

# Arc corporation case study

Business



An investigation by the Chinese government found that two suppliers had intentionally used melamine to save money and increase the protein content. The U. S. Food and Drug Administration (FDA) banned the importation of certain seafood from China because of contamination.

Representative Bart Stupak (D-MI) commented, “ While I am pleased that the FDA realizes the danger these Asian and Chinese seafood imports pose to the American people, I am concerned that it requires congressional prodding of the FDA to take the steps necessary to keep the American consumers safe.

No serious injuries or fatalities were reported in the United States. Safety and health concerns were not limited to food. In November 2006 the retailer Target recalled 200, 000 Cool Toys action figures because of lead contamination and sharp edges. On June 13, 2007 ARC Corporation recalled 1. 5 million of its Thomas & Friends toy trains because of high lead levels in the paint.

ARC quickly fired both the company producing the train vendor but disclose their names. Some 8, 000 toy factories in China employed 3 million people, producing most of the world’s toy.

Approximately 80 percent of the toys sold in the United States were made in China. China was at first defensive. It banned two shipments of food from the United States and even released a statement that an FDA regulation allowed the toxic chemical ethylene glycol in toothpaste. China subsequently announced that it was strengthening its food regulations and ordered 180 food plants to close.

It also said inspectors had uncovered 23, 000 violations of food safety regulations. The China daily reported finding industrial chemicals in foods ranging from candy to seafood to pickles and biscuits.

In July a high-ranking officials of China's Food and Drug Administration was sentenced to death for corruption and approving counterfeit rugs. When safety concerns about imports from China on the minds of readers, on July 26, 2007 the New York Times carried a feature article on the precautions Matter, the Normal's largest toymaker, took to ensure the safety of its toys. In contrast to other toymaker Matter owned the factories in China where its most popular toys, such as Barbie dolls and Hot Wheels cars, were made.

Those factories accounted for half the company's dollar volume with the rest coming from toys manufactured under contract, often by suppliers with long-term relationships with the company.

Matter also operated a testing laboratory in Sheehan, China where employees tested products for safety, including possible misuse of the toys. Jim Walter, a Matter vice president, said " We are not perfect; we have holes. But we're doing more than anyone else. " Professor S. Parka's Seth' of the City University of New York, who regularly conducted inspections of Matter suppliers' factories, said, " Matter IS the gold standard.

Matter had strict requirements for its contract suppliers, which were subject to inspections by independent auditors. Products were tested at the factory and applies were tested at the door. The New York times article stated, " Allies Chain, the director of product integrity and corporate responsibility, is charged with guarding against dangerous defects like lead-lead based paint.

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Suppliers are closely monitored, he says, and sending in fake or tainted supplies is a ticket to losing the contract with Matter. And some vendors have, says Mr.

. Clean. The article also stated, “ Many Western companies operating in China do not test their raw materials, even though suppliers are known for substituting cheaper materials to pad there are now for substituting cheaper materials to pad their profits. ” Dana Camphor with the consultancy Control Risks commented, “ This is very common. The samples you get are always fantastic; but once they rope you in they can cut back. And a lot of Company tries will do anything to cut costs.

Lead paint, for example, reportedly cost from 30 to 60 percent less than paint without lead.

Other commentators placed the blame on the Western companies that pressured their suppliers to keep costs down and meet tight deadlines. Dora Resource, a professor at the University of California, Berkeley, stated, “ There is a lot of cooperating China, but I would argue I would argue that this was caused by a system that is designed to push costs and speed up delivery. On July 30, after the ARC and Target recalls, the Sierra Club wrote to 10 companies that it would file a lawsuit then if within 60 days they did not file a report with the Environmental Protection Agency (EPA as their lead-tainted products.

The letter claimed that the companies were required to report to the EPA under the Toxic Substances Control Act. A Target spokesperson stated, “ We

have no indication that Target has violated any EPA laws relating to this matter.

The action by the Sera Club Nas part of a broader campaign by activists Nags and public health officials against products containing lead, which in large enough quantities can cause brain damage, organ failure, and death. Matter, Inc. In 2000 Matter had a loss of \$431 million on sales of \$4, 566 billion.

To turn the company around, Matter hired CEO Robert A. Checker from Kraft Foods. Checker sold off number of product lines to focus on toys, and by 2006 the company had net income of \$593 million on sales of \$5, 650 billion.

Its principal brands in addition to Barbie and Hot Wheels were American Girl and Fisher-price. Matter made Fortune magazine's 100 best companies to work for in 2008, ranking 70th. In the asses Matter began to build factories in China, and by 2007 it owned 12 factories there, which it used to produce its most popular toys.

