



Business Ethics Reflected in Sanlu Milk Incident

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Abstract

The whole society has been shocked by the negative influences of Sanlu Milk Incident, including researchers, who have begun to explore this issue from diverse perspectives, such as food safety, crisis management, state supervision and so on. Based on the author's research area — business ethics, this article analyzes the causes of Sanlu Milk Incident one by one with the theories of business ethics in order to offer ideas for enterprise operators as well as relevant departments in this industry when solving issues of this kind.

Keywords: Milk Incident, Business ethics theory, Business ethics analysis

With China lying in the historical period involving the conversion from traditional planned economy to modern market economy, a lot of immoral and unethical management behaviors exist in its economic area during the process of economic system conversion and social transformation. Sanlu Milk Incident, which has attracted great attention from all Chinese people, especially that from the Party Central Committee, is attributed to many aspects. This article aims at exploring its causes as well as conducting an analysis on them from the perspective of business ethics in order to provide basic ideas for solving issues of this kind.

1. Milk Incident

Sanlu Milk Power had caused 4 deaths and 6244 confirmed cases up to September 18th, 2008 due to its melamine. The subsequent sample inspection also revealed that a few batches of products of 20% dairy enterprises contained melamine and therefore were defective products, among which there were many well-known brands, such as Yili, Mengniu, Guangming and so on.

Melamine, a low poisonous chemical, mainly leads to kidney stones, especially among babies.

This food safety incident had wider influences than that in Fuyang, Anhui in 2004, involving not only many well-known dairy brands but dairy farmers who had to throw away their milk or even intended to kill their cows because there was no enterprise buying their milk. In addition, consumers refused to buy domestic milk powder. It is Sanlu Milk Incident that has almost ruined the whole dairy industry, even the whole food industry.

In order to solve this incident in the proper way with the shortest time, the Party Central Committee, taking an attitude of supreme responsibility to the people, took many administrative and legal measures to consolidate dairy industry. Perhaps someone may ask why so many enterprises and individuals would take such great risks to sacrifice the people's interests or even lives for dishonest gains. Are there any other reasons besides the disorder of the dairy market, imperfect supervision system and poor monitoring? This article tries to explore those deep-level problems in enterprise development triggered by Sanlu Milk Incident.

2. Theories of Business Ethics

In order to have a better analysis on Sanlu Milk Incident, some necessary business ethics theories will be given briefly below first of all:

2.1 Moral Evaluation Theory

Two schools are in existence in the theories of ethics, that is, Teleology or Consequentialism and Deontology. Therefore, moral evaluation involves the two aspects as well. Manuel G. Velasquez elaborates on moral evaluation from five aspects including Utilitarianism, theories of right, justice, caring and virtues in his book *Business Ethics— Concept and Cases*. In spite of their respective value in one aspect of behaviors, none of the five theories includes all factors that need to be considered in moral evaluation. (Zhou, 2005)

2.2 Enterprises' Responsibilities for Consumers

There are three typical ideas concerning this issue: Contract Theory, Theory of Reasonable Care and Theory of Social Cost. According to Contract Theory, it is a contract relationship between enterprises and consumers, in which enterprises' moral responsibilities for consumers are determined by this relationship. Accordingly, there are four major moral obligations taken by enterprises: obeying their contracts, disclosing, never misleading or forcing customers. It is claimed by Theory of Reasonable Care that the seller and the buyer has unequal status and the buyer tend to be vulnerable due to their lack in necessary knowledge and skills. Because of enterprises' advantages, it is up to them to take the responsibility of reasonable care so as to prevent consumers' interests from being damaged. According to Theory of Social Cost, enterprises should be responsible for any damages caused by products' defects and pay for that. There is no exemption even if they have fulfilled their obligations. In addition, even when a major mistake is made by an individual, the whole company should be responsible for that. (Zhou, 2005)

