

## NAVIGATING IN “INTERESTING TIMES”

### An Evidence-Based Strategy Can Mitigate Risks and Maximize Opportunities



With China's relative importance to many foreign multinationals increasing in these undoubtedly “interesting times” and China's own role and responsibility in global affairs increasing – foreign companies need to renew efforts to build and enhance institutional understanding of China and the Chinese development agenda.

Why? Because China is changing fast and so in some ways are its expectations for foreign business and foreign investment. Because for many the stakes and risks are higher due to the global financial mess and uncertainty and its local impacts. Because there are new and continuing opportunities to be realized – despite and as a consequence of the crisis. Indeed, “understanding China” and its development agenda in these times and beyond can be a source of significant global competitive advantage in a range of areas.

In a still relatively opaque operating environment, the key of course is to make sure that “understanding” is based on substantive knowledge concerning evolving local stakeholder expectations and the changing business and public policy context – as opposed to outdated assumptions and guesswork.

The ability to build corporate reputation and to manage and mitigate issues in the world's key growth market are but two aspects of this competitive advantage – that can be enhanced by more substantive “China understanding”. In fact the most successful foreign companies are able to align their entire business strategy in China with this constantly evolving agenda – recognizing that business success and failure can often be attributed to the degree of alignment achieved.

*“May you live in interesting times” – is a curse often said to be of Chinese origin that is occasionally quoted by westerners – most famously by the American politician Robert Kennedy in his landmark “Day of Affirmation” speech in 1966 (a finely worded call to action and acceptance of collective responsibility to address challenges of the day). Regardless of the curse's origin – we can safely say that by many people's standards – Chinese and foreign alike – we are again today living in “interesting times” – times that require extraordinary efforts and mutual understanding, times that provide a fresh test for human ingenuity and creativity.*

*It is interesting to note however that the supposed curse is almost certainly not of Chinese origin – indeed it is reportedly not found anywhere in Chinese literature and it is certainly unfamiliar to modern Chinese. It has been suggested by some that the saying or curse is more likely a western invention or innovation, in the vein of “Confucius said”. In fact, reportedly the only places it can be found prior to the Kennedy speech are various western literary references, some of which have been traced back to the important Swiss analytical psychologist Carl Jung (1875-1961).*

*This rather esoteric point illustrates on a microscopic level the age old and undiminished potential for foreigners to misunderstand or mischaracterize China or matters Chinese (we also note that while a hit with many western audiences at the time for affirming “freedom” and elements of the liberal democratic system – it would be reasonable to assume that Kennedy's speech did not go down well with the entire global community, emphasizing as it did western values, complete with references to Pericles and Aristotle, Athens versus Persia and so on).*



When we look at the current environment for foreign MNCs in China – we need for example to understand that there was already evidence of a growing ambivalence towards foreign-owned enterprises established and doing business in this country – well before any potential protectionist sentiments generated by the recent economic downturn. Indeed, understanding underlying, more long-standing concerns and Chinese strategy vis a vis foreign investment is in our view far more productive than trying to anticipate potential protectionist measures in the short-term.

China continues to be very much focused on calibrating how it utilizes foreign investment. During the past two years for example there has been much greater emphasis placed on the qualitative aspects of foreign investment than on the quantitative (even if in the short-term economic contributions are favored once again, particularly at the local level, because of the crisis). As China pursues an overall shift from extensive to intensive growth it will continue to evolve an approach that is more selective about foreign investment. This will include greater relative emphasis on areas involving technology and knowledge transfers – coupled with various other strategies to overcome a perceived overreliance on foreign technology and foreign market dominance in certain areas of the economy, as well as to retain and develop home-grown Chinese “national champion” companies. The recent decision by China’s Ministry of Commerce to decline Coca-Cola Co.’s proposed acquisition of China Huiyuan Juice Group Ltd – a “famous Chinese brand” – can for example be understood from this perspective (irrespective of the official basis of the decision).

It also needs to be understood that growing ambivalence in recent years may partly explain the huge number of crises and issues management situations to which foreign companies have increasingly been prey in China. The current economic crisis and its impacts in some ways increase the risks of crisis in certain areas – but these risks were already very much apparent. Crises and issues have touched 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 finding themselves in crisis mode in China for extended periods and experiencing the accompanying financial and business consequences.

