

Public Opinion as a key variable in business risk assessment for Asian markets

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The German export business was doing well in the first quarter of 2008 despite of the strength of the Euro and a weaker economy in general. For Asian key markets like China and India, an increase of 19 percent and 15 percent for German export business could be seen according to Statistisches Bundesamt.

For companies that are competing in the world of globalisation and expanding trade, Global Risk Assessment is increasingly important. In this context, we need to acknowledge that capitalist democracy is spreading and continues to spread all over the world and it is obvious that wherever capitalist democracy spreads to the major force that drives it is always public opinion.

We see the rise of the new knowledge consumers and knowledge citizens in almost all major countries. And these knowledge consumers/citizens tend to be opinionated, demanding and more and more empowered.

And no matter where on the globe they exist or what conditions they experience or operate in, they expect results and are prepared to hold producers accountable for performance failures.

We are facing the most highly educated, interactive, communicative and enquiring generation in world history. And the Internet places phenomenal power in the hands of this new generation – the so called Intelligaged.

Thus senior executives of global firms need to know and to understand the public opinion in the relevant target markets because this will be an important dimension of their strategic plan to manage their organisation's reputational risk. Ipsos Global Advisor provides the tools and insights that make it possible to measure, understand and manage the citizen/consumer voice that is captured in public opinion.

Reputational risk is a multi-faceted and multidimensional concept. It can, for example, be affected by the overall longterm outlook of the population or the willingness to accept strict government regulations.

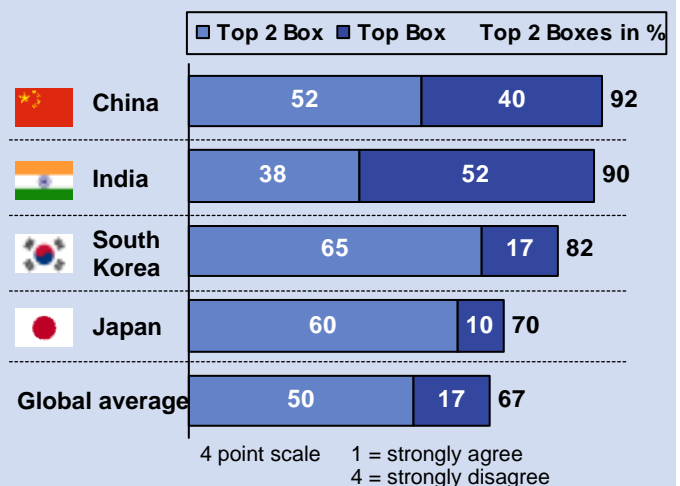
The following article will illustrate some of the reputational risk dimensions in important Asian markets like India, South Korea, Japan, and, to some extent, also China, and compare these with the global average (out of 22 countries that has been interviewed all around the world). Dimensions to be looked at will cover business regulation, free enterprise, globalisation and optimism.

Global trade is a good thing but more aggressive regulations are requested

Asian citizens welcome globalisation as being a good thing for their countries (*see figure 1*) most enthusiastically in China and India. However, South Korea and Japan also clearly see the advantages knowing that the countries' growth and expansion depends on global investments. However, this does not mean that multinational companies are free to do whatever they want. Most Asian markets are suspicious of the corporate sector; they suspect foreign companies of having too much influence over the country's economy. This is especially true in South Korea but there is also a strong majority for this opinion in the three other countries. In this regard, the Asian citizens match the global average. As a consequence they want the national governments to put more aggressive regulations in place. The strongest supporters of more regulations are to be found in China followed by India and South Korea. Japanese citizens are more liberal (*see figure 2*). In general the propensity to regulate corporations is an important indicator for reputations risk: Countries that are more likely to endorse the strict regulation of large businesses and multi-national corporations are more likely to have a negative assessment on these types of businesses.

figure 1

Citizens Welcome Globalisation "Overall globalisation is a good thing for my country"

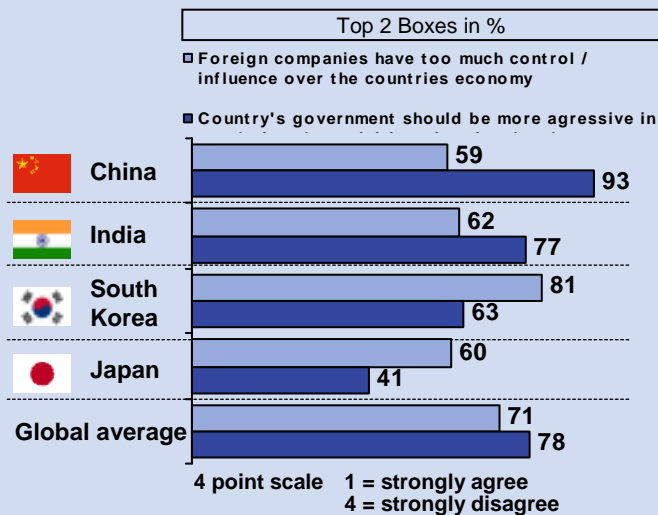


Based on this fundamental suspicion toward foreign companies, it becomes obvious that globalising firms need to communicate more effectively with citizens if they want to ensure global favour. If large companies are perceived as being more powerful than governments, the most knowledgeable and committed citizens will clearly articulate a veto.

