of adulteration in liquid milk found that 68% of the randomly collected samples tested were non-conforming (Food Safety and Standards Authority of India, 2011). In some states the level of non-compliance was 100. The biggest dairy food fraud incident to date using melamine, that also had serious implications for public health, was in China. Melamine is rich in nitrogen and contains 67% nitrogen per mass unit (Merck Research Laboratories, 2001). Due to the high nitrogen content, melamine was added, as an adulterant, to food commodities such as milk and wheat gluten to ''increase'' the perceived protein content, and avoided detection as milk was tested for protein using a method based on total nitrogen content (Schoder, 2010).

The Maggi Controversy

During the month of January 2015, an inspector of food in the state of U.P was surprised by the absence of monosodium glutamate (here after MSG) label on a pack of Maggi noodles and out of sheer curiosity for testing the content of MSG sent the packet for testing in the State Food Laboratory in Gorakhpur and State lab found presence of high levels of MSG in the product. Subsequently, the FSSAI (Food Safety and Standards Authority of India) and Nestle were updated regarding the outcome of the test and more samples were sent to different laboratories for further investigation. The findings of the tests revealed that the substantiated the presence of lead to the extent of 17 ppm where as the

acceptable level is 2.5 ppm. The FSSAI issued an order to withdraw variants of Maggi "two minute" instant noodles from the market considering the high level of MSG due to the following reasons: (a) existence of lead (b) deceptive labeling information of 'No Added MSG' and (c) release of Maggi Oats Masala Noodles with no proper product approval and evaluation of risk appraisal. The raging controversy over the safety of the popular "two-minute" Maggi noodles has gripped the attention of the consumers. Just one month after the ban of Maggi noodles, instant noodles sales in India have gone down by over 90 per cent to the meager amount of ₹ 30 crore from ₹ 350 crore per month, according to industry estimates. The annual report of Nestle disclosed that they have spent ₹ 445 crore on advertising and promoting their star brand where as less than five percent of such amounts had been spent for testing the quality of the product marketed by them. Not only that, over a period of last five financial years the advertising and promotional expenses varied between ₹ 300 to ₹ 450 crore but quality testing costs ranged between ₹ 12 to ₹ 20 crore only!

The vision and aspiration of Nestles are to become a leader in the field of nutritional foods, health and foster wellness in India by appreciating the emerging lifestyles, budding needs, and nutritional preferences of consumers, especially the growing kids and young adults. It is claimed by the officials of Nestle that the Indian unit enjoys the expertise of Nestle's extensive global R&D network for introducing brands for improving the health of the people by providing nutritious daily diets.

OBJECTIVES OF THE STUDY

Corporate Social Responsibility (CSR) is one of the most important philosophies in the corporate literature and, in simple way it can be believed whether the corporations function in a socially conscientious manner bearing in mind the significance of their stakeholders. Despite ongoing research work conducted in the field of CSR it is really difficult to conceptualize the construct and provide a reliable and valid measure to capture various dimensions of CSR. The aims of this study are very precise and objectives of this study are listed below:

- To understand consumer sentiments toward marketing practices followed by the Nestle India Ltd

- The second objective of the study is to develop a scale items to measure consumer perceptions toward CSR practices followed by Nestle India.

- To assess the perceptions of consumers toward the Maggi immediately after the ban imposed by the Government.

- To summarize the findings and discuss the managerial implications and scope for further research in this field

METHODS

The concept of Corporate Social Responsibility (CSR) has evolved over the past fifty years (Dentchev, 2009) to become a major issue in contemporary business practice and academic scholarship (Carroll and Buchholtz, 2006). More recently, however, the focus of CSR has shifted to the behavior of companies rather than individuals, leading academic debate about exactly what companies should be responsible for (Blow field and Murray, 2011). Following suggestions of researchers in this area and after a thorough search of CSR measures, we felt that the scale we need to develop should include constructs that are relevant for assessing the reactions of consumers after the unprecedented ban imposed on the sale of Maggi noodles in India. It would be more appropriate to measure the construct considering Nestle's connection with the unfortunate incident that has astounded the entire nation. The CSR may be conceptualized as a structure that guides the organization to use corporate power in a sensible way and improve its involvement with the social environment particularly

