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**Bad reputation, Customer attrition and Marketing  
of the future: Can the management of a company  
save it from a scandal?**

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## Introduction

One day, during my turbulent stay in Paris last semester, for my bachelor Erasmus Programme, a friend asked me about Volkswagen's emission cheating.

They were the first days of last October, after the outbreak of the scandal.

Following a consistent number of considerations, I found this topic very interesting for an eventual thesis outwork.

Have you ever thought about how important Marketing is to fix serious disasters provoked by a negligent and a fraudulent Corporate Management?

I have it. And from then on, I started thinking about the aim of my future graduate work.

Explaining how the companies can save themselves from a crisis and analysing the main important disasters and frauds over time will be the whole points.

In this future research, that I would have completed once I reach Italy, the role of the Marketing was unavoidable.

But why create a Management and a Marketing mix in one instalment?

To show how helpful they can be in the worse company's situation; To highlight their strength and their incisiveness when they shall work together; To explain just how they can fix most of the problems for a corporation.

All the entire research may be useful to understand how Marketing meets the Corporate Management.

I have decided to divide my work in three parts: the first one is based on a theoretical approach, where we are going to introduce all the topics and to explain all the technical terms, giving definitions and a well-defined overviews.

By the second part, we will face with a more empirical and deductive method: In the second chapter we will study and analyse many companies' cases and, in the last part, we will compare the main implemented and developed companies' strategies for going out of the crisis.

# **CHAPTER I: The global theory behind crisis management**

## **1.1 Crisis Management: What is it?**

**I**n economics, with the term “*Crisis Management*” we mean a process in which a company has to effort a very difficult and a very critic period for its stability in the market. This delicate period, generated by many reasons that we will analyse later on, puts the Management to a hard test. In fact, it has to then find solutions if it wants its company to continue to live seeing that it could not survive after a crisis thanks to the loss of capitals, shareholders, stockholders, value and much more; for example itself.

Crisis management is the process by which an organization deals with a major event that threatens to harm the organization, its stakeholders, or the general public. The study of crisis management originated with the various industrial and environmental disasters in the 1980s<sup>12</sup>. It is considered to be the most important process in public relations<sup>3</sup>.

Three elements are common in a crisis: 1) a threat to the organization, 2) the element of surprise and 3) a short decision time<sup>4</sup>.

*Dr. Steven J. Venette*, a professor of Communication and Risk studies at the University of Southern Mississippi, argues that "crisis is a process of transformation where the old system can no longer be maintained". Therefore, the fourth defining quality is the need for change. If change is not needed, the event could more accurately be described as a failure or incident<sup>5</sup>.

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<sup>1</sup> Shrivastava, P. Mitroff, I.I., Miller, D. and A. Miglani, *Understanding industrial crises*. Journal of Management Studies, 1988, 25, 4, 285-304.

<sup>2</sup> ASIS International, *Organizational Resilience: Security, Preparedness, and Continuity Management Systems-Requirements with Guidance for Use*, ASIS SPC.1-2009, American National Standard, 2009

<sup>3</sup> ASIS International, *Organizational Resilience: Security, Preparedness, and Continuity Management Systems-Requirements with Guidance for Use*, ASIS SPC.1-2009, American National Standard, 2009

<sup>4</sup> Seeger, M. W.; Sellnow, T. L.; Ulmer, R. R. (1998). *Communication, organization and crisis*. Communication Yearbook 21: 231–275.

<sup>5</sup> Venette, S. J. (2003). *Risk communication in a High Reliability Organization: APHIS PPQ's inclusion of risk in decision making*. Ann Arbor, MI: UMI Proquest Information and Learning.

Each company has to cope with a crisis, for a variety of reasons: a wrong communication campaign, an error towards employees or caused by themselves, a problem with product quality or with the customer care (well-known as after-sale), and the last one, probably the most relevant and, at the same time, the most difficult to be solved: scandal or disaster which can involve management, products and so on.

This always happens, but today it could be amplified uncontrollably with Internet. Just in a few hours, negative and bad news, images and recordings go around the Web, getting through to people and destroy the so-called “Corporate Image”.

In this regard, if the management does not do something in the right way, an online crisis could become:

- A permanent damage for the reputation;
- A damage to consumers’, employees’ and investors’ trust;
- Visible to everybody, and then for your future customers, employees and investors;
- Amplified and magnified by the media.

“A crisis of a company represents a particular and a pathological situation that puts the continuity of the firm’s activity in danger. It is characterized by the serious and bad effect that it produces on the economic and financial balance of the company, also for the countermeasures to avoid the dissolution of the entire organization<sup>6</sup>.” A crisis is something to overcome as soon as possible if the corporation does not want to exit the market wherein it works and operates.

“Anyway, two types of crisis exist: *reversible* and *irreversible*. In the first one, the company can be fully recovered. Completely different situation in the second case, where the company should carry out the asset liquidation<sup>7</sup>.”

Furthermore, “during the crisis management process, it is important to identify the types of crises and the different corresponding management strategies. Potential crises are enormous, but crises can be clustered<sup>8</sup>.”

Lerbinger<sup>9</sup>, categorized eight types of crises:

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<sup>6</sup> Sergio Sciarelli, *Comunicazione e Gestione della crisi*, Pag. 1, Sinergie Italian Journal of Management, pag.1

<sup>7</sup> Sergio Sciarelli, *Comunicazione e Gestione della crisi*, Pag. 1, Sinergie Italian Journal of Management, pag.1

<sup>8</sup> Coombs, W. T. (1999). *Ongoing crisis communication: Planning, managing, and responding*. Thousand Oaks, CA: Sage.

<sup>9</sup> Coombs, W. T. (1999). *Ongoing crisis communication: Planning, managing, and responding*. Thousand Oaks, CA: Sage.

- 1 *Natural disaster:* Natural crises, typically natural disasters, are environmental phenomena such as earthquakes, volcanic eruptions, tornadoes and hurricanes, floods, landslides, tsunamis, storms, and droughts that threaten life, property, and the environment itself;
- 2 *Technological crises:* Technological crises are caused by human application of science and technology. Technological accidents inevitably occur when technology becomes complex and coupled and something goes wrong in the system as a whole (Technological breakdowns). Some technological crises occur when human error causes disruptions (Human breakdowns)
- 3 *Confrontation:* Confrontation crises occur when discontented individuals and/or groups fight businesses, government, and various interest groups to win acceptance of their demands and expectations. The common type of confrontation crisis is boycotts, and other types are picketing, sit-ins, ultimatums to those in authority, blockade or occupation of buildings, and resisting or disobeying police.
- 4 *Malevolence:* An organization faces a crisis of malevolence when opponents or miscreant individuals use criminal means or other extreme tactics to express hostility or anger toward, or seeking gain from, a company, country, or economic system, perhaps with the aim of destabilizing or destroying it. Sample crisis include product tampering, kidnapping, malicious rumours, terrorism, and espionage.
- 5 *Organizational Misdeeds:* Crisis occurs when management takes actions it knows will harm or place stakeholders at risk for harm without adequate precautions. Lerbinger specified three different types of crises of organizational misdeeds: crises of skewed management values, crises of deception, and crises of management misconduct.
- 6 *Workplace Violence:* Crises occur when an employee or former employee commits violence against other employees on organizational grounds.
- 7 *Rumours:* False information about an organization or its products creates crises hurting the organization's reputation. Sample is linking the organization to radical groups or stories that their products are contaminated.
- 8 *Terrorist attacks/man-made disasters:* occasionally deeds that creates instability.<sup>10</sup>

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<sup>10</sup> Lerbinger, O. (1997). *The crisis manager: Facing risk and responsibility*. Mahwah, NJ: Erlbaum.

We have to add on another category, on which we will pay our attention in the next chapters:  
Scandal & Disaster.

This latter is linked and connected to *Rumours*, but it is based on real and true events and not on lies.

## 1.2 When and why a crisis occurs: All the types of crises

We have two types of *Company Crisis*:

1) *Management Crisis*: the management is not able to continue and to carry on the firm's activity any longer. The brand is no longer competitive in the market for the incorrect managers' strategy: the business plan is anachronistic and it needs to be changed with a newer one, which is helpful to face others competitors. Basically, the origin of this crisis comes from economic and financial instability, for its part, caused by improper management's policy.

2) *Traumatic Crisis*: probably the most important and the most difficult, of the two to manage, to prevent and to deal with. At this point, though, let's analyse and understand what we mean by "Traumatic".

"At first, we have to talk about "Catastrophic Crisis"<sup>11</sup> to explain this type of slump, which differs from the management one because of its birth, normally following an unexpected and dangerous event that could have a bad impact on corporates' reputation and, so, on its financial and economic stability in the long run. Nevertheless, the term "catastrophic" is associated more to a natural event that shows up suddenly, with relevant negative effects for the company. As we know, crises belonging to this group could be also be created by humans: both managers (grave failures of management) and third-parties (criminal or unfair behaviour). Hence, "catastrophic crisis" needs to be seen more as one of the case crisis that we could define "traumatic"<sup>12</sup>. This latter takes account of unfair third-party actions (industrial sabotage, contamination of products e.c.t) and managers' mistakes (dangerous, defective and wrong products). After all, the word "Trauma", especially in its global meaning of "strong emotion provoked by special and unwelcome deeds", makes the idea of a

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<sup>11</sup> "Catastrophe" is something like a sudden disaster or a terrible accident.

<sup>12</sup> "Trauma" is a strong emotion caused by special and unpleasant deeds. For this reason, the term is more useful for our reaserch instead of "Catastrophe". In fact "Truma" means an event that disturbs with violece



crisis good due to sudden events that disturb the company and its business and that asks for right countermeasures<sup>13</sup>. ”

In our case, it is not about crisis management, due to a progressive and not sudden clear decay of the corporate, but in facing a shock produced by traumatic events. This type of crisis needs a particular attention and a quick reaction to avoid the interest and the action of media and the public opinion<sup>14</sup>.

Features of a *Traumatic Crisis* are:

- It is an outstanding and an extraordinary event compared to the other common ones;
- It endangers resources of a company;
- It asks for sudden attention and reaction;
- It is considered to be a source of danger and of serious harm;
- It comes from a situation on which the company has no control or limited control;
- It has, generally speaking, a high public profile/wider resonance, both local and international/global;
- It creates interest among mass media and public opinion<sup>15</sup>.

Moreover, to sum up and to have a clearer idea about crises and when and why they occur, take a look at the table below:

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<sup>13</sup> Sergio Sciarelli, *Comunicazione e Gestione della crisi*, Pag. 3, Sinergie Italian Journal of Management

<sup>14</sup> Sergio Sciarelli, *Comunicazione e Gestione della crisi*, Pag. 3, Sinergie Italian Journal of Management

<sup>15</sup> TRAVERS C., “Handling the stress”, in BLAND, *Communicating out of a crisis*, London, Macmillan Business, 1998, p. 144.

|                   | Type                   | Origin   | How to respond               |
|-------------------|------------------------|--|------------------------------|
| Company<br>Crisis | “Management<br>Crisis” | Financial &<br>Economic<br>Imbalances  | Process<br>Reform            |
|                   | “Traumatic<br>Crisis”  | <b>Catastrophic<br/>Event</b><br>(earthquakes,<br>blazes, floods);<br><br><b>Third-Party<br/>Actions</b><br>(sabotage; goods<br>contaminations<br>ext);<br><br><b>Managers<br/>Mistakes</b><br>(wrong, defective<br>and dangerous<br>products) | <i>Crisis<br/>Management</i> |

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<sup>16</sup> Sergio Sciarelli, *Comunicazione e Gestione della crisi*, Pag. 3, Sinergie Italian Journal of Management

## 1.3 Bad Reputation & Re-branding: another way of getting into a crisis

The so-called “*Bad Reputation*” is one of the most important reason for which a company suffers a crisis. At this point, the right question is: why does a company get a bad reputation?

There are many answers to this question. “This expression is well known by lovers of strategy games. This occurs when a company makes a mistake in its strategies about Marketing, about Management, about production or is involved in bad facts and events (as for example failures, relationships with wrong people and so on). An example about bad reputation could be Internet Explorer. Right now, this famous Microsoft’s browser is considered to be all that a browser should not be: too slow, too complex, without security and not so much up-to-date, with lots of problems of connections. In this way I.E. over the years has built its “Bad Image” among customers, creating a bad reputation for its brand. Therefore, it should implement a new strategy to review its name/brand and to create a new image of itself<sup>17</sup>”.

This type of strategy is well known as “*Re-branding*”, basically building a new product under a new brand. “Rebranding is a marketing strategy in which a new name, term, symbol, design, or combination thereof is created for an established brand with the intention of developing a new, differentiated identity in the minds of consumers, investors, competitors, and other stakeholders. Often, this involves radical changes to a brand's logo, name, legal names, image, marketing strategy, and advertising themes. Such changes typically aim to reposition the brand/company, occasionally to distance itself from negative connotations of the previous branding, or to move the brand upmarket; they may also communicate a new message from a new board of directors<sup>18</sup>.”

Rebranding could be applied to new products, mature products, or even products that are still developing. The process can occur intentionally through a deliberate change in strategy or occur unintentionally from unplanned, emergent situations, such as a "Chapter 11 corporate

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<sup>17</sup> Lorenzo M., Rafigata, 26 Dicembre 2014, *Perché cambiare logo? Che cos'è il Rebranding*. Available at <http://www.grafigata.com/2014/12/cambiare-logo-cose-rebranding/>. Accessed 25 March 2016.

<sup>18</sup> Muzellec, L. and Lambkin, M. C. 2006. Corporate Rebranding: *the art of destroying, transferring and recreating brand equity?*. European Journal Of Marketing, 40, 7/8, pp803-824

restructuring<sup>19</sup>, "union busting,<sup>20</sup> or "bankruptcy<sup>21</sup>." Rebranding can also refer to a change in a company/corporate brand that may own several sub-brands for products or companies.

“There are two types of Re-branding:

- A “Partial” one: in this case, we have little modification and changes to improve the brand’s perception for customers.
- A “Total/Global” one: in this other case, we have significant and consistent changes in the hallmarks, for example the logo, name, image management, sales and marketing strategies and advertising policy<sup>22</sup>.”

Then, when a company gets the so-called “*Bad Reputation*”, it should bring on a policy of rebranding and not only: it is essential, in these cases, that the change of image should go together with a transparent and consistent company transformation. This is the only way for a long term switching that will bring benefits for a company. Another example of bad-reputation could be Philip Morris’s case. This is another meaningful reason for which a financial and economic crisis occurs for a company.

The most important reason to get into a crisis, caused by a bad reputation, is, as we said before, the involvement of bad facts and events: but we are going to talk about this in the next chapter.

Anyway, reputation, or better “Corporate Reputation”, and its management are extremely important for a company and they could answer to the problem of *customer churn*.

Nowadays, a significant role is played by the “Media Reputation<sup>23</sup>” and by the “Social media reputation<sup>24</sup>”.

Reputation is an aggregate composite of all previous transactions over the life of the entity, a historical notion, and requires consistency of an entity’s actions over a prolonged time for its formation.

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<sup>19</sup> When we talk about Chapter 11 we mean the reorganization under the bankruptcy laws of the United States that we can find out in the chapter 11 of the United States Bankruptcy

<sup>20</sup> It is a pejorative term used by media, labor organizations, and others to describe a wide range of activities undertaken to disrupt or prevent the formation of trade unions. Union busting tactics can refer to both legal and illegal activities, and can range anywhere from subtle to violent.

<sup>21</sup> Bankruptcy is a legal status of a person or other entity that cannot repay the debts it owes to creditors. In most jurisdictions, bankruptcy is imposed by a court order, often initiated by the debtor.

<sup>22</sup> Chiara Mauri, *Product&Brand Management*, 2004 Egea, pp. 201-202

<sup>23</sup> Company’s reputation on every type of media: Radio, Television, Internet ext

<sup>24</sup> Company’s reputation on every type of social media: Facebook, Twitter, Instagram, Google+ ext

A corporate reputation is a collective representation of a firm's past actions and results that describes the firm's ability to deliver valued outcomes to multiple stakeholders. It gauges a firm's relative standing both internally with employees and externally with its stakeholders, in both its competitive and institutional environment.

Corporate reputation is a stakeholder's overall evaluation of a company over time.

This evaluation is based on the stakeholder's direct experiences with the company, any other form of communication and symbolism that provides information about the firm's actions and/or a comparison with the actions of other leading rivals.

Moreover, according to "*Ilsole24ore*", the most famous and popular Italian newspaper about finance, the *online reputation* is decisive for a brand: it plays from 5% to 9% of a company's turnover<sup>25</sup>.

"At this point, it is clear and evident that the reputation plays a double role:

- On one hand, it could be considered as a reducing (of) uncertainty for stakeholders, which obtain benefits thanks to the lack of information and to elevated/raising costs for researching of direct information;
- On the other hand, it represents an "intangible strategic asset"<sup>26</sup> that is able to generate considerable and notable incomes and competitive advantages, which will improve a company's performances, especially social and financial performances. Scientific researches show that having a positive reputation allows the company to get better quality perception of its goods and services, to ask for a "premium price"<sup>27</sup>, to affect customer's purchase intention and to enhance its market-share or to maintain consumer loyalty, to reduce sale costs, to attract better resources (like workforce more-highly-qualified employees, lower cost of capital and a high level of partnerships), to benefit from a larger and more common

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<sup>25</sup> Biagio Simonetta, *Ilsole24ore*, 12 Ottobre 2015, *False recensioni online fuori controllo, il business vale il 5-9% delle vendite*. Available at <http://www.ilsole24ore.com/art/mondo/2015-10-12/il-business-false-recensioni-online-che-tiene-e-commerce-sotto-scacco-144121.shtml>. Accessed 31 March 2016.

<sup>26</sup> Assets that are needed by an entity in order for it to maintain its ability to achieve future outcomes. Without such assets the future well being of the company could be in jeopardy.

<sup>27</sup> Or "Price Premium" or "Relative Price", is the percentage by which a product's selling price exceeds (or falls short of) a benchmark price. Marketers need to monitor price premiums as early indicators of competitive pricing strategies. Changes in price premiums can also be signs of product shortages, excess inventories, or other changes in the relationships between supply and demand.

presence on mass media, to create strong goodwill<sup>28</sup>, useful to protect the company during a crisis.

It goes without mentioning that a company with a serious and well-established credit in the market must keep it over the time, performing according to stakeholders' expectations, involving at the same time all the staff of the establishment<sup>29</sup>."

In order to assess a firm, we have to take into account not only shareholders' opinion, but as a whole we have to focus on stakeholders' opinion<sup>30</sup>. Therefore, for getting a "Good Reputation", it is crucial taking on board the following firm-size:

- *Leadership*, that explains the level where by the corporation rules the market;
- *Vision*, what the company thinks to do in its business in a short or long period of time;
- *Customer focus*, ways thanks to which the company takes care of its consumers and goes to meet their needs;
- *Quality of products*, the company has to keep the quality of its products at a high level, by ensuring innovation as well;
- *Emotional appeal*, useful for measuring if a firm is popular, welcomed, admired by costumers and by people. It depends on relations that the firm has with them.

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<sup>28</sup> Goodwill is an intangible asset that arises when a buyer acquires an existing business. Goodwill represents assets that are not separately identifiable. Goodwill does not include identifiable assets that are capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset, or liability regardless of whether the entity intends to do so. Goodwill also does not include contractual or other legal rights regardless of whether those are transferable or separable from the entity or other rights and obligations. Examples of identifiable assets that are not goodwill include a company's brand name, customer relationships, artistic intangible assets, and any patents or proprietary technology. The goodwill amounts to the excess of the "purchase consideration" (the money paid to purchase the asset or business) over the total value of the assets and liabilities. It is classified as an intangible asset on the balance sheet, since it can neither be seen nor touched.

<sup>29</sup> Roberto Paolo Nelli, Corporate Reputation: Valore per l'impresa, garanzie per il consumatore, pag. 98

<sup>30</sup> The difference between a "shareholder" and a "stakeholder":

- *A shareholder*, also called *stockholder*, is an individual or institution (including a corporation) that legally owns a share of stock in a public or private corporation. Shareholders are the owners of a limited company. They buy shares which represent part ownership of a company. But they are considered by some to be a subset of a huger category:
- *Stakeholders*, which may include anyone who has a direct or indirect interest in the business entity. For example, employees, suppliers, customers, the community, etc., are typically considered stakeholders because they contribute value and/or are impacted by the corporation.

- *Social responsibility*, dealings with its community, with its employees, with its surroundings/environment. It is essential to analyse and study a company's level of good citizenship<sup>31</sup>
- *Quality of management*, basically, management's efficiency;
- *Financial performance*, investors' perception about a company's capability to create profits and incomes, to generate growth for the future, to manage the debt and to cope with business risk;
- *Employees*, if a company invests to create a professional workforce;
- *Industry reputation*, company's reputation within its sector.

The company needs to be careful and pay attention to all of these things if it wants to beat the market, to increase its profits and to avoid a dangerous and bad reputation.

## 1.4 Reputation Building

Reputation is what people think about you;

Reputation is linked and connected to your behavior;

Reputation, for a company, is how customers see a business for what it did, it does and it will do;

Anyway, "various fields, including economics, strategy marketing, organization theory, sociology, communications and accounting are contributing to the burgeoning literature on corporate reputation."<sup>32</sup>

- "In Economics, Reputations are traits or signals that describe a company's probable behaviour in a particular situation;
- In Strategy: reputation are intangible assets that are difficult for rivals to imitate, acquire, or substitute, and so create mobility barriers that provide their owners with a sustained competitive advantage";

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<sup>31</sup> A good citizen is one who properly fulfills his or her role as a citizen

<sup>32</sup> Van Riel, C. and Fombrun, J. C. (1997). 'The Reputational landscape', *Corporate Reputation Review*, Volume 1, Number 1, pp. 5-13

- “In Marketing: reputation describes the corporate associations that individuals establish with the company name“
- In Communication: reputations are corporate traits that develop from relationships companies establish with their multiple constituents<sup>33</sup>”

About that, *Dr. Charles Fombrun*, in a interview, argues: “I’m often asked what are reputations. It is a topic that fascinated means, I was a college student, and in part because reputations are the (im)portant asset that we all carry with us wherever we go; it is what were known to be, what were known for....what you want to become, what you want to be known as, what you want to be remembered and ultimately is about that what have you contributed to world, what have you contributed to people around you. The Reputations are really perceptions other people have of you whether you are a company, an individual, a country, a city, any social entity. You have a reputation! What have you delivered to those people, what have you lived up to, in terms of the promises you have made...<sup>34</sup>”.

