



# Managing corporate crisis in China: Sentiment, reason, and law

Zhilin Yang<sup>a</sup>, Ling (Alice) Jiang<sup>b,\*</sup>

<sup>a</sup> *City University of Hong Kong, Kowloon, Hong Kong & School of Management, China University of Mining and Technology*

<sup>b</sup> *School of Business, Macau University of Science and Technology, Taipa, Macau*

## KEYWORDS

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**Abstract** Why has the incidence of corporate crisis risen markedly in China? Why are foreign firms frequently targeted by the Chinese authorities and how should they deal with it? Addressing these pivotal questions is essential for effective management of corporate crisis in the Chinese market. Herein, we describe the background of relevant institutional and market environments in China. Then we introduce three prominent principles deeply rooted in Chinese thinking and business practice—sentiment, reason, and law—and pinpoint how they relate to crisis management. Several cases drawn from well-known corporate crises are utilized to illustrate the dynamic relationships among these three fundamental principles. We proceed to highlight the importance of sentiment and emphasize the delicate balance between sentiment and law. Finally, we elaborate how different forms of institutional capital and social media can be employed to manage sentiment, reason, and law so as to curtail and tackle corporate crisis.

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## 1. Foreign corporate crisis in China

With the rapid growth of the Chinese market, foreign corporations operating in China have recently witnessed and experienced increasing crises and scandals. In the past 5 years, even well-known multinational corporations (MNCs) have been

periodically criticized by China Central Television (CCTV), the state-owned media behemoth; other media outlets have also widely disseminated negative coverage, particularly on March 15<sup>th</sup>, World Consumer Rights Day. Several noteworthy crises include the Nikon D600 camera flaw, the Glaxo-SmithKline bribe scandal, Johnson & Johnson's foul-up with harmful additives in baby products, Toyota's vehicle recalls, HP's laptop problem with black screens and overheating, Apple's after-sales discrimination, McDonald's expired food predicament, and Carrefour's food safety scandal. These

\* Corresponding author

E-mail addresses: [mkzyang@cityu.edu.hk](mailto:mkzyang@cityu.edu.hk) (Z. Yang), [alicelingjiang@gmail.com](mailto:alicelingjiang@gmail.com) (L.A. Jiang)

MNCs, among others, have suffered highly negative consequences such as significant drops in share price, business suspension, and market share loss. MNCs feel they have been subjected to unfair discrimination and their domestic competitors have received preferential treatment. Foreign media tend to challenge the underlying motives behind these attacks, ascribing them to economic and political motives such as protectionism, forcing MNCs to accept government censorship, and urging of-fenders to generate more advertising at CCTV (“Beijing’s Bite,” 2013; Shobert, 2013).

Despite speculation regarding motives behind the recent crises, foreign corporations have to assume the challenge of navigating the complex, dynamic, uncertain, yet enormously lucrative Chinese market. Given this reality, managers are mandated by their boards to clearly grasp and effectively deal with the institutional and socio-cultural environments that are contributing to a noticeable increase in the incidence of corporate crises.

First, China has been undergoing major institutional and economic changes since it opened its doors to the world in the mid-1970s. These changes led gradually to mature consumers, tougher consumer protection laws and regulations, the widespread adoption of social media, and evolving labor markets. However, many institutions are still informal, weakly structured, or even non-existent structurally in some business arenas. Yang and Su (2013) point out that informal institutions, such as cultural norms and customs, remain potent in affecting Chinese business practices. MNCs bear liability for essentially being foreign due to cultural and institutional distances and the difficulties of understanding the ubiquitous implicit norms and rules of a collective society (Kostova & Zaheer, 1999; Zaheer, 1995). As a result, managers have to confront well-entrenched difficulties in differentiating unethical, illegitimate, and illegal practices and in deciding which standard they should maintain. Such institutional disadvantages tend to lead to pressure for legitimacy (Yang, Su, & Fam, 2012) and form palpable obstacles in managing corporate crisis when it occurs.

