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Research in brief

Media manipulation in the Sanlu milk contamination crisis

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ABSTRACT

This study analyzes crisis communication strategies in a transitioning media environment, specifically, Sanlu Group's crisis communication strategies during a quality control crisis in China. Analysis reveals Sanlu manipulated its relationships with local Chinese government and media to reduce media coverage and online searches regarding the contamination of infant milk formula. The case provides evidence that media can be pressured into manipulating information flow through both traditional and online media and suggests a need for additional research on crisis communication in transitioning media environments.

1. Introduction

Much of the research on crisis communication and media relations takes for granted that organizations operate in independent media environments. However, this is not always the case. In fact, in some countries, organizations can manipulate media relationships to keep a crisis from making headlines. In 2008, Sanlu, a Chinese dairy company, was able to temporarily impede media coverage during a product quality crisis that ultimately sickened almost 300,000 children, killed at least six infants, and spurred the demise of the Chinese dairy industry. This study demonstrates how organizations can take advantage of a transitioning media system to limit the coverage of an emerging crisis. A brief description of media transparency in China is provided, the case is detailed, and Sanlu's crisis communication strategies are analyzed to demonstrate further need for public relations research in transitioning media environments.

2. Media transparency in China

Media transparency refers to the ideal condition that media are objective and not subject to outside influence. As the Chinese media system has transitioned from state-run to primarily market-oriented, several forms of influence on the media have emerged. First, central government still controls important party media like the *People's Daily*, and local government can still influence local media coverage (Chen, 2009). Second, some journalists receive benefits for covering or omitting certain news. An international index ranked China first among 66 countries where media bribery is most likely to occur (Kruckeberg, Tsetsura, & Ovaitt, 2005). Third, because the market-oriented system in China is still developing, these media rely on just a handful of advertisers that can greatly influence how their business is covered (Tsetsura & Grynko, 2009).

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The penetration of the Internet has been found to reduce influence on media coverage by facilitating the free flow of information (Yang, 2012). When information appears online and attracts public attention, within hours, messages can be disseminated through social media to millions of people and sometimes trigger large-scale, spontaneous protests. Especially in cases where the local media is censored, social media may be the most accurate source of information (Veil, Buehner, & Palenchar, 2011). Once a story breaks, online or off, other media outlets can then cover the story with limited interference.

3. Method

Media coverage in both English and Chinese was collected from Mainland China, Hong Kong and the U.S. using the search word "Sanlu" to identify all articles with Sanlu in the text from January 1, 2008 to December 31, 2008. The search function of China Core Newspapers Full-text Database was used to collect 498 relevant articles from Mainland China, 135 relevant Hong Kong media articles were collected using the Takungpao.com news search services, and 113 relevant U.S. news stories were retrieved using Lexis-Nexis newspaper database. Each article was read for the specifics of the case. If new information was found in an article, the information was added to the description of the case. The media coverage was used to provide a thick description of the case and identify Sanlu's crisis communication strategies. Case study references are available by contacting the authors.

4. Sanlu's milk contamination crisis

In 2008, Sanlu Group was a state-owned dairy product company based in Shijiazhang City in the Hebei Province of China with annual sales of about 15 hundred million U.S. dollars. Sanlu had quality standards for the milk it purchased and measured protein content through a hydrogen test. In October 2007, two brokers began producing and selling "protein powder" containing melamine, an industrial chemical used as a fire retardant and pesticide, which when mixed with water, increases hydrogen levels. The brokers were able to dilute the collected milk with water, and thereby sell more milk, without failing the hydrogen test. As the strategy proved to be profitable, other milk brokers imitated the actions.

In December 2007, Sanlu started to receive complaints from infant milk formula consumers who found red, solid matter in their children's urine. By March 2008 enough complaints had been reported that Sanlu Vice President Yuliang Wang was informed. CEO Wenhua Tian was notified when internal tests confirmed a quality control issue with the formula. In May 2008 Sanlu confidentially paid $130 million for the medical bills of affected children, but no recall was made.