But a corporate reputation may be also measured and quantified mathematically:

“The criteria used to measure a company’s reputation vary widely, and depend on the principal constituency a particular magazine, book, or social monitor is targeting. Nonetheless, there are demonstrable areas of convergence across lists. Summarized in this section are six sets of criteria that appear to dominate the construction of the reputational ratings published by the media and by social monitors.

1. Financial performance
2. Raters attempting to judge a company’s social responsibility generally recognize the importance of the company’s financial health.

Specific criteria used to judge financial health include profitability, earnings growth, earnings per share, and return on investment data.

3. Product quality

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<sup>33</sup> Charles J. Fombrun, Naomi A. Gardberg and Joy M. Sever; *The Reputation Quotient: a multi-stakeholder measure of corporate reputation*, Journal of Brand Management 07/2013; 7(4). DOI: 10.1057/bm.2000.10, page 243

<sup>34</sup> What is reputation? Dr. Charles Fombrun, founder and chairman, reputation institute. Interview available at: <https://www.youtube.com/watch?v=6uLnziYanXM>.



Better-regarded companies appear to earn reputation by offering better quality and more innovative products and services. Their reputations suffer when they produce controversial products (ie tobacco, alcohol, nuclear energy, weapons, unhealthy foods).

#### 4. Employee treatment

Better-regarded companies are generally expected to offer greater job security, better relative pay, have good labor relations; better health benefits, retirement benefits, employee stock ownership, and profit sharing. Raters favor companies whose employees demonstrate enjoyment and pride on the job, and whose employees have regular and close contact with top management.

5. Community involvement Depending on a company's size and industry focus, a company's involvement with local communities will vary widely. Companies that earn reputation from their community involvement appear to make more charitable contributions, encourage more employee volunteer programs, and have greater local economic impact (tax revenues, jobs, and investments).

6. Environmental performance: Companies that earn kudos and reputation from reduced environmental impact have fewer Superfund sites; lower Toxic Release Inventory (TRI) data; a better history of environmental accidents, fines and permit violations; and participation in voluntary environmental programs (ie EPA Toxics 33/50, Green Lights, Responsible Care, CERES).

#### 7. Organizational issues

Better-regarded companies are also expected to establish an organizational infrastructure that supports not only equality of opportunity and diversity, but also that stimulates good environmental performance and improved ethical behavior. Mission statements, ethical and environmental audits, and senior executive appointments are organizational signals that better regarded companies appear to broadcast. A true reputational index can only result from sampling a representative set of stakeholders on a conceptually relevant set of criteria.<sup>35</sup>

What happened in the past will influence your reputation!

Corporate Image, Corporate Identity and Corporate Communications are different, because of their different meanings but, at the same time, they are strongly connected.

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<sup>35</sup> *Indices of Corporate Reputation: An Analysis of Media Rankings and Social Monitors' Ratings*; Charles J. Fombrun, New York University, Stern School of Business.

First of all, “Corporate communication is a set of activities involved in managing and orchestrating all internal and external communications aimed at creating favourable point of view among stakeholders on which the company depends.”<sup>36</sup>

“Corporate communications is the aggregate of messages from both official and informal sources, through a variety of media, by which the company conveys its identity to its multiple audiences or stakeholders. In short, it is the nexus between the company’s identity and its image/reputation.”<sup>37</sup>

It is also useful to explain the ‘*Corporate identity*’.

“It is the reality of the corporation. It refers to the distinct characteristics of the organization or, stated very simply, ‘what the organization is’.”<sup>38</sup>

“The management of a corporate identity involves the dynamic interplay amongst the company’s business strategy, the philosophy of its key executives, its corporate culture, and its organizational design. The interaction of these factors results in differentiating the firm from all others, making, to use a marketing metaphor, its ‘corporate brand’ distinct.”<sup>39</sup>

Moreover, “a *Corporate Visual Identity* provides an organisation with visibility and ‘recognizability’.”<sup>40</sup>

Instead the *Corporate Image*? It is a status for the company as well;

It is: “the mental picture of the company held by its audiences—what comes to mind when one sees or hears the corporate name or sees its logo.”<sup>41</sup>

“Corporate image, is the immediate mental picture that audiences have of an organization.”

“The ‘image’ is what the public is supposed to see when the corporation is mentioned. In the absence of active efforts, corporate image “simply happens”: it is how a company is perceived. Management, however, may actively attempt to shape the image by communications, brand selection and promotion, use of symbols, and by publicizing its actions. Corporations trying to

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<sup>36</sup> Riel, Cees B.M. van; Fombrun, Charles J. (2007). *Essentials Of Corporate Communication*: Abingdon & New York: Routledge.

<sup>37</sup> Edmund R. Gray and John M. T. Balmer, *Managing Corporate Image and Corporate Reputation*, pp.696, Long Range Planning Vol. 31 October 1998

<sup>38</sup> Van C. Riel, *Principles of Corporate Communication*, Prentice Hall, London (1995).

<sup>39</sup> Edmund R. Gray and John M. T. Balmer, *Managing Corporate Image and Corporate Reputation*, pp.695, Long Range Planning Vol. 31 October 1998

<sup>40</sup> Balmer and Gray, 2000; Dowling, 1993; Du Gay, 2000

<sup>41</sup> Edmund R. Gray and John M. T. Balmer, *Managing Corporate Image and Corporate Reputation*, pp.695, Long Range Planning Vol. 31 October 1998

shape their image are analogous to individuals who will dress appropriately, cultivate courteous manners, and choose their words carefully in order to come across competent, likeable, and reliable. the image should match reality. When it does not, the consequence will be the opposite of the one intended. A corporate image is, of course, the sum total of impressions left on the company's many publics. In many instances a brief, casual act by an employee can either lift or damage the corporate image in the eyes of a single customer or caller on the phone. But the overall image is a composite of many thousands of impressions and facts. The major elements are 1) the core business and financial performance of the company, 2) the reputation and performance of its brands ("brand equity"), 3) its reputation for innovation or technological prowess, usually based on concrete events, 4) its policies toward its salaried employees and workers, 5) its external relations with customers, stockholders, and the community, and 6) the perceived trends in the markets in which it operates as seen by the public. Sometimes a charismatic leader becomes so widely known that he or she adds a personal luster to the company.<sup>42</sup>

In summary: "Corporate reputation, on the other hand, indicates a value judgement about the company's attributes. Corporate reputations, typically, evolve over time as a result of consistent performance, reinforced by effective communication, whereas corporate images can be fashioned more quickly through well-conceived communication programmes. Corporations want to project an accurate and positive image to their stakeholders. They also covet a favorable reputation in the minds of these constituents. Consequently, its image and reputation in the eyes of its stakeholders is important to the company. The principal stakeholders with whom most large corporations must be concerned are: customers, distributors and retailers, suppliers, joint venture partners, financial institutions and analysts, shareholders, government regulatory agencies, social action organizations, the general public, and employees. The reputation of the company in the eyes of these groups will influence their willingness to either provide or withhold support. Thus, if its customers develop a negative perception of the company or its products, its sales and profits assuredly will decline."<sup>43</sup>

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<sup>42</sup> Available at <http://www.inc.com/encyclopedia/corporate-image.html>. Accessed April 10, 2016.

<sup>43</sup> Edmund R. Gray and John M. T. Balmer, *Managing Corporate Image and Corporate Reputation*, pp.697, Long Range Planning Vol. 31 October 1998

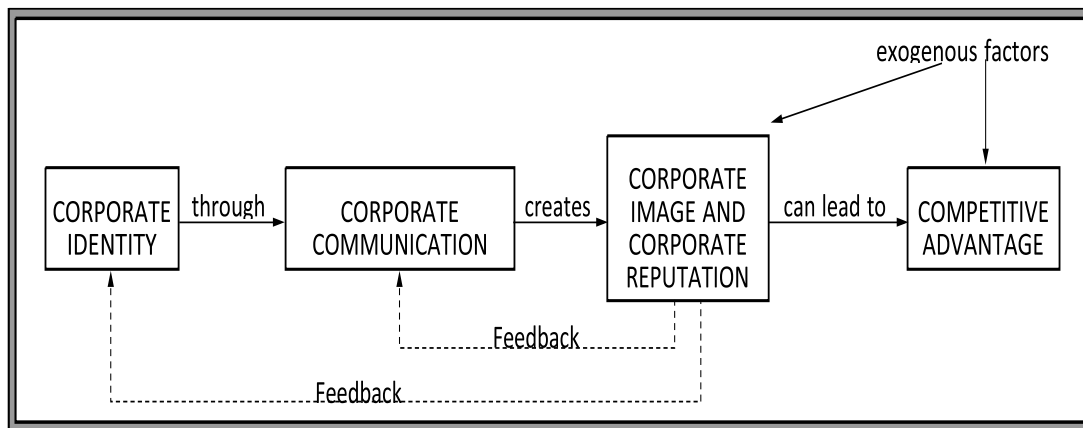


FIGURE 2. Operational model for managing corporate reputation and image.<sup>44</sup>

## 1.5 A link between reputation and management

What about “Reputation Management”?

“An empirical study of Fortune 500 companies suggests that “reputation management” is gaining ground as a driving philosophy behind corporate public relations. Whether the phenomenon is a trend or a fad is not clear, given the lack of consensus in defining reputation, the instability and questionable validity of reputation measures, and unanswered questions about when and how (or even whether) reputation can be “managed.” Besides reputation management, corporate public relations departments in the study embraced a wide variety of other definitions of their function, suggesting that public relations continues to have great difficulty in defining itself. While the study did not find a strong correlation between reputation and overall spending on corporate communication activities,

as had a similar study the prior year, it did find some interesting correlations between reputation and specific categories of spending<sup>45</sup>.”

<sup>44</sup> Edmund R. Gray and John M. T. Balmer, *Managing Corporate Image and Corporate Reputation*, pp.696, Long Range Planning Vol. 31 October 1998

<sup>45</sup>James G Hutton, Michael B Goodman, Jill B Alexander, Christina M Genest,; *Reputation management: the new face of corporate public relations?*, Public Relations Review, Volume 27, Issue 3, Autumn 2001, Pages 247-261

After a scandal or a disaster in which a company is involved, the brand's image could be damaged with harsh consequences on the financial and economic stability. This event could be followed by a crisis in confidence in the company, by customer loss, a decrease in sales, a reduction in profits and, at the end, with the failure.

Anyway, the term refers to controlling and to govern an individual's or a business's reputation. It includes/involves Online Reputation Management (ORM) as well. Basically, this is the process of controlling what shows up when someone Googles your name or brand's name. This type of Reputation management sometimes referred to as *rep management*, *online reputation management* or ORM, is the practice of attempting to shape public perception of a person or organization by influencing online information about that entity. "Specifically, reputation management aims on monitoring the reputation of an individual or a brand on the internet, addressing content which is potentially damaging and using customer solutions to get feedback or early warning signals about reputation problems<sup>46</sup>. Most of reputation management is focused on pushing down negative search results<sup>47</sup>. Under business circumstances, reputation management may attempt to bridge the gap between how a company perceives itself and how others see it"<sup>48</sup>. Obviously, for a better ORM, *Social Media Monitoring* is crucial<sup>49</sup> and with it, the well-known *Web 2.0* as well<sup>50</sup>.

What about *Social Media Monitoring*? What is it exactly?

"Social media has accelerated the speed of a crisis' information. The viral effect of social networks such as Twitter means that stakeholders can break news faster than traditional media - making managing a crisis harder<sup>51</sup>. This can be calmed by having the right training and policy in place as well as the right social media monitoring tools to detect signs of a crisis breaking. Social media also

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<sup>46</sup> Milo, Moryt (2013-05-17). *Great Businesses Lean Forward, Respond Fast*. Silicon Valley Business Journal. Retrieved 2013-09-05.

<sup>47</sup> Lieb, Rebecca (July 10, 2012). *How Your Content Strategy Is Critical For Reputation Management*". MarketingLand. Retrieved June 12, 2012.

<sup>48</sup> *MT Masterclass - Reputation management*. Management Today. May 1, 2007.

<sup>49</sup> Social Media Monitoring is a way to controll, to analyse and to research our online reputation. It happens thanks to the *human research approach*, i.e. with the simulation of a user's behaviour that is surfing the internet

<sup>50</sup> Web 2.0 is an expression used often to explain the evolution of the classic World Wide Web, referred to as Web 1.0 or Static Web as well, into a new and more up-to-date version. With this term we mean all the online application which allow an interaction between the web site and the user, like for example blogs, forum, chats, wikis, media share-platforms like Flickr, Toutube, Vimeo, the social network like Facebook, Myspace, Twitter, Google+, LinkedIn, Foursquare and so on.

<sup>51</sup> Available at [https://issuu.com/steelhenge/docs/socialmedia\\_crisis?e=5341975/2595281](https://issuu.com/steelhenge/docs/socialmedia_crisis?e=5341975/2595281). Accessed on 4 April 2016

gives crisis management teams access to live information about how a crisis is impacting stakeholder sentiment and the issues that are of most concern to them<sup>52</sup>.”

A proactive approach to the matter consists of monitoring your public reputation on a regular basis, and not just when you come across a specific event to deal with. How do you do this? The magic tools invented to solve this problem fall under the name of “social media monitoring.”

Social media monitoring allows companies to gather public online content (from blogs to tweets, from online reviews to Facebook updates), process it, and see whether something negative or positive is being said, affecting their reputation. *Social media monitoring* can be both DIY (Google Alert is an example of a free web monitoring tool accessible to anyone) and professional, depending on the size of the business involved. With this system, a company is able to measure what people are saying about it and in this way work better in its market.

However, just a few years ago, internet and its use were very different. Companies were not engaging customers but just selling to a passive audience; people could not express their voice in a powerful way, and the overall communication landscape was very “top down”.

The situation has radically changed. Today, websites are no longer static brochures. User-generated content is a must and regular interactions on social networks are vital to any business success. No matter the size of your business, prospects, customers, clients... anyone and everyone are talking about you. They are tweeting about your latest product, leaving a comment on your blog, posting a Facebook update about their customer experience and much more. If you think you can skip it, or if you think you can make it without taking into account people’s voices, opinions, and reviews, think again.

A right *Reputation Management* is the first element to avoid the target of a *Bad Reputation*. For this, one of the most recent business commandments is “Be transparent.” Opening up to criticism and feedback seems to be beneficial for companies that embrace this new communication mode with their audience.

What does being “transparent” mean? Here are some examples:

- Allowing employees to talk about products and services
- Establishing a 1-to-1 communication channel
- Searching feedback

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<sup>52</sup>Lewis, Adam. *How to manage a social media crisis*. Available at <http://www.adamlewis.info/2011/09/how-to-avoid-a-social-media-crisis/>. Accessed on 4 april 2016

- Not hiding criticism, and addressing it publicly

Being transparent is risky but in the long run, not being transparent is even riskier.

Additionally, to improve its reputation, a company has to pay attention on lots of tools, for instance defamatory content such as:

- *Negative reviews*: Review sites allow users to express their opinion on your brand. Negative content can affect your sales, and addressing criticism on the site may not be enough.
- *Hate sites*: Some people go beyond simple negative reviews and create ad hoc websites with their opinions, some of them containing illegal content. So-called “hate sites” sometimes address companies and public figures with insults and false information.
- *Negative media coverage*: many times TV, print, and online media coverage impacts negatively on companies and brands.

To add up what reputation is, what its function is and why it is so important, we have to underline the significance of a quickly and politely reaction: In case of a customer complaint via Twitter, for example, or a prompt and “We are aware of the problem. We are working on it and will get back to you as soon as possible.” is better than a late reply with more information.



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<sup>53</sup> Graph available at [http://www.lindseyinteractive.com/wp-content/uploads/2015/08/reputation\\_management.png](http://www.lindseyinteractive.com/wp-content/uploads/2015/08/reputation_management.png).

## 1.6 Customer Attrition

Starting from the definition, *Customer Attrition*, also known as *customer churn*, *customer turnover* or *customer deficiency*, is the loss of customers or clients.

Banks, telephone service companies, Internet service providers, pay TV companies, insurance firms, and alarm monitoring services, often use *customer attrition analysis*<sup>54</sup> and *customer attrition rates*<sup>55</sup> as one of their key business metrics (along with cash flow and EBITDA) because the cost of retaining an existing customer is far less than acquiring a new one<sup>56</sup>. Companies from these sectors often have customer service branches which attempt to win back defecting clients, because recovered long-term customers can be worth much more to a company than newly recruited clients.

Companies usually make a distinction between *voluntary churn* and *involuntary churn*:

- *Voluntary churn*: it occurs due to a decision made by the customer to switch to another company or service provider;
- *Involuntary churn*: it occurs due to circumstances such as a customer's relocation to a long-term care facility, death, or the relocation to a distant location. In most applications, involuntary reasons are excluded from the analytical models. Analysts tend to concentrate on voluntary churn, because it typically occurs due to factors of the company-customer's relationship which companies control, such as how billing interactions are handled or how after-sales help is provided.

When companies are measuring their *Customer Turnover*, they typically make the distinction between *Gross attrition* and *Net Attrition*. The first one is the loss of existing customers and their associated recurring revenue for contracted goods or services during a particular period. The second one is gross attrition plus the addition or recruitment of similar customers at the original location.

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<sup>54</sup> Customer Relation Management (CRM) & Studies about customer behaviour

<sup>55</sup> "It is the number lost divided by the number at the start of the period and is typically expressed as a percentage (%) of all customers and on a monthly or annual basis. So for the customer attrition rate you would divide the number of customer lost by the total number of customers at the start of the period.

Attrition rate is also the compliment of Retention rate. If a company has a 20% attrition rate it will have an 80% retention rate.

It is an important variable to track in your business as it indicates how many new sales you have to make just to keep up with your losses."

Definition available at

<http://www.genroe.com/resources/glossary/customer-experience-management-definitions-and-glossary/attrition-rate>.

<sup>56</sup> Zero Defections: Quality comes to service., Reichheld & Sasser. Harvard Business review. 1990.



Financial institutions often track and measure attrition using a weighted calculation called *Recurring Monthly Revenue*<sup>57</sup> (or RMR).

Furthermore, we need to take care of the *Churn rate*: it is a measuring of customer or employee attrition, and is defined as the number of customers who discontinue a service or employees who leave a company during a specified period divided by the average total number of customers or employees over that same time period. For example, churn rate has been an ongoing concern of telephone and cell phone services in areas where several companies compete and make it easy to transfer from one service to another.

Changes in a business' churn rate can provide feedback for a company as it may indicate customer response to service, pricing, competition and so on, as well as the average length of time an individual remains a customer. As such, churn rate is an important business metric. To estimate future churn rates, predictive technology is sometimes applied, in a process known as predictive churn modelling.<sup>58</sup>

## 1.7 What is a ‘Corporate Scandal’?

The term “scandal” comes from the Greek σκάνδαλον (skandalon) which means “obstacle”, “tripping”. A scandal is something negative in which a company “trips” on. Who is it negative for? For the company or for the customers as well?

The answer is both.

It is both, because a scandal, that we could also called disaster, is the effect of an action, that after becoming public, provokes instability in customers’ faith.

And what are the consequences?

- *For the company*: customer churn, decrease in sales, decrease in profit and income and penalties;

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<sup>57</sup> Also know as Monthly Recurring Revenue (MRR), it is an income that a business is able to receive every month. “It is the portion of a company's revenue that is highly likely to continue in the future. This is revenue that is predictable, stable and can be counted on in the future with a high degree of certainty.” Definiton Available at <http://www.investopedia.com/terms/r/recurringrevenue.asp>.

<sup>58</sup> TechTarget, *What is churn rate? Predictive Churn Modeling*, Novemebre 2010 Available at <http://searchcrm.techtarget.com/definition/churn-rate>. Accessed 1 Aprile 2016

- *For clients:* feeling cheated, damages (ex. faulty goods), need to find a new brand able to solve their problem and able to satisfy their needs.

“Corporate scandals generate public scrutiny of organizational communication practices, invoke discourses about systemic change, and problematize firms’ legitimacy as communication agents.

We have to situate corporate scandal as a crucial social problem that organizational communication scholars can usefully inform, and they propose the theory of the firm as an important analytic lens that confronts key organizational questions at the heart of contemporary scandals<sup>59</sup>.

To elaborate our claim and set the stage for our analysis, we begin by characterizing key features of the surge of corporate scandals;

Specifically, we sketch three forms of scandal and three common discourses about their underlying “cause.”

- A first and perhaps the most common type of scandal involved fraudulent accounting practices, which consisted in booking earnings for nonexistent or counterfeit transactions (e.g., at Dynegy, Edison Schools, Global Crossing, Qwest, Xerox, and WorldCom<sup>1</sup>), Channeling corporate profits for individual use (e.g., Adelphia and Tyco), creating phantom affiliates or “special purpose entities” to record transactions and disguise debt (e.g., Enron, Adelphia, and Dynegy) or manipulating results to avoid taxation (e.g., Tyco and Enron).
- A second and related form of scandal entailed the misuse of Stock options and questionable loans in publicly traded firms. Most of the companies under scrutiny granted enormous incentive packages to executives in the form of future-oriented options to buy and sell company shares, thinking that by connecting executive compensation with a measure of performance (stock price) would benefit all parties.
- A third form, but not the last, of scandalous activity: collusive relationships among supposedly independent parties,

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<sup>59</sup> TIMON KUHN & KAREN LEE ASHCRAFT, *Corporate scandal and the theory of the firm*, Formulating the Contributions of Organizational Communication Studies; Management Communication Quarterly, Vol. 17, No. 1, August 2003 Sage Publications

such as firm managements, financial analysts, banks, auditors and boards of directors. For example, Arthur Andersen was crippled by client defections following accusations that it aided deceptive practices at Enron and then obstructed justice<sup>60</sup>.