Second, domestic firms have become more competitive in the past decade. Fierce competition has compelled foreign companies to focus on lean production and cost-saving strategies. When firms try to find ways to bolster profits by lowering quality and services, they are easily targeted by the Chinese authorities and consumer watchdogs. Moreover, Chinese government agencies are inclined to maintain high standards for leading MNCs and expect them to model proper behavior for domestic companies. MNCs, however, find that they are unable to meet

such expectations, especially when confronting tremendous pressures from market competition. As pointed out by Berman and Swani (2010), managing product safety in China has always proven to be a major challenge and requires effective strategies and careful planning.

Third, foreign managers have enormous difficulty in assessing customer sentiment due to (1) cognitively based cultural differences, (2) dramatic changes in customers’ values and lifestyles in recent years, and (3) complicated political environments (Zhao, 2013). Indeed, China’s complex, dynamic institutional environment poses a formidable obstacle not just for MNCs but also for local firms to devise effective crisis management strategies. The effective crisis management practices implemented in the West do not always work well in China. Due to this deficiency in Western understanding of Chinese business modalities, interest is growing among executives seeking to acquire in-depth insights regarding cultural and institutional aspects of crisis management.

To overcome ingrained Western institutional disadvantages and to effectively navigate the complicated yet lucrative market in China, it is meaningful for foreign managers to acquire the skills necessary to master the Chinese thought process and mindset and to integrate these skills into crisis management. Zhao (2013) suggests that MNC managers should clearly understand four categories of contextual challenges (i.e., global-national, social-trust, institutional-void, and normalized-misdeed) and undertake effective strategies to tackle them. Our study goes a step further by looking into the fundamental principles that constitute the key to understanding and designing effective strategies for crisis management. Based on our field interviews with MNC managers and analysis of several recent corporate crises, we propose a framework to manage crisis from the Chinese cultural and institutional perspective.

## 2. A Chinese perspective of crisis management

Throughout several millennia of Chinese history, three pronounced principles have comprised a strong tradition in governing how disputes and lawsuits are handled and resolved (Martin, 2007). They are:

1. sentiment (*qing*, 情 in Chinese), which refers to people’s feelings;
2. reason (*li*, 理 in Chinese), which is regarded as being reasonable and rational; and

3. law (*fa*, 法 in Chinese), which includes regulations and policies.

These three principles are somewhat similar to the three pillars of institutions proposed by Scott (2008): cultural-cognitive, normative, and regulative institutions. Sentiment and law are considered to constitute two entirely distinct spheres of social logic that require reason, and are used for achieving compromise (Martin, 2007). All three aspects are necessary so as to attain the desired goal. As culturally rooted idiosyncrasies of Chinese behavior, these three crucial principles have a profound effect on crisis management in China.

### 2.1. Sentiment

Being part of a collectivist society, the Chinese are sensitive to the feelings of others and are morally obligated to show humanitarian, supportive, and empathetic feelings toward those in need. A concept closely related to sentiment is *renqing*, which is defined as “the emotional responses of an individual confronting the various situations of daily life” (Hwang, 1987, p. 953). A person who knows *renqing* is expected to be equipped with empathy to understand or even cater to other people’s emotional responses to difficulties in their life. Similarly, a socially responsible organization is expected to sympathize with the poor and the disadvantaged and to offer them assistance. The Chinese posit that considering others’ sentimental feelings (*ganqing*) is essential to maintaining a harmonious society (Hwang, 1987; Martin, 2007).

The sentiment principle should also take *guanxi* (social networking), another fundamental Chinese concept, into consideration. As a social norm, a person in a *guanxi* network has an obligation to render substantial assistance to other network members when they are experiencing difficulties (Hwang, 1987). A person who does not abide by this norm is often criticized or punished by other members.

