

# CHINA PERSPECTIVE

Emerging Views, Trends and Issues

*This issue of CHINA PERSPECTIVE looks at the evolving context for foreign multinational companies in China and the importance of crisis and issues management.*

## China Crisis Management: Interesting Times for Foreign Multinationals in the PRC?

---

Chinese stakeholders and influential media have been heralding a “reputation crisis for foreign multinational companies” (MNCs) in Mainland China after what appears to be an unprecedented number of major crisis situations since 2004 and an apparent lowering of trust in foreign business. One of the nation’s leading business publications spoke recently of “countless evidence” of MNC problems - ranging from “MNC attitude” to product quality debacles. Meanwhile, there is a sense among some representatives of foreign business that times are changing with, in some ways, greater challenges for foreign MNCs to demonstrate responsibility and accountability. As a result, rigorous crisis and issues management capabilities are now high on, perhaps, higher on the priority list for many global companies and foreign businesses. And if they are not, they absolutely should be.

### A Hardening in Attitudes to MNCs?

There is conjecture that there has been a hardening in attitudes to foreign MNCs in the PRC in the past three years and that increasing ambivalence may partly explain the huge number of crises and issues management situations facing MNCs. These crises and issues have spanned a wide range of industries including automotive, healthcare, cosmetics, food and nutrition, chemicals and plastics, technology and electronics, and energy and resources. In fact, no industry is immune, with many of the world’s leading brands and companies finding themselves in crisis mode for extended periods, with very significant financial and business consequences.

These situations have fed into intense debate over MNC corporate responsibility and accountability in the Chinese media, and within the Chinese government. Issues and allegations have included serious environmental contamination and degradation incidents, major product quality and safety lapses, cultural insensitivities, corruption and ethics breaches, monopolistic practices, labor and consumer rights violations - among a host of others - with overarching suggestions that some MNCs apply “double standards” to China.

With “attitude” a key concern for local stakeholders, foreign companies are being accused of arrogance, being patronizing and domineering, of being insensitive to or simply not understanding the local context. Examples include major technology MNCs accused of trying to block or contain China in regards to intellectual property and standards (to perpetuate market dominance and dependency of local companies), allegations that certain MNCs have not made the same efforts to protect Chinese consumers they would make in the ‘rich’ countries of Europe and the United States, that MNCs are “exporting pollution” to China and have used what was considered “culturally offensive” advertising.

These concerns are especially acute at this time of year - with the annual meeting of the National People’s Congress (China’s legislature with thousands of delegates from around the country traveling to the capital Beijing) and National Consumers Day; both in March. These two very different events provide highly public platforms for scrutiny of MNCs.



## Reality Check

But what is the reality? Are foreign companies innocent victims of the times, or are they simply being called on to match more closely the standards they themselves espouse and claim to adhere to globally? Has there been a genuine shift in attitudes to MNCs that is contributing to more issues and crisis? What factors are driving this? And, importantly, what can MNCs do to adapt to and thrive in this changing environment?

As you might expect, there are no simple answers. However, I would like to get one thing straight before we move on: there are abundant examples of genuine problems. And I am certainly not attempting here to explain away serious issues or make excuses for companies that have failed in their obligations to society. I would also caution against a sense of victimization on the part of MNCs, which is neither supported by the facts nor productive. Indeed, judging by the continuing success of foreign companies in China, it would be hard to argue that China is not, in fact, a good place for business. In fact, most foreign executives are effusive in their praise for China and the overall operating environment here, if not in every aspect.

It is clear though that several interrelated factors have driven and continue to drive the importance of crisis and issues management for MNCs, including:

