Literature Review

Learning from a Product-harm Crisis: The Chinese Tainted Milk Scandal

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Crystal (Yan) Zhang

Kent State University
Abstract

The 2008 tainted milk scandal provoked a continuing food safety scare in China. Sanlu Group, the main responsible party of the crisis, went out of business soon after melamine was tested in its baby milk powder. The author reviews the literature from three aspects, which are crisis management, media effects, and brand equity. The research shows that Sanlu Group’s mismanagement and media’s negative publicity both contribute to the company’s failure in crisis survival. The case also addresses a gap of function of public relations in China. It seems that managers from China have limited ideas about effective communication with its audience, media relations, and corporate social responsibility before this crisis. Therefore, future study can focus more on these fields.
Introduction

In 2008, a milk scandal broke out in China. Sanlu Group, a former Chinese dairy giant, was at the center of the incident. Its melamine-tainted milk powder affected almost 300,000 infants and killed six, triggering the country’s worst food safety scare ever (Branigan, 2008). Melamine is a compound rich in nitrogen. Manufacturers added the chemical into baby milk to cover up the deficiency of protein (Masters, 2008). In fact, Sanlu had noticed the contamination as early as December 2007, but did not react until September 2008 when New Zealand’s Fonterra, its largest shareholder, discovered the incident and notified China’s central government (Anderlini & Smith, 2008).

Due to lack of transparency and delay in informing and responding, the incident caused panic and anguish among people. The brand lost consumers’ trust and confidence. Meanwhile, the damage was not only reputational, but also financial. Sanlu was ordered to halt production immediately. The firm recalled more than 10,000 tons of milk powder and paid $103 million refunds in addition to medical expenses to all the victims who suffered kidney stones because of tainted milk (Qian, 2008). The incident soon escalated into a significant crisis that drove Sanlu Group into bankruptcy later.

Even worse, the consequences snowballed after the government tested all 109 companies that produce baby milk in China and astonishingly found another 21 involved (Xinhua News Agency, 2008). In the first place, the entire milk industry was influenced. Next, dairy products like yogurt, cheese, and milk candies were put into the spotlight.
Consumer behaviors gradually changed and consumers became skeptical about everything they ate (Dahlén & Lange, 2006). The national food market tumbled, as did the worldwide “Made in China” brand. Given the impact, it is worthy and necessary for both domestic and overseas scholars to further study this field.

The literature review is going to include three objectives and study the crisis from a public relations perspective. The first is to analyze internal reasons that led Sanlu Group to collapse. As there was neither risk assessment taken before the incident nor single contingency plan executed after the crisis, Custance, Walley, and Jiang (2012) saw this milk scandal as a typical example of brand crisis mismanagement. Further, the paper discusses media amplification as an external reason for the company’s failure in the product-harm crisis management. Scholars like Carroll (2009), Dahlén & Lange (2006), and Yannopoulou, Koronis, and Elliot (2011) all believe that media can challenge the relationship between companies and the audience due to the negative publicity media creates. Finally, the paper explains why the function of public relations as a “buffer” (Grunig, 2006, p. 171) proved invalid in this crisis. Though brand image do help reduce the damage that a crisis causes (Tucker & Melewar, 2005), more factors should be taken into consideration, for example, food category, health consequences, and “voluntariness” (p. 250) of exposure (Covello & Merkhofer, 1993). By covering the points above, the paper aims to answer the question: Why did Sanlu Group, once China’s number one dairy product brand (Forbes, 2006), fell from grace so suddenly?
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Crisis Management

A crisis is events that can threaten a company’s routine and even destroy the company if not handled well (Pearson, 2002; Vassilikopoulou, Lepetsos, Siomkos, & Chatzipanagiotou, 2009). It is hardly possible for a company to either predict or prevent a crisis (Yannopoulou et al., 2011). Any “unethical,” “improper,” or “illegal” (Custance et al., 2012, p. 19) action may reduce public confidence in brands and potentially lead to irreparable damage. Ultimately, to manage a crisis is to rebuild the declining trust bond with the audience (Greyster, 2009), namely consumers in a product-harm crisis.

Timing. When it comes to specific situations, ways to manage crises usually vary from one company to another. Although crises are “highly contextualized” (p. 65), fundamental theories and strategies are still applicable to different cases (Carroll, 2009). A basic model of brand crisis management, according to Jaques (2008), can be displayed into three steps: (a) identify the problem as soon as possible; (b) contrive a strategic plan immediately; and (c) take a correct action without delay. Notably, timing has been highlighted in all the stages. Authors such as Chen (2009), Custance et al. (2012), Siomkos (1999), and Wix and Mone (2007) have also approved the importance of quick responses and early reactions in their works. Especially for crises involving severe health consequences like injuries and deaths, time turns out to be a substantial factor in altering consumer perceptions (Vassilikopoulou et al., 2009).
With regard to the tainted milk scandal, Custance et al. (2012) suggested that the crisis should be dealt with as same as other similar cases in a western setting. However, Sanlu Group failed to act appropriately from the very beginning. The slowness in crisis identification not only hindered the subsequent organizational responses like product recalls and apology, but more importantly blocked effective communication as a whole.