From the perspective of the principle of sentiment, public opinion and sentimental feelings play a vital role in handling crisis. Consider the case of Vanke, the largest property firm in mainland China. Shortly after the 2008 Sichuan earthquake, Vanke’s then-CEO, Shi Wang, wrote a message on his personal microblog stating that Vanke would donate 2 million renminbi, or RMB (Chinese yuan), and that each employee would contribute an additional 100 RMB according to company policy set and approved by the board. To Wang’s surprise, Chinese citizens were outraged by his comments and called

for a boycott of the company; they accused the CEO of ignoring the sentimental feelings of the disaster victims and condemned Vanke for offering so little. Mr. Wang defended his position that donation was just one way to help rebuild the region; his company also contributed via other measures. Under enormous pressure, Vanke eventually donated 100 million RMB, and Mr. Wang made a sincere apology for his comments to ease the severe consequences of his initial offer. This case clearly indicates that, in general, Chinese society has assigned top priority to sentiment when dealing with a disaster or crisis, notwithstanding what the law might or might not require.

### 2.2. Reason

The principle of reason is built on the assumption that people will behave reasonably and rationally, seek justice, and pursue generally acknowledged truth (Martin, 2007). Reason is context based, determined by such factors as status and reputation of either an individual or an organization—whether those affected are poor, disadvantaged, or have been affected by circumstances related to a crisis event. People will adjust their responses based on the contextual factors of a crisis, such as corporate reputation and gender of consumers (Laufer & Coombs, 2006). Inasmuch as the proper application of reason is highly flexible in relation to various situations, managing reason represents a major challenge not just for MNCs but also for domestic firms.

Consistent with the spirit of Taoism, which seeks the middle way and avoids the two extremes (*yin-yang*) for solving any contradiction, reason can neither solely depend on sentimental feelings nor completely rely on law. Rather, reason is a way to achieve harmony. Achieving harmony in social relations is the essential theme of organizational legitimacy in China (Yang & Su, 2013). Thus, managers should exercise their natural human capacity to find the most practical solution for a crisis. Martin (2007, p. 691) offers an insightful observation demonstrating how policemen in Taiwan handle disputed cases using reason:

In this balancing act, reason serves as the decisive fulcrum. . . . It is also central to the way policemen reflect on the skills required for their work. In contrast to the harsh cutting edge of law, reason is described as a circular, rounding, and smoothing quality that fits law to context, the ‘soft’ consensus with which everyone (at least, all reasonable people) will ‘self-identify.’ And where sentiment is

understood in terms of inherently particularizing allegiances, reason is the basis for a universalism in which all reasonable people can be expected to participate.

### 2.3. Law

While law has been enforced and implemented more effectively in modern China, tradition still prevails. Legal rights often yield to prevailing morality such as custom and sentiment, and Confucian propriety often precedes law (Wong, 2003). A serious clash between sentiment and law exists, for sentiment reflects partiality whereas law tends to be arbitrary (Martin, 2007). As summarized by Martin (2007, p. 694): “It is a cultural space of legitimacy in which the solidification of the rule of law is kept within boundaries of a social sensibility that does not take law as the last word.” Bearing this interpretation in mind, foreign managers are better equipped to predict reactions from various Chinese stakeholders including governments, consumer associations, communities, and consumers.

In China, legal regulations applicable to business are often not straightforward and are subject to different interpretative readings. This considerable leeway, as well as lack of transparency, has left broad discretionary latitude for government officials and thus increased the possibility of corporate crisis. For example, an American manager we interviewed recently complained of trouble locating the right government authority to approve his company’s new product launch in the market. When something went wrong during the launch, however, several state bureaus suddenly showed up and initiated an investigation.

Owing to the different regulatory environments between host and home countries, MNCs also face a so-called ‘institutional duality’ issue, which refers to the different institutional environments between home and host markets (Kostova & Roth, 2002). For example, when regulations in the home market have a higher standard than those in the host market, which standard should a firm adopt? From a cost-saving perspective, firms have a tendency to adopt lower local standards. Even though the lower standards are technically acceptable, this is precisely where so many MNCs have made huge mistakes in China. The questions remaining are: (1) Why can’t MNCs just follow the local practices? and (2) Why do Chinese governments and consumers practice double standards? To address these questions and others like them, managers should fully comprehend the dynamic, complicated relationships among sentiment, reason, and law.

