Ethical Issues in China Retailing
Objectives

- Understanding the importance of ethical issues and social responsibilities in business success
- Identify the key ethical issues in China retail industry
- Discuss the sustainable development of China retail industry
Outline

- History of Value System Changes
- Government, Corporate versus Consumers
- Guanxi
- Ethical Issues in China Retailing
- Sustainability Issues in China Retail Industry
Overview

- Retailers should consider the benefits of the company, society, and consumers.
  - Business ethics: the study of standards of business behavior which promote human welfare and the good.
  - Kotler (1986) defined marketing effectiveness in terms of effectively and efficiently preserving or enhancing the consumer’s and the society’s well-being.
  - Ethical issues are important to retailers’ success in China
Ethical Issues in China Retailing

1. History of Value Systems Changes
Macro environment

- Dynamic Transition Period
  - The inheritance of Chinese traditional ethics: Confucianism
    - “Li” (Benefits and profits) and “Yi” (principle or norms of obtaining and distributing benefits or profits)
    - “If a noble man loves wealth, he gets it through proper channels”
    - Material profits is viewed in direct conflict with the “the dictates of virtue”
    - Traditionally, Chinese are ashamed to speak of “Li”

- The influence of Marxist philosophy and ethics
  - Overturn the traditional hierarchy of relationship
  - Egalitarian ideology
  - Emphasize on the country’s well-being
  - “Serving the people” was the legitimate objective of any business
The influence of economic reform
- Moral suasion was replaced by material rewards.
- “To be rich is glorious”
- Money worship

The influence of Western ethics
- Individual liberty and development
- Utilitarian
2. Government, Corporate versus Consumers
Governmental and legal issues
- Information asymmetry
- Holes in laws
- Loose regulation

Consumers
- Do not know how to protect themselves.
Micro Environment

- Morality of corporate leaders
- Corporate culture
- Employee quality
- Management and corporate control on ethical problems
Ethical Problems in China Retailing

- Bribery and corruption
  - Carrefour resigned more than 10 purchasing managers in 2007.

- Cheating
  - Faked partners in Carrefour’s expansion
  - Faked price promotion

- Intimidating
  - High slotting fees

- Theft
  - Employees
  - Consumers
Ethical Problems in China Retailing (Cont.)

- Counterfeit products
- Food safety
- Environmental issues in retail industry
Scenario 1

- A foreign retailer plans to open several stores in a third-tier city in China. A Chinese businessman claims that he has good relationships with local government and can help the retailer get prime locations and facilitate the approval process. The business man asks for $20,000 to cover his expenses.
Scenario 2

- As a buying manager, you purchased 100 desktops for the new headquarter in China for your company from a local dealer. After the completion of the transaction, the dealer sent you a free laptop as a gift to thank you for your business.
Scenario 3

- As a retail buyer, your company sent you to China to negotiate the price with a major supplier for your company’s new purchases. A sales manager from the Chinese supplier picked you up at the airport and told you that the vice-president of the company would like to have dinner with you tonight and talk about the contract at a fancy local restaurant.
Scenario 4

- At the beginning of the dinner, the vice-president of the supplier poured a full glass of Chinese wine and made a toast to you. Then he drank all the wine in his glass. You know that the Chinese wine is very strong and you might get drunk if you drink it all.

- http://www.youtube.com/watch?v=cernij_ilo&feature=related
Ethical Issues in China Retailing

3. Guanxi
Guanxi

Guan

Xi

A personal connection between two people in which one is able to prevail upon another to perform a favor or service, or be prevailed upon (Wikipedia).
Guanxi (Fan, 2002)

- Guanxi is based on relationships, but relationship do not guarantee the development of guanxi
- Guanxi is an active connection.
- Guanxi is a long-term social obligation.
- Guanxi is reciprocal exchange.
- Guanxi is a form of social capital.
- Guanxi is a dynamic process.
  \[ A \rightarrow B \rightarrow C \]
Levels of Guanxi

- Jia-ren
- Shou-ren
- Sheng-ren
Business Guanxi (Fan, 2002)

- Business Guanxi
  - Guanxi is a personal asset
  - Guanxi may not transferable
  - A guanxi process consists of informal social interactions.

