

Unethical and immoral behaviors in chinas modern market economy business essay

[Experience](#), [Human Nature](#)



With China stepping in the transform from traditional planned economy to modern market economy, a lot of unethical and immoral behaviors exist in its economic area during the process of economic system conversion and social transformation. It may cause by immature education level and economics growth too quickly. Sanlu Milk Incident, which has attracted great attention from all Chinese people, especially that from the Party Central Committee, is attributed to many aspects. Although it may be a serious incident of Chinese enterprise toward global market, but it may wake up the attention of Chinese government and management toward ethical business on the responsibility on customer.

description on the milk scandal

The toxic milk scandal became public in August 2008 with the disclosure that the baby formula produced by Sanlu was contaminated with melamine, which caused kidney failure among the babies who consumed it. However, until the Chinese Health Ministry confirmed on Sep 12, 2008, that the milk powder produced by Sanlu was contaminated by melamine, neither the government nor the company took any actions to warn the public. Later, government inspections reported that the products of 21 other dairy firms were also contaminated with melamine. Even as the milk scandal unfolded, many countries like Hong Kong, Taiwan, Singapore, South Korea, Australia, and Indonesia rushed to ban Chinese dairy products. Foreign companies which sold China made products or products which used Chinese ingredients had to recall their products.

overview of food industry business ethics

Significance of business ethics

Nowadays, the issue of business ethics comes to people's mind more frequently especially in the food industry since food are the essential items for human and it will affect our health directly. In 2004, the use of hair in the production of soya sauce was exposed and made headlines in the press.

Moreover, there is many more news about China how they use very cheap material like industrial acid and oil to mix into their food products in order to minimize the introduction costs.

As a developing country, business in China is developing very rapidly. It is now playing a more decisive role in social life and almost all people would be involved in business activities. As a result, unethical business behavior would have negative influence towards society. Hence, society is now more concerned with the issue of business ethics. Since the Chinese foods are now exported all over the world, ethical practice of Chinese enterprise issues are the key factors to be success.

General perception on business ethics in food industry

There is much news recently that related to food safety in world wide.

Therefore, consumers have three types of ethical concerns toward food industry.

Methods of Production and Distribution

The production of food raises a number of issues that need to be considered. The packaged food industry essentially consists of manufacturing using farm produce. Clearly hygiene, quality control, health and safety considerations are of great importance. The following are among the issues that should be considered as per my knowledge:

1. Animal welfare in the meat products industry.
2. Use of child or bonded labour, or employment of illegal immigrants.
3. The International Labor Organization (ILO) standards provide useful benchmarks in this area.
4. Improper use of the pesticides, antibiotics, and other chemicals.
5. Misuse of water resources and the consequent impact on local farmers
6. Good quality control of the food supply
7. Ensure the material supply and healthy to human
8. Use environmental friendly packaging as much as possible for the packaging
9. Inform the actual gradients of the food contented
10. Inform the public immediately once unhealthy food was produced and distribute to market

According to our observation toward Chinese business, their objective of the business is only generating profits as much as possible. The ethical senses are not significance within the society.

Reason behinds the widespread sufferings of the infants

According to the case content, there is several factors lead to this hazard.

On Sanlu

In fact, Sanlu acknowledged the problem far beyond the serious hazard explored in 2008. From the case content, there were several customer complained the problem to Sanlu about the ill effect of taking the milk by infants. However, Sanlu chose not to launch this news to alarm general public due to they do not wanted to affect its sales and image. In addition, they were not willing to import the sophisticated milk test machine from overseas.

On Government

First, we believed that Chinese government has too much confidence on the self governance by the enterprise especially on Sanlu these big companies. One of the regulations implemented was the inspection-free policy. A company would not be required to undergo inspection for a period of 3 years if it can meet the following three requirements:

- Product with stable quality
- High market share

- passed the inspection for more than 3 consecutive times

However, past performance did not reflect that there will be not problems in future. Since, the demand of Chinese milk increased significantly and the milk supply source has been polluted, the problem got serious in 2008. If Chinese government inspected the quality of Sanlu continuously, the situation will be under controlled. Moreover, the respond of the milk incident was too slow to control the situation. The Shijiazhang government and the Communist Party of China did not report about the said issue to the provincial and state level authorities till 9 Sep, 2008. At that time, about 53000 infants were already affected.

