

MANAGEMENT TO BLAME FOR PR CRISES
2005 Q4 Crisis Report holds execs responsible

The Crisis Communications Consultancy, which released the first ever South African Business PR Crisis Report in the third quarter of 2005, has found that of the crises monitored in November and December 2005, 65,5% had their origins within a company or organisation and 34,5% came from external sources.

Management of companies and organisations were responsible for 44,8% of crises in this period, while employees were accountable for 20,7%. External factors contributed to 34,5% of all crises recorded over the same period.

"We set out to analyse the origins of crises to gain a better understanding of why these unplanned for events happen in the South African context," says Evan Bloom, MD of the Crisis Communications Consultancy.

For the first time ever, crises tracked from November 2005 were analysed to see if they had roots outside the company, organisation or individual concerned, or if the origin was internal and if the cause could be attributed to management or employees.

South Africa has different business and social issues to deal with compared to the US but, when it comes to crises origins, there are some similarities.

Research by US-based ICM for 2004 (the latest figures available) shows that: 81% of all crises had their roots inside a company; 53% were caused by management; 28% were caused by employees and only 19% are caused by external sources.

"Our managers were also responsible for the majority of crises that took place," adds Bloom. "There are only two types of management decisions one can make - a right one and a wrong one. Does this mean our managers are not up to scratch? Definitely not.

"We have some of the best managers and directors in the world who are dealing with challenges that those in first world countries would find difficult to deal with. These include HIV/Aids, increasing rates of corruption and governance transgressions, a strong organised labour movement and new business aspects like black economic empowerment and affirmative action. Where these managers sometimes go wrong is on how to best deal with a crisis once it breaks. It is critical that during times of crisis that they work closely with their PR company or crisis consultancy to ensure the right message goes out to the right public at the right time."

The findings of the Crisis Communications Consultancy report show that in November 2005, out of the 12 crises for that month, four resulted from external causes and the remaining eight arose within the company or organisations concerned, with management and employees each responsible for four of the crises.

December 2005 showed a different pattern. Out of this month's total of 17 crises, six resulted from external events and the remaining 11 had internal origins with management contributing an alarming nine out of the 11, and employees only two.

During the fourth quarter of 2005 a total of 50 crises were identified. October recorded the highest amount with 21 identified events, December was second with 17 and November was quieter, with 12 occurrences.

National and provincial government were the biggest contributors, accounting for 14% of all crises recorded, or seven crises each out of the 50. The political arena came in a close second, with five crises, or 10% of the total. In joint third place were the mining, retail and transport sectors with four crises each, accounting for 8% of all crises for the period.

"This was in contrast to the third quarter of 2005," concludes Bloom. "A total of 39 crises were recorded in this period. The industrial sector was the most crisis prone with seven incidences (18% of all crises). In joint second place the municipal and mining sectors each had six crises (15,3% each of all crises). Third place was shared by the financial services market and political sector with three crises each (7,69% each of all crises)."

ADDITIONAL INFORMATION

The report is derived from analysing print media articles in South Africa's leading business daily and weekly publications covering news events that affect business, politics and civil society.

The data gathered is analysed and catalogued according to a specialised classification system developed by the Crisis Communications Consultancy. The system identifies 39 different crises types that could affect 30 different industry sectors.

A core part of the specialised classification system was the ability to follow a crisis from its formative stage until it became a full-blown crisis.

The crises tracked on a monthly basis include:

October 2005

National government had five crises, which contributed 23.8% of the month's crises:

- The first involved the allegations of mismanagement at hospitals around the country by the DA at the launch of the party's campaign to improve the quality of these facilities.
- The second involved the public spat between the Scorpions, the SAPS and the National Intelligence Agency.
- The third involved the alleged misuse of National Intelligence Agency spies to monitor top ANC executive Saki Macozoma.
- The fourth involved the Department of Minerals and Energy suspending its chief director for hydrocarbons for bringing the department into disrepute and accepting a donation on behalf of the department without the permission of the director-general. The two counts stem from the chief director for hydrocarbons' evidence to the competition tribunal, where he conceded that he was helped by BP lawyers to draft the department's response on the proposed merger between Sasol and Engen.
- The fifth involved the Department of Home Affairs who were to exhume bodies of illegal immigrants who died at the controversial Lindela Repatriation Centre to establish the causes of their deaths. This was brought about based on the findings by a ministerial inquiry into the deaths at Lindela Repatriation Centre.