## 3. The dynamic relationships among sentiment, reason, and law

Due to different cultures and institutional environments, the hierarchical sequences of sentiment, reason, and law differ between China and the West in business practice as well as in daily life. In contrast to the precedence of law over reason and sentiment in a Western society, the Chinese traditionally establish the priority of sentiment, followed by reason, and then law (Martin, 2007). In this sense, Martin (2007, p. 685) has commented: “Where sentiments are thick, the law retreats. When sentiments are broken, the law advances.”

These different hierarchical and prioritized sequences have a profound effect on crisis management in China. Crisis handling strategies such as denial, evasion of responsibility, reducing offensiveness of the event, corrective actions, and modification (Benoit, 1997) should be employed by taking full consideration of sentiment, reason, and law in the specific context of a crisis. A delicate balance of sentiment and law remains common in handling disputes and crises. Next, we examine three recent corporate crises that demonstrate the dynamic relationships among the three principles.

### 3.1. Sentiment and reason matter: Apple’s iPhone and Toyota

In 2013, when Chinese consumers returned a faulty iPhone, Apple stores exchanged all the phone’s working parts except its back cover, which was kept intact and original to the phone. Owing to retention of the back cover, the replacement piece was legally considered an old product; hence, customers could only enjoy after-sales services for the remainder of the 2-year warranty clause set by Chinese law. CCTV condemned this practice on International Consumer Rights Day—March 15<sup>th</sup>, 2013—and labeled the practice as discrimination against local customers by Apple’s not adopting international standards (Lu, 2013). At first, Apple stood its ground, merely clarifying the company’s warranty policy and not responding to other serious accusations. That prompted a major newspaper, *The People’s Daily*, to further accuse Apple of unparalleled arrogance. Several Chinese celebrities joined the bash against Apple through Weibo, the most popular Chinese microblog (Barboza & Wingfield, 2013). Fearing loss of significant market share in this important, fast-growing market, Apple CEO Tim Cook finally issued a heartfelt apology and promised to revamp customer service policies in China (Barboza & Wingfield, 2013).

This case involving Apple's discriminatory after-sales services policy reflects the cultural differences between China and the United States in handling disputes. From a legal perspective, Apple considered that it had done nothing wrong. If this had happened in the U.S., Apple may not have had to apologize for anything. Nevertheless, firms have to seriously consider strong sentimental feelings from their main stakeholders when dealing with a crisis in China. Offering sincere apologies in the early stages is a smart tactic and a very Chinese way to avoid being accused of 'incomparable arrogance' (Barboza & Wingfield, 2013). By doing something to take the wind out of key stakeholders, Apple saved face with the Chinese government, media, and consumers while maintaining its market position. Indeed, denial of responsibility on a legal basis at the very beginning has been proven ineffective in handling a crisis further magnified by strong sentimental feelings from consumers.

Consider also Toyota. About 4 years ago, Toyota recalled its vehicles five times globally, but did so only once in China with 5,000 imported Lexus cars. The automaker insisted that it followed all Chinese laws related to vehicle safety; in fact, almost no specific regulation existed regarding automobile airbags in China. Chinese consumers, however, felt that they had been subjected to discrimination due to double standards, and were outraged by such corporate misbehavior. They boycotted Toyota automobiles. Officials from the Chinese General Administration of Quality Supervision, Inspection, and Quarantine Office interviewed senior managers from Toyota and seriously discussed the matter with them (Gao, 2011). In the end, Toyota took certain measures and changed its recall policy in China so as to mitigate public fury and to demonstrate fairness to Chinese consumers.