- B2B
  - Buyer-supplier

- B2G
  - Business-government officials
  - Obtain information
  - Improve efficiency by reducing the transaction costs.
  - A way to bypass laws and regulations and obtain special treatment or scarce resources.
Types of Guanxi (Su and Littlefield, 2001)

- Favor-seeking vs. Rent-seeking
  - Favor-seeking
    - It is selective and limits to certain carefully chosen circles.
    - Rooted in Chinese traditional ethics and possesses a moral power
Benefits of Good Guanxi (Fan, 2002)

- Right guanxi could bring a wide range of benefits: securing rare resources, bypassing or short-cutting the bureaucratic maze, obtaining information and privilege, reduce transaction costs, selling otherwise unsellable goods, provide insurance against uncertainty and assistance when problems arose.
- Guanxi is not a competitive advantage.
- Guanxi is necessary but not sufficient for achieving business success.
Rent-seeking

- Quanli guanxi (power-dependence relationships emphasizing rent-seeking)
- Quanli guanxi is equated to bureaucratic corruption and is often synonymous with nepotism, bribery, favoritism, unfair competition, and fraud
- Guanxi and Corruption
  
  Money ← Guanxi → power

Corruption
Enter Guanxi  (Su and Littlefield, 2001)

- Making friends or becoming shu-ren or insiders.
  - Take the lead in making commitments
  - Always be helpful
  - Always be empathetic
  - Use intermediaries

- Develop guanxi cost time, energy and money.
- Avoid quali guanxi and illegal transactions
How to control “bad” Guanxi?:

- Create competition
- Rotate the front line
- Increase points of contact
- Build company loyalty
Will Guanxi Remain So Important?

- A better legal system will make it less necessary as transaction support
- A market economy and administrative reform will make it less profitable
4. Ethical Issues in China Retailing
Counterfeit Products¹

- Counterfeit is an imitation, usually one that is made with the intent of fraudulently passing it off as genuine.
- 15%-20% famous branded products in China are counterfeit.
- 80% of counterfeit products are from China.
- In 2009, 145,000 shipments of counterfeit products for export from China were seized.

Counterfeit product

- Counterfeit product
  - http://www.youtube.com/watch?v=lKrYFyiLOxk

- Bargaining
  - http://www.youtube.com/watch?v=iBkwQX-eXes
Loss Prevention

- Loss% >= 2% in China (Chinese retailers’ self-report is .42%)
  - Asian pacific, < 2%; global, 0%-1.5%

- Retailers always ask suppliers to cover the loss.
  - Fixed rate for loss: .3%-1%
  - In reality, 1.5%-2% (leading global retailers, 1%)
  - Retailers take over 37% of loss

1: Information source: KPMG and CCFA (2010), Investigation on Loss Prevention in China Retail Industry, 2010
Loss at the Global Level

- >=0%, <.3%: 49%
- >=.3%, <.5%: 33%
- >=.5%, <1%: 13%
- >=1%: 5%
Loss Prevention in China

- 57% Loss is caused by theft (55% global).
- 28% loss is caused by operation and processing (33% global).
- More than 80% Chinese retailers do not have systematic training on loss prevention.
Loss Prevention in China

- Employee Theft: 26%
- Non-employee Theft: 31%
- Operation and Processing: 19%
- Stock: 9%
- Supplier: 9%
- Others: 6%
What do the retailers do?

- Ethical education: 90%
- Stock-taking for loss prevention: 84%
- Double check procedures: 71%
- Build up stock-taking database: 65%
- RFID: 12%
Food Safety

- Handling, preparing and storage of food in ways that prevent foodborne illness

- Causes of food safety problems
  - Chemical remains
  - Microorganism contamination/decay
  - Diseases of animals and plants
Food safety Survey

Subjects
- 43 retailers and 2500 stores
- 25 providences and cities
- Cold chains of 92 stores
- 5244 consumers

1: Information source: China Franchising & Chain Store Association (2009), Investigation Report on Supermarket Chains’ Fresh Food Supply Chain.
# The Aspects that Consumers Care the Most When Buying Food

<table>
<thead>
<tr>
<th>Fresh vegetable</th>
<th>Meat</th>
<th>Aquatic products</th>
<th>Deli</th>
<th>Cookies/dried fruits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing date</td>
<td>Clean and sanitary</td>
<td>Clean and sanitary</td>
<td>Clean and sanitary</td>
<td>Expire date</td>
</tr>
<tr>
<td>Expire date</td>
<td>Price</td>
<td>Price</td>
<td>Expire date</td>
<td>Price</td>
</tr>
<tr>
<td>Price</td>
<td>Expire date</td>
<td>Expire date</td>
<td>Manufacturing date</td>
<td>Manufacturing date</td>
</tr>
<tr>
<td>Fresh vegetable</td>
<td>Meat</td>
<td>Aquatic products</td>
<td>Deli</td>
<td>Cookies/dried fruits</td>
</tr>
<tr>
<td>-----------------</td>
<td>---------------</td>
<td>------------------</td>
<td>-------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>Free market</td>
<td>Free market</td>
<td>Free market</td>
<td>Supermarket</td>
<td>Supermarket</td>
</tr>
<tr>
<td>Supermarket</td>
<td>Supermarket</td>
<td>Supermarket</td>
<td>Warehouse/hypermarket</td>
<td>Department store/shopping center</td>
</tr>
<tr>
<td>Warehouse/hypermarket</td>
<td>Warehouse/hypermarket</td>
<td>Warehouse/hypermarket</td>
<td>Department store/shopping center</td>
<td>Warehouse/hypermarket</td>
</tr>
</tbody>
</table>
Consumers’ Satisfaction and Trust