Having said this, how about the fourth, the most important and last form of scandal?

Let us analyse this important aspect in the next chapter.

## **CHAPTER II:** *Beyond theory into practise: (All the cases & the reasons behind the customer attrition and the Ethical scandal)*

“Corporate failures can arise for various reasons. One reason is exogenous factors that have negative impacts on the firm’s business—for example, changing technology doomed most messenger systems. Another reason is bad choices made by management. Additionally, failure can arise from poor governance, even fraud:<sup>61</sup>” this type of failure brings the company to a scandal or a disaster.

At this point, it’s extremely important to explain and understand what we are saying and what we mean by “fraud,” “scandal,” and “disaster”. To do this, we shall start from one of the most famous cases of crisis born from a financial fraud: The Parmalat Crack.

### **2.1 The Parmalat Scandal**

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<sup>60</sup> TIMON KUHN & KAREN LEE ASHCRAFT, Corporate scandal and the theory of the firm, Formulating the Contributions of Organizational Communication Studies; Management Communication Quarterly, Vol. 17, No. 1, August 2003 Sage Publications

<sup>61</sup> “*The benefits and costs of controlling shareholders: the rise and fall of Parmalat*”, Bonnie Buchanana, Tina Yangb,<sup>1</sup> a Department of Finance, Faculty of Economics and Commerce, University of Melbourne, Melbourne, Vic. 3010, Australia b Department of Banking and Finance, Terry College of Business, University of Georgia, Athens, GA 30602, USA; pp. 37

Accepted 23 October 2004 Available online 26 January 2005

## 2.1.1 Parmalat's history before the crisis: a short introduction

“Parmalat was founded in 1961 by Calisto Tanzi. In 1966, Tanzi came across a Swedish pasteurizing technology called UHT (or ultra-high temperature). UHT milk was promoted as tasting the same as refrigerated milk, but could last up to 6 months on a shelf. UHT milk formed the basis of Parmalat's operations around the world.”<sup>62</sup>

From this success, two decades later, the company had grown into a multinational corporation diversifying into milk, dairy, beverage, bakery, and other product lines in the 1980s, becoming listed on the Milan stock exchange in 1990 and expanding further in the '90s. By April 22, 2002, Parmalat's share price had reached a record and the company was valued at €3.7bn, employing over 30,000 people in 30 countries.

## 2.1.2 Parmalat's Bankruptcy Timeline

However, problems came one year later:

“In 2003, the multinational Italian dairy and food corporation, Parmalat, collapsed with a €14 billion (\$20bn; £13bn) hole in its accounts, which remains Europe's biggest bankruptcy.”<sup>63</sup>

“Investigations soon revealed that a bank account that supposedly held 3.95 billion euros, or \$4.1 billion, at the end of last year did not exist. Now it appears that other assets were also fictional, investigators said.”<sup>64</sup>

“The US Securities and Exchange Commission called it ‘one of the largest and most brazen financial frauds in history’...The collapse did not remain

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<sup>62</sup> “*The benefits and costs of controlling shareholders: the rise and fall of Parmalat*”, Bonnie Buchanana, Tina Yangb, <sup>1</sup> a Department of Finance, Faculty of Economics and Commerce, University of Melbourne, Melbourne, Vic. 3010, Australia <sup>b</sup> Department of Banking and Finance, Terry College of Business, University of Georgia, Athens, GA 30602, USA; pp. 33

Accepted 23 October 2004 Available online 26 January 2005

<sup>63</sup> “*Italian dairy boss gets 10 years*”. BBC News. 2008-12-18. Retrieved 2013-12-29

<sup>64</sup> Available at: <http://www.nytimes.com/2003/12/24/business/corporate-conduct-market-place-at-parmalat-the-auditors-never-noticed.html>. Accessed April 20, 2016

localized for long, quickly escalating into a global scandal by implicating several leading accounting firms and several of the world's largest banks.”<sup>65</sup>

And more: “It’s been dubbed “Europe’s Enron” – the saga that has engulfed Italy’s milk-processing giant Parmalat and its senior executives, blue-chip European and American banks, accountancy firms, politicians and 130,000 hapless small shareholders following the discovery in 2003 of a \$14bn black hole in its finances.

The revelation triggered an eight year marathon of court cases in Europe and America, the disgrace of the Tanzi family that controlled Parmalat, at least one death, the collapse into administration of one of Europe’s most successful football clubs, and grave misgivings about the quality of governance in Italy’s boardrooms. And it is still going on.

Here is a snapshot of the highlights.

- During the 80s and 90s, Parmalat was hailed as a jewel in Italian commerce as entrepreneur Calisto Tanzi converts his father’s ham retailer in the city of Parma into a global dairy and food giant largely on the basis of long-life milk.

- In 2003, bondholders learn that nearly €4bn of funds in a Bank of America account were non-existent. The bank says the transfer document is a forgery. Trading in Parmalat shares are frozen. Tanzi, various family members and several executives were arrested, including feared chief financial officer Fausto Tonna, who tells journalists “I wish you and your families a slow and painful death” as he enters court. At the firm’s offices, investigators find smashed computers and thousands of shredded documents.

- In 2004, Parmalat’s debts are fixed at €14.3bn, eight times what the firm had admitted. After initial denials, Luca Sala, Bank of America’s former chief of corporate finances in Italy, admits to have participated in a kickback scheme. Furious

US creditors file a \$10bn class action suit against Parmalat’s former auditors and bankers while Parmalat’s administrators under replacement chief executive Enrico Bondi separately sue Bank of America, Citigroup, Deloitte & Touche and Grant Thornton for \$10bn each. The US SEC calls the affair a “brazen corporate financial fraud.”

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<sup>65</sup> “The benefits and costs of controlling shareholders: the rise and fall of Parmalat”, Bonnie Buchanana, Tina Yangb,<sup>1</sup> a Department of Finance, Faculty of Economics and Commerce, University of Melbourne, Melbourne, Vic. 3010, Australia b Department of Banking and Finance, Terry College of Business, University of Georgia, Athens, GA 30602, USA; pp. 28

Accepted 23 October 2004 Available online 26 January 2005

- In 2005, Bondi relists a reconstructed Parmalat on the Milan exchange while various trials are going on in Milan.
- In 2008, Fausto Tonna is given a two and a half year jail sentence as the mastermind of a complex web of offshore subsidiaries to disguise the company's parlous position. Five banks – Bank of America, Citigroup, Morgan Stanley, Deutsche Bank and UBS – stand trial in Milan on charges of market-rigging.
- In December 2010, Calisto Tanzi, now 72, is given an 18-year sentence and launches an appeal. Meanwhile the new-look Parmalat has recouped more than €2bn in bank settlements.
- In April 2011 after a three year trial, a Milan court acquits four banks – Morgan Stanley, Bank of America, Deutsche Bank and Citigroup – of market-rigging. Prosecutors had demanded that €120m of the banks' profits be impounded. Describing it as “the death of consumer rights,” a consumer watchdog promises to join shareholders in another case to challenge the verdict. Meanwhile French firm Lactalis launches a takeover bid for Parmalat, which is blocked by the Italian government.”<sup>66</sup>

### **2.1.3 Parmalat: nowadays in brief**

“Parmalat S.p.A., which is listed on the Italian Stock Exchange, is controlled by the Lactalis Group since July 15, 2011. The Parmalat Group is a global player in the production and distribution of foods that are essential for everyday wellness: milk, dairy products (yogurt, cream based sauces, desserts and cheese) and fruit beverages, which generated revenues of about 5.6 billion euros in 2014. More than 16,000 people work at Parmalat's facilities in Europe, America, Africa and Australia. The Group is present in 33 countries and has 73 factories.

Parmalat has a strong tradition of innovation and develops products with a high value added to improve the diet of its customers. The global brands of the Group are Parmalat for milk and dairy products and Santal for fruit beverages. Zymil, Vaalia and Omega 3 are international brands dedicated to functional products with a high value added. Among these, there are other local brands that play a key role in their respective markets: Beatrice, Lactantia, Black Diamond and Astro in Canada; Pauls, Ice Break, Oak and Breaka in Australia; Centrale del Latte di Roma, Chef, Berna, Sole, Puro Blu and Carnini in Italy; Sorrento and Precious in the United States of America; Frica

<sup>66</sup> Available at: <http://www.worldfinance.com/home/special-reports-home/the-parmalat-scandal>. Accessed April 19, 2016

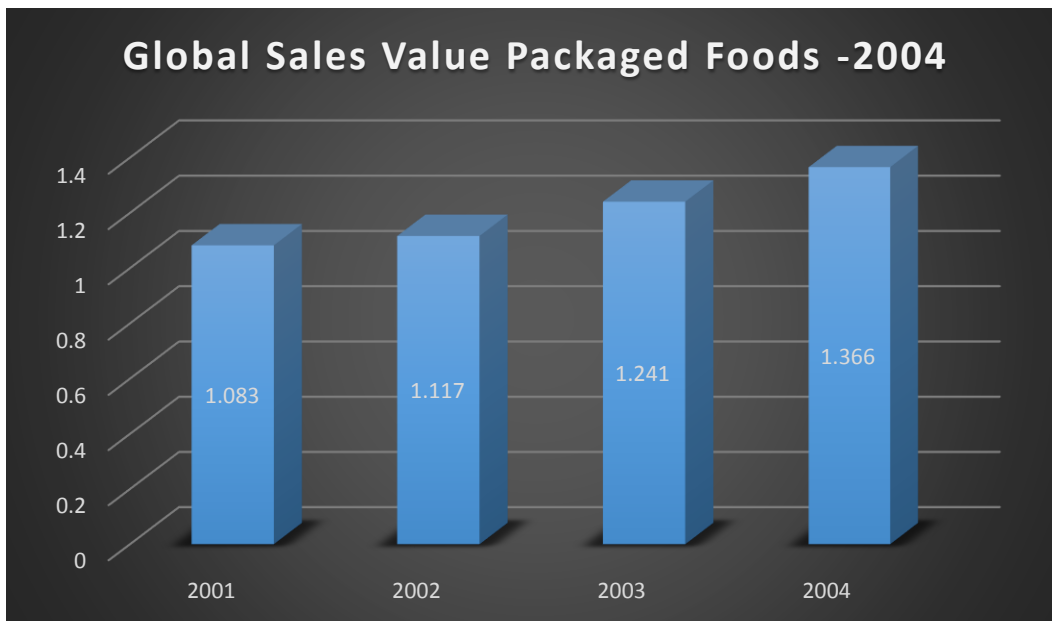
and La Campiña in Venezuela; Bonnita, Everfresh, Simonsberg, Melrose, Steri Stumpie and Purejoy in South Africa; Proleche in Colombia; Galbani and Président, brands in exclusive license to the LAG Group, in America.<sup>67</sup>”

## 2.1.4 Records&Statistics about Parmalat: before and after the crisis

Before the fraud, Parmalat dominated the market, thanks to a global growth as well:

“The global market for Packaged Foods, which is the area in which the Group does most of its business, is valued at about US\$1.4 trillion (Source: IMIS Euromonitor). It is a defensive business, affected only minimally by changes in the economic cycle, and has reached a mature stage, with a medium growth rate (CAGR of 4.5% in the last five years). However, niche markets with attractive opportunities and room for growth, such as Functional Foods, are still available.”

In the following graph, all these things are clearer:



Parmalat Annual Report 2005<sup>68</sup>

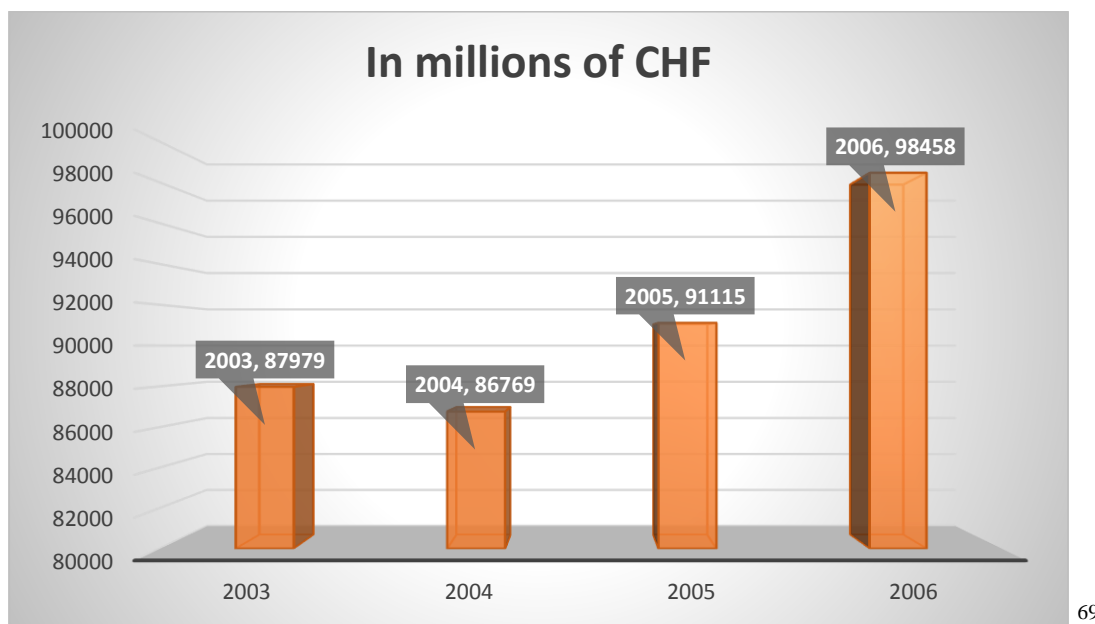
<sup>67</sup> Available at: [http://www.parmalat.com/en/about\\_us/parmalat\\_in\\_brief/](http://www.parmalat.com/en/about_us/parmalat_in_brief/). Accessed April 19, 2016

<sup>68</sup> Available at: <http://www.parmalat.com/attach/content/54/Report%202005.pdf>. Accessed 21 April 2016.

Instead, concerning Parmalat's competitors, the argument is complicated because of the same food industry. In the dairy market, the company has to compete with Nestlé, Danone, Granarolo, Dean Food and so on. In the beverage market, Parmalat competes with Coca-Cola and Pepsi-Cola.

If we put our attention on the dairy market, which is probably the most important market in which Parmalat operates, we could analyse the hardest company's competitor: Nestlé S.p.A.

Here is the competitor's trend before and after Parmalat's fraud:



It is evident that Nestlé has a bigger market share than Parmalat, both before and after the financial fraud of 2003.

Furthermore, it is also evident as the French multinational benefited from what happened to the Italian company. In fact, Nestlé's sales increased consistently after 2004.

The Parmalat crisis was an opportunity, for its competitor, to consolidate and improve the market position:

<sup>69</sup> Nestlé Annual Report 2004, 2005 and 2006. Available at: [http://www.nestle.com/asset-library/documents/library/documents/financial\\_statements/2004-financial-statements-en.pdf](http://www.nestle.com/asset-library/documents/library/documents/financial_statements/2004-financial-statements-en.pdf); at: [http://www.nestle.com/asset-library/documents/library/documents/annual\\_reports/2005-management-report-en.pdf](http://www.nestle.com/asset-library/documents/library/documents/annual_reports/2005-management-report-en.pdf); at: [http://www.nestle.com/asset-library/documents/library/documents/annual\\_reports/2006-management-report-en.pdf](http://www.nestle.com/asset-library/documents/library/documents/annual_reports/2006-management-report-en.pdf); Accessed 21 April 2016.



“Excellent growth and another year of delivery of the Nestlé Model:

- Sales increased 7.5% to CHF 91.1 bn
- The Group’s organic growth reached 6.2%, above target of 5-6%
- Net profit rose 20.7% to CHF 8.0 bn; underlying EPS rose 12.9%.<sup>70</sup>”

## 2.1.5 The Sales of Parmalat over time

Analysing Parmalat Finanziaria’s Balance Sheet over time, we are able to figure out the increase and the decrease in sales, before and after the financial crack, having in this way also an idea about *Customer Attrition*:

Consolidated Statement of Income

Parmalat Finanziaria S.p.A. in Extraordinary Administration a December 31, 2004

| STATEMENT OF INCOME | 2004      | 2003      | Change |
|---------------------|-----------|-----------|--------|
| Sales               | 3,961,841 | 5,654,838 | -30%   |

*Parmalat Annual Report 2004*<sup>71</sup>

Following the crack, Parmalat’s sales have suffered a significantly slump in sales by almost 30%, passing through 6 million to 4.

Which were the reasons behind this slump?

Without entering into the financial aspect: On February 2003, we have the first financial difficulties for the Group, when Parmalat S.p.A. announces a bond issue just for institutional investors.

Although, the market refuses this issue and the company is forced to remove it. At the same time, the financial director of the company, Fausto Tonna, tenders his resignation and later he will be identified as one of the main architects of the financial fraud.”

<sup>70</sup> Available at: [http://www.nestle.com/asset-library/documents/library/documents/annual\\_reports/2005-management-report-en.pdf](http://www.nestle.com/asset-library/documents/library/documents/annual_reports/2005-management-report-en.pdf). Accessed 21 April 2016.

<sup>71</sup>From “Parmalat Finanziaria S.p.A.in Extraordinary Administration”; Report on Operations and Financial Statements at December 31, 2004; Available at: [http://www.parmalatinamministrazionestraordinaria.it/en/piano/Parmalat\\_2004\\_AR.pdf](http://www.parmalatinamministrazionestraordinaria.it/en/piano/Parmalat_2004_AR.pdf). Accessed April 21, 2016

Here the sales of the entire Group after being listed again:

Parmalat Group, 2005

| (in millions of euro) | 2004    | 2005    | Change        |
|-----------------------|---------|---------|---------------|
| Sales Revenues        | 3,732.2 | 3,876.3 | 144.1 ; +3,9% |

“Revenues increased, as compared with the previous year, totaling 3,876.3 million euros, or 144.1 million euros more than the 3,732.2 million euros booked in 2004 (+3.9%).<sup>72</sup>”

In 2006, only Parmalat S.P.A., :

Company, 2006

| (in millions of euro) | 2006  | 2005   | Change  |
|-----------------------|-------|--------|---------|
| Sales Revenues        | 841.9 | 878.4  | -4,3%   |
| Profit for the year   | 125.6 | (12.3) | +1.121% |

*Parmalat Annual Report 2006*<sup>73</sup>

Compared to the past, sales are decreased consistently, but anyway Parmalat has seen a relative growth of its market shares, thanks to the expansion of the global demand in 2006:

“The global dairy market, which is the Group’s primary market, is valued at about 240 billion euros (Source:IMIS Euromonitor 2006(\*)):( According to Euromonitor’s definition, the dairy market does not include butter or margarine.

It is a dynamic market (02-06 CAGR +4,6%), with growth rates that vary depending on the various geographic reasons.

<sup>72</sup> Available at: <http://www.parmalat.com/attach/content/54/Report%202005.pdf>. Accessed 21 April 2016.

<sup>73</sup> Available at: <http://www.parmalat.com/attach/content/267/Annual%20Report%202006.pdf>. Accessed April 21, 2016

Europe represents the area where this business is most developed in terms of market (accounts for 40% of the total), even if it has a moderate rate of expansion. South America and Africa represent the fastest growing markets (+8.4% and +7.2%, respectively).”<sup>74</sup>

However, in the last annual report, we can see as both Parmalat S.P.A. and Parmalat Group restarted to increase their sales and their revenues, with values close to the years before the financial fraud. It does not correspond necessarily to a growth in their net incomes or in their financial value, but they highlight how the number of customers has been increasing yet again:

Parmalat S.p.A. Annual Report, 2014

| NOTE REF.         | 2014        | 2013        | Change |
|-------------------|-------------|-------------|--------|
| Revenue           | 902,361,374 | 902,230,186 | +0,01% |
| Net sales revenue | 861,507,723 | 856,798,958 | +0,54% |

*Parmalat S.p.A. Income Statement*<sup>75</sup>

In fact, in 2014, Parmalat Group’s total revenue was about 5,6 billion euros, as we can see in the graph below:

Parmalat Group, 2014 (in millions of euro)

| NOTE REF.   | 2014    | 2013    | Change |
|-------------|---------|---------|--------|
| Revenue     | 5,586.3 | 5,404.9 | +3,3%  |
| Net revenue | 5,547.6 | 5,350.3 | +3,7%  |

*Parmalat Group Annual Report 2014*<sup>76</sup>

However, Parmalat’s recovery has already started in 2010.

<sup>74</sup> Available at: <http://www.parmalat.com/attach/content/267/Annual%20Report%202006.pdf>. Accessed April 21, 2016

<sup>75</sup> Available at: [http://www.parmalat.com/attach/content/4651/Parmalat\\_ENG\\_web.pdf](http://www.parmalat.com/attach/content/4651/Parmalat_ENG_web.pdf). Pp. 162. Accessed April 22, 2016

<sup>76</sup> Available at: [http://www.parmalat.com/attach/content/4651/Parmalat\\_ENG\\_web.pdf](http://www.parmalat.com/attach/content/4651/Parmalat_ENG_web.pdf). Pp. 262. Accessed April 22, 2016

How?

