

The financial performance impact of product recall compliance

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Abstract

Product recalls harm the financial performance of the recalling firm and managers often struggle to limit the damage. The recall compliance rate (i.e., share of the recalled products that has been repaired) is monitored by government agencies to evaluate how effectively recalls are managed. However, studies examining the effect of this metric on a firm level are limited. We create a unique secondary dataset by combining quarterly recall compliance data of 2784 US vehicle recalls from 2013 to 2021 across 12 stock listed manufacturers with the corresponding abnormal stock return data. The results of the estimated panel vector autoregressive model show that recall compliance positively impacts the abnormal returns of the manufacturer, both in the short- and accumulated in the long-term. This effect is stronger in the presence of high recall volumes and/or heightened ad awareness. Managers and investors should use recall compliance as an early indicator for corporate financial performance.

Subject Areas: *Customer Relationship Management and Customer Satisfaction, Finance, Product Management, Public Policy*

Track: Product and Brand Management