**Organizational responses.** Sanlu acknowledged the incident long before, yet did not take it seriously. Rather than to face and fix the problem, the company tried to hide and avoid any linkage between kidney stones and its products, for fear of “a crisis, angry parents and farmers, and the loss of jobs (as cited in Mooney, 2008).” Unfortunately, denial could not satisfy suspicious consumers, especially when investigations, lawsuits, and other negative reports from the media increasingly came out. On the contrary, the audience began to question the company’s honesty and social responsibility (Siomkos, 1999; Siomkos & Shrivastava, 1993).

Apart from denial, another three common responses are super effort, voluntary product recall, and involuntary product recall (Siomkos, 1999; Siomkos & Shrivastava, 1993; Vassilikopoulou et al., 2009). Super effort is the most positive one that comprises a voluntary recall and extra efforts that can show the social responsibility of the company, for example, offering free samples and special discounts (Vassilikopoulou et al., 2009). Voluntary recall, as defined by Siomkos (1999), is a less positive but more adoptive response implemented before an official order.
In the tainted milk scandal, Sanlu chose an involuntary recall that was conducted only after the request of the government. Before Sanlu finally admitted its mistake, poisoned milk powder had stayed on the retailers’ shelves for another two months since the first kidney stones case happened (Anderlini & Smith, 2008; Branigan, 2008). As a company at the heart of the crisis, Sanlu Group’s dishonest and uncaring attitude disappointed and irritated the audience, troubling itself into a passive position. Plus, the company’s strategy is far from being fast, open, and sincere, which is the very opposite of what Greyster (2009) and Thompson (2009) have recommended as a “proactive” (Carroll, 2009, p. 79) two-way communication based crisis management.

The goals of organizational responses are to convince consumers of the products’ safety and to regain consumers’ trust. After all, whether a company can weather a product-harm crisis mainly depends on how consumers think (Siomkos & Shrivastava, 1993). Other than interaction with the brand, media plays another key role in changing consumer perceptions (Carroll, 2009; Dahlén & Lange, 2006; Yannopoulou et al., 2011).

**Media Effects**

**Negative publicity.** In product-harm crises, mass media is regarded as a crucial external element to determine consumer purchase intentions (Siomkos, 1999). Usually, it functions in a negative way (Dean, 2004; Yannopoulou et al., 2011). On the one hand, media prefer bad news to good news (Dean, 2004). Like Yannopoulou et al. (2011) illustrated, a title saying, “Fall of the Giant” (p. 537) will surely get the audience attracted.
On the other hand, consumers are more receptive to negative information than to positive information (Ahluwalia, Unnava, & Burnkrant, 2001). For example, when consumers get negative information of a product, they will instantly label the product as low in quality. In contrast, positive information weighs less for consumers to category the overwhelming choices because no company will claim its products are bad (Ahluwalia et al., 2000).

**Media amplification.** Worse still, such negative effects can be amplified in a mediated environment (Slovic & Weber, 2002). During a crisis, consumers tend to pay more attention to the information provided by the media that is seen as objective and credible. Yannopoulou et al. (2011) noted an interesting point in their investigation of the contaminated yogurt recall from the largest manufacturer in Greece. It shows none of the interviewed victims mentioned discussing their experience of tainted products with their families or friends. Most of them focused on news reports to gather updated information and “interpreted the associated risks through media discourse rather than rationally examining aspects of technical discourses” (p. 538).

Custance et al. (2012) achieved the same finding in their study of the Chinese tainted milk scandal. After the crisis happened, all the interviewed mothers began to follow stories from the media, but only to know more “high rate risk-based vocabulary” in narrations with “present tense” (Yannopoulou et al., 2011, p. 537). When consumers are continuously exposed to nothing but negative publicity, they are likely to reshape their attitudes towards the brand and lose trust as a result.
Trust is vulnerable (Custance et al., 2012). Factors such as mass media that is out of managers’ direct control can easily create suspicions among the audience and hence deteriorate the situation (Yannopoulou et al., 2011). As Slovic (as cited in Carroll, 2009, p. 78) asserted, “Initial distrust can reinforce and perpetuate distrust.” Therefore, once a crisis occurs, managers should move promptly and efficiently to minimize the impact of negative publicity (Carroll, 2009). It would be better if the company can establish a good relationship with media and the government if necessary.