## 2.1.6 Parmalat born again

The Italian Government and the new Corporate Governance have played a significantly role in the process of Parmalat's rebuild after the fraud:

“In order to deal with Parmalat's crisis, at the end of December 2003 the Italian government issued a decree law 347/2003 (the “Parmalat decree”) to save the Italian Group from bankruptcy. The law introduced a series of derogations from the 1999 “Prodi-bis decree” and, above all, accelerated extraordinary administration proceedings. The special commissioner, Mr Bondi, presented a Parmalat group industrial and restructuring plan to the Minister of Industry and to the main trade unions in the agro-food sector (on 20 July 2004). The principal aim of the plan was to free Parmalat from its debts, given that the company, although vulnerable, had a positive operating margin and could therefore be self-sustaining.

The plan emphasized the good prospects of the divisions identified as constituting the core business of the future Parmalat - UHT milk, fresh milk, milk derivatives and fruit juices - and envisaged the creation of a joint-stock company that would take over the assets of the 16 companies of the Parmalat group and pay their creditors . Regarding Parmalat's debts, the new company would pay its secured creditors (the inland revenue, workers, artisans etc.) in cash, while paying all others with shares proportional to their claims against one or more of the 16 companies. The Italian government also provided assistance with the solution by giving creditor farm and haulage businesses, which had been affected by the crisis, access to credit on especially good terms....The aim of the corporate governance system is to protect and create value over time for the shareholders and other parties concerned. This aim is increased to the rank of “statutory principle” due to the fact that it is placed among the duties of the institutions.<sup>77</sup>”

How was it reborn? Giving more importance to your shareholder base:

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<sup>77</sup> 2nd Annual International Conference on Accounting and Finance (AF 2012)

*“Is the ‘new’ parmalat model of corporate governance a best practice in Italy?”*, pp. 83-84

Fabrizio Bavaa, Alain Devalleb; University of Turin, C.so Unione Sovietica 218 bis – 10134 Turin (ITALY), University of Turin, C.so Unione Sovietica 218 bis – 10134 Turin (ITALY)

“Parmalat, as mentioned above, was a family company with ownership concentration in only one person. On the contrary, “New Parmalat” is a company with a dispersed ownership that is a typical situation in the Anglo-Saxon and American companies.<sup>78</sup>”

Or better, until Lactalis acquired it in 2011.

“In order to provide the restructuring process of the Parmalat group, it has been necessary to totally rethink the Corporate Governance since New Parmalat was born with the main objective of regaining the trust from the market that they had lost....Good governance can be obtained by striking the right balance between compliance to the rules and attention to performance. In this framework, the financial community plays an important role, as Financial investors and market operators have to consider the monitoring of the short-term results to be not the only important aspect, as it is necessary in the meantime to evaluate the ability of the Company to create value in a long term period, following an ethical behaviour, and satisfying the stakeholders’ interests.<sup>79</sup>”

The improvement of the balance sheet was possible thanks to both the results by/of the industrial management and good negotiation completed in 2006.

In addition, good results in all the geographic areas in which Parmalat is present. This is possible thanks to the new mix of selling products, industrial and commercial initiatives and a positive exchange rate. In particular, this latter has a major impact on sales of +33,36 millions of euro (0,9% of all the sales)<sup>80</sup>”

Anyway, not all the scandals produce a customer attrition with a decrease in sales: lots of them burst because of a financial fraud, which has a different impact on customers’ buying decisions. In fact, they have nothing in common with scandal or disaster born thanks to misleading or defective products.

Parmalat has not disappointed its customers but its investors and its savers: It had to regain the trust of financial markets, institutional investors, investment funds, o intermediaries, banks and so on.

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<sup>78</sup> 2nd Annual International Conference on Accounting and Finance (AF 2012),

*“Is the ‘new’ parmalat model of corporate governance a best practice in Italy?”*, pp. 84

Fabrizio Bavaa, Alain Devalleb; University of Turin, C.so Unione Sovietica 218 bis – 10134 Turin (ITALY), University of Turin, C.so Unione Sovietica 218 bis – 10134 Turin (ITALY)

<sup>79</sup> 2nd Annual International Conference on Accounting and Finance (AF 2012),

*“Is the ‘new’ parmalat model of corporate governance a best practice in Italy?”*, pp. 89;

Riccaboni A., Guindani P., 2008.

<sup>80</sup> Available at: <http://www.distribuzionemoderna.info/successi-e-strategie/parmalat-inizia-la-ripresa>. Accessed April 22, 2016

So, Let us analyse these different cases in the next chapters.

## 2.2 Volkswagen's Emissions Scandal

### 2.2.1 Brief review behind the cheat

On 18 September 2015, the German automaker Volkswagen Group had intentionally programmed turbocharged direct injection (TDI) diesel engines to activate certain emissions controls only during laboratory emissions testing in USA.

“Volkswagen is accused of—and has admitted to—circumventing the emissions control system in about 550,000 vehicles sold in the United States since 2008 with the 2.0-liter diesel engine. As many as 11 million vehicles worldwide may be affected.

In mid-September, 2015, the EPA issued a notice of violation to Volkswagen AG, Audi AG, and Volkswagen Group of America (collectively VW) for failure to comply with Clean Air Act regulations. In November, the EPA notified the automaker about violations found with its 3.0-liter V6 diesel engine, as well. In doing so, the agency determined that certain Audi, Porsche, and Volkswagen models have been emitting more pollutants than legally acceptable, leaving in their wake potential environmental and health implications.<sup>81</sup>”

“The software sensed when the car was being tested and then activated equipment that reduced emissions, United States officials said. But the software turned the equipment down during regular driving, increasing emissions far above legal limits, most likely to save fuel or to improve the car's torque and acceleration.<sup>82</sup>”

But what is the real problem? It is explained below:

“Volkswagen lied to us. Its 11 million "clean diesel" cars have been polluting the air at up to 40 times the federal standard for years. Worse: It installed technology to hide the problem from

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<sup>81</sup> Available at: <http://www.consumerreports.org/cro/cars/guide-to-the-volkswagen-dieselgate-emissions-recall-> . Accessed 6 May 2016

<sup>82</sup> Available at: [http://www.nytimes.com/interactive/2015/business/international/vw-diesel-emissions-scandal-explained.html?\\_r=2](http://www.nytimes.com/interactive/2015/business/international/vw-diesel-emissions-scandal-explained.html?_r=2). Accessed 6 May 2016

emissions tests. The company is being punished by the markets. But that doesn't compensate either its customers or the rest of us, and it doesn't stop this from happening again.<sup>83</sup>”

Consumer Report has put together a four point test to judge Volkswagen: basically, It might to ensure their drivers get the car they have purchased

Obviously, Volkswagen might satisfy all the requests if it does not want to lose its customers and, with them, an important share in the automotive market.

In fact, the German car company, due to this scandal, is getting the famous *Bad Reputation*, that we have already explained in the first chapter.

Volkswagen immediately has tried to fix this in order to avoid customer attrition.

In which way? How? Simply by implementing a new marketing strategy, starting from the so-called “mea culpa”.

Immediately after the scandal, *The New York Times* said: “Volkswagen has admitted that 11 million of its vehicles were equipped with software that was used to cheat on emissions tests. The company is now contending with the fallout...Volkswagen agreed on April 21 to fix or buy back 480,000 affected Volkswagens and Audi A3 models with 2-liter engines in the United States. It remains unclear when the fixes or buybacks will occur and if and how much the company will compensate owners. The company has also yet to settle on what to do with the remaining vehicles in the United States, which all have 3-liter engines.<sup>84</sup>”

Moreover, “On the same day, Volkswagen announced it would overhaul its entire diesel strategy, saying that in Europe and North America it will switch “as soon as possible” to the use of selective catalytic reduction technology to improve diesel emissions. It also announced plans to accelerate the development of electric cars and plug-in hybrids, as well as petrol, instead of diesel engines for smaller cars.

In November, Volkswagen said it would install a small tubular part into some of its engines to help them come into line with European clean-air standards.<sup>85</sup>”

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<sup>83</sup> Available at: <http://www.consumerreports.org/cro/cars/guide-to-the-volkswagen-dieseltgate-emissions-recall-> . Accessed 6 May 2016

<sup>84</sup> Available at: [http://www.nytimes.com/interactive/2015/business/international/vw-diesel-emissions-scandal-explained.html?\\_r=2](http://www.nytimes.com/interactive/2015/business/international/vw-diesel-emissions-scandal-explained.html?_r=2). Accessed 6 May 2016

<sup>85</sup> Bryant, Chris; Wright, Robert; Sharman, Andy (13 October 2015), "Volkswagen changes diesel technology plan after emissions scandal", *Financial Times*, retrieved 13 October 2015

Avoiding the so-called “spillover effect” and the brand damage is essential.

Here, a company applies its strategies against a scandal’s effects, using a form of marketing based on communication.

These are certainly the first moves that a company might do after following a disaster where customers have been defrauded: admitting the faults, finding quick and temporary solutions to limit clients’ loss and their anger, and ensuring to do everything to fix it. This is a type of Marketing Communication developed by the Corporate Management, a marketing strategy that tries to reassure customers and save the brand image.

Having said that, what happened later? The promises must be kept in order to maintain a company’s corporate reputation.

In April 2016 after a turbulent 6 months:

“The current state of play in the Volkswagen diesel emissions scandal: compensation, recalls and sales figures.

Owners of the 500,000 cars in the US affected by the VW emissions scandal will be offered 'substantial compensation', and the option to sell their vehicle back to VW, after the VW Group struck a preliminary deal with US authorities over the diesel-gate emissions test violations.

Owners of affected vehicles will be given the choice of either selling their car back to VW, or having the company fix the vehicle so that it meets the US emissions standards without the cheat software that was built in. Any owner with a lease deal on their car will be allowed to cancel the finance agreement but no technical details of what the fix will involve have been released.

The agreement the Volkswagen Group has struck with US authorities covers the 482,000 vehicles with a 2.0-litre diesel engine found to contain the emissions test defeat device. The 90,000 VW Group vehicles with 3.0-litre six-cylinder diesel, which were also found to violate US emissions laws, albeit without the same defeat device on board are not covered by the deal.<sup>86</sup>”

You would think that is all. You are wrong: “In France, the MediaCom media agency, which buys advertising for Volkswagen, warned the French newspapers on 22 September that it would cancel planned Volkswagen and Audi campaigns in case they would cover the emission violations<sup>87</sup>”,

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<sup>86</sup> Available at: <http://www.autoexpress.co.uk/volkswagen/92893/vw-emissions-scandal-recalls-compensation-is-your-car-affected-latest-news>. Accessed 6 May 2016

<sup>87</sup> "Le chantage de Volkswagen pour faire taire la presse française", Le Canard Enchaîné, 30 September 2015



given the scale that the scandal had already taken by that time, the threat had little effect on its coverage.

And again, thanks to an advertising campaign, VW tried to convince the German market in the following way: “On the occasion of German Unity Day, Volkswagen launched an ad campaign in German Sunday-newspapers. In the ad Volkswagen stated that actually at this point it wanted to express its joy about the 25th anniversary of German reunification, its pride about having shaped the country together with all people for the last 25 years, to give thanks for the confidence of the customers it had experienced during all this time and that it wanted to thank all its employees and trade partners in Germany, but concluded that it wants to express in one sentence, that it will do everything to win back the confidence of its customers.<sup>88</sup>”.

*A Corporate Strategy* that becomes visible, that becomes campaign, that becomes Marketing.

But that is not all: “Volkswagen's Belgian importer, D'Ieteren, announced that it would offer free engine upgrades to 800 customers who had ordered a vehicle with a diesel engine that was likely to have been fitted with illegal software.<sup>89 90</sup>”

In addition, the well-known *Corporate Social Responsibility*<sup>91</sup> plays an important role in these cases:

“If Volkswagen is to succeed in resurrecting its image, it should act decisively. It needs to accept full responsibility as an organization, not as a constellation of individuals, for its emissions scandal. It has to lay out a credible plan for how it will truly reduce emissions and verify its compliance with regulatory standards. It needs to counter its stigma by making significant, long-term R&D

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<sup>88</sup> Meier, Christian (4 October 2015), VW entschuldigt sich mit riesiger Werbekampagne, retrieved 4 October 2015

<sup>89</sup> 'Volkswagen plans to refit diesel cars affected by emissions scandal VW's Spanish unit'. Autonews (Europe). Retrieved 29 September from <http://europe.autonews.com/article/20150929/ANE/150929810/volkswagen-plans-to-refit-diesel-cars-affected-by-emissions-scandal>.

<sup>90</sup> 'Volkswagen to refit cars affected by emissions scandal'. Reuters. Retrieved 29 September 2015 from <http://www.reuters.com/article/2015/09/29/us-volkswagen-emissions-plan-idUSKCN0RT0OL20150929>

<sup>91</sup> “It is a form of corporate self-regulation integrated into a business model. CSR policy functions as a self-regulatory mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards and national or international norms. With some models, a firm's implementation of CSR goes beyond compliance and engages in actions that appear to further some social good, beyond the interests of the firm and that which is required by law.”

From: McWilliams, Abigail; Siegel, Donald (2001). "Corporate social responsibility: A theory of the firm perspective". *Academy of Management Review* 26: 117–127. doi:10.5465/amr.2001.4011987.

From: McWilliams, Abigail; Siegel, Donald; Wright, Patrick M. (March 2006). "Corporate Social Responsibility: International Perspectives" (PDF). Working Papers (0604). Troy, New York: Department of Economics, Rensselaer Polytechnic Institute.

investment to position itself as a leader, rather than a laggard, in technology development to reduce emissions while enhancing performance. And, it needs to establish stronger accountability structures and practices, as well as fostering positive changes in its corporate culture, to hold the short-term profit motive in check and prevent any future fraud.<sup>92</sup> And it is what the German car manufacturer is doing.

At this point, the questions are: Has Volkswagen reached its aim avoiding customer attrition? Was its marketing strategies successful?

Probably not. According to the latest statistics, everything Volkswagen has done is not enough.

In fact, the empirical evidence shows how the German car manufacturer is going to beat the global market worse than in 2015:

“The Volkswagen Group announced its global sales figures for the first quarter of 2016, revealing that it delivered over 2.5million vehicles from January to March. That represents a 0.8 per cent rise over the same period last year. This growth comes despite a major stroke of bad publicity at the end of 2015 surrounding the Group's emissions-cheating software engine systems.

In Europe the group saw a 3.3 per cent rise in sales over the three-month period, with a 1.5 per cent rise in Germany alone. The market with the most growth was China, which saw a rise in sales of 6.4 per cent. South America dropped 27.6 per cent however, and Russia fell 16.3 per cent as well.<sup>93</sup>”

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<sup>92</sup> Available at: <http://www.triplepundit.com/2016/01/vw-scandal-continues-implications-corporate-social-responsibility/#>. Accessed 6 May 2016

<sup>93</sup> Available at: <http://www.autoexpress.co.uk/volkswagen/92893/vw-emissions-scandal-recalls-compensation-is-your-car-affected-latest-news>. Accessed 6 May 2016

But these statistics are about the entire Group: the Volkswagen passenger cars brands (well known as Volkswagen AG) had a drop in sales:

| <b>Deliveries<br/>to<br/>customers<br/>by<br/>markets</b> | <b>March<br/>2016</b> | <b>March<br/>2015</b> | <b>Change<br/>(%)</b> | <b>Jan-Mar<br/>2016</b> | <b>Jan-Mar<br/>2015</b> | <b>Change<br/>(%)</b> |
|---|-----------------------|-----------------------|-----------------------|-------------------------|-------------------------|-----------------------|
| <b>Europe</b>   | 181,800               | 183,500               | -1,0                  |                         |                         | -0,2                  |
| <b>Western<br/>Europe</b>                                 | 162,900               | 166,200               | -2,0                  | 429,300                 | 430,300                 | -0,5                  |
| Germany   | 53,400                | 58,200                | -8,2                  | 379,600                 | 361,300                 | -3,8                  |
| <b>Central<br/>and<br/>Eastern<br/>Europe</b>             | 18,900                | 17,300                | +9,0                  | 136,700                 | 144,100                 | +2,1                  |
| Russia  | 6,000                 | 6,200                 | -2,3                  | 49,700                  | 48,600                  | -12,5                 |
| <b>North<br/>America</b>                                  | 48,000                | 50,700                | -5,3                  | 15,900                  | 18,100                  | -6,5                  |
| USA   | 26,900                | 30,000                | -10,4                 | 127,600                 | 136,400                 | -12,5                 |

|                      |         |         |       |           |           |       |
|----------------------|---------|---------|-------|-----------|-----------|-------|
| <b>South America</b> | 32,400  | 44,700  | -27,6 | 69,300    | 79,200    | -31,3 |
| Brazil               | 22,100  | 34,000  | -35,2 | 86,400    | 128,600   | -39,2 |
| <b>Asia-Pacific</b>  | 265,200 | 260,200 | +1,9  | 59,600    | 98,000    | +4,8  |
| China                | 245,400 | 236,800 | +3,6  | 722,800   | 678,400   | +6,5% |
| <b>WORLD WIDE</b>    | 543,700 | 558,700 | -2,7  | 1,459,500 | 1,479,400 | -1,3  |

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-This is an overview of deliveries by Volkswagen Passenger Cars brand-

Indeed, “Although the VW Group as a whole saw growth, the VW passenger cars brand saw a global drop in sales by 1.3 per cent. It was the only brand to fall however, with Audi, Skoda, SEAT, Porsche and commercial vehicle brands all seeing sales growth over the period.”<sup>95</sup>

Moreover, if we insert these records into the EU contest, the situation for VW AG becomes worse:

“According to data provided by the European Automobile Manufacturers’ Association, car registrations saw an 8.2 percent increase in the first quarter and a 6.0 percent jump in March.”

Furthermore, the situation appears more evident according to the graph below, where it is seen that the sales were generally increased the year before the disaster in the U.S.:

| <b>VOLUME DATA</b>    | <b>2015</b> | <b>2014</b> | <b>Change</b> |
|-----------------------|-------------|-------------|---------------|
| Vehicle sales (units) | 2,676,629   | 2,615,686   | <b>+2,3</b>   |
| Productions (units)   | 1,255,771   | 1,230,891   | <b>+2</b>     |

<sup>94</sup> Available at: <http://www.inautonews.com/eu-passenger-car-registrations-up-8-2-in-the-first-quarter-of-2016>. Accessed 7 May 2016

<sup>95</sup> Available at: <http://www.autoexpress.co.uk/volkswagen/92893/vw-emissions-scandal-recalls-compensation-is-your-car-affected-latest-news>. Accessed 7 May 2016

Instead, we notice an opposite trend for the whole Group:

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Why is

| <b>VOLUME<br/>DATA</b>   | <b>2015</b> | <b>2014</b> | <b>Change</b> |
|--------------------------|-------------|-------------|---------------|
| Vehicle sales<br>(units) | 10,009,605  | 10,217,003  | <b>-2.0</b>   |
| Productions<br>(units)   | 10,017,191  | 10,212,562  | <b>-1.9</b>   |

this a

different trend?

Because the brand image that was damaged was the Volkswagen AG one, and not the entire Group, even if Audi, Seat and so on were in the same scandal.

Anyway, the whole Group has seen in North America that sales fell 2.1 percent, and in the USA, where the scandal hit hardest, sales fell 5.7 percent.

But this was unavoidable.

## 2.2.2 Competitors reactions: Marketing and soft communication

Lastly, we have to mention the competitors' reactions to the scandal, which had certainly played a crucial role.

For instance, FCA, which is one of the most important VW's competitors that is selling more cars in the U.S. than the German automotive during these years, has adopted a harsh marketing communication campaign:

<sup>96</sup> VW Annual Report

[http://www.volkswagenag.com/content/vwcorp/info\\_center/en/publications/2016/04/Y\\_2015\\_e.bin.html/binarystorageitem/file/Y\\_2015\\_e.pdf](http://www.volkswagenag.com/content/vwcorp/info_center/en/publications/2016/04/Y_2015_e.bin.html/binarystorageitem/file/Y_2015_e.pdf)

<sup>97</sup>Volkswagen Annual Report:

[http://www.volkswagenag.com/content/vwcorp/info\\_center/en/publications/2016/04/Y\\_2015\\_e.bin.html/binarystorageitem/file/Y\\_2015\\_e.pdf](http://www.volkswagenag.com/content/vwcorp/info_center/en/publications/2016/04/Y_2015_e.bin.html/binarystorageitem/file/Y_2015_e.pdf). Accessed 6 May 2016

“The FCA Group promotion was the overestimate of Volkswagen’s. Audi’s, Seat’s and Skoda’s used cars. In addition, lots of special discount about FCA’s cars for all the VW’s car owners. That is enough trading a German car in<sup>98</sup>”

However, despite these attacks, has Volkswagen lost its clients? And has its competitor, FCA, achieved the goal?

Yes and no:

“At least in Italy and in Spain. Its competitor FCA is growing more than the entire automotive market in these two countries, but VAG was not damaged by the scandal so much with a catastrophic drop in sales;

Instead, on the other hand, there is a consistent decrease in sales in other countries as Great Britain, Japan or USA: this happens because of a greater sensibility for the environment.

A worse situation is in India, where VW has seen a -36,7% in December, compared to the -1,4% of FCA<sup>99</sup>”

At the end we managed to understand that VAG’s scandal is different from the Parmalat one. In fact this latter is a fraction of the size it once was and the scandal harmed it. But at the same time, it is also too early to understand what is the future for VW. Only time will tell.

## **2.3 McDonald’s & Philip Morris**

### **2.3.1 McDonald’s: all the scandals and social networks responses**

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<sup>98</sup> “ilSole24Ore”. Available at: <http://www.motori24.ilsole24ore.com/Mercato/2015/10/promozioni-tempi-dieselgate.php>. Accessed 7 May 2016

<sup>99</sup> Available at: <http://www.autoitaliaevolution.it/fca-vs-vw-post-dieselgate-chi-vince-e-chi-perde-2/>. Accessed 7 May 2016

In this section, we are going to talk about several campaigns and libels against the world's largest chain of hamburger fast food restaurants.

We would like to show some advertising campaign with the aim of damaging the multinational and how McDonald's has replied to them.

