

## **FIRST SOUTH AFRICAN BUSINESS PR CRISIS REPORT HIGHLIGHTS VULNERABILITIES**

The results of the first ever South African Business PR Crisis Report, conducted by the Crisis Communications Consultancy, have revealed that the industrial sector was the most crisis prone with seven incidences (18% of all crises) knocking this sector during the third quarter of the local business year, July - September 2005.

The Crisis Communications Consultancy defines a crisis as any event that negatively affects a public's perception of a company or organisation's brand, its ability to operate effectively and profitably and deliver its products, goods and services to market.

"The research was conducted to provide intelligence on the threats and challenges that are prevalent on the South African business, political and socio political landscape," says Evan Bloom, MD of the Crisis Communications Consultancy. "Companies and organisations that have a clear view of what issues are on the business and political radar screen will be able to operate more effectively and identify potential trouble spots in their operating environment."

The report is derived from analysing print media articles in South Africa's leading business daily and weekly publications that cover news events affecting business, politics and civil society. The data gathered was analysed and catalogued according to a specialised classification system developed by the Crisis Communications Consultancy. The system identifies 35 different crises types that could affect 28 different industry sectors.

Some of the most public crises involved retail giant Pick 'n Pay, national carrier SAA, government and other high profile figures embroiled in Oilgate, the nationwide municipal strikes, and the various issues culminating in Brett Kebble stepping down as head of JCI, Western Areas and Randgold and Exploration.

"We picked up that a number of organisations are facing governance issues. Over the three-month period of the first report, at least 19 different governance issues and transgressions were identified and these are only ones picked up by the media. This translates into one governance transgression every five days. The flouting of governance regulations and the inability of some companies to operate transparently is going to be a catalyst for some major crises and needs to be watched," adds Bloom.

A core part of the specialised classification system was the ability to follow a crisis from its formative to full-blown stages. Bloom says plans are in process to start developing a matrix to track business crises that receive coverage on the Internet and the broadcast media as well as identifying the origins of crises as covered in all media.

"This is critical," says Bloom. "Research by US-based ICM for the period of 2004 shows that: 81% of all crises have their roots inside a company; 53% were caused by management; 28% were caused by employees and only 19% are caused by external sources. Until now no records have been kept in South Africa and we aim to change that."

Bloom adds that the Crisis Communication Consultancy's report shows that a total of 39 crises were recorded in the July to September period. Right behind the industrial sector were the municipal and mining sectors, each with six crises (15.3% each of all crises). Next were the financial services market and political sector with three crises each (7.69% each of all crises). The transport, provincial governments, agricultural, national government and investment sectors registered two crises each (5.12% each of all crises). The retail, ITC, media and sporting sector were in fifth place, with one crisis each (2.6% each of all crises).

For a more detailed overview of the crises, please see below and refer to <http://www.crisiscomms.com>

### **ADDITIONAL INFORMATION**

**The crises tracked on a monthly basis include:**

**July 2005**

- The Industrial manufacturing sector contributed the biggest percentage of crises this month - 33.3% -- with five crises, all of them were strikes in steel, glass, metal and engineering companies
- 13.3% of crises were from the financial services industry. This sector had two crises, one on allegations of transparency in the life assurance industry and one involving activism where civil rights group Jubilee South Africa tried to prevent the Barclays takeover of South Africa's largest retail bank, Absa. The takeover was delayed after Jubilee's initial successful court application which alleged that Barclays had assisted the apartheid government. Ultimately Jubilee lost as the R32,8bn transaction was allowed to proceed by the courts.
- The municipal sector also contributed 13.3% of crises for the month, one crisis had its roots in racism allegations in the Cape Town City Council and the other was a much publicised, and sometimes militant, nationwide wage strike by the South African Municipal Workers Union (Samwu).
- Two biggest strikes in the month were the highly publicised SAA strike in the transport sector which contributed 6.7% of the month's crises and the Pick 'n Pay retail sector strike which also contributed 6.7% of the month's crises. Both crises were often compared to each other as examples of how management should tackle a crisis (Pick 'n Pay), and how it should not (SAA).
- The agricultural sector had to deal with an outbreak of swine fever. This single crisis resulted in the culling of pigs in the affected areas and contributed 6.7% of the month's crises.
- National government had to deal with the Oilgate crisis in which a company called Imvume Management is alleged to have contributed R10m to the ANC's 2004 election campaign. The money is alleged to have come from an advance payment from state oil company Petro SA. This crisis contributed 6.7% to the month's crises.
- The Mining industry had two crises, which amounted to 13.3% of crises for July, one was a significant drop in investor confidence and the other was a large retrenchment of 1000 miners as De Beers announced it was going to close its last underground mines in Kimberley.