Actually, not all researchers place great emphasis on media effects. Cleeren, Dekimpe, and Helsen (2008) think that consumer characteristics, for instance, consumer loyalty and brand familiarity can moderate the influence of negative news. Carroll (2009), Siomkos (1999), and Zhao, Zhao, and Helsen (2011) all consider that a higher pre-crisis reputation can mitigate the impact of negative events. All of these items can be classified into brand equity that I think is built up by public relations practitioners.

**Brand Equity**

Brand equity, as Srivastava and Shocker (as cited in Custance et al., 2012) stated, is a name that enables a brand to earn more money and provides “a strong, sustainable, and differential advantage” (p. 19). Brand equity can either develop or degrade through consumers’ experience and communication with the brand (Custance et al., 2012). A company with a relatively positive reputational equity can probably face fewer risks of a crisis or overcome a crisis more easily (Carroll, 2009; Siomkos, 1999).
In 2006, Cadbury Schweppes, the world’s largest confectionary company, had to issue a recall of over a million of products poisoned by salmonella. Very similar to the Chinese milk scandal, Cadbury neglected the contamination at first, which ignited a condemnation among the audience, the media, and the authorities after the crisis burst out (Carroll, 2009). Both brands enjoy a high reputation in their own industries. According to the China Brand Asset Evaluation Center, “Sanlu” was worth almost $2.3 billion in 2006 (Xinhua News Agency, 2009). However, the results displayed a huge difference. Cadbury survived the crisis and quickly returned to profit, but Sanlu fell down five months after the scandal was exposed. What is the gap here? Why did not Sanlu Group’s brand image help at all? Two concepts may offer some hints to the question. One is contingency theory, and the other is corporate social responsibility.

**Contingency theory.** In terms of contingency theory, there is no perfect strategic plan that can fit every company because conflicts are “dynamic” (Cameron, Pang, and Jin, 2008, p. 134). Particular conditions decide how serious the crisis is and what kind of measures should be taken accordingly. In product-harm crises, the extent of injury is a fairly important standard. If hundreds of consumers suffered, the crisis would have caused a “furor” (Carroll, 2009, p. 77) that can dismantle a brand. Sanlu Group’s poor reaction sent 294,000 babies into hospitals, which indicated its bad ending.

Also, food category itself should be taken into account. In the tainted milk case, manufacturers tried to falsify the percentage of protein with a chemical used in plastics.
Unlike chocolate in Cadbury’s case, protein is one of the essential nutrition compositions. Once parents knew that the milk their babies drinking everyday was adulterated, they would never trust the brand again. Indeed, brand is not owned by the company, but by its consumers (Dahlén & Lange, 2006). It is up to consumers to choose whether to forgive the company or not. If the company let down its consumers completely, brand equity will certainly lose efficacy.

**Corporate social responsibility (CSR).** When talking about brand equity, more scholars start to associate with CSR. Instead of a reputation in general meaning, Schinietz and Epstein (2005) enhanced the active function of a reputation for social responsibility during a crisis. They did perceive a tangible financial benefit from a company that had positive social performances during a crisis. Siomkos (1999) advised companies to “act in a social responsible manner even before a crisis erupts” (p. 25).

However, in China, it was not until the food safety issue exploded that companies began to emphasize the value of CSR. Before that, companies cared more about its achievements rather than its responsibilities. As Chen (2009) listed, Sanlu was among the top quality Chinese dairy products in 2007 and ironically, its infant formula won the National Award of Science and Technology Progress in 2008. Nevertheless, none of its honors supported the brand to live through the crisis. All that amplified during the crisis were the company’s aloof attitudes and irresponsible behaviors. The $2.3 billion brand vanished overnight.
In summary, there are several reasons to interpret the downfall of Sanlu Group. Probably, the most significant factor should be the ineffective crisis management. The product recalls were not in time, resulting in the sickness of hundreds of thousands of infants. The communication between Sanlu and its consumers was neither responsive nor reliable. Most information that consumers could get was the negative news amplified by the media. Consumers started to question the social responsibility of the company and finally lost trust and confidence in the brand.

**Conclusion**

The case of the Chinese melamine-tainted milk scandal and Sanlu Group’s unsuccessful handling give a useful lesson on crisis management in China. It stresses effective communication between the company and its audience. At the meantime, it reveals the company’s weakness in functions of public relations in setting contingency plans, establishing media relations, and performing corporate social responsibility.

New cases are constantly enriching our understanding and knowledge of crisis management. However, the limitation of case study lies in that it is difficult to generalize observations from one single case because of its unique background with dynamic risks (Carroll, 2009). Another pity is that current researches on Chinese food safety issue are few. In my view, it is a potential field for scholars to learn about “an emerging market” (Custance et al., 2012, p. 18). Further study is needed to better distinguish between the functions of public relations in such emerging markets and in developed markets.
Moreover, warned by Sanlu Group’s failure, more dairy product brands started to reconsider the importance of media relations and corporate social responsibility. Thus, future research can also be focused on the role of public relations in mass media and the real practice of corporate social responsibility in China.
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