- Increased concern and emphasis on a range of issues from health and the environment, to labor and consumer rights, with greater pressure on Chinese government authorities to be “people-centric” in line with the overarching Communist Party theme of a Harmonious Society (key concept for President Hu Jintao’s administration) and for foreign companies to adhere to higher standards of corporate responsibility and accountability.
- Greater domestic self-confidence and emphasis on local development and self-reliance, with the emergence of Chinese MNCs and China’s climb up the global industrial value chain; pitting Chinese interests against foreign MNCs in more direct competition than in the past, and making foreign investment less vital.
- Continuing concerns about foreign dominance and allegedly “monopolistic practices” in certain sectors, as China opens further in line with WTO commitments.
- Increasing focus on intangible contributions made by MNCs as China pursues a more “scientific approach to development”, favoring quality over quantity. This raises the bar for MNCs with simple economic contributions less relevant to China’s current goals.
- A complex and fast-evolving regulatory environment, with an array of government agencies and levels of government to consider. Coupled with absent or unclear regulations and standards in certain areas, this makes it challenging in some cases to demonstrate accountability.
- Evolving media and Internet dynamics - with foreign companies fair-game for an increasingly aggressive domestic media. Digital and user generated media are also playing a greater role in triggering and inflaming issues and crisis, as Chinese Internet use explodes and global issues travel at net speed to China.
- Lack of strategic understanding of and in interest in public policy dynamics and the evolving development and regulatory agenda - combined with inadequate stakeholder relations and outreach for some MNCs.
- Lack of effective crisis management and government relations capabilities for many foreign MNCs in China (who may not have faced such challenges in the past), as well as unclear responsibilities and reporting lines to headquarters. This is leading in some cases to inappropriate responses that escalate a situation from bad to worse – *with the handling of the crisis becoming the actual crisis.*

## A Knowledge-Driven Strategic Approach

So what should MNCs do – besides adhering to high standards of corporate conduct and responsibility in China? While many factors are out of the control of individual companies or organizations, there is much that can be done to prepare for a crisis, to build organizational capacity and improve the overall competitive context and operating environment. This requires a knowledge-driven, strategic approach to stakeholder outreach; a commitment from the most senior company leadership; a well-resourced public affairs function and an ability to clearly articulate both the quantitative and qualitative contributions a company is making to the evolving Chinese development agenda.

Consider the following:

*The development and testing of tailored crisis management plans that take a “total stakeholder” approach to crises; dealing with the myriad stakeholders that have to be communicated with in a very short period, including employees, partners, suppliers, customers, distributors, third-party opinion leaders in addition to government and regulators.*

*Conducting a public affairs risk assessment - before a decision is made to move forward. For instance, careful evaluation before taking out a lawsuit against a leading local company; closing a major facility or taking public position on a controversial topic in China.*

*A proactive corporate reputation or “good will” building program demonstrating relevance and alignment with local goals, such as those defined in the Chinese Government’s 11th Five Year Plan.*

*The development and implementation of an integrated public affairs and communications campaign to address an issue before it becomes a crisis, or to repair the damage of a past one - in terms of China’s self interest.*

*Reduction of internal functional silos to minimize disconnects that lead to decision-making that gets a company in to unnecessary trouble with various stakeholders.*

*Enhancement of a government relations capability or allocation of more senior company leadership time to public policy and public affairs issues.*

*Build partnerships with local stakeholders who can provide 3rd party endorsement and advocacy and may have higher credibility than an MNC with local audiences, when it comes to certain issues.*

*Stakeholder mapping and public policy analysis on a particular issue or priority area to build institutional knowledge and awareness.*

*Proactive stakeholder engagement and dialogue on key issues to influence the debate, to better understand the opportunities and risks, and to arrive at mutually acceptable ‘win-win’ solutions ....*

In changing and uncertain times, the overall messages for MNCs are clear – to think global and local, and above all, be prepared.

– Douglas Dew, Director and Practice Leader, Public Affairs Practice, Burson-Marsteller China

#### About CHINA PERSPECTIVE

CHINA PERSPECTIVE is a periodic newsletter of Burson-Marsteller China. Our goal is to inform about emerging issues and the significance of China in today’s world. If you are not receiving regular copies of this newsletter and would like to do so, please email Sarah Guldin at Sarah.Guldin@bm.com.

For more information on how to conduct business and build and protect a successful reputation in China, contact Cindy Tian, Managing Director of Burson-Marsteller China at Cindy.Tian@bm.com or Douglas at Douglas.Dew@bm.com. Either can be reached by phone at 8610 5816-2525.

#### About Burson-Marsteller

Burson-Marsteller (www.bm.com), established in 1953, is a leading global public relations and public affairs firm. It provides clients with strategic thinking and program execution across a full range of public relations, public affairs, advertising, and web-related services. The firm’s seamless worldwide network consists of 57 wholly-owned offices and 45 affiliate offices, together operating in 59 countries across six continents. Burson-Marsteller is a part of Young & Rubicam Brands, a subsidiary of WPP (NASDAQ: WPPGY), one of the world’s leading communications services networks. B-M Asia Pacific has three times been named “Network of the Year” at the annual Asia Pacific PR Awards. Burson-Marsteller China (www.bmchina.com.cn) has also twice been the recipient of PR Week’s ‘Consultancy of the Year Award’ in recent years.