From the Chinese perspective, both Apple and Toyota are leading firms in their respective industries and are dominant in the market. They are expected to serve as role models for their peers by adhering to and exhibiting higher standards. In line with this logic, Chinese consumers and governments tend to apply *reason* (justice) to screen these firms' business practices in China and overseas. In other words, Chinese consumers expect to be treated exactly as those consumers in developed markets, regardless of different legal requirements. This logic, placing sentiment and reason over law, fully explains the underlying reasons why Chinese government agencies tend to take action "against foreign companies, not for poor service, but for failing to provide the same standard offered in other markets, especially in developed markets. The different legal requirements across jurisdictions are

not accepted as a defense" ("Beijing's Bite," 2013). Once again, the principle of reason is the preferred operative modality for balancing sentiment and law when handling a crisis.

### 3.2. Law is still observed: GSK scandal

In 2013, the Chinese government probed an allegation that GlaxoSmithKline (GSK) bribed doctors with over 3 billion RMB<sup>1</sup> to boost its drug sales ("US Prosecutors," 2013). For socio-historical reasons, and due to convoluted regulations, Chinese doctors are seriously underpaid compared to those in similar professions within China. Their paltry incomes are commonly compensated by a type of 'monetary incentive' from drug companies, which has virtually become an industrial norm. GSK's domestic competitors were, however, even more aggressive and egregious in their bribery and incentive practices than other firms (Shobert, 2013).

Initially, the CEO of the London-based company claimed he knew nothing about the bribes being offered and was reluctant to contact the Chinese authorities. The bribery scandal hurt GSK badly by damaging its ability to market products in China. GSK lost significant sales to its rivals, not only in China but also in the international markets. It even considered pulling out of the Chinese market entirely. Ultimately, GSK strenuously tightened rule compliance and adopted closer staff surveillance in China.

The fact that MNCs like GSK did not create this situation but are "bearing unequal blame" highlights the difficulties of doing business in China (Shobert, 2013). This case demonstrates that while it may be cost effective and reasonable to follow the common practice in an industry, there is no guarantee that firms won't suffer severe consequences from performing business practices that are illegal or violate laws or regulations. In this sense, foreign firms are advised to take proactive measures to comply with relevant laws and regulations, no matter how costly it is financially. For example, Walmart in China has adopted zero tolerance for bribery and corruption, and even banned staff from building strong personal *guanxi* with its suppliers—a common practice in the industry (Yang, Su, & Fam, 2012). With more local managers taking management positions, foreign firms should step up training on business ethics, take effective measures to maintain international standards, set a realistic sales target so as to reduce unnecessary pressures for salespeople to seek illegal approaches toward boosting sales,

<sup>1</sup> about US \$490 million

Table 1. Managing corporate crisis: Sentiment, reason, and law

Principle	Key Aspects	Implications for Crisis Management
Sentiment	<ol style="list-style-type: none"> <li>1. Sensitive to the feeling of others</li> <li>2. Sentimental feelings are essential in maintaining a harmonious society</li> <li>3. Show humanitarian, supportive, and empathetic feelings toward those in need</li> </ol>	<ol style="list-style-type: none"> <li>1. Assign top priority to sentiment when dealing with a crisis</li> <li>2. Where sentiments are thick, the law retreats</li> <li>3. Denial of responsibility on a legal basis at the very beginning has been proven ineffective in handling a crisis further magnified by strong sentimental feelings from consumers</li> <li>4. Effectively manage public sentimental feelings through a comprehensive social media plan and a professional team</li> </ol>
Reason	<ol style="list-style-type: none"> <li>1. An indispensable key to achieving a fine balance between sentiment and law</li> <li>2. Behave reasonably, rationally, seek justice and pursue generally acknowledged truth</li> <li>3. Reason is context based, determined by such factors as status and reputation of an organization, whether those affected are poor, disadvantaged, or currently in other circumstances</li> </ol>	<ol style="list-style-type: none"> <li>1. Keep a delicate balance of sentiment and law when handling a crisis</li> <li>2. Chinese consumers and governments tend to apply <i>reason</i> (justice) to screen these firms' business practices in China and overseas; Chinese consumers expect to be treated equal to consumers in developed markets, regardless of different legal requirements</li> <li>3. To be fair to local consumers by providing the same standard offered in other markets, especially in developed markets</li> <li>4. Pay close attention to the context in which a crisis unfolds and act in a Chinese way</li> </ol>
Law	<ol style="list-style-type: none"> <li>1. Laws often not straightforward and are subject to different readings</li> <li>2. Legal rights often yield to prevailing morality such as custom and sentiment</li> <li>3. Confucian propriety often precedes law</li> <li>4. The different legal requirements across jurisdictions are not accepted as a defense</li> </ol>	<ol style="list-style-type: none"> <li>1. Laws advance when sentiments are broken</li> <li>2. The considerable leeway of law implementation, as well as lack of transparency, has left broad discretionary latitude for government officials and thus increased the possibility of corporate crisis</li> <li>3. Pay attention to the different institutional environments between home and host markets</li> <li>4. Take proactive measures to comply with relevant laws and regulations</li> <li>5. Nurture, accumulate, and leverage institutional capital with various stakeholders through strong governmental, professional, and business ties</li> </ol>

