A Study on Recall Policies for Product Safety and their Improvements in Korea

Kyungok Huh\textsuperscript{1} and Chul Choi\textsuperscript{2}

\textsuperscript{1} Professor, Sungshin Women's University, Seoul, Korea
Email: kohuh@sungshin.ac.kr, Phone: +82-2-920-7408

\textsuperscript{2} Assistant Professor, Sookmyung Women’s University, Seoul, Korea
Email: choichul@sookmyung.ac.kr, Phone: +82-2-2077-7958

Abstract

**Purpose** – As a typical means of protecting consumers, product recall has a positive effect on product quality and safety as well. This study is aimed at investigating Korea's recall policies for product safety and ultimately at making suggestions for the future improvements.

**Methodology** – We discuss the problematic issues on the current recall policies and analyze the survey results in order to examine consumer perception. We also consult the expert panel and apply appropriate methods to derive the suggestions for the betterment of recall policies.

**Findings** – The major findings are as follows. First, although there are more than 1,000 recall cases every year in Korea, consumers are less sensitive to a recall and their perceptions are negative. Second, there exist many separate rules and regulations according to the product classification, which causes the inconsistency and regulatory difference problems. Third, the information about a recall is limited. It makes an inefficient environment that manufacturer is reluctant to voluntarily recall a defective product and consumer participation rate is too low.

**Implications** – A recall acts as a signal of bad quality to most consumers. Also, regulatory differences and low penalties become an obstacle to improving the recall system. Thus the government should induce consumers to have a positive perception of a recall and at the same time reinforce the related rule and regulation in accordance with the international standards.

**Value of paper** – In spite of the growing importance of an efficient recall system, there has been little research on consumer perception, regulatory differences, and recall information. In this study, we discuss such issues and make suggestions for the future improvements.

**Keywords**
Consumer perception, Product quality, Product recall, Product safety, Recall policy

**Paper type** General review

**Introduction**

As a means of ensuring the quality and safety of a product, recall has gained more importance and effectiveness because it could not only stop the spread of some damage that consumers
might sustain but reduce in advance the possibility of such a problem happening. For instance, Toyota’s recall in 2009 astonished the market and consumers. Since it was the world’s largest automobile manufacturer and credited with producing a high quality car, the particular case was serious enough to warn consumers that there is no product free from any safety risk. Also, it was an occasion for consumers all over the world to be more concerned with recall as a remedy for a significant defect of a product.

In Korea, a number of recalls have been issued so far in relation to a variety of products such as automobiles, home electronics, and foods. Moreover, the number tends to increase every year. It reflects the situation in which even technologically advanced and new products may fail to meet the safety standards at times and there is an increasing possibility that more consumers may sustain damage to their health and property. In addition, a growing number of imported products of low quality or defection partially account for the upward trend of recall (Huh, 2011).

Considering the effectiveness of a recall, its increasing frequency appears to be natural. Recall helps prevent harmful products from spreading, which is a direct impact on the market. The increase in the number of recalls in Korea is not merely the consequence of enforcing the Product Liability Act. Rather, it is due to the fact that, in the long-run, manufacturers can minimize their costs including damages and maintain their reputation so as to enjoy their market shares (Yeo et al., 2008). Nonetheless, worrying about the costs and negative effects on their reputations, most manufacturers are still reluctant to voluntarily recall their defective products. As the safety problem is taken more seriously, however, consumers require a much higher level of safety and thus an effective management of it is hardly achieved without the government’s surveillance.

Korea’s recall system is regulated by various laws according to the product classification such as automobile, food, and manufactured. For instance, the Framework Act on Consumers contains the general rules about the recall, disposal, repair, replacement of a harmful product, the refund of the purchase price, and the suspension of the manufacturing, import, sale or supply of such a product. The details of a food recall are provided by the Food Sanitation Act, the Functional Health Foods Act, the Agricultural Products Quality Control Act, the Livestock Products Sanitary Control Act, and other legislation. These acts specify the recall process, namely, recall reporting, corrective actions, and other preventive measures. A car recall is governed by the Motor Vehicle Management Act and the Clean Air Conservation Act. Although it may vary slightly by act, the penalty for deliberate concealment or false reporting of a product defect, as well as for failure to properly correct it, is imprisonment for not more than 10 years or a fine not more than 50 million won.

It is commonly argued that Korea’s recall system should be strengthened more especially in the automotive and pharmaceutical industries. Critics point out that there are no explicit provisions for an appropriate level of collection rate in the acts and actually such information on collection is not sufficiently given to consumers. Moreover, consumers generally have a negative view of a recall. That is, consumers often regard any products like a recalled one as defective and low quality products. It makes a hindrance to a manufacturer’s voluntary recall. The main reasons for the inactivity of the recall system in Korea are as follows: the structure of little incentive to voluntarily recall a defective product, the cost restraint on a relatively small manufacturer, and consumers’ negative attitudes toward a recall. Thus, to promote the recall system in Korea, more information about a recall should be provided for consumers and more incentives should be offered to manufacturers. Also, consumer perception should be changed from negative to positive. Of course, doing so involves the government’s proactive roles in reforming the related rules and regulations, and encouraging good practices.

This study is to examine how the recall system works, discuss the problematic issues on it,