On the steadily growth market and growth strategy of Sanlu

Since there is high demand in milk industry and there is not strict control over the milk supply, more and more farmer and agent joined the supply market for making money. The situation got worse after the Mengniu and Yili enter into the Hebei market because the supply of milk was tight in this fast growth market. Since the milk demand from Sanlu and other company increased steadily, the market collection station cannot get enough milk for production. Since it is a profitable market to sell milk to these producers, many middlemen aroused and sell the milk to Sanlu directly. They were not ethical enough since they had diluted the milk to increase the supply volume for more profit and they added this melamine into the milk which was harmful to infants. Since not quality inspection from milk station, this toxic milk was finally gone into the market and lead to the milk scandal finally.

Sanlu also needed to be responsible on this issue since its growth strategy in market share made them ignore the quality control by milk stations and make this incident.

Finally, the covered error of the milk scandal did not make the problem dismissed. Reversely, it generated a serious problem not only about the image destroyed of Sanlu itself but also the image of Chinese milk products, hundred thousand of farmers made no income and needed to kill all of their cows as well as thousands of infants were suffered from kidney stones. If proper action has been done, the situation will be better.

Sanlu and Government actions toward the milk scandal

On September 17, 2008, the Chinese Health Minister, announced that melamine contaminated milk had led to more than 6,200 children falling ill in the country and over 150 children suffered acute kidney failure. Six days later it was announced that four children had died and the number of children falling ill had increased to 54,000.

On Sanlu's production and management actions

On September 12, 2008, the Hebei provincial government ordered Sanlu to stop production after preliminary investigation confirmed that melamine contaminated baby formula was the reason for kidney stones among children. The company was also ordered to stop sales of all brands of its baby formula, recall its products, and destroy all the products that were unsold and recalled. Also Sanlu set up a fund of 800,000,000 yuan, which 700,000,000 yuan was estimated to be the compensation amount that the

compensation amount that the company needed to pay to its customer such as refund, hospital expenses and compensation on sick or death of the infants.

On September 15, 2008, Sanlu had issued a public apology of its role in the milk scandal. Zhang Zhenling (Zhenling), Vice President of Sanlu, read out a letter of apology at a news conference in Shijiazhuang, “ The serious safety accident of the Sanlu formula milk powder for infants has caused severe harm to many sickened babies and their families. We feel really sad about this. Sanlu Group expresses its most sincere apology to you. We solemnly declare we will recall all the infant milk powder produced prior to August 6. And for those produced after that date, we will also make a recall if consumers have doubts and worries.” 15 Later, Sanlu also sacked Wenhua.

On Government actions

The Health Ministry informed the World Health Organization, Hong Kong, and Macau’s health departments, the New Zealand Embassy in China, and the press about the melamine contamination in baby formula. The Ministry also announced that a free medical checkup would be given to affected children. It sent medical specialists to hospitals across China to help treat the affected children.

Started from September 2008, the Chinese government started a nationwide inspection of baby milk powder. It announced that liquid milk products including packaged milk and yoghurt would be checked for melamine contamination. On September 16, 2008, GAQSIQ announced an inspection of

all Chinese baby milk powder makers and found traces of melamine in 69 batches of baby formula produced by 22 companies including brands like Mengniu, 12 Yili, 13 and Bright Dairy. 14 After the inspection, these dairy firms were ordered to stop new production and sale of dairy products.

As the milk scandal escalated, steps were also taken against some government officials. While some of them were sacked, some of them resigned owning moral responsibility. On September 17, 2008, Ji Chuntang, Vice-Secretary of the Shijiazhuang Municipal Committee of the Communist Party of China (CPC) and Mayor of Shijiazhuang, was removed from his job. Earlier, four officials including the Vice Mayor in charge of agricultural production, the Director of Shijiazhuang Municipal Animal Husbandry and Fishery Bureau, the Director of Shijiazhuang Municipal Food and Drug Administration, and the Director of Shijiazhuang Municipal Bureau of Quality and Technical Supervision were dismissed. On September 22, 2008, Li Changjiang, the Director of GAQSIQ, resigned.