Food Safety Satisfaction

- Cookies/dried fruits > meat = fresh vegetables > aquatic products > deli

- Trust on Different Formats
  - Hypermarket > supermarket > convenient store > community store > free market > small grocery store.
Consumers’ overall evaluation of food safety (0-100)

- 2007: 69
- 2008: 67
- 2009: 60
The Most Urgent Things that Need Improvement

- Store sanity management
- Supplier management
- Implementation of laws and regulations.
  - 2009, Law of Food Safety
- Cold chain management
- Consumer education
## The Current Status of Food Safety Management in Supermarket

<table>
<thead>
<tr>
<th>Contents</th>
<th>Average</th>
<th>Contents</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td></td>
<td>Routine</td>
<td></td>
</tr>
<tr>
<td>Role clarity</td>
<td>4.1</td>
<td>Recall Management</td>
<td>4.2</td>
</tr>
<tr>
<td>Management attention</td>
<td>4.0</td>
<td>Accident management</td>
<td>4.1</td>
</tr>
<tr>
<td>Rules</td>
<td>3.7</td>
<td>Supplier management</td>
<td>4.1</td>
</tr>
<tr>
<td>Management teams</td>
<td>3.1</td>
<td>Information record</td>
<td>3.8</td>
</tr>
<tr>
<td>Staff</td>
<td>2.8</td>
<td>Store sanity management</td>
<td>3.6</td>
</tr>
<tr>
<td>Investment</td>
<td>2.6</td>
<td>Temperature record</td>
<td>3.6</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Propagandize</td>
<td>3.4</td>
</tr>
<tr>
<td>Employee</td>
<td></td>
<td>Supervising and inspection</td>
<td></td>
</tr>
<tr>
<td>Internal communication and coordination</td>
<td>4.4</td>
<td>Record and procedure checking</td>
<td>4.3</td>
</tr>
<tr>
<td>Employees’ ability in implementation</td>
<td>3.5</td>
<td>Expire date checking</td>
<td>4.0</td>
</tr>
<tr>
<td>Training</td>
<td>3.1</td>
<td>Product inspection</td>
<td>3.6</td>
</tr>
<tr>
<td>Incentives to employees</td>
<td>2.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Average</td>
<td>3.6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Store Sanity

<table>
<thead>
<tr>
<th>Items</th>
<th>Foreign</th>
<th>State-owned</th>
<th>Private</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sanitation management of operators</td>
<td>4.71</td>
<td>3.63</td>
<td>4.31</td>
<td>4.28</td>
</tr>
<tr>
<td>Protect from contamination and cross contamination</td>
<td>4.64</td>
<td>3.37</td>
<td>3</td>
<td>4.24</td>
</tr>
<tr>
<td>Equipment and facilities</td>
<td>4.62</td>
<td>3.28</td>
<td>3.2</td>
<td>4.16</td>
</tr>
<tr>
<td>Food purchase, receiving, and storage</td>
<td>4.69</td>
<td>3.56</td>
<td>3.1</td>
<td>4.08</td>
</tr>
<tr>
<td>Food processing and selling</td>
<td>4.57</td>
<td>3.44</td>
<td>3.4</td>
<td>4.05</td>
</tr>
<tr>
<td>Cleaning and sanitizing</td>
<td>4.66</td>
<td>3.52</td>
<td>4.5</td>
<td>4.02</td>
</tr>
<tr>
<td>Protective maintain</td>
<td>4.59</td>
<td>3.42</td>
<td>3.57</td>
<td>3.97</td>
</tr>
<tr>
<td>Employee training and system management</td>
<td>4.56</td>
<td>3.76</td>
<td>3.67</td>
<td>3.97</td>
</tr>
<tr>
<td>Total Score</td>
<td>4.64</td>
<td>3.48</td>
<td>3.47</td>
<td>4.08</td>
</tr>
</tbody>
</table>
Supplier Management