Nevertheless, with the exception of China and its socialist market economy, there is no majority for a complete control of entire industries by the government. The existing economic systems of the free market economy with some elements of a managed economy like Japan or with India on their way to more deregulation and privatisation are not under consideration.

figure 2

Too much influence of foreign corporations, more regulations wanted



This has also been confirmed by a risk assessment analysis conducted by Ipsos in 2007 showing low free enterprise risk for South Korea and Japan and medium risk for India (compared to total average of 22 countries, China not included).

Good guys and bad guys to help or hinder corporate reputation

Whether companies feel the tailwind for their marketing activities or whether a harsh wind is blasting them in the face is not just dependent on the company's own activities. A certain risk potential already exists as a result of the perception of the industry itself that they are working in. Certain industries have a more positive climate of opinion, while others have more of a negative climate of opinion. It is necessary for companies to recognise the industry risks in order to be able to manage them in terms of their own company (see figure 3).

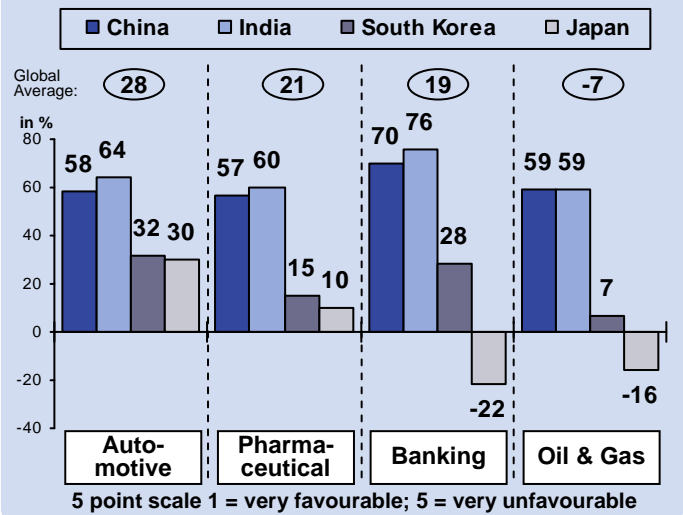
The automotive industry – as one might have expected – is one of the industries with the most positive perception in the Asian market. Thus the sector per se represents a lower reputational risk profile than the oil and gas industry, for example. Automotive companies should be able to benefit from the leap of faith as being one of the good guys. In fact the automotive industry is a strong growth sector and an important economic factor in these markets.

The picture is more diverse for the pharmaceutical industry which is seen very favourably in China and India (the Indian pharmaceutical industry is deemed to be the most advanced among the developing countries by the experts), whereby the perception is highly polarised in South Korea and Japan leading to just 15 percent and 10 percent net favourability which is also considerably lower than the global average. In view of the fact that the turbulence triggered by the US real estate crisis on the international finance markets is also not passing by the Asian markets without a trace, the risk profile of the banking sector is especially interesting. With only 10 percent net favourability, the global average reflects the deep skepticism and disappointment of citizens with regard to the financial community. This is even worse in Japan with a negative risk profile (with 38 percent unfavourability the banking sector gets the second lowest score in any of sectors that have been evaluated). Whereas, according to expert opinions, the financial

crisis currently passing through Japan is “home-grown” and only influenced by the crisis in the USA to a limited degree. The perception of the financial community in South Korea is rather polarising, e.g. achieving the same level of favourability as the automotive sector but also with higher scores for unfavourability. Banks that invest in China and India can, on the other hand, benefit from a positive tailwind. In view of the globally increasing energy costs, it is no wonder that the oil and gas industry is exhibiting a considerable global reputation risk. This is also reflected in the opinion of citizens of South Korea and Japan, whose population is suffering greatly as a result of the price increase of energy. In China and India, on the other hand, the balance is still clearly positive. Measures, such as the reduction of mineral oil taxation, which the Indian government announced recently, are likely to contribute to this distinctly mild public opinion trend.

figure 3

Sector risk profile – net favourability towards economic sector



Optimism matters because it goes hand in hand with economic growth/prosperity

Optimism regarding the future is a generally accepted barometer of the overall climate in a given country. In this regard, optimism becomes like a pair of reading glasses through which people view the surrounding world, and thus it is something business managers should be aware of. Global citizens are almost divided regarding their confidence in their standard of living. Whereas 54 percent feel very/rather confident, a large group of 46 percent feel rather/very worried (see figure 4). Huge deviations between countries are to be observed and there is no cliché-type of pattern, such as citizens in the big economies in the Western world being more confident

Abstract

More and more consumers take a company's reputation into consideration for their purchase decision-making. Corporate reputation is not just a function of the corporation's own activities but needs to take reputational risks into consideration. The article illustrates some of the reputational risk dimensions in important Asian markets like India, Japan, South Korea, and China that have been measured and that senior managers of global firms should be aware of.

and citizens in emerging markets being less confident.