2.3 Theory of Contradiction between Morality and Interest

Here, moral operation means that conforming to morality. People holding this theory claim that enterprises will suffer from losses if they conform to morality and immorality will benefit them. Another relevant theory claims that if other enterprises or individuals disobey morality while they obey it, they will suffer from losses. (Zhou, 2007)

2.4 The Interaction System of Business Ethics and Business Effectiveness

The relations between business ethics and business effectiveness are of particular importance. However, it is revealed by researches that only a low linear relation exist between them. Only when an intermediate variable is added between the two will their relation be clearly exposed. There are three major factors influencing enterprises' moral commitment and ethical behaviors, including enterprises' environmental factors, entrepreneurs' moral quality as well as enterprises' effectiveness.

Business effectiveness has direct and indirect influences on business ethics. Its direct influences lie in that it will enhance enterprises' financial capacity, hence providing material guarantee for the practice of their ethics. In addition, it also enhances some relevant business ethics directly through result feedback. Business effectiveness exerts its indirect function on business ethics by influencing enterprises' moral commitment. (Su, 2008)

2.5 Product Quality Safety Ethics

This theory includes reasonable safety, safety evaluation and product liability. Enterprises' moral responsibilities in this aspect are mainly intended to provide consumers with safe and healthy products. (Cao, 2007)

2.6 Ethics in the Relationship between Enterprises and Stakeholders

This includes the ethics between enterprises and managers, enterprises and employees, enterprises and consumers, enterprises and suppliers, enterprises and competitors, enterprises and environment and business ethics and relevant decisions in transnational management.

3. Analysis on Business Ethics Based on Sanlu Milk Incident

Based on the above theories on business ethics, we'll analyze problems one by one based on Sanlu Milk Incident.

3.1 Analysis on Moral Evaluation Theory

The five theories of ethics mentioned above constitute the basis for most moral judgments. According to Utilitarianism, only when the total utility produced by one's behavior is greater than that from any other behavior in that condition is the behavior regarded as moral. In Sanlu's case, even if there are other measures in that condition, the total utility produced by adding melamine isn't the greatest one. Therefore, what Sanlu did is immoral. Happiness or pain doesn't only apply to doers but also all people influenced by a specific behavior. That is to say, the pain experienced by the parents of those babies suffering from or even dying from the milk with melamine as well as the whole society are much greater than those beneficiaries' happiness. Happiness or pain, in this sense, means direct and immediate one as well as indirect and long-term one. Therefore, when evaluating Sanlu Milk Incident, not only consumers' sufferings caused by it, but also its chain effect on dairy enterprises and food industry should be taken into consideration. For example, products of relevant enterprises fall into poor market, stock prices are on the decline, corporate image is damaged seriously and the whole society falls into a state of psychological panic.

In addition, what Sanlu did also infringes consumers' legal and moral rights, which are sacred as laid down in Constitution of People's Republic of China. Seen from Theory of Justice, Sanlu goes against the code on fair transaction because it fails to fulfill its obligation in caring for consumers laid down in their contracts. Theory of Virtues claims that moral life is intended to practice, display virtues as well as cultivate them. As long as we practice and display virtues in our behavior and our behavior make us more moral, this is moral indeed. What Sanlu did, quite different from this, can only be defined as immoral behavior.

3.2 Analysis on Enterprises' Responsibilities for Consumers

According to Contract Theory, Sanlu should keep to their commitments laid down in contracts in guaranteeing their products' quality safety, informing its consumers of the ingredients contained in its products. However, it is claimed in Theory of Reasonable Care that the buyer and the seller share unequal status. Enterprises who take the advantageous position no matter in product design, production or information supply are expected to care for their consumers by guaranteeing the safety of their products. According to Theory of Social Cost, enterprises should be responsible for all the costs caused by their products' defects, which will lead to more effective use of social resources by internalizing all these costs into their product prices.

