

booz&co.

Net Returns

*The Impact of Online
Opinion on Corporate
Reputations in China*



Contact Information

Greater China

Dr. Edward Tse

Senior Partner

+86-10-6563-8300

+852-3650-6100

+86-21-2327-9800

edward.tse@booz.com

EXECUTIVE SUMMARY

The Internet has become China's biggest single vehicle for public discussion. For companies, this is both a blessing and a curse. Never before has it been so easy to reach mass audiences. And never before have negative views been able to wreck corporate and individual reputations so fast. As a result, executives must take the impact of the online opinions into account when formulating their strategies and actions. They must understand how views are formed and spread, and how the speed with which this can happen poses a new type of threat to corporate reputations. Such an understanding will allow them both to avoid potentially negative impacts and to leverage the Internet to enhance their competitive positioning.

A VOICE FOR THE PEOPLE

The Internet is by far the most popular medium for the expression of public opinion in China. Through Web forums, bulletin boards, video-sharing sites, instant messaging, and other online tools, the country's nearly 300 million Internet users have a wide range of means for commenting on any and every topic that interests them.

And they have used them. In the last few years, every major event in China has been met with a public response on the Internet, from the Beijing Olympics to the Sichuan earthquake. Online vigilantes have pursued companies that cheated customers. Campaigns have been mounted against polluters. And patriots have shown their support for their country.

Officials both follow and react to online discussions—most visibly in June 2008, when China's president, Hu Jintao, chatted online with

Netizens at the Strong China Forum, a discussion Web site run by the country's most important newspaper, People's Daily.

For companies, the challenge is coping with the threat posed by the speed with which public opinion can spread online. Within a very short time frame, malicious comments can be shared with millions of other people, regardless of the validity of what is being said. Making things worse, emotions often run high in such discussions, which, fueled by exaggeration and sometimes bigotry, can rightly or wrongly destroy reputations in a matter of days, sometimes even hours. To be able to respond rapidly and effectively, it is vital that businesses monitor commentary and news about themselves online and have plans in place to deal with any threats as soon as they arise.

Within a very short time frame, malicious comments can be shared with millions of other people, regardless of the validity of what is being said.

CHANNELS AVAILABLE

Companies wanting to harness the power of the Internet in China need to be aware of what is being said online—and what means are being used to say it.

Internet discussion forums: With an average of 2 million new posts daily, Internet forums, also known as bulletin board systems (BBS), are the most popular vehicle for online discussion in China. According to the country's main Internet monitoring body, China Internet Network Information Center (CNNIC), more than 1.3 million forums exist—more than in any other country—with about 91 million users as of January 2009.

The forums are China's main form of social networking, used to discuss

everything from personal problems to politics. Many are devoted to special topics. The Strong Nation Forum, for example, focuses on current affairs and politics. It claims more than 500,000 registered users, with as many as 200,000 participating at peak times. All of China's leading portals—Sina, Sohu, and Netease—host popular forums.

Some Web sites allow readers to post comments on the same page as news reports. Others set up special forums for news events as they occur. Tianya, one of the most popular forum sites, with as many as 250,000 visitors daily, created dedicated forums for discussions of the Sichuan earthquake of 2008 and the Beijing Olympics.

Instant messaging: Instant messaging is China's principal Internet communication tool, with about 81 percent of all Web visitors using one system or another, according to CNNIC. Both local and international systems are popular. Tencent, one of the country's leading portals,

reported in 2009 that it has 411 million active user accounts for its QQ messaging program. Earlier in the year, Microsoft's MSN said it had 15 million regular users.

Besides communication, instant messaging is also used to express opinions. To show their patriotism during the protests that accompanied parts of the Olympic torch's global relay and then after the Sichuan earthquake, many users added the "Love China" signature—a red heart before the word "China"—to their screen names.

Blogs: Since their first appearance in China in 2002, blogs have become a hugely popular medium for self-expression. CNNIC reports that at the end of 2008, China's Internet had 162 million bloggers, more than half of all its Internet users. The most famous blogs receive tens of thousands of visits daily, making them another major vehicle for the expression of opinions.

FROM OPINION TO ACTION

As well as being a vehicle for expressing and channeling opinions, the Internet in China is also a means for individuals to group together and influence events beyond the virtual world. Its principal means for doing this is through its ability to allow people, regardless of their geographic location, to form groups around shared views or interests. Many of these groups have spilled over into offline communities with their own gatherings or other activities. Immediately after the Sichuan earthquake, for example, the group function available in instant-messaging services was used to mobilize volunteers and organize other relief activities.