During Crest's tenure Matter consolidated its remaining production among a smaller set of suppliers with whom it had long-term relationships. Those suppliers had, however, over time used subcontractors which Nerve not under Mantel's supervision.

Since 1996 suppliers' factories had been subject to a code governing working conditions, and factories were subject to inspection by an independent organization. Matter claimed not to squeeze its suppliers and

and a policy to paying extra tort materials that were safe, including lead-free paint. Thomas A.

Debris, head of worldwide operations, said, “ We insist that they continue to use certified paint from certified vendors, and we pay for that, and we’re perfectly willing to pay for that. Matter had 200 employees in China responsible for training and supervising suppliers, but those employees were not stationed permanently at the factories of the suppliers.

The Crisis reha first hint of a crisis came from France. The French retailer Chuan had hired Internet, a large testing company, to test the toys it stocks. On June 6 Internet found high levels of lead in the paint on some Matter toys.

Matter intercepted the shipment to France and did not report the problem immediately because the items were not being sold in the United States. The incident led Matter to undertake an internal Investigation, which found lead in the the paint of a number of its toys. Matter traced the products back to the Lee Deer Industrial Company with headquarters in Hong Kong and factories on the mainland, including the city of Fashion.

Lee Deer was founded in 1993 by Xii Hugging and Ghana Shogun, who managed the factory in Fashion.

Ghana was respected by employees, and the company treated its employees fairly, paying overtime and paying on time. Ghana was known to provide workers Ninth iced tea and fruit on hot summer days as well as for lending money out of its own pocket to employees who needed an apartment or other assistance. Further Investigation revealed that a Matter-certified paint

supplier, Donating New Energy Company, had run out of yellow pigment and arranged on the Internet to buy 330 pounds of powder from a local company.

Donating Agonizing Tower Powder Factory hat was not certified by Matter. Donating Agonizing had provided fake documentation on the powder certifying its quality.

Lee Deer had testing equipment at its factory in Fashion. Matter had to determine whether to announce a voluntary product recall or to have the Consumer Product Safety Commission (CUPS) decide Nether to recall the toys. The CUPS would have to investigate, and it was understaffed and was required to satisfy procedural requirements before it could order a recall of the products.

A voluntary recall by Matter would be faster and could be coordinated with the CUPS, which was required to monitor the progress of any connation recall. If Matter decided on a voluntary recall, it had to decide whether to recall only those items known to be contaminated or to issue a broader recall in case other batches of products also were contaminated.

Matter also had to decide Nether to make public the source of the problem and name the contractors involved and whether to fire them.

It also would have to notify retailers to stop selling the Product and communicate with consumers for the return of contaminated products already purchased. Matter also had to assess whether its current policies and procedures were sufficient to ensure safety. In addition to procedures such as factory audits and inspections, technology could be used to mitigate

certain risks. For example, in addition to conducting tests at its testing laboratories, it could deploy testing equipment to individual factories, as it had done in its factory in Tijuana, Mexico.

A handheld device for detecting heavy metals had recently been developed and could provide a first-level screening. Matter also had to anticipate how the product safety issue might evolve in the next few months. What should Matter do? Rhea DECISIONS AND AFTERMATH Matter decided to voluntary recall the toys but delayed the recall until it could put up web site with information for retailers and consumers about how to return the products, according to David Lamar, general manager of Fisher-price. On August 2 Matter issued a voluntary fast track recall in cooperation with the CUPS.

The recall covered 83 toys with 1.

5 million units worldwide, of which 976, 000 were in the United States, two-thirds of which had not yet reached retailers' shelves. The recall was broader than needed, but the company sought to err on the side of caution. Matter also announced that It was reviewing its procedures for ensuring product safety, Checker said, “ We apologize to everyone affected by this recall, especially those who bought the toys in question. We realize that parents trust us with what is most precious to them? their children.

And we also recognize that trust is earned. Our goal is to correct this problem, improve our systems, and maintain the trust of families that have allowed us to be part of their lives by acting responsibly and quickly to address their concerns.



” In a video posted on Mantel’s Web site Checker said. ‘ I can’t change what has happened in the past, but I can change how we work in the future. ”

Checker mentioned that he had four children. Videos mocking the company quickly appeared on YouTube, including one involving a character called “ Tickle Me Lead-Mo. In its announcement of the recall Matter explained the source of the problem, naming Lee Deer and its supplier. Lee Deer suspended production at the factory in Fashion, but on August 6 Ghana received a new order from Matter which would allow the factory to resume production.