In fact, McDonald's Corporation continues to remain in the news for all the wrong reasons. The public company has been involved in a number of scandals over time, especially in the Asiatic Market.

Here are some of the memorable scandals involving McDonald's.

But let's start from the beginning.

### **2.3.2 McLibel and the complicity in environmental destruction**

“In the 1990, McDonald's threatened to sue five environmental activists in Britain for libel unless they withdrew claims made in a pamphlet that the firm was getting up to all sorts of dodgy business, including destroying the rainforest, worsening extreme poverty and exploiting children through advertising.

The libel threat was part of a broader McDonald's legal campaign to defend its reputation. Three of the activists held their hands up. But two did not -- Helen Steel and Dave Morris -- and it went to court.

McDonald's won because the claims could not be substantiated, but it was viewed as a messy and unnecessary affair because the damage caused by the defendants -- who were simply handing out leaflets in London -- was negligible. It was a classic David-versus-Goliath struggle, a monstrous corporate behemoth on the side and a couple of greasy small-time activists on the other. It also left McDonald's with a large legal bill and, after the Streisand effect, a worse reputation than that which it started defending.

And later: “Greenpeace released a report in 2006 showing McDonald's -- among others, such as KFC --- was using chicken meat from birds fed on soya grown in areas of farmland made by destroying parts of the Amazon rainforest.

McDonald's reviewed its policy after intense media attention and now does not use chickens fed on rainforest soya. Since the Greenpeace report, destruction of the rainforest to make way for soya plantations has all but ceased.<sup>100</sup>»



Anti McDonald's campaigners, Helen Steel and Dave Morris protest against McDonald's 50th anniversary celebrations outside the fast food chain headquarters in East Finchley, April 15, 2005.

The rainforest scandal is something that can seriously damage the corporate image, creating indignation among customers, especially in countries with a consistent sensibility for these types of global problems.

In fact, McDonald's has been improving its environmental policies since the 1970s:

“It began to make substantial progress in reducing its use of materials.<sup>101</sup> For instance, an "average meal" in the 1970s—a Big Mac, fries, and a drink—required 46 grams of packaging; today, it requires only 25 grams, allowing a 46% reduction.<sup>102</sup>»

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<sup>100</sup> <http://www.ibtimes.co.uk/mcdonalds-75-pink-slime-mclibel-other-scandals-1501345>

<sup>101</sup> "National Pollution Prevention Center for Higher Education" (PDF).

<sup>102</sup> Environmental Defense Fund. Task Force Report. p. 42.



In addition: “in Europe, McDonald's has been recycling vegetable grease by converting it to fuel for its diesel trucks.<sup>103</sup>”

These are different types of responses: more practical, less marketing.

### 2.3.3 The Super size me, the slogan “not lovin’ it” and the workers’ rights

“Morgan Spurlock fronted a documentary about what it does to a person's body to eat only McDonald's meals for a month. He gorged his way through breakfast, lunch and dinner, only eating and drinking off the McDonald's menu -- and it did not do him a whole lot of good.

It was an unscientific experiment by Spurlock, but his short journey through the "McDiet" -- which included having to "super-size" the meal if he was offered the opportunity by the server -- saw him (unsurprisingly) grow fatter and more unhealthy, to the point where his doctor urged him to abandon the project lest he cause himself long-term damage. The film was a hit, securing an Oscar nomination, and was a blow to McDonald's reputation, helping to spark its drive to add healthier options to its menu.<sup>104</sup>”



- The promotional poster from the Morgan Spurlock film Super Size Me. -

<sup>103</sup> "Local woman creates environmental-friendly Web site". Herald-dispatch.com. April 19, 2008. Retrieved July 23, 2011.

<sup>104</sup> Available at: <http://www.ibtimes.co.uk/mcdonalds-75-pink-slime-mclibel-other-scandals-1501345>. Accessed 8 May 2016

What happens instead with the workforce's rights?

“Driven by employee satisfaction in the US, where low-paid McDonald's workers were demanding a \$15 an hour minimum wage, strikes and protests burst out at the fast food chain elsewhere in the world, not just US cities, from Japan to Brazil to the UK. All were demanding better working conditions at McDonald's, as well as other big name fast food firms, unionisation and an end to ‘poverty wages’.

To make matters worse, the US National Labor Relations Board accused McDonald's of unlawfully punishing workers who took part in those legitimate protests, something it is challenging in the courts. It's a cloud that still hangs over McDonald's.<sup>105</sup>”

How has the company replied to this criticism?

“In response to public pressure, McDonald's has sought to include more healthy choices in its menu and has introduced a new slogan to its recruitment posters: ‘Not bad for a McJob’. McDonald's disputes this definition of McJob. In 2007, the company launched an advertising campaign with the slogan ‘Would you like a career with that?’ on Irish television, asserting that its jobs have good prospects.<sup>106</sup>”

This was a type of Marketing Communication response instead: slogan, sound bites, and more else to stop the pressure by media.

And what about the slogan?



<sup>105</sup> Available at: <http://www.ibtimes.co.uk/mcdonalds-75-pink-slime-mclibell-other-scandals-1501345>. Accessed 8 May 2016

<sup>106</sup> Sweney, Mark (April 20, 2006). "Not bad for a McJob?". The Guardian (London). Retrieved March 30, 2009.

## 2.3.4 The Asiatic Market: China and Japan

“McDonald's and KFC parent Yum apologized to customers on Monday after Chinese regulators shut a local meat supplier following a TV report that showed workers picking up meat from a factory floor, as well as mixing meat beyond its expiration date with fresh meat.

The companies said they immediately stopped using the supplier, Shanghai Husi Food Co Ltd, a unit of Aurora, Illinois-based OSI Group, and had switched to alternatives. They added that the factory served restaurants in the Shanghai area.

The report on China's Dragon TV brought Yum and McDonald's back into the firing line following the sales-battering 2012 scandal that involved chicken pumped with excessive amounts of antibiotics.<sup>107</sup>”

McDonald's tried to prevent itself: "If proven, the practices outlined in the reports are completely unacceptable to McDonald's anywhere in the world," a China-based spokeswoman for McDonald's told Reuters.

At first customers' reactions were not comfortable for the corporation:

Benjamin Cavender, Shanghai-based principal at China Market Research Group, said: "I don't know that this is something an apology can fix so easily, because at this point people don't have a whole lot of trust that they have good systems in place".

In addition, in many interviews, customers have added: “For now I won't go to eat at McDonald's or KFC, at least until this whole thing settles down”

But curiously, we might report other types of reactions that certainly help McDonald's:

In fact, Chinese consumers may already have developed a comparatively thick skin when it comes to food scandals. ‘Isn't everywhere like this?’ asked student Li Xiaoye, 20, eating a beef burger in a Shanghai McDonald's outlet. "I'll keep going because wherever I eat, the issues are all the same."

This common behaviour, on one hand is going to help the company. On the other hand, it is going to highlight the mistrust of McDonald's brand image.

But is it really so? Do people not care about this scandal?

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<sup>107</sup> Available at: <http://www.reuters.com/article/us-yum-brands-food-safety-idUSKBN0FQ01P20140721>. Accessed 8 May 2016

People probably do not care because it is not the first time that McDonald's is involved in an alimentary disaster.

The Chief Executive Don Thompson said: "During August, McDonald's global business faced several headwinds that impacted sales performance".

Here are the statistics of the company in August, following the Chinese scandal:

"Sales at McDonald's restaurants dropped, hurt by a food-safety scandal in China and heavy competition in the US.

The US fast-food giant said global comparable sales fell 3.7 per cent in August, bigger than the 2.5 per cent decline in July.

Sales sank 14.5 per cent in the Asia/Pacific, Middle East and Africa region, which accounts for about one-fourth of McDonald's revenues.

McDonald's said it expects the China food safety problems will result in a drop in earnings of 15-20 cents per share in the third quarter compared to last year, when it notched US\$1.52 per share.

Instead, European comparable sales declined 0.7 per cent, with a strong performance in Britain offset by weakness in Russia.<sup>108</sup>

"TOKYO: McDonald's in Japan said Friday (Sep 4) it was investigating an incident involving a customer who was injured by plastic shards found inside a drink, the latest in a string of food contamination scandals.

The company said it temporarily closed the outlet in Osaka this week, and sent a notice to 95 other restaurants that offer the kind of green tea latte frappe sold to the woman, who said she sustained injuries to her mouth.

Dozens of pieces of plastic were found inside the beverage, a company spokesman told AFP, adding that a plastic instrument used to make the drink may have been the source.

McDonald's Japan unit has been battered by a series of scandals including a human tooth found in some fries.<sup>109</sup>

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<sup>108</sup> Available at: <http://www.scmp.com/business/companies/article/1589202/mcdonalds-august-sales-hit-china-meat-scandal>. Accessed 8 May 2016.

<sup>109</sup> Available at: <http://www.channelnewsasia.com/news/asiapacific/mcdonald-s-japan-hit-by/2101184.html>.

The *Business Insider UK* journal said that McDonald's Japan sales have been devastated by food safety scandals:

“The Japanese unit of McDonald's Corp booked its first annual operating loss since going public in 2001 and its January sales plunged by a record 39 percent as food safety scandals drove customers away.

The earnings pain, made worse by a shortage of french fries late last year, is likely to continue with analysts saying they do not expect a quick turnaround in a country where consumers are highly attuned to food quality issues.

....The unit booked an operating loss of 6.7 billion yen (\$57 million) in 2014, compared with an operating profit of 11.5 billion yen a year earlier.

Revenue tumbled 14 percent, the seventh straight year of decline.

.....The Japan unit, 49.9 percent owned by McDonald's Corp, was hit last year after a major Chinese supplier of chicken was found to have been in breach of food safety standards. It was then forced to temporarily ration fries due to labor disputes at U.S. West Coast ports and take the costly step of shipping some by air.

Quality issues arose again last month with the news that customers had found foreign objects, including a tooth, in their food. January figures showed customer numbers down 29 percent from a year earlier.

.....McDonald's Japan Chief Executive Sarah Casanova said the company was determined to restore its reputation.

‘We serve billions of menu items every year and in the food industry we understand these kind of issues should never happen. It's our responsibility to do everything we can to obtain as close to zero as possible,’ she told an earnings briefing.

Shares in McDonald's Japan fell 1 percent prior to the earnings release. They have lost around 12 percent since last year's peak in June.<sup>110</sup>”

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<sup>110</sup> Available at: <http://uk.businessinsider.com/r-mcdonalds-japan-pushed-into-loss-by-food-safety-woes-2015-2?r=US&IR=T>. Accessed 8 May 2016

We are able to understand from the last article that the two markets' scandals are connected for a lots of reasons: Supply Chain, Finance and Marketing Operation.

The drop in sales in both countries were clear and easy to predict, but not just as McDonald's responses.

In fact, no consistent marketing responses, unless CEO's reassurance or the activism on Social Media.

An interesting example about this latter consideration is the following and latest scandal for Mc: The pink slime scandal

### **2.3.5 The pink slime scandal**

On 10 February 2015, McDonald's replied, thanks the help of social media as for instance Twitter, to an attempt of harming its brand image:

“A picture of a grotesque, alien coil of what was dubbed ‘pink slime’ unfurling itself from some kind of food processing machine constantly do the rounds on social media, much to the misery of McDonald's PR staff. It often purports to be what the company uses to make its nuggets.



‘No, our Chicken McNuggets do not contain what some people call 'pink slime' or 'pink goop',’ McDonald's says in a statement on its website.

‘We've seen the photo of 'pink goop' or "pink slime" in association with McDonald's. Let's set the record straight: this image in connection with McDonald's is a myth. In fact, we don't know where it came from, but it's not our food. The photo is not a representation of how we create our Chicken McNuggets, or for that matter, any item on our menu.

‘Each and every one of our Chicken McNuggets are made with USDA inspected boneless white meat chicken — cut from the chicken breast, tenderloins and rib meat.’

The term ‘pink slime’ actually comes from what celebrity chef Jamie Oliver pejoratively called the processed ground beef McDonald's uses in its burgers.<sup>111</sup>”.

And its competitors?

<sup>111</sup> Available at: <http://www.ibtimes.co.uk/mcdonalds-75-pink-slime-mclibel-other-scandals-1501345>. Accessed 8 May 2016.



They faced a similar period in the Asian market because of their implication in the same McDonald's scandal.

In fact, Burger King shares fell 1.6 percent to close at \$26.13” and Yum shares fell 4.2 percent to close at \$74.13.

Moreover: “Comparable sales declined 3.3 percent in China and Japan, and comparable guest counts declined 4.7 percent, according to McDonald's most recent 10-K filing, after a tainted meat scandal last year left restaurants without any beef or chicken for extended periods.<sup>112</sup>”

But one year later, the situation changed radically:

“McDonald's, which recently introduced a new reporting structure, said same-store sales for its “high growth markets” increased 8.9%, driven by “very strong” sales performance in China and positive sales in most other markets. In assessing its sudden strength in China, where it has had trouble winning back customers since a food safety scandal with a meat supplier over a year ago, McDonald's pointed to its emphasis on value and breakfast offerings during the quarter.

‘I am encouraged by our operating performance for the quarter, with positive comparable sales across all segments, including the U.S., as well as sales recovery in China following the prior year supplier issue,’ said CEO Steve Easterbrook in a statement.<sup>113</sup>”

To sum up, in the end, in these first three companies analysed, it transpires that for all of them there was a drop in sales, at least in first month or year following the scandal.

The Marketing strategies implemented by them sometimes have stopped or reduced the customer attrition or the loss of a particular segment of the market interested in the scandal.

McDonald's managed to fix the problem, launching again its brand in China. Or better, right now, it seems to be so.

“Most of the particulars of McDonald's reforms are yet to be made public. We can only watch and wait to see how the old drive-through burger joint will enter the modern age, and how it will manage quality and perception in a region where even the locals mistrust ‘Made in China’.<sup>114</sup>”

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<sup>112</sup> Available at: <http://www.theepochtimes.com/n3/1406877-latest-china-tainted-meat-scandal-a-reminder-of-what-happened-to-mcdonalds/>. Accessed 9 May 2016

<sup>113</sup> Available at: <http://www.forbes.com/sites/laurengensler/2015/10/22/mcdonalds-third-quarter-earnings/#7cbf4ee02b1a>. Accessed 8 May 2016.

<sup>114</sup> Available at: <http://www.theepochtimes.com/n3/1406877-latest-china-tainted-meat-scandal-a-reminder-of-what-happened-to-mcdonalds/>. Accessed 9 May 2016.



## 2.3.6 The Philip Morris' Ethical Scandal

In 2010, "Tobacco giant Philip Morris has been forced to admit that child workers as young as 10 have been subjected to long hours working on tobacco farms with which it has contracts in the Central Asian state of Kazakhstan.

According to a report by Human Rights Watch, migrant workers at the farms, mostly from neighbouring Kyrgyzstan, were subjected to conditions that often amounted to forced labour, as employers contracted by tobacco farms that sold their produce to Philip Morris International had their passports confiscated and were often made to do additional work for no pay.<sup>115</sup>

*The Guardian* reported that: "The US-based Human Rights Watch has documented 72 cases of child labour, ranging in ages from 10 to 17, on Kazakh farms in the district of Enbekshikazakh, where Philip Morris is the sole purchaser of tobacco.

Hellish Work, a study published today, examines the conditions of migrant workers, estimated to number between 300,000 and 1 million, many of whom travel without visas from neighbouring countries such as Kyrgyzstan to seek work in Kazakhstan's tobacco industry. Some have their passports confiscated by employers and are only paid at the end of each season in a lump sum, making it hard to escape the harsh conditions. There were cases of "debt bondage" whereby workers ended a season owing their employers money, and were forced to stay. Work can last up to 18 hours a day in the heat of July and August.

'The work is extremely physically damaging; it's all manual labour,' said Jane Buchanan, the report's author, speaking to the Guardian from Almaty, the largest city in Kazakhstan. "People come as families, they work as entire families, and they often don't get paid for eight or nine months, until the end of the season."

Cultivating, harvesting and drying tobacco can be an unhealthy business. Exposure to pesticides and fertilisers can cause sickness, with children being particularly vulnerable.<sup>116</sup>

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<sup>115</sup> Available at: <http://www.independent.co.uk/news/world/asia/tobacco-giant-philip-morris-sold-cigarettes-made-using-child-labour-2026759.html>. Available 9 May 2016.

<sup>116</sup> Available at: <https://www.theguardian.com/business/2010/jul/14/kazakh-suppliers-to-philip-morris-use-child-labour>. Accessed 9 May 2016.

The Marlboro cigarette manufacturer Philip Morris International immediately replied with statements such as the following:

“Our company is firmly opposed to child labor” said Peter Nixon, a spokesman, in a telephone interview from the company’s office in Lausanne, Switzerland.

And more: “the company already had policies in place prohibiting purchases from farms that used child labor. Over the years, he said, this policy had reduced abusive practices at Kazakh tobacco farms”

Or again: “Mr. Nixon said, Philip Morris would step up its efforts to eliminate child labor. The company, he said, was “appreciative” of Human Rights Watch for drawing the continuing abuse to its attention.”<sup>117</sup>

This is, as we have already seen before, a preliminary form of Marketing Communication, that anticipates the real Marketing.

### **2.3.7 What Philip Morris tried to do**

According to Philip Morris International, the solution is in the cooperation between companies, stakeholders, and governments:

“Long-term solutions addressing the systemic issues behind child labor require the concerted efforts of multiple stakeholders, in particular, governments. We work with individual stakeholders such as business groups, unions, universities, growers associations and not-for-profit organizations, to address specific needs and are committed to collaborating with all organizations and individuals to have the best impact for the long-term....PMI is firmly opposed to child labor and has developed a comprehensive Agricultural Labor Practices (ALP) program to progressively eliminate child labor and other labor abuses from our tobacco growing supply chain....The minimum age for admission to work is 15 years, or the minimum age provided by the country’s laws, or the age for the completion of compulsory schooling, whichever affords greater protection;

No person below 18 is involved in any type of hazardous work;

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<sup>117</sup> Available at: [http://www.nytimes.com/2010/07/14/business/global/14smoke.html?\\_r=0](http://www.nytimes.com/2010/07/14/business/global/14smoke.html?_r=0). Accessed 9 May 2016.

In the case of family farms, a child may only help on their family's farm if the work is light and the child is older than 13 or above the minimum age for light work as defined by the country's laws, whichever affords greater protection.

Additionally: "PMI is committed to funding programs around the world to improve the working and living conditions in tobacco growing communities. Our programs range from providing farmers the basic skills to develop their business, access to clean water, and improving quality and access to education to their children.

PMI is also an active member of the Eliminating Child Labor in Tobacco Growing (ECLT) Foundation.<sup>118</sup>

Basically, this is what PMI has done after the scandal broke: it is getting to work for social, for human rights and for saving children, without getting *Bad Reputation*, as it has already happened in the past because of other scandals.

The biggest problem is that the company is still known for its past scandals (deceptions about the effects of the second-hand-smoke), and in fact, was forced to change its name with another one to avoid the bad reputation.

This process has managed partially. Anyway, it has been trying to give another brand image of itself: not the usual and common multinational that takes advantage of poverty in the developing world to earn much more money, but rather a company that is close to its customers and its clients. The corporation has been working on its brand image and on its corporate reputation.

## 2.3.8 Sales over time

Despite the bad reputation, a number of social scandals, and poor responses to criticism, Philip Morris International Inc. has been seeing a consistent rise in sales, and immediately after the disaster in the developing world:

Annual Report PMI, 2010

| Quarters | 1st | 2nd | 3rd | 4th |
|----------|-----|-----|-----|-----|
|----------|-----|-----|-----|-----|

<sup>118</sup>Available at: [http://www.pmi.com/eng/sustainability/good\\_agricultural\\_practices/agricultural\\_labor\\_practices/pages/eliminating\\_child\\_labor.aspx](http://www.pmi.com/eng/sustainability/good_agricultural_practices/agricultural_labor_practices/pages/eliminating_child_labor.aspx). Accessed 9 May 2016.

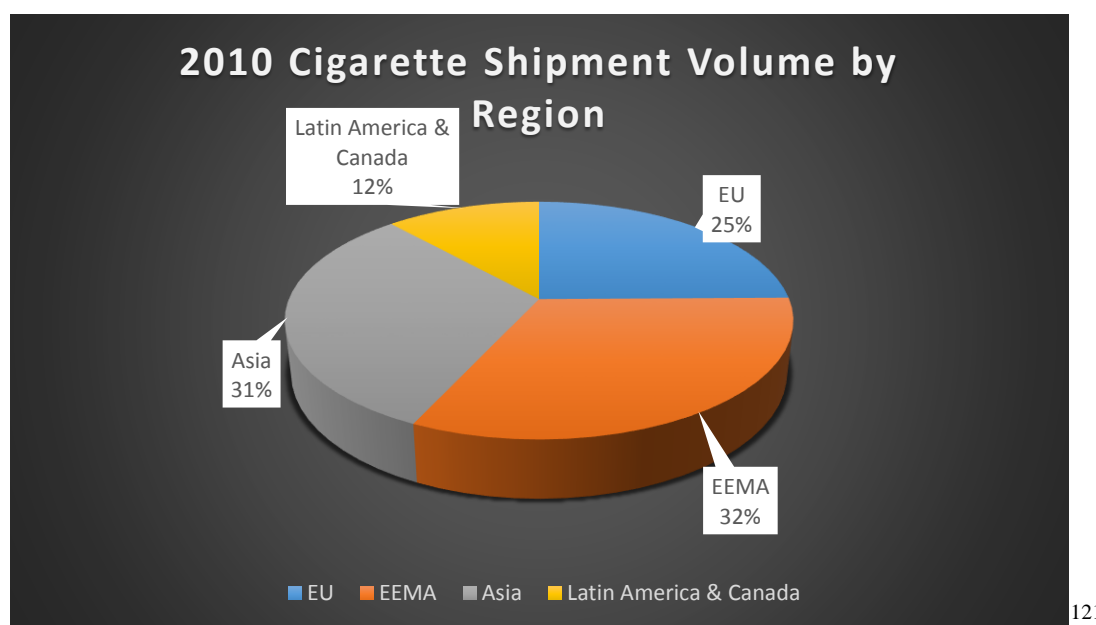
|                   |          |          |          |          |
|-------------------|----------|----------|----------|----------|
| Net Revenues 2010 | \$15,587 | \$17,383 | \$16,936 | \$17,807 |
| Net Revenues 2009 | \$13,286 | \$15,213 | \$16,573 | \$17,008 |

Quarterly Financial Data (Unaudited). <sup>119</sup>

According to the Annual Report of 2010, the sales' trend has seen a growth throughout the entire period: ironically, especially during the fourth quarter, which is the period following the disaster, where Net Revenues rose by 4,7% versus the same period of the previous year.

