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Why are They Cheating? –Mislabeling Pork in Chongqing Wal-Mart

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Introduction- Recent years, in China, it is easy to find that we are suffering the food safety crisis. The food safety and quality are closely related to our life and draws much attention in public. However, repackaging of expired food, counterfeit and substandard food issues are very common. Even more astonishing is that even those big international supermarkets with high reputation, like Carrefour and Wal-Mart, repeated cheating customers on food issues. The reasons behind this phenomenon provoke a deep thinking.

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I. Introduction

Recent years, in China, it is easy to find that we are suffering the food safety crisis. The food safety and quality are closely related to our life and draws much attention in public. However, repackaging of expired food, counterfeit and substandard food issues are very common. Even more astonishing is that even those big international supermarkets with high reputation, like Carrefour and Wal-Mart, repeated cheating customers on food issues. The reasons behind this phenomenon provoke a deep thinking.

A deviation from maintaining good ethical behaviors can have disastrous results, one of the most famous being the story of Enron. In business, ethics is about managing risks as an organization, no matter what individual beliefs or standards are (Michael, 2012). This essay will firstly demonstrate how this Wal-Mart cheating behavior is, analyze Wal-Mart's unethical behavior and the reasons behind, show the ethical issues and related stakeholders, and then give the alternatives and solutions by using the ethical guidance.

II. Case Introduction

In September, 2011, Wal-Mart in Chongqing, China, was found selling high prices of "green pork", labeling that these pork are organic. However, in fact, those so-called "green pork" are just common cold fresh meat with much lower value. Surprisingly, the Wal-Mart stores were accused of selling more than 63,500 kilograms (14.4 tons) of mislabeled pork for about 20 months, the official Xinhua News Agency said, citing the director of the Chongqing Administration of Industry and Commerce, Huang Bo. This cheating behavior violates the legitimate rights and interest of consumers. The Chongqing Wal-Mart group apologized to customers for their unethical behavior and the inconvenience they have caused.

Remarkably, it's not the first time for Wal-Mart to cheat its customers; since it began operating in Chongqing in 2006, it had been repeatedly punished 20 times for violating food standards and other rules. In particular, this food cheating behavior is the least harmful one among 21 times unethical behavior, but Wal-Mart get the most serious punishment this time. The Chongqing government fined Wal-Mart with 2.69 million Yuan, which is 5 times of their illegal income. And the police had detained some of its employees who are related to this "green pork" incident, What's more, 13 stores of Chongqing Wal-Mart were asked to close for 15 days. The earlier 20 fines for Wal-Mart did not included "close the stores"; this closing stores' punishment for 15 days may cause Wal-Mart lose more than million. In addition, when asking the reasons for why they sold fake "organic pork", Wal-Mart once argued that it's because when dividing the pork, the employees mixed up the "organic pork" and "ordinary pork", and the management advocated they did not know. But this argument was subverted by pork suppliers, advocating that employees who divided the pork are very professional, they will never make stupid mistakes like that. Therefore, this case becomes rather complex and astonishing. If it's the first time Wal-Mart ignore the basic rights of consumers, this unethical behavior may not infuriate public.

III. Ethical Issues in this Case

a) Indifferent and Illegal

Wal-Mart's pork scandal is not only indifferent behavior but also illegal. There are two reasons why Wal-Mart's scandal is regarded as indifferent and illegal. Firstly, Wal-Mart is completely indifferent to consumers' right to know the truths and interest. Secondly, Wal-Mart's cheating behavior violates the law of "Mark green food management methods "in China. Detailed analyses of these two accusations are as follows. Indeed, Wal-Mart's mislabeled pork did not do any harm, after all, the pork they sold do not consist any pernicious substance. That means, the quality of the pork itself has no problem. However, the quality of organic pork and ordinary pork is different. More importantly, the prices of these two kinds of pork are quite different. Wal-Mart took advantage of consumers by mislabeling the pork, which will be took as "indifference" behavior. Ironically, even though many retailers advocate "the customer is God", which means they put their customers in the first place, actually, when profit comes, they will totally ignore the interest of consumers but put their own benefit in the first place. And Wal-Mart's lying behavior becomes a satire

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because its indifference to consumers exactly opposite with its propaganda of "save money, live better".

b) Lack of effective supervision and serious punishment.