The **mining** sector had **three** crisis, two involving strikes at Harmony Gold and Anglo American's South African coal unit, and the third involving diamond mines coming under threat from government's proposed Diamond Amendment Bill. According to diamond producers and marketers, this could result in joblessness, corruption and rampant smuggling if made law. The bill would oblige diamond producers to make a certain percentage of their rough diamonds available to a state diamond trader, who would sell them to local cutters, polishers and diamond manufacturers. These crises contributed **14.2%** to the month's total.

The **investment** sector had **two** crises, the first involving the Tigon fraud case and the second a legal dispute, between Johnnic Holdings and Hoskins Consolidated Investments Limited (HCI), for control of TIH, over the sale of TIH shares. These crises contributed **9.52%** to the month's total crises.

The **parastatal** sector had **two** crises, both involving Denel. The first involved the Indian government cancelling a major arms deal over allegations of corruption and the second involved financial issues where the arms manufacturer conceded it had understated its losses in 2004, of R850m, by almost 50% attributing the discrepancy to "unexpected expenditures." These contributed **9.52%** to the month's total crises.

The **transportation** sector had **two** crises, the first an accident on the world famous Blue Train, and the second involving allegations of poor governance at SAA where a senior executive did not stop the awarding of a contract to a close relative of another senior manager. These contributed **9.52%** to the month's total crises.

The **petrochemical industry** sector had **one** major crisis that saw the Competition Tribunal presiding over a hearing to decide if Sasol and Petronas could go ahead with merger plans to create Uhambo - a fuel company that would control 48% of South Africa's refining capacity. This crisis contributed **4.8%** to the month's total crises.

The **agricultural** sector had **one** crisis that affected the pig farming industry - swine fever that resulted in a large number of pigs being culled. This contributed **4.8%** to the month's total.

The **ICT** sector had **one** governance crisis when Elixir technology group was suspended from the JSE following its failure to submit an annual report. This contributed **4.8%** to the month's total crises.

Industry bodies saw only **one** crisis occurring and this was of financial irregularities in the Estate Agency Affairs Board (EAAB). This contributed **4,8%** to the month's total crises.

The **industrial manufacturing** industry had **one** major crisis, in the toy sector where a large volume of toys had to be recalled due to high levels of lead being found in the paint used for colouring and decorating certain toys. This crisis contributed **4,8%** to the month's total.

Provincial government had **one** crisis that involved allegations of racism against Cape Judge President John Hlophe who is alleged to have racially abused a white lawyer. This crisis contributed **4,8%** to the month's total.

The **political** sector saw **one** crisis in the ANC and that has seen, at that stage, the beginning of a succession battle between Jacob Zuma and Thabo Mbeki. This contributed **4,8%** to the month's total crises.

November 2005

Provincial government faced **three** different crises which contributed **25%** to the month's total. The first was rioting which took place when angry residents of Khutsong in Carletonville barricaded streets with stones against the proposed incorporation of their Gauteng town into the "poorer" North West. The second was a crisis of confidence that was centred on the viability of the Gautrain, and the third was a crisis of non-delivery by the governments of KwaZulu-Natal, Limpopo, North West and Eastern Cape.

The **political sector** had **two** major crises, both involving Jacob Zuma, which contributed **16,7%** to the month's total. The first was the allegation concerning his alleged rape of a woman and the second, linked to the first, was the speculation that he would step down as a senior figure in the ANC.

The **retail** sector also had **two** crises, both centred on pay disputes, and contributed **16,7%** to the month's total. The first was a strike at the V&A Waterfront in Cape Town, and the second a strike at Universal Product Networks (UPN), the Woolworths supply chain service provider.