Moreover, in 2011, the company saw an increase in its sales: "Cigarette volume of 915.3 billion units rose by 1.7% versus 2010, or by 0.5% on an organic basis. <sup>120</sup>"

In fact, during the year before, the total Cigarette Shipment Volume by Region was about 899,9 billion units:



<sup>119</sup> Annual Report PMI 2010: [http://media.corporate-ir.net/media\\_files/irol/14/146476/ar10.pdf](http://media.corporate-ir.net/media_files/irol/14/146476/ar10.pdf).

<sup>120</sup> Annual Report PMI Inc. 2011: [file:///C:/Users/FrancoGabriele/Downloads/Complete 2011 Annual Report.pdf](file:///C:/Users/FrancoGabriele/Downloads/Complete%202011%20Annual%20Report.pdf). Accessed 9 May 2016.

<sup>121</sup> Graph by AR 2010 for PMI Inc.: [http://media.corporate-ir.net/media\\_files/irol/14/146476/ar10.pdf](http://media.corporate-ir.net/media_files/irol/14/146476/ar10.pdf). Accessed 9 May 2016.

## 2.3.9 Philip Morris Inc. nowadays and its competitor BAT

In the 2016 First-Quarter of the company:

“Reported diluted earnings per share of \$0.98, down by \$0.18 or 15.5% versus \$1.16 in 2015.

Cigarette shipment volume of 196.0 billion units, down by 1.4% excluding acquisitions

....Estimates 2016 international cigarette volume, excluding the People's Republic of China and the U.S., to decline by approximately 2.0% to 2.5%, in line with the estimated decline of 2.4% in 2015

..... PMI's total cigarette shipment volume decreased 1.4%, or by 1.7% excluding favourable net estimated inventory movements, reflecting declines in Asia, principally Indonesia, Pakistan and the Philippines, partly offset by Korea. The decrease was partly offset by growth in: the EU, driven notably by France, Italy, Poland and Spain, partly offset by the United Kingdom; EEMA, driven by Egypt and Tunisia in North Africa, Turkey and Ukraine, partly offset by Algeria and Russia; and Latin America & Canada, driven mainly by Mexico, partly offset by Argentina. The decrease was further offset by the favourable estimated impact of the leap year.<sup>122</sup>”

All this is made clear in the graph below:

|                         | 2016           | 2015           | Change        |
|-------------------------|----------------|----------------|---------------|
| European Union          | 45,993         | 44,810         | 2.6%          |
| EEMA                    | 63,126         | 62,632         | 0.8%          |
| Asia                    | 65,222         | 70,125         | (7.0)%        |
| Latina America & Canada | 21,700         | 21,190         | 2.4%          |
| <b>Total PMI</b>        | <b>196,041</b> | <b>198,757</b> | <b>(1.4)%</b> |

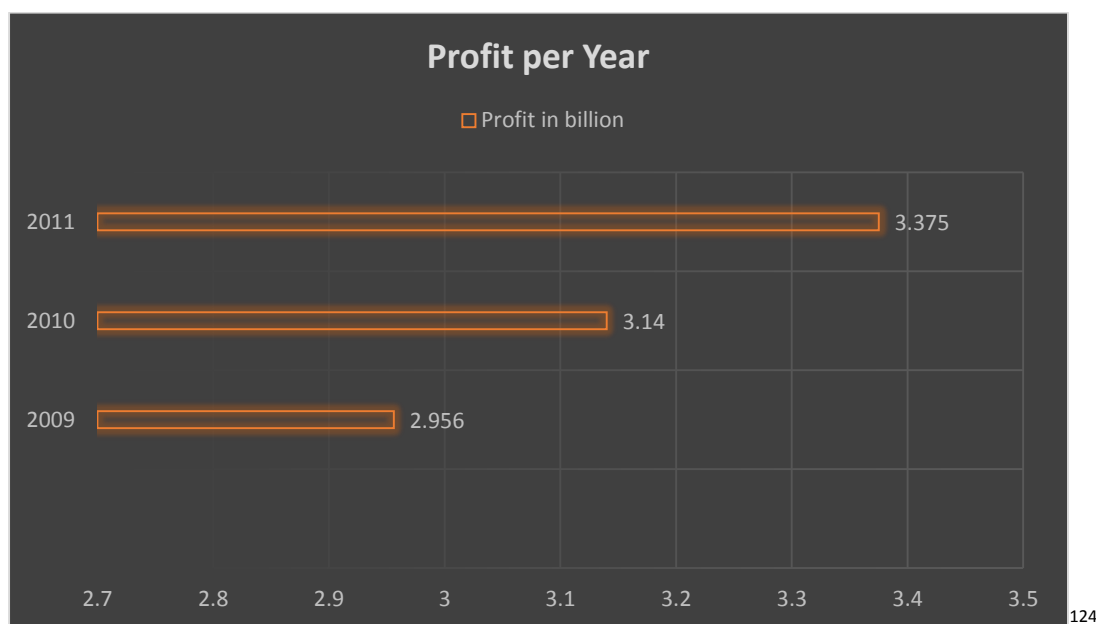
- First-Quarter: PMI Cigarette Shipment Volume by Region -<sup>123</sup>

<sup>122</sup> Available at: <http://www.businesswire.com/news/home/20160419005781/en/Philip-Morris-International-PMI-Reports-2016-First-Quarter>. Accessed 10 May 2016.

<sup>123</sup> Available at: <http://www.businesswire.com/news/home/20160419005781/en/Philip-Morris-International-PMI-Reports-2016-First-Quarter>. Accessed 10 May 2016.

What about its competitors? Have they benefited from PMI's scandal? And what is their situation right now?

Let us analyse one of these competitors in the graph below: The *British American Tobacco*.



So, during the scandal that involved PMI, the British American Tobacco increased its sales, but: “Overall, industry volumes continued to decline in 2011 but there are signs that the rate of decline has moderated. Our own volumes were down marginally by 0.4 per cent and we grew market share during the year. These positive results were spread across many markets around the world.”<sup>125</sup>

In fact, following PMI's disaster, the BAT cigarette volumes were 708 billion in 2011 versus 705 billion Group cigarette volumes in 2010.

<sup>124</sup> BAT Annual Report 2010 & 2011. Statistics Available at: [http://www.bat.com/group/sites/uk\\_9d9kcy.nsf/vwPagesWebLive/DO9DCL3B/\\$FILE/medMD9G2L2E.pdf?openelement](http://www.bat.com/group/sites/uk_9d9kcy.nsf/vwPagesWebLive/DO9DCL3B/$FILE/medMD9G2L2E.pdf?openelement). And at: [http://www.bat.com/group/sites/uk\\_9d9kcy.nsf/vwPagesWebLive/DO9DCL3B/\\$FILE/medMD9G2KZX.pdf?openelement](http://www.bat.com/group/sites/uk_9d9kcy.nsf/vwPagesWebLive/DO9DCL3B/$FILE/medMD9G2KZX.pdf?openelement). Accessed 10 May 2016.

<sup>125</sup> BAT Annual Report 2011. Available at: [http://www.bat.com/group/sites/uk\\_9d9kcy.nsf/vwPagesWebLive/DO9DCL3B/\\$FILE/medMD9G2KZX.pdf?openelement](http://www.bat.com/group/sites/uk_9d9kcy.nsf/vwPagesWebLive/DO9DCL3B/$FILE/medMD9G2KZX.pdf?openelement). Pp. 4. Accessed 9 May 2016.

In the first quarter of 2016, “Cigarette volume from subsidiaries increased by 3.6% to 158 billion, or 2.4% on an organic basis....Revenue increased by 7.5% at constant rates of exchange, or 6.1% on an organic, constant rate basis....Revenue was up 1.7% at current rates of exchange....Global Drive Brands’ cigarette volume grew by 10.5%.<sup>126</sup>”

Then, basically, BAT had not benefited from PMI’s scandal, continuing to follow its growing profit trend, but still facing a decrease in its total sales volume.

In addition, the *British American Tobacco* (BTA), one of the five Philip Morris’ competitors, said:

“Generally speaking, we think that individual smokers will consume fewer cigarettes each and smaller percentages of populations will smoke.”

But: “While cigarette sales in developed countries continue to decline year on year, sustained volume growth is widely predicted in emerging markets, driven by population growth and increasing disposable income. As a result, the overall value of the tobacco market continues to increase.

The overall value of the tobacco industry is expected to continue growing in the future. The resilience of the industry is underlined by the continued year-on-year net revenue growth, at constant rates of exchange.

However, regulation of the industry also continues to increase. This includes the introduction of plain packaging in Australia, graphic health warnings on packs, tougher restrictions on smoking in enclosed public places and some bans on shops displaying tobacco products at the point of sale.

Excessive regulation often has unintended consequences.<sup>127</sup>”

In fact, even though PMI Inc.’s sales had a drop in this first quarter, the global tobacco industry sells around 5,600 billion cigarettes each year. The value of the global tobacco market is estimated at £450-£500 billion. It is still not decreasing.

So is it possible that the scandal has not harmed the company?

Yes, sure. In fact, the statistics prove it, as we have seen before.

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<sup>126</sup> Available at:

[http://www.bat.com/group/sites/uk\\_9d9kcy.nsf/vwPagesWebLive/DO72TJQU/\\$FILE/medMDA9CMRN.pdf?openelement](http://www.bat.com/group/sites/uk_9d9kcy.nsf/vwPagesWebLive/DO72TJQU/$FILE/medMDA9CMRN.pdf?openelement). Accessed 10 May 2016.

<sup>127</sup> Available at: [http://www.bat.com/group/sites/UK\\_9D9KCY.nsf/vwPagesWebLive/DO9DCKFM](http://www.bat.com/group/sites/UK_9D9KCY.nsf/vwPagesWebLive/DO9DCKFM). Accessed 9 May 2016.

And it cannot be anything else because many multinationals such as Nike, Adidas, Puma, and so on, had to face scandals such as this one. Despite this, their sales did not have a consistent and dramatic drop.

This is because of the disinterest of people on social problems and human rights in Asia or Africa.

At the end, we might add that cigarettes create damages to people's health, but people continue to smoke.

Also, perhaps because of the people's different alimentary approach, environmental and financial disasters or frauds: the difference between PMI's scandal and the other ones analysed is evident. This is why McDonald's, Parmalat and Volkswagen, at least at the beginning, had to face a minor crisis after their scandals.

## 2.4 Nutella: Palm oil scandal and deforestation scandals

“Since 1964, the Italian company Ferrero produces Nutella. Today, it is one of the most popular products in the world and besides Italy; it is being produced in many other countries. Many children and adults enjoy in the taste of Nutella. But, the problem with Nutella is that it is not healthy at all. It contains a lot of unhealthy ingredients.”<sup>128</sup>

“Being one of the most popular spreads for your bread and toast, Nutella is actually probably one of the most poisonous products that you could buy for yourself or your family. To put things into perspective, Nutella has been found to contain these kinds of poisonous ingredients.

- Vanillin – Vanillin is actually an artificial flavor in Nutella. It is used to trick your brain into thinking that you are actually tasting real vanilla flavoring. Vanillin is actually a neurotoxin that is able to kill your brain cells with the added effect that vanillin makes us addicted as it connects the receptors in our brains which release serotonin, our hormone of happiness.
- Skim Milk – Nutella contains skim milk which is actually not real skim milk, In fact, it is pus filled milk of sick cows that are exposed to GMO's that are considered to decrease the costs. Essentially, the milk found in Nutella is the most dangerous kind for bad cholesterol.
- Sugar – Nutella contains the almighty addictive ingredient of sugar. To be more specific, it is derived from a GMO known as sugar beet which has been known to be inexpensive and

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<sup>128</sup> Available at: <http://besthealthyguide.com/say-no-to-nutella-it-is-poisoning-you-and-your-children/#arvlbdata>. Accessed 10 May 2016



filled to the brim with pesticides and other altered sugars that your body is unable to recognize.

- Soy – Nutella has also been shown to contain soy. Soy is usually thought to be healthy among the people who decide not to be meat eaters. However, Nutella contains soy lecithin which is the opposite of healthy for humans. In fact, it is connected with thyroid depression, late menstruation, premature entry into puberty, uncontrolled weight gain, and even breast cancer.

All of these are perfectly valid reasons as to why you should not purchase Nutella anymore from your local grocery stores.<sup>129</sup>

Many articles, such as the following, have been trying to harm Nutella's brand image.

*USA Today* and *The Guardian* cited the statements by the French environment minister Ségolène Royal on deforestation and Nutella:

"We have to replant a lot of trees because there is massive deforestation that also leads to global warming. We should stop eating Nutella, for example, because it's made with palm oil<sup>130</sup>"

And more: "Oil palms have replaced trees, and therefore caused considerable damage to the environment- she explained- and Nutella should be made from other ingredients<sup>131</sup>".

But an initial response comes from *GreenPeace International* is:

"Yesterday, the French Ecology Minister Segolene Royal urged people concerned about global warming and deforestation to stop eating Nutella because the famous chocolate and hazelnut spread contains palm oil...Could it be true?

It is indeed true that Nutella contains a substantial amount of palm oil. It is true that palm oil is currently one of the largest immediate threats to tropical forests and their wildlife. It is also true that palm oil is everywhere, used in everything from French fries to biodiesel to toothpaste and skin creams, and that global demand continues to grow...But simply boycotting products containing palm oil – or any other commodity linked to deforestation – will not stop the destruction."

And with regards to Nutella:

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<sup>129</sup> Available at: <http://simpleorganiclife.org/no-nutella/>. Accessed 10 May 2016

<sup>130</sup> Available at: <http://abcnews.go.com/International/official-stop-eating-nutella/story?id=31822583>. Accessed 10 May 2016.

<sup>131</sup> Available at: <http://www.theguardian.com/environment/2015/jun/17/stop-eating-nutella-and-save-the-forests-urges-french-ecology-minister>.

“as far as consumer companies go, Ferrero, the maker of Nutella, is actually one of the more progressive consumer-facing companies when it comes to palm oil sourcing. Responding to the demands of their customers, Ferrero was one of the first companies to announce a policy to end the use of deforestation palm oil.

What is more, it was one of the first companies to support the Palm Oil Innovation Group, a gathering of palm oil producers, consumer companies and non-governmental organisations, that are committed to protecting forests, peatlands and wildlife – as well preventing exploitation of workers and local communities....Finally, Ferrero – unlike many companies – is being transparent and accountable about progress toward implementing these commitments.<sup>132</sup>”

Immediately after, French environment minister’s apologies:

“Very sorry for the Nutella controversy... agree to stress progress made<sup>133</sup>”

she tweeted in French of the Italian sweetened hazelnut-chocolate spread.

The comments needed Ferrero, the giant Italian chocolate group that makes Nutella. Without referring to Royal directly, the company issued a statement saying it was aware of the environmental stakes and had made commitments to source palm oil in a responsible manner: “In a statement to Quartz, Ferrero USA declined to comment on Royal’s statements, but noted that its palm oil use represents a ‘mere 0.3% of the worldwide palm oil production’ and that all of the company’s products are 100% certified as sustainable according to the RSPO.<sup>134</sup>”

Anyway, the problem is not deforestation, but what consumers think about the use of palm oil in a product, in this case in Nutella.

There is not so much to tell and these are the facts: “In 2015, Nutella’s sales are up 5,4% compared to last year (2.684 millions of Euro)<sup>135</sup>”

In 2012, the same happened after another scandal, in USA, when lots of consumers, thanks to a *class-action*, successfully sued the company because of a misleading advertising.

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<sup>132</sup> Available at: <http://www.greenpeace.org/international/en/news/Blogs/makingwaves/nutella-palm-oil-deforestation/blog/53269/>. Accessed 10 May 2016

<sup>133</sup> Accessed at: <http://abcnews.go.com/International/official-stop-eating-nutella/story?id=31822583>. Accessed 10 May 2016.

<sup>134</sup> Available at: <http://qz.com/430450/no-you-dont-have-to-boycott-nutella-for-the-environment-says-greenpeace/>. Accessed 10 May 2016.

<sup>135</sup> Available at: <https://www.ferrero.it/notizie-dal-mondo-Ferrero/Ferrero-SpA-approva-il-bilancio-civilistico-al-31-Agosto-2015>. Accessed 10 May 2016.

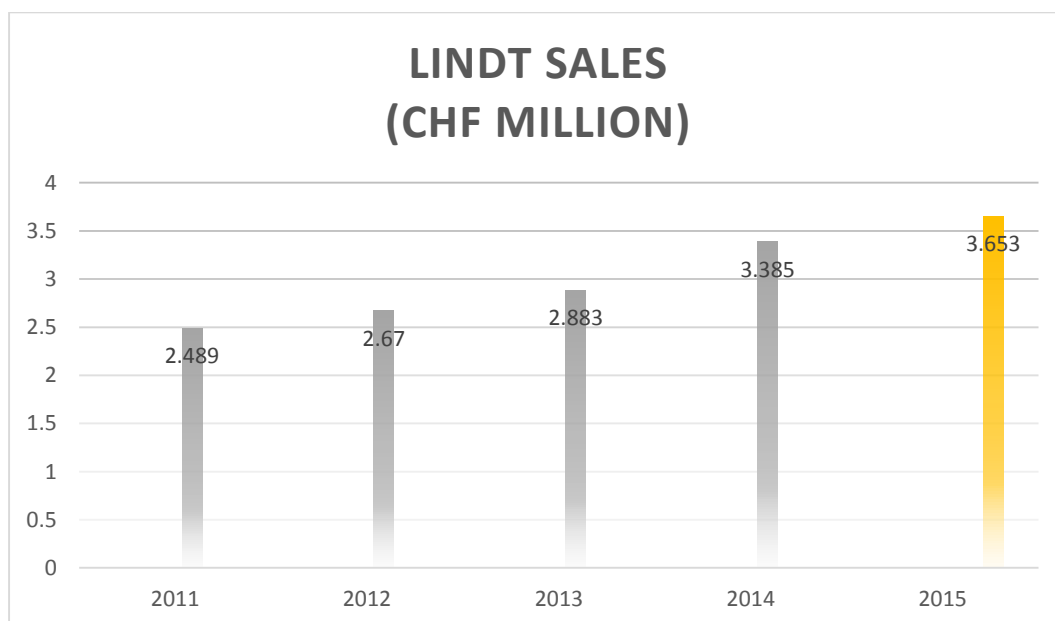
However, during the same year, the company rose its sales; neither the first disaster nor the second one have harmed Nutella and its market position.

In fact, *Bloomberg Businessweek* reported that: “People around the world have been consuming more Nutella than ever. Sales of the spread increased 6.4 percent, to \$2.46 billion, in 2013, according to data from market researcher Euromonitor. In the U.S., Nutella sales were up 5.9 percent.

In fact, sales of all chocolate spreads in the U.S. increased 11.9 percent last year, and ‘Consumers were increasingly drawn to chocolate spreads with hazelnut, specifically Nutella,’ according to a Euromonitor report. Nutella, which started out as a somewhat niche product, has grown into a very substantial part of the category, representing nearly 70 percent of U.S. chocolate spread sales.<sup>136</sup>”

So nothing special happened in the States against Nutella for the scandal, thus its sales rose so much dominating the market.

We could also talk about its competitors, such as Lindt & Sprungli and Novi, but it would be completely useless. Novi does not have the same global dimension as Nutella. Although Lindt has improved its sales throughout these years (as we can see in the graph below), but not due to Ferrero Group scandals:



<sup>136</sup> Available at: <http://www.bloomberg.com/news/articles/2014-08-14/nutella-buys-hazelnut-supplier-to-protect-against-worldwide-shortage>. Accessed 10 May 2016.

- Organic growth: 6% ;            6,8% ;            8,6% ;            9,8% ;            7,1%. -<sup>137</sup>

Then, did such a scandal damage Nutella's sales and reputation?

No, and the most appropriate responses as to why the company was not damaged by the two scandals, are:

“But if people stop eating Nutella for the sake of the environment (not to mention their waistlines) then there are a quite a number of other snacks that people should think about giving up as well.<sup>138</sup>”

And: “But Nutella is so good!”; “For dinner tonight ... it's bread with Nutella.<sup>139</sup>” said the presenter and the Italian counterpart, Luca Galletti, as they replied to the French environment minister.

Pretty simple, right?

## 2.5 Starbucks, an example of minority case: sugar & Christmas accusation

We are going to present another kind of scandal that does not make all the consumers indignant. Instead, just a part of them, a market segment.

This type of indignation could bring temporary or indefinite *customer attrition*.

Anyway, this kind of customer churn is usually transitory.

In regards to Starbucks: “Starbucks' festive red cups, which mark the upcoming holiday season annually, are being tainted this year by scandal. The tipping point of the scandal began after an American evangelist, Joshua Feuerstein, aired his grievances about the cup in a viral Facebook post.<sup>140</sup>

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<sup>137</sup> Lindt Annual Report 2015; Available at: [http://www.lindt-spruengli.com/fileadmin/user\\_upload/corporate/user\\_upload/Investors/Annual\\_Reports/Annual\\_Report\\_2015\\_E.pdf](http://www.lindt-spruengli.com/fileadmin/user_upload/corporate/user_upload/Investors/Annual_Reports/Annual_Report_2015_E.pdf). Accessed 10 May 2016.