On September 26, 2008, four executives of Sanlu including Wenhua were arrested for producing and selling sub-standard products. Milk dealers and suppliers were also arrested for selling contaminated milk to dairy companies. Jiabao, the then Premier of the State Council of the People's Republic of China, said, " The government will put more efforts into food security, taking the incident as a warning. What we are trying to do is to ensure no such event happens in future, by punishing those responsible leaders as well as enterprises. None of those companies lacking professional ethics or social morals will be let off." 16 In an effort to restore confidence

among domestic and international consumers, the Chinese government introduced a new set of quality control standards which included strict limits for melamine in dairy products. In the case of infant formula, the limit was set at one milligram of melamine per kilogram and the limit for liquid milk at 2.5 milligrams per kilogram.

On October 09, 2008, in an effort to stimulate the dairy industry of China, the Chinese government announced an emergency rescue plan for the affected dairy farmers. The government planned to give 300 million Yuan in subsidy. In addition, the interest rate for loans granted to dairy producers to buy raw milk was also reduced by 3 percent for the period between October and December in 2008. Some local governments in China had also promised to give a subsidy to the dairy farmers. For example, the Hebei province had allocated 316 million Yuan (US\$46.4 million) as subsidies to dairy farmers.

The dairy companies in China had to recall several thousand tons of melamine contaminated milk products. Sanlu was ordered to recall its products immediately after the Hebei provincial government found melamine contamination in its baby formula. After GAQSIQ had found melamine contamination in the products of 22 Chinese dairy companies, they were also asked to recall their products. On October 15, 2008, GAQSIQ ordered recall of all dairy products made before September 14, 2008. According to a notice issued by the agency, "All supermarkets, shops, and all city, town, and village-level vendors will urgently remove and seal up all milk powder and liquid milk made before September, pending further testing."

On December 27, 2008, it was announced by the China's Dairy Industry Association that the affected children and their families would get compensation from the 22 companies found guilty of producing and selling contaminated milk powder. According to the statement issued by the Association, "The enterprises offered to shoulder the compensation liability. By doing so, they hope to earn understanding and forgiveness of the families of the sickened children. The money for compensation is in place now and will soon be handed to the people who have custody of the sickened children through various channels. If the babies suffer from relative after-effects, all medical fees will be covered by the fund." In a letter sent to the victims and their families by these 22 companies, the compensation amount was specifically mentioned for sick children, for those who were suffering from kidney failure, and for families whose kids had died because of the tainted milk powder. It was also mentioned in the letter that dairy producers would set up a fund to pay the medical costs of the children who were ill, until they reached the age of 18.

On January 22, 2009, two people were sentenced to death for their involvement in the Chinese milk scandal. Wenhua was given a life imprisonment and three other executives were given imprisonment from five to fifteen years

In my personal opinion, the government failed to supervise product quality responsible. The effectiveness of the regulatory environment in China is slow in disclosure the hazard as well as makes prompt action to stop it. According to some research in the internet, there were many government departments

to monitor food safety in China. As there was no single agency to look after all product safety regulations and enforcement in the country and there was no clear hierarchy of agencies, the duties of different departments often overlapped.

Recommendations to Sanlu to recover its goodwill as well as Chinese milk industry toward global

Investors who had already invested in the Chinese dairy industry were worried about regaining consumer's confidence. In this respect it means consumers are now thinking twice before purchasing such products, so the key challenge now is to regain the consumers trust."

As you can recall the case from Hong Kong, Vitasoy milk and Lemon tea also suffer from big hazard of the pollution in production line and made the milk turns sour in around ten years old. We believed as a well known organization with market leadership role, they can recover their goodwill step by step like Vita Corporation in order to gain the customer confidence again as below.

However, the situation in Hong Kong is much easier to turnover since the government and the legislation control is much strict and clear to follow. If Sanlu would like to gain back the image, both Sanlu and Government needed to do something to ensure the quality of their products is healthy and safe to customer usage.