consumers who patronized the brand. The conceptualization and measurement of CSR vary greatly and it is not easy to provide a universal definition of the construct. The objective of the present study is not to provide a measurement instrument that can be generalized to measure CSR. Instead, an attempt is made to provide an insight to measure the CSR of Nestle as perceived by consumers, incorporating a few important issues that led to the ban of Maggi noodles in India. While developing the scale to measure the CSR construct, the authors followed the recommended scaling procedures which are commonly found in the psychometric literature (Nunnally, 1978). Altogether, 28 five point Likert items were initially developed to reflect the five facets of CSR. These items were then judged for content validity by a small panel of experts (n=3) resulting in 21 statements. The panel of experts comprised both academicians and marketing professionals having adequate knowledge in this field. These 21 items were then administered to an initial sample of BBA (n=33) students.

Following suggestions of Zaichkowsky (1985) and Gaski and Etzel (1986) statements with items to total correlation (within each component) of r=0.50 or more were retained. In this process, 5 more items were dropped and finally 16 were retained to measure five facets of CSR. The Table 1 shows the item to total correlation for various facets of the scale computed from a small student sample. After initial purification, the final version of the CSR scale needs to be examined again for reliability and validity. The psychometric performance of CSR scale is presented in the next section.

Psychometric Performance of the Scale

The sixteen-item CSR scale was initially administered to a sample of students enrolled in the Department of Commerce of North Bengal University to assess the reliability and validity of the proposed measure. This sample was chosen largely because of convenience factors. However, postgraduate students also represent a potential target market for the Maggi brand and it was expected that they would exhibit reasonably high levels of variability of CSR and knowledge about the brand. The item to total correlations is found to be quite high which establish the content validity of the scale. The individual item and the total scores are highly related ($0.651 \leq r \leq 0.756$) indicating that the individual items are measuring the same construct characterized by the total score.

The results of factor analysis presented in Table 2 also reveal that the five dimensions of consumer perceptions of CSR appear distinct and there are rare cases of mis-loadings and split loadings. The sixteen items consumers' perceptions of the CSR scale has content and construct validity. The factor loadings are quite high and the percentage of variance explained is 66.12 percent and the fit of the model is significant beyond $p<0.000$.

On the other hand, the reliability co-efficient as measured by Chronbach's alpha are on the higher side considering the small number of items in the scale. The scales employed in this study substantiate the repeatability property which is one of the most important conditions of a scientific measurement. In order to establish the predictive validity regression analyses have been computed to relate the variables with external criterion variables.

Table 1: Item Analysis

Variables	Correlation	Item to Item Correlation			
		Scale Item1	Scale Item2	Scale Item3	Scale Item4
PR1	0.722	1	.618	.504	
PR2	0.691	618	1	.550	
PR3	0.695	.504	.550	1	
MISAD1	0.711	1	.508	.584	
MISAD2	0.699	.508	1	.551	
MISAD3	0.702	.584	.551	1	
BT1	0.756	1	.688	.555	.539
BT2	0.681	.688	1	.558	.638
BT3	0.688	.555	.558	1	.552
BT4	0.754	.539	.638	.552	1
PINFN1	0.652	1	.638	.716	
PINFN2	0.702	.638	1	.550	
PINFN3	0.746	.716	.550	1	
HEALTHY1	0.712	1	.569	.534	
HEALTHY2	0.689	.569	1	.694	
HEALTHY3	0.682	.534	.694	1	

Table 2: Rotated Component Matrix

Items	Component					Chronbach's Alpha
	1	2	3	4	5	
PR1				.732		0.731
PR2				.814		
PR3				.789		
MISAD1					.720	0.801
MISAD2					.688	
MISAD3					.714	
BT1			.685		.322	0.652
BT2			.753			
BT3			.804			
BT4	-.320	-.374	.555		.329	0.670
PINFN1		.735				
PINFN2		.745				
PINFN3		.756				
HEALTHY1	.868					0.712
HEALTHY2	.821					
HEALTHY3	.860					