and take disciplinary actions to ensure compliance with the law.

#### 4. Managing sentiment, reason, and law

In addition to acquiring a clear understanding of the working mechanism of the three basic principles of crisis management, foreign firms should know how to proactively manage sentiment, reason, and law so as to prevent a crisis from occurring, and they should effectively mitigate negative consequences when a crisis develops. In Table 1, we summarize the key aspects of the three principles and their implications for crisis management.

Considering the unique institutional and market environments in China, we posit that firms should build two essential capabilities: institutional capital and social media communication. Institutional capital refers to the resources or influence a firm possesses with relevant external institutions and in the market (Bresser & Millonig, 2003). These two capabilities are complimentary in the sense that they leverage the strength of each other.

##### 4.1. Nurture, accumulate, and leverage institutional capital

In the Chinese market with weak institutions (e.g., weak legal systems and low system trust), *guanxi*-based governance strategy works better than

rule-based strategy (Yang & Wang, 2011). Thus, the development and maintenance of *guanxi* with various stakeholders, albeit time-consuming and complicated, is considered the key to achieving social acceptance or legitimacy. In addition to corporate image, market power, and strong brand loyalty, firms can accumulate institutional capital through building managerial ties, including government ties, professional ties, and business ties.

The role of government in business is far more influential in China than in the West. Government officials view their role in crisis handling in terms of maintaining a fine balance between law, reason, and sentiment (Martin, 2007). If foreign firms make an effort to contribute to the progress of institutionalization and social well-being, then governments will appreciate their significant involvement and provide strong backing during a period of corporate crisis. With trusted ties, government officials will make reasonable adjustments through negotiations with various stakeholders involved in a crisis. Strong *guanxi* with governments will provide advantages in mitigating a crisis in the sense that state governments are powerful in reducing public fury. For example, from January to November 2010, 18 employees from Foxconn—a Taiwanese multinational electronics contract manufacturing company—attempted suicide, resulting in 14 deaths. The large number of employee suicides stirred up public fury. Foxconn was accused of being a sweatshop. Because the company had built good *guanxi* with local governments, government officials actively helped the company handle the compensations, contain protests, and solve labor disputes. In turn, the company mitigated the severe consequences of its crisis.

It is equally important for firms to build strong professional ties with relevant industrial associations, labor unions, and consumer associations. Foreign firms should be actively involved with the regulatory development of industrial standards through various industrial associations. Similarly, given the establishment of strong business ties with peer firms, sentiment more readily overrides reason and law, providing managers more flexibility and special privileges to work out a crisis.