3.3 Analysis on Theory of the Contradiction between Morality and Interest

Some hold the opinion that enterprises are organizations with maximized profit and profit is the most important goal for enterprises. Therefore, with fierce market competitions and economic targets, little space is left for morality. In addition, according to this theory, immoral behaviors are determined by the economic nature of enterprises, which makes the contradiction between profit and morality inevitable. However, in fact, it cannot hold water. It was long before pointed out by classical liberalism economist Smith that no market economy can go smoothly without shared moral outlook (adherence to a contract, keeping a promise and respect for partners). Even compromising modern economy liberalist Friedman doesn't deny the fact that only by following certain moral values will the expected efficiency be achieved when pursuing profit in market economy. In other words, profit and morality are not against each other. As long as basic moral values are followed in economic behaviors, immoral behaviors will be reduced.

According to this theory, enterprises' interests will be damaged with moral behaviors and conversely profits will result from immoral behaviors. Another relevant theory claims that if other enterprises or individuals disobey morality while they obey it, they will suffer from losses.

We should admit that sometimes sacrifices have to be made when keeping to morality while immoral behaviors really bring profit. However, it is equally undeniable that morality and profit propel each other, which is proved in some failing cases caused by immorality. It is proper to say that there is complex dynamic relationship between moral business and business interest, which is determined by the following factors:

First, it is dependent upon how to calculate interests and losses: to emphasize short-term interests or long-term ones? to emphasize sectional interests or overall ones? to emphasize direct interest or indirect ones? to emphasize dominant interests or recessive ones?

Second, it is dependent upon the nature of certain behavior. The more consistent public opinion is towards the immorality of a this behavior, the wider range and the greater degree its damage over stakeholders will be, the greater chances there are it will be punished, the lower chances profit can be achieved through it.

Third, it is dependent upon business environment. The more seriously immoral behaviors are revealed and punished at the social and industrial level, the more support moral behaviors can get, the more likely moral behaviors will achieve profit, the higher cost immoral behaviors will take.

Finally, it is dependent upon enterprises' efforts. Moral advantages will not change themselves into advantages in competition. The more faith enterprises have in moral business and its positive influence on their development, the more likely they will convert moral advantages into advantages in competition and input their intelligence and efforts, the more harmonious the relationship between moral business and business interest will be.

Enterprises are bound to pursue profit due to their nature. However, ethics should also be emphasized because of the society's requests. Due to enterprises' two-fold responsibilities in profit earning and morality, it is a great challenge for operators to combine the two harmoniously and effectively.

It is possible to hold both morality and profit at hand. All theories on human-oriented management, team management, strategic management, overall quality management, corporate culture, corporate image, corporate identity, excellent leadership and learning organizations are all intended to improve operation performance. However, none of them admits that immoral behaviors will help them to achieve outstanding performance. On the contrary, honesty, justice, respect and caring for stakeholders are reflected in them, which have common emphasis on business ethics in spite of their differences in theoretical system. Only after comprehending the profound ethical connotations hidden behind these theories can we really understand their nature and development trend and will they really take effects.

3.4 Analysis on the Interactive System between Business Ethics and Business Effectiveness

It can be concluded according to the above that there is only a low linear relation between business ethics and business effectiveness and an intermediate variable, such as environmental factors and entrepreneurs' moral quality, needs to be added in order to change that. Lying in the current period of social transformation, quite a few profit-oriented enterprises sacrifice social morality for their own interests, which is even got worsened by enterprises' poor moral quality, fluke mind and some so-called implicit rules. Their behaviors have not only damaged enterprises' reputation,

lowered their social status, worsened their condition, but also have hindered the sound operation of market economy, spoiled social and economic orders and even lowered social morality.

4. Conclusion

After Sanlu Milk Incident, some people have kept asking why they did so. From the perspective of business ethics, the author has reached the following conclusions: Sanlu's behavior goes against business ethics and it fails to take its basic social responsibilities for consumers, therefore, any excuse for that is nonsense. This incident is attributed to some social environmental factors, such as implicit rules, entrepreneurs' poor moral quality and their fluke mind. Their poisonous products have damaged the whole society's interests as well as theirs.

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