### August 2005

- The ITC sector contributed 8.3% of crises this month, with one incident between Altech and Econet Wireless concerning allegations made by the parties of bad business practice, governance issues and racism.
- The industrial manufacturing sector had two crises which made up 16.7% of the crises for August, which saw the continuation of two crises from the month prior, one at Highveld Steel and the other at Xstrata.
- The investment sector also had two crises, contributing 16.7% of the month's crises. Tigon's major fraud case spilled over into the media with allegations of contravention of the excise controls act, companies act, income tax act and the stock exchange control act. The second one was also high profile and involved allegations of misappropriation of funds levelled against Mabotho investment by provincial structures of the Umkhonto we Sizwe Military Veterans' Association (MKMVA). Media reports indicated that, close to R13 million had been given by Mvelaphanda as a dividend to Mabutho for the benefit of MKMVA members. However, MKMVA members have denied getting any financial benefit from the Mvelaphanda transaction. The manner in which dividends are paid out has since been changed.
- The media sector saw the hostile takeover bid by Hosken Consolidated Investments (HCI) for Johnnic. This contributed 8.3% of crises for the month.
- The mining sector had two major crises, starting with the first nationwide gold mining strike in 18 years; the second was that of governance and mismanagement allegations against Brett Kebble. This culminated in his stepping down as head of JCI, Western Areas and Randgold and Exploration. Both crises contributed 16.7% of the month's crises.
- The municipal crises continued with the nationwide strike over wages turned violent in some cities as Samwu rolled out its 'project escalate' strike campaign. The second crisis happened in Alexandra, north of Johannesburg, as homeless people rioted on social issues and their evictions from hijacked factories. Both crises contributed 16.7% of the month's crises.
- The political front saw one major event that contributed 8.3% of crises for the month and this was the first indications that the rift developing between factions of the ANC over the Jacob Zuma trial and the differences between Zuma and President Mbeki was going to stay around and build up over the next few months as the 2006 trial date draws near.

## September 2005

- Municipalities faced two major crises. It was reported that some Free State municipalities were facing bankruptcy and poor service delivery allegations and most of the Eastern Cape municipalities were in a sorry financial state. These contributed 15% of the month's crises.
- Provincial governments also contributed 15% of the month's crises with their two crises, the first in Mpumalanga with a typhoid outbreak and the second in Gauteng with Police Corruption at the Booyens Police Station
- The mining sector faced two crises; one in the form of a strike at Afilease Gold and Uranium Resources over wages, and the second was one of mismanagement and governance at Rand Gold and Exploration after being removed from the NASDAQ for failing to submit its annual results on time. The combination of these two events contributed 15% of the month's crises.
- National government faced one major crisis in the transport department where fraudulent drivers and learners' licences were allegedly issued nationwide. This contributed 8% of the month's crises.
- On the political front two key crises became apparent and contributed 15% of the month's crises. The IFP faced a crisis of discontent in its ranks and a drop in confidence in the party as five of its MPs left the party. The ANC admitted that the ongoing Zuma affair had proven to be the biggest political crisis in the party in more than a decade.
- The sports sector had one crisis which contributed 8% of the month's crises, and this centred on allegations of poor governance at SARFU coupled with calls for Brian van Rooyen to quit.
- The financial services sector had a crisis of transparency when pension funds trustees alleged that there was a lack of transparency among financial services providers. This contributed 8% of the month's crises.
- The agricultural sector contributed 8% to the month's crises when fishermen went on strike at South Africa's largest fisheries over wages.
- The transport sector had one crisis when Nationwide Air went on strike and this contributed 8% of the month's crises.

### Further media information:

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