Managers should be aware that several approaches to building institutional capital—such as lobbying, co-optation (e.g., politicians on boards of directors), membership, and contribution to industry and trade-related political action committees (Bresser & Millonig, 2003; Lux, Crook, & Woehr, 2011; Zhao, 2013)—may work in a proper, contextually defined manner in China. It is important to note that there exists an extremely fine line between *guanxi* and corruption. Firms, for example, are advised to keep close ties with governments, but

should maintain distance from government officials. Strong *guanxi* with particular government officials may undermine business ethics, inviting moral hazards and the appearance of corruption. Consequently, a crisis may follow when officials, seen to be corrupt, are formally charged.

#### 4.2. Effective utilization of social media

The power of institutional capital through managerial ties is limited, as little can be done to restore corporate image after damage has been done to consumers. In addition to strong ties, the Chinese government regularly relies on societal and consumer feelings or reactions to take action to ease public fury. Thus, it is vital for firms to grasp consumers' sentimental feelings at the outset. In China, traditional media such as television, newspapers, and magazines are heavily censored by various government authorities. It is not unusual for state-owned media, along with consumer associations, to stir public fury so as to maximize their interests. As such, Chinese consumers frequently seek online social media such as Weibo and Wechat to track news and uncover the truth. Even government officials, journalists, and regulators have a long history of analyzing public sentiment regularly through popular social media.

Compared to traditional media, social media provide significant advantages in effective crisis management. Although online information monitoring and censoring is still strong in China and many websites or pages are blocked or deleted, online social media are the main channel for consumers to voice their feelings and opinions. Hence, online social media offer a dynamic and pragmatic platform for firms to learn more about customer expectations and to help set realistic expectations for customers through direct communications. Social media also possess powerful advantages such as real-time interaction, conciseness, openness, and popularity. Thus, foreign firms should take full advantage of social media in the process of crisis management, especially in terms of public relations and communications.

In this context, we consider McDonald's a good example. On World Consumer Rights Day in 2012, after CCTV exposed McDonald's for selling expired food and having other sanitary problems in one of its restaurants, McDonald's quickly responded to the criticism via its official website and Weibo. McDonald's did not deny the accusations, even though the reporters presented little solid evidence on which to base their story. Instead, McDonald's released a statement saying that the company would "immediately investigate this isolated incident, resolutely deal with it earnestly and take concrete actions to apologize to consumers" (Bottemiller, 2012).

McDonald's timely response and the considerate and caring attitude the company projected, along with its commitment to corrective measures, quickly gained support from customers with whom McDonald's had built emotional bonds via diligent, persistent efforts through both online and offline activities. The restaurant chain's speedy, effective, and properly implemented recovery from the food safety crisis demonstrates the importance of social media in regaining customer confidence. Firms are strongly advised to prepare a comprehensive social media plan for crisis management and to have a professional crisis management team in place to implement the plan (Walter, 2013).

## 5. Conclusion

Managing corporate crises in China requires a clear understanding of the unique Chinese institutional environment. Rooted in age-old Chinese philosophy as well as in a broader, contemporary culture, the three well-established principles of sentiment, reason, and law constitute the essence of fundamental thinking when handling a corporate crisis in China. The Chinese tend to adopt this hierarchical sequence of sentiment-reason-law, as opposed to law-reason-sentiment for Westerners. Sentiment is the top priority in China, although law is generally observed and respected. Merely relying on law is often ineffective or useless in handling a crisis in Chinese society. Reason is an indispensable key to achieving a fine balance between sentiment and law. And it is essential for managers to pay close attention to the context in which a crisis unfolds and act, accordingly, in a Chinese way.

Managers are better prepared to prevent and mitigate a crisis if they learn how to manage sentiment, reason, and law by nurturing, accumulating, and leveraging institutional capital built on strong governmental, professional, and business ties. In the same vein, managers should effectively employ social media to more completely understand customers and their sentiments, exert influence on relevant stakeholders, and maintain a delicate balance among sentiment, reason, and law so as to prevent and tackle corporate crisis in a timely, culturally appropriate, and effective manner.

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