As far as Asia is concerned, the strongest confidence in their own standard of living is to be seen in India – as an emerging market – within the elite type of population that has been interviewed. This is closely followed by China. And the future looks even more promising to them!

The broader mass market population in Japan and South Korea is rather worried about today (67 percent and 62 percent), and a vast majority criticise the fact that things are not going in the right direction in their countries. However, citizens in South Korea are more optimistic for the future, 59 percent think that the next generation will be better off. This is the opposite in Japan as a highly industrialised country and the third biggest economic power in the world: Today is not good, tomorrow will be even worse.

Given the fact that (especially for elite type of populations) optimism is correlated with growth and prosperity, global firms should be confident regarding the fertile business climate in India and China. Despite the fact that stagflation is actually a frequently used term within expert circles regarding the economic development in South Korea, at least the majority of the population shows the strong will that the future will be ours.

Studies Characteristics:

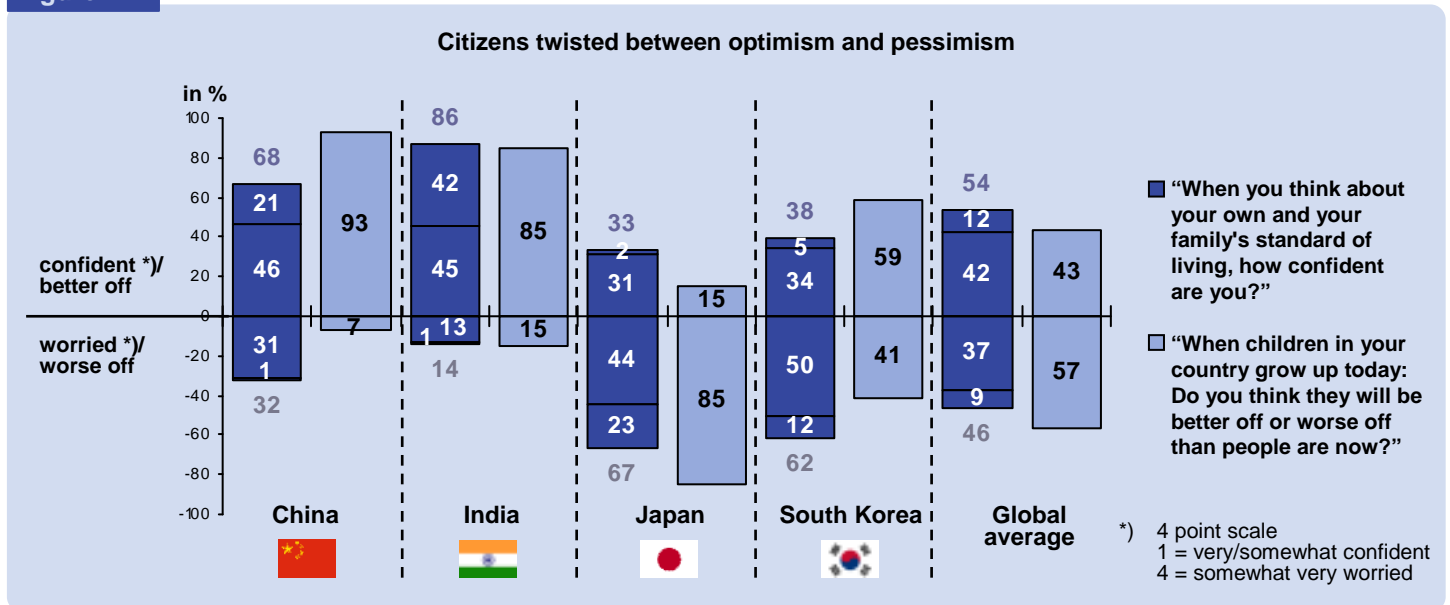
Ipsos Global@dvisor – Reputation Risk Identifier:

international interest investigation, developed in order to understand the risk environment for the reputation of companies as a critical factor for goodwill and economic success. Census rhythm every April and October, surveyed for the first time in April 2007. Focal points: social and political risks, economy-related, industry-related and brand-related risks, target group profiles, e.g. for elite and activists.

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Last but not least, Japan shows a high risk profile with its shrinking economy and a population that is rather worried about today but even more so about the future. What could this mean for corporations being active in this market? In fact, corporations that could bring positive economic gains for the country would likely be rewarded in terms of reputation for their contribution to the national economic situation.

figure 4



Outlook

More and more consumers take reputation into consideration in their decision making about products and services. Whereas to some extent corporate reputation is something that can be actively build (e.g. through the brand, the advertising, social sponsoring etc.), on the other hand it is influenced by so called risk quotients that are outside the influence and control of the corporation itself. In order to understand the threats and opportunities to a company’s reputation market and opinion research is necessary. The right tools and insights are needed to allow senior managers to include public opinion as a key variable in their risk assessment models.

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