In July 2008 there was a spike in the number of babies reported to have kidney problems. On August 2 Sanlu notified the board members from its New Zealand-based venture partner, Fonterra, who encouraged Sanlu to announce a full recall. Also on August 2, Sanlu sent a letter to the Shijiazhuang Government to report the problem and ask the government to strengthen regulations over dairy producers. The vice-mayor of Shijiazhuang told Sanlu administrators not to make the contamination public "for fear of social unrest and so as not to embarrass the country so soon before the Olympics." On August 14, Fonterra reported the contamination to the Ministry of Foreign Affairs. On August 18, Sanlu recalled three million U.S. dollars worth of milk formula from consumers and another forty million U.S. dollars worth of formula from sales agents. Sanlu never stated there was a quality issue with its products in the recalls.

4.1. Sanlu's media manipulation

The head of Sanlu's media relations group testified later during the trial that in Hunan and Hubei provinces, where consumers' complaints were most frequent, Sanlu used its advertising contracts to influence media coverage by asking local media to keep silent. To restrict online discussion, Sanlu's public relations agency suggested Sanlu should pay Baidu, the leading search engine, three million Yuan (about 500 thousand U.S. dollars) to block negative news about Sanlu from small websites and blogs. Sanlu also sent a second letter to the Shijiazhuang Government on August 29, 2008, asking for assistance with the media:

> The government should stop the media coverage of this quality problem of Sanlu formula milk for babies. This regulation over media coverage can avoid leading to panic. . . [and] reduce the possibility of an earthquake on the Chinese dairy industry.

On September 2, 2008, CCTV (China Central Television) aired *The Story Behind 1100 Times of Quality Examination*, a promotional video presented as a documentary showing how the Sanlu milk formula was produced, and how much Sanlu cares about the quality of its products.

4.2. Media coverage

On September 9, 2008, New Zealand foreign affairs officials contacted Beijing food safety authorities. Two days later, the first story naming Sanlu responsible was published by *Oriental Morning Post*, one of the leading market-oriented media of Shanghai City. Hundreds of websites posted the news within hours. That morning the head of Sanlu media relations stated in an interview, "We do not wish to hide any problem from our consumers. And, I surely can tell you with one hundred percent certainty that there is no quality problem with our formula milk for babies." The next day, CEO Tian stated in an

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interview: “This issue is caused by some illegal activities in the purchase process of original milk. Sanlu is innocent in the entire case, and is also a victim.” On September 15, the following apology was issued:

> The severe quality problem of Sanlu formula milk for babies has considerably damaged the health of many babies and deeply concerned their parents. We feel extremely sorry and wish we can express our sincere apology... Our company now states that we will recall all products produced before August 6, 2008... Our company will also help to cure the sick babies and be responsible for the medical expenses.

The apology and full recall was issued four days after the story was first reported by the media, but five months after Sanlu had internally confirmed the contamination and nine months after first learning infants drinking their formula were suffering and dying from kidney stones.

4.3. Crisis aftermath

On September 17, 2008, CEO Tian was arrested and sentenced to life in prison four months later. Vice President Wang was sentenced to 15 years in prison; two other administrators were sentenced to five to eight years in prison. Three milk brokers were sentenced to death and two brokers were sentenced to life in prison; six farmers were sentenced to terms varying between five and fifteen years. Including the mayor of Shijiazhuang City, several top officials of the local government were removed from their offices. On December 25, 2008, Sanlu announced bankruptcy. The assets worth three billion U.S. dollars were sold to pay for the medical bills of the sick children. Across China, more than 20 milk producers were eventually linked to the contamination. Almost 300,000 babies were reported to have suffered kidney damage, and at least six died. According to Customs of China records, exports in October 2008 declined by 99.2%. By the end of December 2008, hundreds of dairy farms and companies announced bankruptcy. Analysts estimate the Chinese dairy industry may need five to ten years to recover.

5. Conclusions and implications

Despite Sanlu's attempt to negotiate with the search engine Baidu to block negative information online, once the story linking Sanlu to the crisis was published, it was quickly posted and cross-posted, activating tremendous public reaction. Chinese government has regulatory control over the Internet in China; however, the relatively free flow of information online may ultimately contribute to improving media transparency in China. Further research is needed to determine if the increased prevalence of Internet use in China reduces outside influence on media. Furthermore, recent events like the uprisings in Tunisia and Egypt, which both originated online, demonstrate the need for additional research on the role of the Internet in exposing media and government non-transparency, especially in countries that do not have an independent media system or are transitioning from a state-run to a market-oriented system. Chinese consumers have the same right-to-know as their counterparts in any other country; however, such rights cannot be guaranteed in a media system that lacks transparency.

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