The **financial services** sector had **one** crisis and that involved racism and this centred on Old Mutual and the way its lawyers handled racism charges brought against the group by one of its workers. This crisis contributed **8,3%** to the month's total crises.

National government faced **one** crisis and that was of a legal nature involving the suspended NIA spies. This contributed **8,3%** to the month's total crises.

There was only **one** crisis at an **industry bod** - staff members at the Estate Agency Affairs Board went on strike over pay. This crisis contributed **8,3%** to the month's total.

The **industrial sector** had **one** crisis - Labat was sued by auditing firm KPMG for non-payment of services rendered. This contributed **8,3%** to the month's total crises.

The **transport sector** had **one** crisis - damage to the Cape Town International Airport runway which caused a major hold up and affected incoming and outgoing flights. This contributed **8,3%** to the month's total crises.

December 2005

Provincial government had **three** crises. The first was the ongoing public unrest that saw angry residents of Khutsong in Carletonville take to the streets against the proposed incorporation of their Gauteng town into the "poorer" North West. The second involved public unrest in Merafong, which will also be moved from Gauteng to the North West province. The final one saw allegations of corruption being made against Western Cape Premier Ebrahim Rasool, who is alleged to have paid two journalists for favourable coverage. The two journalists were suspended.

The **political sector** had **two** crises. The first had Jacob Zuma being charged with rape, the second saw ANC secretary-general Kgalema Motlanthe being linked to an alleged plan by KwaZulu-Natal businessman Muziwendoda Kunene to hack into government's Internet communications system.

The **retail sector** had **two** crises. The first was the ongoing strike at Universal Product Networks (UPN), the Woolworths supply chain service provider. The second was a legal crisis involving McCarthy where it was ordered to pay a company liquidator R2 million plus costs, as the sale of 28 trailers to McCarthy by Ramsauer Transport was void because it had not been advertised, as required by law, in the Government Gazette.

The **transport sector** had **one** crisis, of bad business practice (not running the supply chain correctly), and that was when Cape Town International Airport ran out of fuel which created all sorts of chaos for incoming and outgoing planes. This contributed **5,8%** to the month's total crises.

The **petrochemical industry** had **one** crisis that affected the whole country as well as the economy. The fuel industry allegedly reneged on an agreement to stockpile fuel, thus causing the crisis that has left service stations dry. This contributed **5,8%** to the month's total crises.

The **agricultural sector** had **one** major manufacturing crisis caused by the lack of fuel in the country. Up to 100 000 seasonal labourers stood to lose their jobs and thousands of tons of fruit stood the chance of not reaching national and international destinations. This crisis contributed **5,8%** to the month's total crises.

The **FMCG sector** had **one** crisis involving All Joy where it removed R18 million off the purchase price of Retail Brands because it failed to meet key milestones set by All Joy. This contributed **5,8%** to the month's total crises.

The **gaming industry** had **one** crisis with the ongoing hostile takeover by HCI of Johnnic. This contributed **5,8%** to the month's total crises.

The **industrial/manufacturing sector** had **one** crisis where the motor manufacturing industry was fined R31,65 million by the competition authorities for anti-competitive behaviour that included price fixing. This contributed **5,8%** to the month's total crises.

The **media sector** had **one** crisis. SABC board member Noluthando Gosa resigned from the corporation amid allegations of corporate mismanagement and corruption within the board (Gosa was not alleged to have been part of the corruption). This contributed **5,8%** to the month's total crises.

The **mining sector** had **one** crisis. Coal-mining company Yomhlaba Resources released results that showed it was insolvent. This contributed **5,8%** to the month's total crises.

The **education/research** sector had **one** crisis with the head of the HSRC resigning over alleged government interference. This contributed **5,8%** to the month's total crises.

National government had **one** crisis. 15 000 civil servants were found to be fraudulently and unlawfully receiving social welfare grants from the government. This contributed **5,8%** to the month's total crises.

For further information please refer to the Crisis Communications Consultancy website www.crisiscomms.com

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