We believe that ethical business environment is the key issue to recover the confidence from general public on the Chinese milk production

On Government

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Regulations

To avoid similar incident happen again, implementing of new issues and regulations are necessary. For example, AQSIQ should have regular and sudden inspection on the quality of products. The food industry inspection should be in random and strictly follow the international standard norm.

Laws and ethics

Nonetheless, only depends on laws, it is not sufficient to ensure the problem would not exist in future. It is more difficult to depend on enterprise to follow the law in PRC such the corruption and education level is not high. There are many acts that are legal but unethical. And there are also many people use money to change illegal to legal by cover the problem or override the checking from government. As in the milk scandal, the use of small amount of melamine was legal because it is not harmful to adult; there was no regulation on it. It is clear that laws cannot fully control human behavior; as law is only norm to control people behave. However, for business ethics, the standard is much higher than that of laws. It is because as a highly ethical company, their goals are not only profit but also care of the public as well as their customer. Ethics is not concerned only with people's behavior. It is a standard for our core values. As an individual or a company, in addition to being legal, being ethical is the key which shows that their values are of higher standard rather than meeting the minimum requirement only. As a ethical corporation, Sanlu should use the concept that customer's babies are their babies, they will not give some harmful materials or potential harmful

ingredient towards their own babies. They should care the health of all babies although add melamine and dilute milk can be acceptable to increase production.

Education on general public

People's behavior is actually influenced by norm, attitude and values from the society and most likely are from their own family. Changes in norm, attitude and values are very important for improving business ethics. We believed that it is the value of Chinese enterprise was too famous on profit and do not know clearly what ethical standard they needed. Hence, on top of implementation of measures and regulations, education on both top management and employees would be the most fundamental way to do so. For example, government can improve more foreign consultant and special to teach ethic and made speech in university to raise the concern of general public and know they can do it profitability like coca cola, nestle as well as P&G etc.

On Sanlu itself

Ethic knowledge training

Unethical issues cannot be done by only one level. If the ethical standards are enough in the company, they will carry out a mutual inspection on other actions toward ethic enterprise. For example, before employees go to their working positions, the company should provide ethics training, covering ethical issues and addressing the rules, compliance requirement and the

corporate values to their employees. Let employees realize the importance of business ethics for the company as well as their own.

During training, discussions on cases of ethical dilemma and analysis with employees are valuable in developing employees' awareness of business ethics and ethical competency.

Furthermore, the company should communicate information about the reporting mechanisms with all employees. When there is any unethical behavior, employees can report to the company immediately. This would be the most efficient way to discover any problems and take prompt actions to solve them.

Quality control process and crisis management

Since Sanlu's image was totally damaged in this incident, we recommend that Sanlu can import the modern of art testing machine for strict quality control and the production chain should be more transparent toward general public. They can set up a additional inspection team which contains outsiders from other milk industry's expert and also foreign country representative to investigate the production channel, sourcing as well as the healthy and safety level on its our products. Therefore, the general public may slowly regain its confidence on Sanlu's milk products. Also, the management team should have a knowledge sharing about the investor's New Zealand industry on how they manufacture the milk and ensure the required process and ethical norm can be implemented in Sanlu to regain the image from global market. Once the incident happened again, Sanlu should know how to

reduce the negative effect toward customer like stop production immediately, message general public timely and recall all affected products from retailer and dealers in order to show their sophisticated experience in crisis management. Like Vita group, we believe that the market will accept their products again.

In conclusion, we believe that the critical factor on this incident and regain image of Sanlu in the case is all about ethics. We believed that the technology and expertise in China are enough to produce healthy and safety products. However, their action has been affected by the norm to earn as much money as possible in short period of time by legal but no ethical actions. In order to reduce the negative image toward Chinese product such as foods, drinks, electronic and toy. Chinese government should pay more effort on improve the ethical standard by education and control of the government officials. If they cannot to do so, the short-term goal of Chinese enterprise toward profits without concern on general public would affect the development of the economy of whole Chinese market.