<sup>138</sup> Available at: <http://www.usatoday.com/story/news/world/2015/06/18/globalpost-nutella-palm-france/28932187/>. Accessed 10 May 2010.

<sup>139</sup> Available at: <http://abcnews.go.com/International/official-stop-eating-nutella/story?id=31822583>. Accessed 10 May 2016.

<sup>140</sup> Video available at: <https://www.facebook.com/joshua.feuerstein.5/videos/689569711145714/>. Accessed 11 May 2016.

As Starbucks unveiled earlier this month, the classic red cups — which in the past have included symbols like ornaments, reindeer, and more — were wiped clean of any graphics this year. Instead, the holiday design is minimalistic, featuring a ‘two-toned ombré design, with a bright poppy color on top that shades into a darker cranberry below.’<sup>141</sup>”

Immediately, the coffee giant's vice president of design and content, Jeffrey Fields, explained why this year's cups were simpler in design:

“Starbucks has become a place of sanctuary during the holidays....We’re embracing the simplicity and the quietness of it. It’s a more open way to usher in the holiday.”

Moreover: “This year’s design is another way we are inviting our customers to create their own stories on our cups...Our core value as a company is to create a culture of belonging, inclusion, and diversity. Each year during the holidays we aim to bring our customers an experience that inspires the spirit of the season and we will continue to embrace and welcome customers from all backgrounds and religions in our stores around the world.”

However, the evangelic protester in the viral Facebook video told his followers to join him in starting a movement: "I think in the age of political correctness we’ve become so open minded our brains have literally fallen out of our head....I decided instead of simply boycotting, well why don’t we just start a movement.... Let’s start a movement and let’s call it, I don’t know, 'Hashtag Merry Christmas Starbucks.'"

In addition, the video and the hashtag became effectively viral: “The video has since been shared nearly 500,000 times, and has started a mini-movement under the hashtag:

‘#MerryChristmasStarbucks.’<sup>142</sup>”

Furthermore: “some Starbucks fans and critics — namely Feuerstein — are not fans of the design and they said Starbuck removed Christmas from their cups because they hate Jesus”

Basically, the anti-Starbucks propaganda became viral, but only for a small number of customers, especially the “Christmas segment,” in which they would probably go back to being the company’s costumers after the winter.

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<sup>141</sup> Available at: <http://www.usmagazine.com/celebrity-news/news/starbucks-red-holiday-cups-are-causing-outrage-among-christians-2015911>. Accessed 11 May 2016.

<sup>142</sup> Available at: <http://www.usmagazine.com/celebrity-news/news/starbucks-red-holiday-cups-are-causing-outrage-among-christians-2015911>. Accessed 11 May 2016.

In fact, in the fourth quarter of 2015, Starbucks' sales increased consistently, especially in USA, where the scandal broke out:

- “Q4 Comp Sales Increase 8% Globally, 9% in the U.S.; Global Traffic Up 4%;
- Global comparable store sales increased 8%, driven by a 4% increase in traffic;
- Americas comp sales increased 8%, driven by a 4% increase in traffic;
- China/Asia Pacific comp sales increased 6%, driven by a 6% increase in traffic;
- EMEA comp sales increased 5%, driven by a 3% increase in traffic.<sup>143</sup>”

*The Guardian* adds: “The red cup fiasco failed to take the froth off Starbucks's 2015 sales. The coffee giant reported better-than-expected sales growth during its holiday quarter. One in six American adults received a Starbucks gift card over the holiday – up from one in seven in 2014.

Total net revenue rose 11.9 to \$5.37bn, Starbucks announced on Thursday. Additionally, global sales at cafes open for more than a year rose 8% in the first quarter. Analysts expect those sales to rise by 7.3%.

Net income attributable to the company fell to \$687.6m, or 46 cents per share, from \$983.1m, or 65 cents per share.<sup>144</sup>”

And according to *BBC*: “Total net revenue rose to \$5.37bn (£3.77bn) from \$4.8bn in the three months to 27 December....Revenue at the world's largest coffee company was boosted by Christmas holiday sales which rose 9%.<sup>145</sup>”

There is nothing to add; the sales numbers and statistics speak for themselves. They increased specifically, and it is important to underline this “specifically”, in the holiday period.

So, basically, Starbucks' marketing strategy of including all kind of people in its special Christmas has been successful.

But the corporate company has been getting involved in serious food problems ever since the first months of 2016:

“Starbucks and some other eateries are under fire from a health advocacy group over high sugar levels in their hot drinks.

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<sup>143</sup> Starbucks Annual Report 2015. Available at: <http://investor.starbucks.com/phoenix.zhtml?c=99518&p=irol-newsArticle&ID=2104341>. Accessed 11 May 2016.

<sup>144</sup> Available at: <https://www.theguardian.com/business/2016/jan/21/starbucks-exceed-quarterly-sales-red-cup-christmas>. Accessed 11 May 2016.

<sup>145</sup> Available at: <http://www.bbc.com/news/business-35378653>. Accessed 11 May 2016.

U.K.-based Action on Sugar has released a report claiming that many commercial district hot drinks contain as much sugar as a can of cola.

‘Some of the hot drinks contained more than 20 teaspoons of sugars.’ it said.

It’s ‘yet again another example of scandalous amounts of sugar added to our food and drink,’ said Graham MacGregor, Action on Sugar chairman.

The top offender was Starbucks, which had seven of the 10 worst offenders.”

Anyway, Starbucks said it is taking action:

" ‘Earlier this year we committed to reduce added sugar in our indulgent drinks by 25 per cent by the end of 2020," a Starbucks spokesperson said. "We also offer a wide variety of lighter options, sugar-free syrups and sugar-free natural sweetener and we display all nutritional information in-store and online.’

But that promise appears to be not enough for the campaigners. They says the U.K. needs a new tax on sugar in food and an independent agency that will oversee a reduction in fat and sugar in processed food and drink.<sup>146</sup>

However, nothing seems to make Starbucks stop; not even the competitors, as *CNBC* reports:

“Starbucks is growing U.S. sales faster than its competitors because it is finding more opportunities to cash in beyond its peak breakfast hours, Chairman and CEO Howard Schultz said Friday.

‘We’re no longer a morning day part business. We’re a business throughout the day,’ he told *CNBC*’s ‘Squawk on the Street.’

While most restaurant-and-retail companies in its class are struggling to put up 5 percent growth at U.S. stores, Starbucks on Thursday reported comparable-store sales in the Americas increased 9 percent in its most recent quarter. That beat estimates of 7.2 percent, according to Street Account.

....‘At a time in America where every bricks-and-mortar retailer is struggling just to be even or parity in traffic, not only are we driving comp-store sales at 8 percent globally and 9 percent in the U.S., but we are driving 4 percent incremental traffic. It’s unheard of at our scale.’ he said.

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<sup>146</sup> Available at: <http://www.cnbc.com/2016/02/17/starbucks-responds-to-shocking-sugar-accusation.html>. Accessed 11 May 2016.

The coffee giant posted fiscal first-quarter earnings of 46 cents per share on \$5.37 billion in sales, which were down 29 percent and up 12 percent from the previous year, respectively.

...The chain's comparable-store sales around the world increased 8 percent in the quarter, beating estimates of 6.9 percent.<sup>147</sup>”

*The BBC* adds: “In addition, sales across Asia rose 3% as opposed to 4.6%, and Europe, Middle East and Africa sales rose 1%, not 3.4% as predicted by analysts.<sup>148</sup>”

However, this is not a global drop in sales, but rather just a sales growth that falls short under analyst expectations, which is not what happened with Parmalat, Volkswagen, or McDonald’s.

## 2.6 Mars: When defective products can make a company more responsible

Right now, let us analyse one more minor case.

In regards to Mars Inc., *The Guardian* journal reported the following words: “An international recall of a range of chocolate bars has been announced by Mars because of fears that customers could choke on pieces of plastic.

The recall, which affects 55 countries, could end up costing the company tens of millions of dollars.

Mars announced the recall after a customer found a piece of red plastic in a Snickers bar bought in Germany on 8 January. After he complained to the company, the plastic was traced back to its factory in the southern Dutch town of Veghel, where it was determined that the piece came from a protective cover used in the manufacturing process.<sup>149</sup>”

This could not be a scandal or disaster, but rather a financial drama for the company:

“Mars didn’t detail the volume of products affected or what financial impact the recall would have.<sup>150</sup>” said *The Independent*.

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<sup>147</sup> Available at: <http://www.cnbc.com/2016/01/21/starbucks-first-quarter-earnings.html>. Accessed 11 May 2016.

<sup>148</sup> Available at: <http://www.bbc.com/news/business-36108051>. Accessed 11 May 2016.

<sup>149</sup> Available at: <http://www.theguardian.com/lifeandstyle/2016/feb/23/mars-chocolate-product-recalls-snickers-milky-way-celebrations-germany-netherlands>. Accessed 11 May 2016.

<sup>150</sup> Available at: <http://www.independent.co.uk/news/business/news/mars-recall-chocolate-snickers-milky-way-plastic-uk-a6891501.html>. Accessed 11 May 2016.



The company wanted to immediately reassure all the consumers: “Mars in Germany confirmed that it was one of the countries affected, and said in a statement that the recall affected products with ‘best before’ dates from June 19, 2016 to January 8, 2017...

‘We have intentionally chosen a long production time frame in order to ensure that all possibly affected products are recalled,’ the company said in a German-language statement, adding that it was in ‘close contact’ with food safety authorities.<sup>151</sup>”

We are in front of a different scandal from the others that we have already analysed. The news about Mars’ products has certainly shocked the public opinion and the consumers. However, at this time, the company’s intention and willingness to protect its customers and their health is also obvious. In addition, a ‘sense of social responsibility’ by the company that plays a decisive role in what consumers will think about Mars and its products in the future is evident.

For instance, in terms of the Volkswagen scandal, the difference is clear; the latter tried to cheat the customers, but Mars tried to defend them.

It is the same with Philip Morris and its smokers or, for example, with Parmalat that deceived its savers and investors in the financial fraud.

And obviously, the effects on the market, the revenues, and the sales of each of these companies will be consistently different, and will be determined only by the customers.

Let us examine in the last chapter a case in which the management, thanks to the marketing strategy, saves the company from a serious scandal.

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<sup>151</sup> Available at: <http://www.dawn.com/news/1241479>. Accessed 11 May 2016.

## **CHAPTER III:** *Classic and disruptive strategies: How the companies fix their scandals.*

### **3.1 Step by step: a framework for managing the scandal**

Alice M. Tybout and Michelle Roehm, two journalists from the *Harvard Business Review*, reported that in following more than 10 years of researches, they have developed a four-step framework that allows executives to craft just-right, just-in-time responses to scandals. It offers managers a systematic way to gauge whether they should act immediately or sit tight and wait for the air to clear.

They argued that the most important step is the so called *Implement Response Tactics*.

According to them, with regard to this aspect, once senior management has decided on a basic approach to dealing with the scandal, marketing and communications, specialists may be called in to help the team figure out how to implement the strategy. The critical questions at this stage are: Which issues should be addressed, and at what level of detail? Who should deliver the response, and with what kind of tone?

If a brand serves a ‘promotion’ goal, they said, then a scandal is likely to evoke sadness and disappointment—and a desire among customers for “big picture” information from spokespersons who can speak strategically about what should have been done to achieve a more favourable outcome.

Instead, if a brand serves a ‘prevention’ goal, the two reporters added, then the scandal may prompt anxiety and nervousness, along with a desire for granular information from a spokesperson who is knowledgeable specifically about what should not have been done—that is, how the negative outcome could have been avoided. In such an environment, executives cannot rely on preventative measures to protect them from scandal damage. They must be ready to respond, which means

having an executive crisis team ready, a contingency budget set aside for crisis response, and—as we’ve outlined—a solid plan for working through the nuances of the specific scandal.<sup>152</sup>

Having said so, it is now important to underline the different responses and the different strategies implemented by all the companies we have analysed in the previous chapter.

## **Marketing and Corporate strategies: companies’ approach with scandals**

### **3.2 Parmalat: too big to fail**

How and why has Parmalat managed to save itself from the financial fraud?

How can it still survive after what has happened?

It is relatively easy to find answers to all these questions, because of the topic’s difficulty.

Just to be brief, Parmalat was supposed to be “Too big to fail”: this means that “certain corporations, and particularly financial institutions, are so large and so interconnected that their failure would be disastrous to the greater economic system, and that they therefore must be supported by government when they face potential failure.”<sup>153</sup>

And more: “Proponents of this theory believe that some institutions are so important that they should become recipients of beneficial financial and economic policies from governments or central banks.... By declaring a company too big to fail, however, it means that the government might be tempted to step in if this company gets into a bad situation, either due to problems within the company or problems from outside the company. While government bailouts or intervention might help the company survive, some opponents think that this is counterproductive, and simply helping a company that maybe should be allowed to fail.”<sup>154</sup>

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<sup>152</sup> Available at: <https://hbr.org/2009/12/let-the-response-fit-the-scandal>. Accessed May 24 2016.

<sup>153</sup> "Too Big to Fail, Too Blind to See", Tom C. W. Lin, Temple University - James E. Beasley School of Law; April 16, 2012; 80 Mississippi Law Journal 355 (2010).

<sup>154</sup> "What is too big to fail? definition and meaning". Businessdictionary.com. Retrieved 2013-04-27.

Without going too deep into the issue, it is immediately evident how Parmalat, without the government's help, would never get out of the financial fraud and most probably, it would have failed.

In fact, the first strategy developed by the company was to come to an agreement with political establishments, financial intermediaries and stakeholders.

The main aim was to restructure the debt to grant Parmalat's financial stability on the market and avoiding the investors' and the savers' escape.

Basically, the buzz was preventing the company from collapsing!

“The Parmalat scandal raised the well-known gatekeepers' question concerning financial intermediaries, credit rating agencies, auditors and even solicitors. Furthermore, it enforced the existing problem of questionable corporate regulation in Italy. Yet it is not just corporate governance standards at the time that are the most worrying aspect of this; the issue now is that no real efforts were made to reform this enforcement system following the Parmalat scam.... But even banks, which typically play an important role in monitoring companies, failed horribly in this capacity. In fact, numerous lenders were ultimately targeted for possible roles in aiding the fraud. These included Bank of America, Citicorp, and J.P. Morgan, each of which placed Parmalat bonds, as well as Deutsche Bank, Banco Santander, ABN, Capitalia, and Unicredit....

...While most of these banks claimed that they were also victimised by the company, some observers have argued that the banks may have sought profitable deals with Parmalat that conflicted fundamentally with their monitoring responsibilities.

The accounting calamity at the dairy foods giant exposed a disturbing deficiency of transparency at what was then considered Europe's largest corporation.”

Parmalat's failure could have created a hole too big and too large to fix in the Italian and the European system, harming the reputation of lots of banks involved in the financial fraud and damaging the government's image as well:

“Parmalat's bankruptcy represented 1.5 percent of Italian GNP and was proportionally larger than the combined ratio of the later Enron and WorldCom bankruptcies to US GNP. Parmalat also controlled over 50 percent of milk derivatives in Italy. Nobody could have believed that such a vast

market player could collapse in such a spectacular manner. But the evidence is there for all to see.<sup>155</sup>”

Not only the Italian economics and a part of its workforce would have been compromised, but also all the culture of modern Western capitalism, some say, would have been harmed, calling into question the entire financial system.

Parmalat has not developed an own marketing or corporate strategy by itself: but this is obvious because of the scandal’s nature! It was a disaster due to a financial fraud and not due to an alimentary or environmental disaster! The company had to convince its stakeholders, its savers, its investor and its shareholders; not its customers! Parmalat’s products have not called into doubt about their goodness!

The failure was especially shocking because it represented the failure of modern regulatory authorities which are by law obliged to protect investors. Having the financial fraud, all the stockholders’ attention was more on the eventual failure of all the system, and then on Parmalat. In this sense, they were more shocked about the scam perpetuated by all the financial system than the Parmalat disaster, seen more as a part of the whole, a part of an international and global cheating.

Because of all the reasons explained, Parmalat’s case is completely different from the other ones and so we cannot compare them.

To sum up, there are not strategies in common to fix the problem between what happened to Parmalat and what instead happened to the other companies.

The context in which the disaster takes place, the strategies implemented, the nature of the fraud and the involving of the authorities into the problems are consistently different and, at the same time, too distant to be compared.

Let us understand the reason behind this consideration, with an overview of diverse strategies created by companies such as McDonald’s, Philip Morris International and one more else: Barilla S.p.A. .

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<sup>155</sup> Available at: <http://www.europeanceo.com/finance/europes-biggest-bankruptcy-remembered/>. Accessed 24 May 2016.

### **3.3 McDonald's, Philip Morris and Barilla: consumers' needs and corporate social responsibility**

We should now analyse how, in the following three cases, the companies have successfully overcome their difficulties after the outbreak of a scandal (or more than one) thanks to the help of their strategies. We should also compare, if possible, the various approaches to the disaster.

Consider what happened to McDonald's. A lot of scandals have racked the American Multinational Food, generating slumps of sales that are not easy to fix:

Beyond the obesity problem<sup>156</sup>, they have passed to the food safety problem in China, to the Pink Slime. (Just to mention the most recent).

In addition: "Some of McDonald's troubles can be traced to the changing tastes of American consumers. Critics say it has been slow to offer products that satisfy consumer preferences for fresher ingredients and adventurous flavors."<sup>157</sup>

All these problems have harmed McDonald's' credibility over the time, besmirching its brand image and favouring the quick growth of its competitors on the same market. So, what was once the best type of fast-food worldwide, has been facing many difficulties. Because of this, too many critics said that probably the American corporation will fail if it does not reverse the trend.

Then, how can the fast food giant turn things around?

Concerning what happened in China and in Japan, the situation is extremely complicated and there are no possibilities to fix the problem in the short time.

Despite of all the declarations and what the various spokesmen have said about the facts, the public American company has to regain China and Japan's trusts: The scandal has continued to damage McDonald's performance in both countries. Currently, the chain hopes to fix the problem by leveraging menu options and deals, but ultimately the only fix is to wait it out.

Simon Pangrazio, managing partner of communications consultancy Watatawa has worked with a number of food industry clients facing supply chain challenges in China. He told PRWeek: "only

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<sup>156</sup> McDonald's has taken the slow road in addressing charges that its fast food contributes to the nation's rising obesity.

<sup>157</sup> <http://www.chicagotribune.com/business/ct-mcdonalds-fix-0918-biz-20140917-story.html>

‘diligent’ and ‘sincere’ action communicated in a ‘no-nonsense and transparent way’ may pave the way for recovery from any reputational damage that the two firms have suffered....”

And again: “The confidence of the Chinese public in food safety has been so shaken to its core, consumers have lost count how many times products have been tainted or contaminated” - Bob Pickard, APAC chairman of Huntsworth told PRWeek - "Their doubts about the assurances which companies provide them about safety were already pervasive, and now trust has become almost non-existent. Any company communicating in this environment of universal skepticism must assume that few will believe what they say, and therefore that only sincere actions sustained over time will be perceived as real.<sup>158</sup>"

As can be seen, especially the Chinese public opinion was shocked by what happened with McDonald's and, of course, this is a great damage to the width of the Asiatic market.

It is basically a waiting time for the oldest fast food.

What about the goodness of the food?

Seeing the results obtained by the strategies developed, already seen in the chapter before, as regard to the obesity problem, it has responded by focusing ads on its use of high-quality beef and then continue by promoting its salads:

“Today's consumers increasingly demand more choice, convenience and value in their dining-out experience....At least some McDonald's locations are focusing on boosting the choice aspect, with a customizable menu that offers more options and pricier burgers. McDonald's ‘Create Your Taste’ test platform is an example...” - McDonald's CEO Don Thompson said in a statement –

“McDonald's says that it has ‘taken a seat at the table of the obesity discussion’<sup>159</sup>”.

Although, this is not all. To give the impression of providing healthy food and boosting their choice to a more correct nutrition, the company has decided to serve chicken “adding a second meat to the menu. Now customers will be able to build their own chicken sandwiches at the kiosks...Chicken is seen as a healthier option than burgers, whether or not the sandwiches actually have a higher calorie count, helping the trendy fowl to fit in with the fast-casual trend. Additionally, with increased beef and pork prices, chicken is an economically sound options for restaurants interested in expanding

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<sup>158</sup> Available at <http://www.prweek.com/article/1304517/china-food-scandal-rocks-mcdonalds-kfc>. Accessed May 25 2016.

<sup>159</sup> Reframing the obesity debate: McDonald's role may surprise you. *Adams C; J Law Med Ethics*. 2007 Spring; 35(1):154-7.

their menu. Maybe it's time for the biggest burger chain in the world to downplay the hamburger and focus on chicken instead.<sup>160</sup>”

In this way, the company has been trying to capture all the market’s segments:

“The real issue is attracting two groups of diners without alienating either one. The first group is McDonald's core audience, the folks who love the chain for what it is and who do not want to see change. Many of them cannot afford higher prices. This group is tremendously important, and is why McDonald's continues to be the No. 1 fast food chain by a wide margin.

The second group includes those who think McDonald's is not healthy or tasty enough. These are the customers who drive past the Golden Arches to Five Guys, Panera (PNRA), Chipotle Mexican Grill (CMG). They need a reason to come back to McDonald's, and so far they aren't motivated.<sup>161</sup>”

By maintaining the classic group and growing with the introduction of chicken, natural salads, items like the Egg White Delight McMuffin, fruit and yogurt options in kids' meals, it is considered healthy.

How is McDonald’s doing so?