Online petitions are another format for channeling public opinion. The largest petition to date, claiming more than 5 million signatures, was organized to protest CNN's perceived biased reporting of the Tibetan riots in 2008. Another high-profile petition was the campaign in 2003 to demand compensation from Japan following a leakage of poisonous gas from chemical weapons left in China during World War II. It ended with the petition's organizers delivering 4,000 pages of names they had collected online to the Japanese embassy in Beijing.

Online collective action—or, to give it its Chinese name, “human flesh search engine”—is a phenomenon that is not limited to China but that the country's Internet users have taken up particularly enthusiastically on occasion. Typically it involves the mass collaboration of a large number of people to find information about a person, company, or event, which is then released and publicized online.

One of the most famous instances has become known in China as the “pricey haircut incident” of March 2008. It began with media reports of how a beauty salon in Zhengzhou had charged two 14-year-old schoolgirls 6,000 yuan (US\$880) apiece for haircuts it had advertised at 38 yuan (US\$5.5). Internet users then embarked on a massive hunt to dig up information about the salon, which led to its address, phone number, and other details being posted online. After protests at the store, officials stepped in, launching an investigation that led to the salon's closure.

China's leading Internet search websites, such as Baidu, Qihoo, and Tianya, all offer services that try to combine conventional online searches with collaborative input. Other companies are exploring the possibility of making such services commercially viable.

CORPORATE IMPACTS

Unsurprisingly, given the popularity of the Internet in China, companies have rushed to both establish a presence and try to influence opinion in their favor. A host of businesses have emerged to help them with their endeavors. Some specialize in discussion promotion services, posting and replying in forums in ways aimed at boosting their clients' products or services, or designing targeted discussion topics to catch users' attention. This area remains unregulated, leading to a secondary group of businesses that have established themselves as "Internet innuendo spreaders," which, rather than promoting a company, aim to harm its competitors. Reports suggest there are hundreds of such businesses in Beijing alone.

For foreign companies, the biggest threat posed by online public opinion is the possibility of being branded anti-Chinese. In 2006, U.S. buyout firm Carlyle made a bid to buy Xuzhou Construction

Machinery Group (XCMG), one of China's leading machinery makers. It suddenly found itself facing an online onslaught after Xiang Wenbo, executive president of Sany Heavy Industry, a company that also had made a bid for XCMG, wrote a series of articles on his blog calling the deal a "cheap sale of state assets." This ignited a public discussion on whether the government was allowing foreigners to buy Chinese companies at prices below their value, which almost certainly played a role in the eventual decision not to approve the sale to Carlyle.

A similar debate took place after Coca-Cola announced in 2008 it was looking to acquire Huiyuan Juice, China's biggest juice maker. According to Sina, more than 350,000 people took part in a poll on whether the deal should be allowed to go ahead. Views expressed in blogs and discussion forums were a lot less vitriolic than during the XCMG case. But clearly, a company

HANDLING ONLINE OPINION

considering a major deal in China needs to bear in mind the possible online repercussions before making any announcement.

The Internet, however, is far from being all bad news for companies. It can also spread positive news. In the immediate aftermath of the Sichuan earthquake, the parent company of Wang Lao Ji, a maker of herbal teas, donated 100 million yuan (US\$14.6 million) to relief projects. Its generosity was highlighted on bulletin boards and e-mail circulars, with posters urging others to show their support for the company by buying its products. Demand for Wang Lao Ji drinks surged immediately.

The Internet has empowered the Chinese public in a way never seen before. After decades during which the expression of personal opinion was strictly curtailed, people now have access to information in ways and volumes that would have been inconceivable little more than a decade ago. What's even more significant, they have discovered a powerful and convenient channel for communication, which many use to express their personal opinions online. With this, they make and destroy reputations overnight. Possibly nowhere else in the world can the Internet be used to such powerful effect so quickly. Companies therefore must prepare themselves for potential trouble with a thoroughness that may not be necessary in other markets. Here are some steps they should take:

- Be aware of what is being said about them on the Internet, especially if there is a chance of “inside information” making its way to discussion forums or blogs. In the Internet era, it has become easier for individuals to express

their opinions, which, when consolidated, can become a sizable force overnight. Unverified news, as a result, spreads more quickly on the Internet than through other channels.

- Have an Internet crisis management protocol in place to deal with any Internet scandals they find themselves actively or passively involved in. According to one U.S. study, two-thirds of corporations' negative publicity comes from the Internet. Chinese examples include calls for a boycott of Carrefour after French protesters disrupted the Olympic torch relay in Paris, and online criticism of Dior after Sharon Stone, featured in Dior advertisements, suggested that bad "karma" from China's treatment of debate might have led to the Sichuan earthquake. If a company finds itself the subject of online collective action, it needs to have a plan already in place—not to be drafting one in reaction as a campaign by Net activists unfolds.