- 84% store managers believe that choose which suppliers are the most important
- 40% of top 100 retailers fully or partially directly purchase fresh food directly from farmers.
Cold Chain

- An integrated cold chain is rare in China
  - 30.77% require refrigerated trucks, and have requirement on the refrigerated truck
  - 42.86% require refrigerated truck, but have no specific requirement on refrigerated truck.
  - 14.29% do not request refrigerated truck.
Implementation of Food Safety Law and regulations

- 2009, Food Safety Law
  - Supervised by multiple government departments

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Bar chart showing:
- 51.16% Implementing
- 4.65% Have Implemented
- 32.56% Difficult to implement.
- 16.28% The law needs improving.
5. Sustainability Issues in China Retail Industry
Energy Consumption of China Retail Industry

Energy consumed in total

Wholesale, retail, and restaurant/ the third industry (percentage)
## Water and Electricity Consumption for Different Formats (2009)

<table>
<thead>
<tr>
<th>Department Store</th>
<th>Water Consumption (¥/m²)</th>
<th>Electricity Consumption (¥/m²)</th>
<th>Water Consumption /sales (¥/¥10,000)</th>
<th>Electricity Consumption /Sales (¥/¥10,000)</th>
<th>Utility/sales</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20.16</td>
<td>420.79</td>
<td>5.71</td>
<td>95.92</td>
<td>1.02%</td>
</tr>
<tr>
<td>Convenience Store</td>
<td>18.40</td>
<td>422.78</td>
<td>6.60</td>
<td>121.56</td>
<td>1.28%</td>
</tr>
<tr>
<td>Supermarket</td>
<td>20.62</td>
<td>281.23</td>
<td>7.45</td>
<td>91.72</td>
<td>0.99%</td>
</tr>
<tr>
<td>Hypermarket</td>
<td>12.43</td>
<td>242.48</td>
<td>5.55</td>
<td>114.46</td>
<td>1.20%</td>
</tr>
<tr>
<td>Specialty Store</td>
<td>22.41</td>
<td>172.52</td>
<td>5.71</td>
<td>34.21</td>
<td>0.40%</td>
</tr>
</tbody>
</table>
Energy Conservation and Environment Protection of Top 100 Retailers in 2009

- Green purchasing
- Encourage to use fewer plastic bags
- Old products and wastes recycling
- Smoke and sewage treatment
- Waste treatment
- Save heating
- Use energy conservation building materials and sun-light
Top 100 Retailers’ Investment and Return on Energy Conservation

- Investment on energy conservation in 2010
  - <1 million, 54%, average saving: ¥165,000
  - 1-5 million, 27%, average saving: ¥878,000
  - >5 million, 19%, average saving ¥2,717,000
Walmart’s Green Purchasing

- Green purchasing plan
  - Walmart have incorporated requirements on suppliers’ energy conservation, environment perfection, social responsibility, and product safety in purchasing contracts
    - Wasted water treatment, wasted gas emission, dangerous solid wastes treatment should meet environment standards
    - Do not work extra hours and have a good working environment
    - Ask all direct importers and private label manufacturers to report their name and addresses of their factories.
  - Walmart established an ethical department to evaluate their suppliers
Walmart’s Efforts regarding Energy Conservation and Environment Protection.

<table>
<thead>
<tr>
<th>Illumination</th>
<th>Air condition</th>
<th>Refrigeratory</th>
<th>Others</th>
<th>Management</th>
<th>Environment protection</th>
<th>Optimize operation process to save energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. LEDs are used in outdoor Advertisements signboard; 2. Invested 3 million Yuan to replace regular lamps with energy conservation lamps in 2009; 3. Install light sensors.</td>
<td>1. Use water pump frequency conversion in A.C.; 2. Set temperature at 27-28 °C</td>
<td>Redesign the refrigeratory to make it energy conservative.</td>
<td>1. Waste heat recovery; 2. Solar powered heaters</td>
<td>1. Under the condition of customer comfortness, adjust the store temperature to save energy; 2. Use EMS management system to improve energy management; 3. Build up energy management rules and cultivate employee’s consciousness of energy conservation.</td>
<td>1. Use environment friendly materials; 2. Use recyclable wiring accessories; 3. Waste water recycling.</td>
<td>1. Use nature defrost instead of running-water defrost; 2. Reduce lights to 2/3 in non-peak time; 3. Reduce the number of TV turned on; 4. Control the amount of ice on fresh food; 5. Install water meters in fresh food department to monitor water consumption</td>
</tr>
</tbody>
</table>