This case brought problems of lacking effective supervision and serious punishment to light. It is not only about cheating consumers, but more about the reasons behind "cheating even after 20 times punished by the government". There are two reasons that make a top ten retailer company to take the risk of ruin its reputation doing unethical things. With no doubt, the first one is profit. They can achieve huge benefits by selling mislabeled "organic pork", and they think it's not easy for consumers to discover. Therefore, their own supervision within the company is not strict, that means, they ignore managing and supervising the quality of food because they think it's not important, the most important thing they think is the profit. Secondly, even its cheating behavior was found by government supervision department, the punishment is too gentle to this retail tycoon. It won't learn a lesson from punishment and will still take the risk doing unethical things, because the money they gain by cheating is much more than the fine. As the fine was decided according to the "Food Safety Law" in China, government should use "industry rules" to increase the fines, or adjust the regulations such as deciding the fine according to its annual turnover.

c) Theory of firm—pluralist

We can conclude from the case, effective supervision and management is very essential. Firstly, government should supervise strictly. The pluralist perspective insists that "capitalism need to be supervised and regulated to ensure compatibility with broader societal aims" (Colin Fisher, Alan Lovell, 2009). If the government has strict supervise system, and rigorous punishment for those companies who done bad, Wal-Mart's cost of cheating will become higher, then it will respect the law and behave well. And in this case we can see, this time, the punishment is serious enough, if this kind of punishment comes earlier, Wal-Mart may not repeat making mistake. Secondly, a good management system by the company inside is also important. Only the company itself is aware of the important of food quality, and supervises the quality of food strictly, can they avoid this kind of scandal, and keep the company's reputation.

IV. Relevant Stakeholders and their Stake

a) Consumers

In this case, Wal-Mart took advantage of the consumers, making them the biggest victims. Consumers have the right to enjoy a good product with fair price, and have the right to know the truth. But consumers was cheated by Wal-Mart and paid more money to buy a lower value food. What's more, after this cheating scandal, 13 stores were asked to closed for 15 days, this brings inconvenience to customers who always buy things in Wal-Mart. Consumers should ask for compensation from Wal-Mart.

b) Suppliers of Wal-Mart

Suppliers of Wal-Mart lost benefit from this unethical behavior. Records show that the purchase of "organic pork" of Wal-Mart has been decreased since they mislabeled the "green pork", because Wal-Mart used cheaper ordinary pork instead. It is obvious that Wal-Mart indirectly harm the interest of organic pork suppliers. In addition, as 13 stores of Chongqing Wal-Mart were asked to close for 15 days after this cheating scandal, suppliers lost benefit under this circumstance.

c) Government (especially the supervision department)

Government has the responsibility to supervise the companies, ensuring the existing regulations can protect the basic right of consumers. The impact on government from this case has too sides. On the one side, the serious punishment for Wal-Mart this time showed that the government is serious about the right of consumers, and this may won public trust for government. However, on the other side, an survey on the internet investigated to what extent people think the government has protected the consumers, 70% argues it's too late to give serious punishment after 20 times cheating. Because Wal-Mart has cheated customers 21times, this case also arouse the suspicious about our government. Some are showing their dissatisfaction about our government's late effective methods. The government should do more to win its reputation and trust among public, such as give unethical companies bigger fines helping then behave better, and warn those who want to do unethical things by "beat the dog before the lion".

d) Other competitor companies

The impact on Wal-Mart's competitor companies has two sides. Before this scandal is reveled to public, it has negative influence on competitor companies. The companies originally enjoy the right of fair competition and an ethical business market, but Wal-Mart made profit by cheating consumers which violated the fair competition and ethical market environment. After this cheating scandal reveled to public, it has positive influence on competitor companies. As lots of consumers won't trust Wal-Mart anymore thus they tend to buy things in other supermarkets, a survey on the internet shows that many Wal-Mart's consumers now tends to buy things in other

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supermarkets, this actually brings benefit of Wal-Mart's competitors.

e) Wal-Mart stores

The impact on Wal-Mart stores also should be divided by stages. At first, Wal-Mart gained a lot profit by mislabeling the pork. It seems that it's the winner. But after this cheating scandal, the fine made the company lost 2.69 million. And the stores need to pay the consumers compensations. And consumers should provide the cashier bills or check the monitoring recording from that day they bought the pork, and then get the compensation. The compensation is equivalent to double the amount of the price sold. What's more, Wal-Mart lost its reputation in public, which means, it may loss regular and potential consumers. Wal-Mart's lost after this scandal cannot be accurately calculated. Wal-Mart eventually hurt itself.

f) Media

Media won public reputation this time. Media have the responsibility to discover and report the "true picture" of events. In this case, Wal-Mart did unethical behavior by hiding the truth, and this scandal was firstly found by a consumer's while-blowing, without media, public will not discover the truth and know the whole cheating scandal clearly. Also, without media, the police and government won't take measures immediately. Furthermore, media played an essential role in arousing public awareness about quality of food this time, also in helping government discover the truth and warning other companies behave well. Media's timely report and powerful influence is helpful for preventing unethical behaviors, making it also won public reputation this time.