- Wherever possible, proactively manage online opinion, whether for marketing and promotion or to defuse potential crises. Any company planning an acquisition in China, laying off staff, or taking any other form of action that could be perceived as anti-Chinese needs to be especially careful. Corporations also should be aware of how attempts to manipulate opinion can backfire. A viral campaign by Lenovo aimed at promoting its laptops backfired when Internet users realized that what looked like a search for a real person was in fact a corporate promotion. The campaign attracted a lot of discussion, but most of it was negative.
- Treat personal blogs cautiously. Many professionals and senior executives write blogs nowadays. It is crucial to understand that the Internet is not a private space and what is published on blogs can affect the image of the company you work for. In one of the best-known examples, Wang Shi, the

chairman of one of China's biggest property companies, Vanke, wrote an incautious blog entry defending the relatively small size of his company's donation to relief efforts after the Sichuan earthquake. Compounding the problem, Vanke told its staff to restrict individual donations to just 10 yuan (US\$1.5) per individual. In the Internet furor that followed, Vanke's reputation as a socially responsible corporation, built through years of philanthropy, suffered immense damage.

- Have the highest-level executives involved. Because what is being said on the Internet can help or irrevocably damage a company's image or market position, CEOs must be part of the monitoring process. On a day-to-day basis, other senior executives and PR managers must involve themselves as active agents in the shaping and monitoring of online commentary and discussion about their company and its products and services.

Companies must prepare themselves for potential trouble with a thoroughness that may not be necessary in other markets.

CONCLUSION

In summary, all executives must acknowledge that the Internet has a critical effect on their strategies in China. Opinions expressed online are diverse and sometimes extreme. Sometimes, as Wang Lao Ji discovered, they can work in a company's favor. But good or bad, these views are something that no business can afford to ignore. Companies must pay close attention to everything said about them, especially in forums that have strong influence in the marketplace, and they must develop clear strategies on how to manage the range of potential risks the Internet poses.

Whenever negative opinions are voiced, companies must react quickly, never allowing comments to spread unchecked or unanswered. Any company insufficiently aware of the damage that online public opinion can wreak could find its brand image seriously marred, with the negative repercussions hurting sales and leading to undesired attention from other stakeholders. Where possible, companies should identify ways of leveraging online opinion that support their strategic development and put them in a strong position to mobilize voices in their favor if things go wrong.

All executives must acknowledge that the Internet has a critical effect on their strategies in China.

About the Author

Dr. Edward Tse is

Booz & Company's managing partner for Greater China, specializing in definition and implementation of business strategies, organizational effectiveness, and corporate transformation. He has assisted several hundred companies—headquartered both within and outside China—on all aspects of business related to China and its integration with the rest of the world.

The most recent list of our office addresses and telephone numbers can be found on our website, www.booz.com

Worldwide
Offices

Asia

Beijing
Delhi
Hong Kong
Mumbai
Seoul
Shanghai
Taipei
Tokyo

**Australia,
New Zealand &
Southeast Asia**

Adelaide
Auckland
Bangkok
Brisbane
Canberra
Jakarta
Kuala Lumpur
Melbourne
Sydney

Europe

Amsterdam
Berlin
Copenhagen

Dublin
Düsseldorf
Frankfurt
Helsinki
London
Madrid
Milan
Moscow
Munich
Oslo
Paris
Rome
Stockholm
Stuttgart
Vienna
Warsaw
Zurich

Middle East

Abu Dhabi
Beirut
Cairo
Dubai
Riyadh

North America

Atlanta
Chicago
Cleveland
Dallas
Detroit
Florham Park
Houston
Los Angeles
McLean

Mexico City
New York City
Parsippany
San Francisco

South America

Buenos Aires
Rio de Janeiro
Santiago
São Paulo

Booz & Company is a leading global management consulting firm, helping the world's top businesses, governments, and organizations.

Our founder, Edwin Booz, defined the profession when he established the first management consulting firm in 1914.

Today, with more than 3,300 people in 59 offices around the world, we bring foresight and knowledge, deep functional expertise, and a practical approach to building capabilities and delivering real impact. We work closely with our clients to create and deliver essential advantage.

For our management magazine *strategy+business*, visit www.strategy-business.com.

Visit www.booz.com to learn more about Booz & Company.