He called the production manager and told him to tell the workers to report for work. On August 7 he learned that Matter had disclosed the name of his company as having produced the recalled toys. Two days later China’s Administration of Quality Supervision and Inspection and Quarantine banned Lee Deer from exporting.

The next day Ghana closed the factory and told the production manager to start selling the equipment, Ghana then hanged himself in the factory. “ After the recall was announced, the company flew a delegation to China to meet with manufacturers, said a Matter spokesperson last week. Factory owners were asked to gather in a room where Jim Walter, Mantel’s senior vice president of worldwide quality assurance, reiterated basic safety standards.

The attendees were required to sign a new safety contract.

They needed to reaffirm what they had agreed to in previous years,” said the spokesperson. Walter explained, “ The message was very clear. If you cannot  
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do these things, please let us know. No problem, but you won't be doing business with us. " THE CRISIS: PHASE 2 During a conference call with Matter supervisors in Hong Kong on the safety issue, one of the supervisors received a call from the testing a laboratory in Sheehan reporting that lead had been found in the pain of a toy car known as " Serge," based on a character inDisney' s movie Cars.

The cars were made by Hong Kong-based Early Light Industrial Company, which had supplied Matter for 20 years and was owned by Francis Choc, one of Sais's wealthiest persons. Early Light had outsourced the painting to another company, Hong IL Ad, which unknown to Early Light purchased paint from an unauthorized supplier. The lead paint problem was detected by Early Light, and Choc said, " We informed Matter immediately. " What should Matter do? Rhea DECISION AND AFTERMATH On August 14 Matter issued another voluntary fast track recall of 436, 000 Serge die- cast vehicles.

Matter credited detection to the problem to its reemphasizes to suppliers of its standards, along with expanded testing. Matter announced the lead paint had come from Hong IL Ad and that Early Light Industrial was not responsible for the problem. At the same time Matter voluntarily recalled 18. 2 million toys worldwide Ninth small, powerful magnets that could come loose. This supplemented a November 2006 recall. The company stated that it had " implemented enhanced magnet retention systems in its toys across all brands.

" Matter made it clear that the problem Nas due to its own design error and not to problems with its suppliers.

The day before the recall Matter had begun an advertising campaign designed to assure consumers of its to product safety. IM Walter also announced strengthened procedures the company was implementing. The procedures had three components. First, every batch of pain was required to be tested. Second, production controls were strengthened and unannounced factory inspections were increased.

Third, every production run of finished toys was tested. Matter also announced that it had met with all its suppliers to make certain that they fully understood that new procedures.

It began to use the hand-held device for initial screening for heavy metals. Some parents had purchased lead detection kits to test their children's toys. The CUPS reported in August that the kits were unreliable, producing both false positives and false negatives. On September 4 Matter voluntarily recalled worldwide 850, 000 units of 1 1 products made in China because of “ impermissible levels of lead.

“ The products were n the Barbie and Fisher-Price brands. Matter said that the recall was the result of ‘ the company's ongoing investigation of its toys manufactured in China....

On October 25 Matter recalled 55, 550 units of one product sold in Canada, Ireland, the United Kingdom, and the United States because of “ impermissible levels of lead.

” Matter Identified the supplier in China and the subcontractor. Matter was cooperating with the CUPS. Some small U. S companies that produced their

toys in the United States seized the opportunity to promote their use of lead free paint. Whittle Shoreline Railroad proclaimed its products as “ 100 percent kid-safe,” and owner Mike Noteworthy said, “ We are little bitty, but we are taking some leaps and bounds here.

Actually, we have seen about a 40 percent jump since late June. ” One remaining issue was what to do with the recalled products. Most consumers never returned recalled products, although ARC reported that 60 percent of its Thomas & Friends toy trains had been returned. Rachel Weinstein, director of product safety at the Consumer Federation of America, described the issue. “ The first step is the product is recalled. The second step is the manufacturer gets some of the product back.

And the third step is: What happens next? ” Recalled toys could legally be sold in other countries if the recall was voluntary.

The EPA required testing of recalled products and a disposal plan for recalled products special disposal procedures. Otherwise, the products could be disposed of in landfills. THE SCOPE OF THE CRISIS was recalls by Mattel and other companies put pressure on the Chinese government and its export driven industries. The government was sensitive to criticism, particularly as it was racing to complete preparations for the 2008 Olympic Games.

Moreover, Mattel’s product recalls had resulted in thousands of Chinese workers losing their jobs.