V. Ethical Guidance of this Case

a) Deontology

The deontology insists that lying is always wrong, that means the Wal-Mart has the duty to tell the truth, the cheating behavior cannot be tolerated. What's more, consumers have the right to know the truth; their right should be respected and protected.

The Golden Rule in Buddhism gives a great ethical guidance here. It says that "hurt not others in ways that you yourself would find hurtful". This principle can help preventing indifference to others. Wal-Mart is indifferent to the consumers' lost because it thinks it's not its own loss, on the contrary, it gains profit from consumers' loss. However, it ignored the long term benefit, which is its reputation. If Wal-Mart lost its reputation, it will lose its customers and lost the leading position in retail market. That means, if Wal-Mart hurt its customers, eventually, it itself will be hurt. Only Wal-Mart respect its consumers, try to benefit its consumers, making a win-win situation, can it gain more.

VI. Alternatives

On the Wal-Mart website, we can easily find its goal, it says "saving people money to help them live better was the goal that Sam Walton envisioned when he opened the doors to the first Wal-Mart more than 40 years ago". But in this case, we can just see the totally contrary goal about take advantage of its customers and make them live worse. Wal-Mart's reputation was thoroughly damaged by this 21th cheating. From the Wal-Mart company aspect, there are actually 3 alternatives:

a) Strict management of food purchase channels

Wal-Mart once said that this mislabeling pork behavior is a result of mistakes made by employees and managers did not know it. No matter it's an excuse or not, Wal-Mart should improve its management, build a strict supervision system of the food they purchase, develop a strict management system that ensure the quality of the food.

b) Treating customers sincerely

Only by treating customers sincerely rather than cheating them, Wal-Mart will win long term benefit rather than a short term profit. And only win the consumers trust and build a good reputation in the public, can Wal-Mart operates well in the future. There is an old Chinese saying that is "If you would not be known to do anything, never do it". Wal-Mart knows that the supervision in China is not strict, so it chooses to do unethical things and begs no one will discover. However, justice has long arms. Once Wal-Mart lost its reputation by cheating, it lost huge. And it need long time to rebuild the reputation.

c) Compensate its suppliers

As this scandal also made Wal-Mart's suppliers lost money, if Wal-Mart want to rebuild its reputation and shows its determination to deal with this scandal seriously, it should compensate its suppliers and rebuild a good relationship with them.

As this is the 21th cheating consumers for Wal-Mart, which shows the problems of ineffective supervision and management, there are also alternatives for government and consumers.

1) Government should severely punish the companies who done unethically, such as give them big fines. That means, the coming fines will make companies lost much more than they gained from doing unethical things, and then the companies won't repeat making mistakes like this.
2) Consumers should choose the stores which always behave ethically, and strengthen the awareness of identifying the quality of goods. Consumers also need to use laws to protect their own right. To be

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more specific, if they find anything that violates their right and interest, they can whistle blowing and ask for compensations.

VII. Solutions

a) *From Wal-Mart aspect*

i. Compensation consumers: Firstly Wal-Mart should give a sincere apologize to the consumers and then give them reasonable compensation for their loss. The compensation is equivalent to double the amount of the price sold. According to the "protection of consumers' rights and interests" law processing in China, consumers shall provide the cashier bills or check the monitoring recording from that day they bought the pork firstly, and then get the compensation.

ii. Reshape the reputation by really care about customers: Wal-Mart should ensure there is no cheating any more, try to benefit its consumers with more favorable goods. Using high-quality food and sincere services to win back consumers.

iii. Develop a code of supervises food and effective management system. The Wal-Mart management should pay more attention in supervise the quality of the goods they sold. Only they themselves did some change, and did they have excellent and effective management, can they be better and won the trust of customers.

b) *From government aspect*

i. Build more formal channels for public to blow the whistle on unethical behaviors. This can spark public supervision on companies. Also, internally, employees in companies should do whistle blowing if they find unethical things happen within. Government may give some reward to those employees in order to motivate who do whistle blow. When people are all involved, the supervision becomes powerful.

ii. Impose big fines or prison sentences if the case is serious or even withdraw the license of companies who done badly. Only with strict punishment regulations, the companies will consider the cost of cheating consumers and respect the laws.

c) *From consumers' aspect*

Improve consumers' own awareness of identify the quality of food, if consumers find any unqualified food or other goods, they should blow a whistle, tell the media, or resort to law to protect its own right.

VIII. Conclusion

Wal-Mart's mislabeling pork scandal is a satire about cheating and indifference to the consumers but eventually hurt its own benefit. This scandal happened after 20 times violated the law in China, which really provokes our Chinese government's and Wal-Mart management's reflection. Therefore, as a company, reputation is always essential, try to behave ethically and be sincere to the customers is the golden rule for long term business operation. And for the government, strict supervision and serious punishment should be conducted to help this free market become better.

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