Note: KMO Measure of Sampling Adequacy: 0.735, Approx. Chi-Square: 120, p<0.000

FINDINGS OF THE STUDY

A regression model (Table 3) is employed taking into consideration the set of independent variables measuring consumer perception of Nestle's CSR practice. Though, the overall goodness of fit measured by R Square and tested by F value is found to be significant beyond p<. 000. Perceived risk is found be negatively associated with company's responsiveness intentions. The beta values of band trust and healthy attributes respectively used by Nestle for positioning Maggi being a healthy product are negative. The findings indicate that buyers are not at all happy with Nestle's overconfidence and superciliousness in trying to justify that Maggi is safe for consumption. The responsiveness factor is negatively associated with perceived risk, trust and the company's claim of Maggi being a healthy food. Though the value of R square is not sufficiently high, still the findings are indicative of consumer grievances toward the brand.

In addition to the above variables, adapted version of the brand loyalty scale has been employed to establish predictive validity of the measurement scales.

Table 3: Multiple Regression Analysis Coefficients

Model	Un-Standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Perceived Risk	-.216	.111	-.156	-1.950	.053
Misleading Ad	-.087	.086	-.084	-1.006	.316
Brand Trust	-.343	.098	-.344	-3.494	.001
Product Information	.149	.112	.126	1.328	.186
Healthy	-.184	.087	-.178	-2.118	.036

Note: a. Dependent Variable: Company Responsiveness, b: R=.527, R Square =.277, Adjusted R Square = .247. Std. Error=1.93, F= 9.273, p< 0.000

Table 4: Multiple Regression Analysis Coefficients

Model	Un-Standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Perceived Risk	-.146	.076	-.148	-1.947	0.054
Healthy	-.162	.097	-.168	-1.673	0.097
Product Information	-.146	.064	.127	-1.984	0.049
Misleading Ad	-.258	.082	-.257	-3.158	0.002
Brand Trust	-.080	.079	-.082	-1.006	0.316

Note: Dependent Variable: CSR, b: R = .540, R Square =.291, Adjusted R Square= .262, D-W= 1.85, F= 9.928, p<0.000

The regression findings reported above (Table 4) relate the impact of the Maggi brand on the loyalty behavior of consumers. It is observed that brand loyalty is negatively affected by misleading advertisements e.g. the Nestle's claim that Maggi is a safe and healthy product. The loyalty is significantly affected by concealing the ingredients in the product which are supposed to be harmful for health, particularly for the heavy users e.g. kids. The overall goodness of fit is significant beyond p<. 000.

The Mann-Whitney U test is a substitute for parametric 't' test. As has already been pointed out earlier in the research methodology section, the data have been obtained from teenagers and those on the threshold of teenage. Data have also been collected from their parents and other adults. It is not very surprising to note that, except for labeling information given on the package, for all other key variables, significant differences between the scores obtained from the two groups is noticed probably due to tremendous brand patronage enjoyed by Maggi among the generation Y consumers. The Mann-Whitney U test results are presented in Table 5.

Table 5: Mann-Whitney U Statistic

Variables	Mann-Whitney U	Z	Sig.(2-Tailed)
Brand Trust	646.00	-8.120	0.000
Misleading Ad	1628.00	-4.412	0.000
Perceived risk	1763.50	-3.898	0.000
Product Information	2700.50	-0.343	.0732
Brand Loyalty	2017.00	-2.995	0.003

Grouping Variable: Age

In addition to OLS methods, a logistic regression method was also employed to ascertain the discriminating power of the model. The data have been collected from a teen and a threshold teen sample of n1=62 and adult sample n2=90. Logistic regression is employed when the dependent variable is binary in nature as in our case 1 is assigned to respondents

who are aged, 0 otherwise. The results of Omnibus tests of Model Coefficients are given in Table 6 as footnotes. In model summary, we observe that the pseudo R squares are within the acceptable limits. Moreover, the non- significance of Hosmer and Lemeshow test exhibit that the model can be used for discrimination of two groups of respondents. Among the coefficients, brand trust and consumer discontent are found to be highly significant. The Exp (B) is extremely high for brand trust which is indicative of classifying the individuals depending on their scores on this construct. Consumer discontent is also an important variable in classifying respondents into two groups (Table 7).