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These situations have further fed intense debate about 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 breaches of ethics, monopolistic practices, labor and consumer rights violations – among others – with overarching suggestions that some MNCs apply “double standards” to China. Given the increased importance of China to many MNCs – and in some ways hardening Chinese stakeholder attitudes – obvious care needs to be taken in these times in managing issues that might escalate to crisis and in ensuring that the handling of a crisis – does not become the crisis.

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On the flipside, it is important to consider also that in China contributions made in a time of national crisis or distress – such as in the current economic situation – make more of an impression than “fair weather” contributions. Foreign MNCs stand to differentiate themselves by demonstrating renewed support and a strong commitment to China in these challenging times. For example support for China’s “going-out” strategy, as it seeks to secure global resources and develop successful global companies of its own, will be particularly well received. MNC support in addressing specific energy, environment and rural development challenges provides further examples that align with China’s goals of a more “scientific approach” to development and to utilizing foreign investment. This support can build good will that may be useful if the company itself meets a crisis down the road. The key overall continues to be to demonstrate and articulate a role that supports China’s development agenda and goals in the long-term (assuming of course this is also in the long-term interest of the company in question and its various stakeholders globally).

Burson-Marsteller China has conducted research over many years with Chinese government and other influential stakeholders. This research has repeatedly shown that there are two fundamental requirements for foreign multinational companies to earn differentiated reputation capital, brand equity and trust with Chinese stakeholders – in other words, to be truly seen as partners of choice for China.

They are:

1. To be perceived as supporting and making a value-added contribution to the achievement of China’s overarching and specific development goals and objectives (as articulated and defined by the Chinese government, but also in a broader sense)
2. To do so with the “right attitude” – an approach perceived as sincere, appropriate and sensitive to local conditions, expectations, culture and aspirations (Chinese stakeholders particularly dislike perceived arrogance or patronizing behavior from foreign companies – in part because of China’s unique historical experiences with foreign capital, as defined by the Communist Party)

So what should foreign MNCs do to navigate these complexities – besides adhering to high standards of corporate conduct and responsibility in China?

While many factors are beyond the control of individual companies or organizations, there is much that can be done to anticipate and prepare for issues and avoid crisis, build organizational capacity and understanding, and improve the overall competitive context and operating environment.

Among other things – this requires an evidence-based, strategic approach to stakeholder outreach and issues management; top-down commitment from the company’s most senior leaders; a well-resourced public affairs function and an ability to document and articulate clearly both the quantitative and qualitative contributions a company is making to the evolving Chinese development agenda.



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Companies operating in the increasingly complex business environment in and in relation to China should consider the following to differentiate themselves and to build competitive advantage:

- *Establishing an enhanced issues monitoring and analysis system to proactively track and identify issues and public policy developments.*
- *Undertaking stakeholder engagement and perception research to gauge current key Chinese stakeholder expectations with respect to your industry and company.*
- *Enhancement of a government relations capability and allocation of more senior company leadership time to public policy and public affairs issues.*
- *The development and testing of tailored crisis management plans that take a “total stakeholder” approach to crises; dealing with the myriad stakeholders who must be communicated with in a very short period, including employees, partners, suppliers, customers, distributors, third-party opinion leaders in addition to government and regulators.*
- *Strategic messaging research to identify the most compelling arguments and value propositions for important local stakeholder groups on specific issues.*
- *Conducting a public affairs risk assessment – before a decision is made to move forward. For instance, making careful evaluation before issuing a lawsuit against a leading local company; closing a major facility or taking public position on a controversial topic in China.*
- *A proactive, sustainable, 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.*
- *Chinese stakeholder mapping on a specific issue.*
- *Proactive stakeholder engagement and dialogue on key issues to influence the debate, increase understanding of the opportunities and risks, and arrive at mutually acceptable ‘win-win’ solutions ....*

Bottom line, enhancing “China understanding” should involve a continuous evidence-based approach to building competitive advantage. And in changing and uncertain times, the overall messages for MNCs are still clear – think global and local, and above all, be prepared.

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*\* A version of this article was first published in China Brief – the magazine of the American Chamber of Commerce China.*

#### **About CHINA PERSPECTIVE**

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