China Labor Watch, a worker rights organization based in New York, seized the opportunity and released a report alleging brutal conditions and illegal

practices in toy factories in China. The State Council of China released a report in August stating that 85 percent of its food exports passed quality inspections, up from 78 percent a year earlier. The State Council announced that it had established a cabinet-level committee headed by Vice Prime Minister Wwu Y to improve the quality and safety of products made in China. Matter was concerned about its relationship Ninth Chinese government.

After the waters had calmed some-what, Matter sent Debris to China to apologize.

Debris said that Mantel's recalls over lead paint Nerve " overly inclusive" and that the larger recall involving magnets was due to a design error by Matter and not to Chinese manufacturers. Debris's apology caused uproar in the United States where Matter was accused of kowtowing to China ND the suppliers on which it relied. Senator Charles Schumer (D-NY) said, " It's like a bank robber apologizing to his accomplice instead of to the person who was robbed. Here playing politics in China rather than doing the right thing. " A Matter spokesperson explained that Debris had apologized to the Chinese people as customers, as Matter had apologized in other countries. The crisis quickly moved into government arenas.

Hearings were held in the United States, and the European Union took up the issue led by the consumer affairs commissioner Magellan Geneva and members of the European Parliament. Dwight Justice of the International Trade Union Confederation said, " Companies are not afraid of being punished if they don't apply standards in factories in China. Critics called for mandatory testing of products, but Anne Starrier-Elves, head of the Toy

Industries of Europe association, Neared about the volume of imports and said of current practices, “ I think there are ‘ err good systems in place,” Peter Mandela’s, commissioner for internal trade, Neared about inaction, “ If the EX. doesn’t take defensive measures when they are liquefied, we will risk encouraging a backlash against China’s trade growth. Given the DOD in Europe, the burden of proof I shifting to China to demonstrate that it is trading fairly and that its goods are safe.

In Senate hearings Matter CEO Checker apologized to congress and pledged that the company was changing its practices to prevent safety problems. He announced that the company was now testing each batch of products for lead and requiring all its suppliers to buy only from authorized ‘ endorse. Matter, along with other U. S. Toy manufacturers, called for mandatory testing by independent laboratories.

Toys “ R” Us complained that information provision about recalls needed to be improved, so that retailers would not knowingly continue to sell recalled products.

Senators called for stronger measures including possible criminal prosecution for selling dangerous products. Hearings were also held in the House, which in December approved a bill that would reduce the allowable lead content in consumer products, strengthen the CUPS, and improve the tracking of recalled products, Safety activists said the bill did not go far enough and sought a stronger bill reported by committee in the Senate. The Senate bill would increase the maximum fine that could be imposed from \$1.

8 million to 100 million and allow state prosecutors to enforce the federal law, but the Senate delayed acting on the bill.

MANAGEMENT CRISIS? In November 2007 Consumer Reports discovered lead in Mantel's Fisher-Price blood- pressure cuff in its toy medical kit and alerted the attorney general to Illinois, which had standards more stringent than federal standards. Illinois regulators tested the product and found that the lead content of the plastic cuff was 4,500 to 5,900 parts per million. Although there was no federal standard for lead in plastic, the lead content was roughly 8 times the federal standard for lead in paint. Matter also had tested the product and found "higher than anticipated" lead levels.

A Matter spokesperson stated that the product met both U. S.

Federal and European Union safety standards for lead in plastic. In August Toys ' R' Us had recalled vinyl baby bibs and offered refunds to consumers because some of the bibs had lead in the plastic. The lead concentration in the bibs was revealed by testing at independent laboratories sponsored by the New York Times and a California environmental group. The lead concentrations did not exceed federal standards, but they exceeded Toys ' R' Us' own standards, resulting in the recall.

The company said the bibs posed no health risk unless they were so worn that pieces could break off and be swallowed by a child. Toys ' R' Us spokesperson Julie Values said, "Parents shouldn't be alarmed.

" In December Matter recalled the toy medical kit but only in Illinois and notified retailers that it was accepting the return of the toys. Matter did not

make a public statement about the rerun. Consumers could also return the toys, and Matter gave instructions on the Internet. It was not clear that there was any risk from the lead, since sucking on the plastic was unlikely to release the lead, according to scientists.

As a result of Mantel's limited recall, in December Representative Elijah Cummings (D-MD) wrote to Matter asking it to stop using lead in its products.

In January Matter responded by reporting that 70 percent of the products had been returned. This response did little to calm the critics. On January 29, 2008, 56 members of Congress wrote to Matter expressing concern for the lack of action by the company. The letter stated, " We challenge you to live up to your words and set a standard for the entire industry by completely eliminating the use of lead in all the children's products manufactured by Matter. " What should Matter do?