Table 6: Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)	95.0% C.I. For EXP(B)	
							Lower	Upper
Perceived Risk	.122	.133	.842	1	.359	1.130	.870	1.467
Misleading Ad	-.113	.122	.864	1	.353	.893	.704	1.133
Brand Trust	1.020	.177	33.234	1	.000	2.774	1.961	3.924
Consumer Discontent	-.345	.168	4.229	1	.040	.708	.509	.984

Note:

a. **Variables entered on step 1: Perceived risk, Misleading Ad, Brand Trust, Consumer discontent**

b. **Omnibus Tests of Model Coefficients $\chi 2 = 88.844$, df,=4, p<.000; Hosmer and Lemeshow value=0.740, p<.000 -2 Log likelihood: 116.686' Cox & Snell R Square: .443, Nagelkerke R Square: .597**

CONCLUSIONS AND MANAGERIAL APPLICATIONS

About a decade ago only about a dozen Fortune 500 companies came out with a CSR or sustainability reports. For companies take CSR seriously, it has to be incorporated into the core strategy of the enterprise. It's quite evident that companies care about CSR because their customers do. For instance, Coca-Cola recently started a program to empower young women entrepreneurs. Tata Chemicals spends Rs 12 crores on CSR every year. Mahindra Group's CSR is a mix of strategic philanthropy, shared values and sustainability. The recent commitment of Rs 100 crore each, by two leading companies, TCS and Airtel, as a part of their CSR initiatives to build toilets for girls in schools in the wake of the government's Swachha Bharat Abhiyan have also pointed to a robust CSR initiative. The last couple of years have seen a considerable increase in CSR spending by companies. This can be attributed to the aspiration of companies to project them as socially responsible. Companies are using CSR as a way to push the following business processes into the organization: Innovation**,** Cost savings**,** Brand differentiation**,** Long-term thinking**,** Customer Engagement and Employee engagement. This brings about benefits in terms of a Better Public Image, Better and More Media Coverage and Positive Workplace Environment.

What Nestle needed to do was limit the immediate damage by engaging with its critics and attend to some of their concerns rather than trying to insulate itself from the criticisms. The closest comparisons to the Maggi controversy are perhaps the PR debacles that hit Cadbury and Pepsi and Coca Cola. In Cadbury's case, when worms were found in its flagship brand Dairy Milk chocolates in 2003, its sales reportedly plummeted 30 percent at the height of the festival season. But the company tackled it by investing Rs 15 crore to revamp its packaging, having roped in Amitabh Bachchan to endorse the product and increased their advertising spending by 10 to 15 percent for a quarter. When Pepsi and Coca Cola had to face allegations that it aerated drinks had harmful levels of pesticide, the beverage giant responded by introducing special seals that assured consumers of the product's safety. This measure was accompanied by advertisement campaigns with top category, brand ambassadors like Aamir Khan publicizing its safety.

In case of Nestle, there were no strident marketing campaigns with a celebrity touting its safety in spite of the company claiming to have tested 500 samples across batches. Neither did the India chairman release a video of himself eating Maggi noodles vouching for its safety. In spite of Future Group, Walmart and More steering clear of Maggi, there were no regular updates and advisories from Nestle for its retailers. Nestle needed to be more proactive in its engagement with its stakeholders. Social media use was not up to the desired level. Nevertheless, the withdrawal of Maggi was a timely action. It sent a long way in assuaging public sentiment on this issue. Expensive action as well, but the money was worth it. Clearly, the Maggi crisis is Nestle's biggest PR disaster in the age where social media gives its verdict even before the authorities have decided whether a product is safe or not. Nestle could have used its social media team to reach out to the customer to re-brand itself. But unfortunately, what came across was a tone that was supercilious and sarcastic, not what aggrieved, die-hard Maggi fans expect to hear right now. The present study has attempted to address the issue of corporate governance in today's context, but it has primarily focused on the Maggi controversial. A future study can be embarked on which could be more comprehensive in its capacity involving more brands.

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