“It is pushing new and limited-time items in four categories in which it believes its growth will outpace the overall industry. Those categories are beef, chicken, breakfast and beverages such as coffee and blended ice drinks.<sup>162</sup>”

That is simple: expanding its product line, or maybe we should say, its food line.

Furthermore, the Pink Slime scandal was excellently faced and fixed by the multination thanks to an innovative approach: this a video taken inside the factory, showing all the production process behind the McDonald’s Chicken McNuggets:

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<sup>160</sup> Available at: <https://www.entrepreneur.com/article/240576>. Accessed May 25 2016.

<sup>161</sup> Available at: <http://www.cbsnews.com/news/5-problems-mcdonalds-new-ceo-must-fix/>. Accessed May 25 2016

<sup>162</sup> Available at: <http://www.chicagotribune.com/business/ct-mcdonalds-fix-0918-biz-20140917-story.html>. Accessed May 25 2016.





<sup>163</sup> the cameras show teams of Tyson employees studiously hacking away at whole chickens on the factory line.

This marketing campaign, based on a disruptive element for beating the market, was great and consistently different from classic advertising. It was also a mean to underline the goodness of the company's food.

“McDonald's released another video focused on improving public perceptions of their fast food products--this time with a focus on the Chicken McNugget.

The video is a step-by-step look at the making of the deep-fried morsels that seems specifically designed to fix misconceptions that McDonald's uses so-called 'pink slime' meat in its nuggets.

Along with a similar video about the McRib, the campaign is pushing to change its reputation as unhealthy snack food in a country where people increasingly want options that feel more wholesome.<sup>164</sup>”

The message is very simple and clear at the same time: our food is good and healthy and we are not cheating or poisoning our consumers because we take care of it. Do not you trust us? Come inside the factory with us and look at the whole process.

<sup>163</sup> YouTube video. Available at: <https://www.youtube.com/watch?v=NCm6INQ09yY>. Accessee May 24, 2016

<sup>164</sup> Available at: <http://www.dailymail.co.uk/news/article-2866066/What-s-REALLY-Chicken-McNuggets-McDonald-s-takes-inside-factory-combat-pink-slime-scandal-sales-sink.html>. Accessed 25 May, 2016

### 3.4 PHILIP MORRIS INTERNATIONAL: stay close to customers and their needs

The tobacco industry in the United States has suffered greatly since the mid-1990s, when it was successfully sued by several U.S. states. The suits claimed that tobacco causes cancer, that companies in the industry knew this, and that they deliberately understated the significance of their findings, contributing to the illness and death of many citizens in those states.

“Cigarette smoking is a health hazard of sufficient importance in the United States to warrant appropriate remedial action.” It was 50 years ago this month that America’s surgeon-general sounded that warning, marking the beginning of the end of cigarette manufacturing—and of smoking itself—as a respectable activity.<sup>165</sup>

Nobody could claim that people benefit from cigarettes, it is the complete opposite and they seriously harm our health: This is the first problem that a tobacco company such as PMI has to cope with. If we then add frauds and scams as we have already described, the situation becomes worse.

Philip Morris International was investigated for corruptions, for environmental disaster, for exploitation of child labour and for false declarations about second-hand-smoke.

Concerning the corruptions, the company was forced to implement a corporate strategy, changing its brand name because of the fear of getting the famous *bad reputation* yet explained before. And it seemed to be successful given that PMI is still on the market and it is one of the most important multinationals in the world.

Instead, as regard to the environment and to child labour, the tobacco company has adopted what I would like to call “the reverse-approach”: initially, the firm, especially to cut its costs and increase its incomes, does not care about something that could be important for people and for a government because nobody pays the right attention to it; but when needs, tastes and culture change and the scandal bursts, the company changes its approach by taking care of it.

How did the company do this? Thanks to the help of social media and the internet: “Corporate websites are one locus for image repair efforts<sup>166</sup>. Websites are inexpensive (compared to paid advertising) and allow corporations to control the message (unlike earned media coverage).

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<sup>165</sup> Available at: <http://www.economist.com/news/business/21594984-big-tobacco-firms-are-maintaining-their-poise-quietly-wheezing-running-out-puff>. Accessed 25 May, 2016

<sup>166</sup> Campbell D, Cornelia Beck A. Answering allegations: The use of the corporate website for restorative ethical and social disclosure. *Business Ethics: A European Review*. 2004;13:100–116.

Companies may use their websites to address, deflect, or reframe issues of concern<sup>167</sup>. Corporate websites have the ability to influence the opinions of potential customers<sup>168</sup> and are also a resource for investors<sup>169</sup>.”

Finally, Website communications may also be an effort to change the litigation environment<sup>170</sup>. And this is what PMI had done, using its personal internet website, claiming its interest in the safeguard of the environment and stressing all its initiatives to protect it, as we can read in the following extract:

“We are committed to reducing the environmental footprint of our operations.

We have evaluated our environmental impact—from buying tobacco leaf to manufacturing tobacco products to running our various offices around the world—and we are taking steps to reduce it. We have defined environmental objectives that are aggressive yet realistic and, by implementing a series of concrete programs, we are achieving them:

- **Reducing Energy and CO2:** between 2005 and 2010, we reduced our energy consumption by 12% per cigarette produced.
- **Reducing Water Consumption:** we follow the 3R concept—Reduce, Reuse, and Recycle—for both water and waste, with strong results. From 2005 to 2010, we reduced the volume of water used per million cigarettes by 12%.
- **Reducing and Recycling Waste:** we reduced our waste by 7% per cigarette produced between 2005 and 2010 and simultaneously improved recycling to approximately 80% of factory waste
- **Meeting International Standards:** by the end of 2011, Philip Morris International had achieved external certification to ISO 14001\* and OHSAS18001\* for 33 of our manufacturing centers; this is a continual program as new factories are integrated into PMI.<sup>171</sup>”

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<sup>167</sup> Darmon K, Fitzpatrick K, Bronstein C. Krafting the obesity message: A case study in framing and issues management. *Public Relations Review*. 2008;34:373–379.

<sup>168</sup> Winter SJ, Saunders C, Hart P. Electronic window dressing: Impression management with websites. *European Journal of Information Systems*. 2003;12:309–322.

<sup>169</sup> Holder-Webb L, Cohen JR, Nath L, Wood D. The supply of corporate social responsibility disclosures among U.S. firms. *Journal of Business Ethics*. 2009;84:497–527.

<sup>170</sup> Tobacco industry use of corporate social responsibility tactics as a sword and a shield on secondhand smoke issues. Friedman LC; *J Law Med Ethics*. 2009 Winter; 37(4):819-27.

<sup>171</sup> Available at: [http://www.pmi.com/eng/about\\_us/how\\_we\\_operate/pages/environmental\\_initiatives.aspx](http://www.pmi.com/eng/about_us/how_we_operate/pages/environmental_initiatives.aspx). Accessed May 25, 2016.

Let's consider the second-hand-smoke problem and the smoke problem in general. For example, public health advocates describe tobacco promotion as "selling a toxic product"; the tobacco industry may try to narrow the problem to one like "advertising to children." Addressing the former would require ceasing to sell the product; addressing the latter would involve much smaller changes to marketing practices.

Public health for PMI and healthy food for McDonald: the tobacco company defended itself from attacks about the danger of its cigarettes.

In fact: "Philip Morris's website overtly defined the issue as health. The site stated that smoking is addictive<sup>172</sup> and that it causes disease<sup>173</sup>."

Because of this, the website did not acknowledge the company's role in promoting cigarettes. There is no such thing as a 'Safe Smoke', Philip Morris reports on its website.

Moreover, the company claims its efforts to "help smokers who have decided to quit" even though such efforts "may lead to further declines in cigarette consumption<sup>174</sup>", suggesting that it was willing to suffer to do the right thing.

Philip Morris's, added that smokers "would prefer a cigarette that might reduce the health risks while satisfying their taste ... preferences<sup>175</sup>", saying that these were of equal significance.

Cooperation with everybody, with the identification of potentially harmful compounds in cigarettes so the company could make safer and more healthy products for its smokers. The same as what McDonald's has done with the food. To understand this parallelism with the fast-food giant better, we could think about the e-cigarette, that PMI will develop in the next months. New technologies such as these new cigarettes promise to deliver nicotine less riskily. Big tobacco firms may master them, and PMI knows so.

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<sup>172</sup> Philip Morris USA. Smoking & health issues: Addiction. 2007, Retrieved from [http://web.archive.org/web/20071011142515/www.philipmorrisusa.com/en/health\\_issues/addiction.asp](http://web.archive.org/web/20071011142515/www.philipmorrisusa.com/en/health_issues/addiction.asp).

<sup>173</sup> Philip Morris USA. Smoking & health issues. 2007, Retrieved from [http://web.archive.org/web/20071230071007/www.philipmorrisusa.com/en/health\\_issues/default.asp](http://web.archive.org/web/20071230071007/www.philipmorrisusa.com/en/health_issues/default.asp).

<sup>174</sup> Philip Morris USA. Our initiatives & programs: Cessation support. 2007, Retrieved from [http://web.archive.org/web/20080105072205/www.philipmorrisusa.com/en/our\\_initiatives/cessation\\_support.asp](http://web.archive.org/web/20080105072205/www.philipmorrisusa.com/en/our_initiatives/cessation_support.asp).

<sup>175</sup> Philip Morris USA. Product facts: Providing smoking pleasure. 2007, Retrieved from [http://web.archive.org/web/20071009220723/www.philipmorrisusa.com/en/product\\_facts/making\\_our\\_cigarettes/providing\\_smoking\\_pleasure.asp](http://web.archive.org/web/20071009220723/www.philipmorrisusa.com/en/product_facts/making_our_cigarettes/providing_smoking_pleasure.asp).

So, healthier cigarettes and a new product such as the e-cigarette, just as the new and healthier food by McDonald's.

The line extension thanks the e-cigarette and:

“Philip Morris wants health professionals to help them make a ‘safer’ cigarette providing consumers with more choices.<sup>176</sup>”

Just like the multinational of fast-food did with its chicken.

But moreover: “By including cessation materials on its website and supporting anti–youth smoking initiatives, Philip Morris hopes to establish itself as an ally of public health <sup>177</sup>”

As can be seen, there is also a common communication strategy between the two companies. Stay close to the change of needs, tastes and perceptions. Stay close to the health and to the desires of your consumers. Stay close to the culture of the people and to their sensibility and be transparent. This is what PMI and McDonald's has been doing.

### **3.5 BARILLA: the same-sex scandal and the company's successful campaign**

Take care of your consumers. That is what the two companies have tried to do.

Barilla S.p.A., the Italian pasta-maker multinational, has understood this important aspect at its own expense, when its chairman Guido Barilla “sparked international outrage when he said he'd never feature a gay couple in ads for his firm's foodstuffs — adding that if homosexuals don't like it, they can buy another brand.<sup>178</sup>”

*The Washington Post* reported the president's words: “I would never do [a commercial] with a homosexual couple, not for lack of respect, but because we don't agree with them...Ours is a classic family where the woman plays a fundamental role.<sup>179</sup>”

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<sup>176</sup> Barnes M, Prior D. Spoilt for choice? How consumerism can disempower public services users. *Public Money & Management*. 1995;15(3):53–58.

<sup>177</sup> “Working to shape what society's expectations of us should be”: Philip Morris' societal alignment strategy. Yang JS, Malone RE, Tob Control. 2008 Dec; 17(6):391-8.

<sup>178</sup> Available at: <http://nypost.com/2013/09/26/barilla-chairman-gays-can-eat-someone-elses-pasta/>. Accessed 25 May, 2016.

<sup>179</sup> Available at: [https://www.washingtonpost.com/politics/human-rights-campaign-says-barilla-has-turned-around-its-policies-on-lgbt/2014/11/18/9866efde-6e92-11e4-8808-afaa1e3a33ef\\_story.html](https://www.washingtonpost.com/politics/human-rights-campaign-says-barilla-has-turned-around-its-policies-on-lgbt/2014/11/18/9866efde-6e92-11e4-8808-afaa1e3a33ef_story.html). Accessed May 25, 2016.

After these anti-gay remarks, and after coming under the fire, provoking the homosexual reactions and their boycott of pasta Barilla everywhere, especially thanks the viral effect of the social networks, the Italian multinational fixed the situation immediately.

The company merged both the PMI's and McDonald's' strategies, beginning with the *mea culpa*, apology from Guido Barilla, explained in the previous chapter, as we can watch in the video below:



<sup>180</sup>Apology from

Guido Barilla

Following this video, to avoid the *bad reputation*, just like Philip Morris, the company carried on so many initiatives for homosexuals:

- Meeting with the LGBT community
- Promotion of diversity
- Creation of the “Diversity&Inclusion Board” inside the company
- New advertising in supporting of homosexuality

We could go on, but the idea of what type of strategies Barilla has successfully implemented is clear:

As we said, it has avoided the bad reputation, even if using another strategy, as PMI did; the use of a video to explain what happened in order to re-establish contact with its clients, as McDonald's

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<sup>180</sup> Available at: <https://www.youtube.com/watch?v=2Tg61KYPLqQ>. Accessed May 25, 2016.

did; awareness campaigns and initiatives pro-gay community just as the multination of tobacco did in other forms for the environment.

In addition, Barilla and Philip Morris have both made no other use of the *Corporate Social Responsibility*, already explained in the first chapter.

Basically, this is a different type of CRS, where the companies decide to spend money and to allocate funds in particular types of initiatives, introducing socially useful activities, but not because of a true feeling, a true human mission or a true corporate value. They make use of this strategy after the outbreak of a disaster or a scam, as equipment components, for fixing their problems and their scandal.

And this is just what both the multinational have well done, especially in the successful Barilla's case, where the company has received the perfect score on HRC<sup>181</sup> of 2015.

A real social responsibility instead comes from Nutella, and so from Ferrero S.p.A.. At the beginning, the company was accused for environmental disaster, because of the deforestation to produce palm oil, by the French environment minister. But as we have already reported, these accusations were inconsistent

In fact, "Industry observers including Greenpeace and WWF also leapt to the defence of the company, pointing out that it has in fact led the industry in cleaning up its act and goes much further than most competitors on responsible sourcing of palm oil.

The company has met its commitments to the Roundtable on Sustainable Palm Oil (RSPO), the voluntary mechanism for controlling the practices of the industry, a year ahead of time. This means it can trace 100% of its palm oil from RSPO registered oil mills.

Royal was flagging up a real issue but chose the wrong company to put in the stocks."

And then: "Ségolène Royal opened her mouth but didn't engage her brain," said Scott Poynton, founder of the Forest Trust...It's a shame that she chose Nutella. Ferrero are the leaders. If all the companies in the palm oil industry operated like Ferrero, the palm oil industry would not have the reputation that it does.<sup>182</sup>

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<sup>181</sup> The Human Rights Campaign is America's largest civil rights organization working to achieve lesbian, gay, bisexual and transgender equality.

<sup>182</sup> Available at: <http://www.theguardian.com/environment/2015/jun/19/ferrero-accused-nutella-youre-really-spoiling-us>. May 26, 2016.



Moreover, Nutella has gone beyond the RSPO and developed its own palm oil charter. According to Poynton, Ferrero now traces 98% of its palm oil right back to the plantation. It is the first company to go this far.

In this way, the company has collected compliments from all the most important environmental organisations on Earth, because of its efforts in reducing deforestation. The hazelnuts giant is considered to be sustainable and ethical, in harmony with new attentions on the conservation and on nature. Nutella shows it is perfect, or almost, CSR, with an opposite (and right) approach compared to the Italian pasta-maker and the American cigarette giant: it needed no breath of scandal to make use of this kind of corporate strategy.

### **3.6 STARBUCKS&VOLKSWAGEN: The genius of the Java multinational versus the lack of new ideas of the made-in-Germany**

The last common aspect, between all the four companies, is “the background idea”, “the common line” that connects all the strategies adopted: stay close to your consumer, to their needs, to their tastes, to their culture and to their expectations.

We should say “stay close to all the consumers”, because Starbucks has not done the same regarding its red-cups. The topic is controversial: on one hand, the company has opened the doors to all the consumers; but on the other hand it has generated the Christmas fanatics backlash, which tried to boycott the coffee giant.

So, Starbucks did not stay close to all the consumers, right?

It has adopted a different strategy compared, for instance, to Barilla’s one. This latter, in fact, tried to fix the scandal avoiding the same-sex customer attrition and, at the same time, without losing the heterosexual people: basically all the eligible customers.

But do we want to really think that Starbucks was so unconscious?

We do not. We may not believe that.

The Christmas red-cup, most probably, was a well calculated move, a well calculated marketing strategy.



First of all, as already said in the chapter above, the Java giant managed to involve everyone it could, and the rise in sales made that clear.

Second of all, “Without spending a dime on advertising, PR or even lifting a cup, Starbucks got its brand into the conversation of nearly every American... Facebook, Twitter, presidential candidates, celebrities, artists, even the passive couch potatoes all seemed to have an opinion — good or bad — on why Starbucks was or wasn't the Grinch who stole Christmas. If you believe Google, there are now 9.2 million news stories on the "Starbucks red cup controversy." That's a lot of free publicity.”

To sum up: “There's an outdated cliché among entrepreneurs that all publicity is good publicity... In a month or year from now, everyone will remember that Starbucks conversation.”<sup>183</sup>

So what should Starbucks do now that the world is on fire over a red cup?

Absolutely nothing. And just this one was the strategy: let people talk about it without incurring a bad reputation.

What is going on instead with Volkswagen and the emissions scandal?

We have already illustrated how the company could to fix the U.S. cheat.

The Volkswagen Group has explained the technical measures for the EA 189 diesel engines affected, presenting it to the German Federal Motor Transport Authority, thanks to the same type of communication adopted by McDonald's and Barilla: the video.

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<sup>183</sup> Available at: <http://www.cnn.com/2015/11/13/the-real-winner-in-starbucks-red-cup-controversy-commentary.html>. Accessed May 26, 2016.



<sup>184</sup> The VW's technical measures for the EA 189 diesel engines affected.

The German automotive maker in fact created the video to show that they are working on the problem for the customers and to highlight its efforts to apologise and fix the scandal.

But it is immediately clear that this video only and the other strategies adopted were not enough. The company needs more disruptive ideas to get out of the crisis. Anyway, the first step may also be the adoption of the classic countermeasures, that the company has not still tried to work up. As we have seen, a short-solution to get out of the problem does not exist and at this point, probably the long-term solution for the German car-maker consists in a totally new CSR, characterised by environmental initiatives, safeguard of the nature, development of clear solutions, investments in sustainable and green energies, scoring by environmental protection associations, World Environment/Climate Day and so on.

All the seven companies had to deal with one or more scandals, the last ones were different because of their nature, of their consistency and of the number of consumers involved. Though, every one of them has adopted a strategy, or more than one, and an approach to fix the problems and control any possible damage.

Companies are concerned about maintaining a good image, and they frequently engage in image repair after crises involving products or corporate practices.

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<sup>184</sup> YouTube Video. Available at: <https://www.youtube.com/watch?v=jKN8danplfE>. Accessed May 26, 2016.

## Conclusions: personal considerations and comments

Finding common features for all the cases studied has not been easy.

At this point, it is easy to come up with questions: why isn't it easy?

Because all the companies considered so far differ from one another in many aspects.

It is becoming consistently important to have a better and a well-structured global overview.

In fact, it actually turns out that not all firms can be compared because of:

- 1) They are in different sectors and they beat different markets: it means different goods; different interests, different stakeholders and different reactions.
- 2) Sometime there are financial problems, sometimes economic and sometimes they concern the reputation or the products.
- 3) Not all the scams had the same impact on them: strong or moderate.
- 4) Not all the disasters have the same nature: why has it broken out? What happened? What is going on?
- 5) Not all frauds may be fixed in the same way: marketing communication, corporate social responsibility, crisis management and financial management.

So, as can be seen, all the argument is very difficult to be managed.

Not all the companies could be compared, and this is certainly true; but all the scandals analysed have common aspects as well:

- 1) They have generated reactions: consumers, haters, competitors and sales;
- 2) They have stimulated the firms to change and develop new strategies;
- 3) Their global outcome and their effects spread worldwide.

Anyway, we have created groups of comparable companies, to show the common aspects but also the main differences; to highlight what can be successful and what can not and when some factors are more functional than others.

The Parmalat case is out of these considerations and it forms a group on its own if we pay our attention on adopted common strategies: the financial aspect of the scandal and the government help make what happened to the Italian company different from the other ones, as we yet explained.

Let's consider instead McDonald's, Philip Morris, Barilla, Nutella, Volkswagen and Starbucks: the common features are certainly the CRS proposed after the outbreak of their respective scams. Obviously the results are different: for instance, Barilla's aim has been achieved thanks especially to its disruptive political moves in order to favour homosexuals. Honestly Barilla's aim was easier to achieve than Volkswagen's, McDonald's and Philip Morris' ones. These latter have carried on excellent strategies, except for the German car-maker, but their scandals have different nature and they are much more difficult to fix. One example: you can "stay close to customers' needs" and adopt a CSR, but you are still producing industrial food (McDonald) and you are still selling a toxic product such as cigarettes (PMI).

As can be seen, for these last two companies the situation involves their core business and their product; we could say the same for Volkswagen: even if it will make use of a good Corporate Social Responsibility in the future, the fear of consumers to be cheated again can persist.

What about Starbucks instead? It has also 'discriminated' a certain type of consumers, but it did not have to face an initial drop in sales as Barilla did before developing its perfect strategy. This happened because of the successful Java giant's idea: include all the customers without claiming anything against Christmas and its supporters. At the beginning, instead, Barilla objected to be opened to homosexuality

The world is changing faster than the past and the competition in all the sectors as well. They both ask companies more and more quick and disruptive innovations and solutions to satisfy needs and in tastes and to fix rapidly problems, scandals and scams, to go out of a crisis. The social responsibility is important as ever before and a good company needs to pay attention to its clients, and on its macroeconomic environment that, at the end, is able to influence everything.

Stay close to your consumers and you will stay close to the solution.

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